



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

Annual Report 2016

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LIST OF ABBREVIATIONS

ATM	Automated Teller Machine
BEC	Broad Economic Categories
BEEP	Business Environment Enhancement Project
BIC	Business Identifier Code
BIS	Bank for International Settlements
BKT	Banka Kombëtare Tregtare
BPB	Banka për Biznes
CAR	Capital Adequacy Ratio
CBK	Central Bank of the Republic of Kosovo
CEFTA	Central European Free Trade Agreement
CPI	Consumer Price Index
CRK	Credit Registry of Kosovo
DJI	Dow Jones Industrial Average
DLE	Department of Labour and Employment
DEAFS	Department of Economic Analyses and Financial Stability
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EFSE	European Fund for South-eastern Europe
ESCB	European System of Central Banks
EU	European Union
EULEX	European Union Rule of Law Mission in Kosovo
EUROSTAT	General Directorate of European Statistics
FDI	Foreign Direct Investments
GBR	Great Britain Pound
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IAIS	International Association for Insurance Supervision
IECS	Interbank Electronic Clearing System
IIP	International Investment Position
IMF	International Monetary Fund
IPI	Imports Price Index
KAS	Kosovo Agency of Statistics
KEC	Kosovo Energy Corporation J.S.C
KEDS	Kosovo Energy Distribution Services J.S.C
KIB	Kosovo Insurance Bureau
KMB	Komercijalna Banka
KPST	Kosovo Pension Savings Trust
MF	Ministry of Finance
MFI	Microfinance Institutions
MLSW	Ministry of Labour and Social Welfare

MTA	Money Transfer Agencies
MTPL	Motor Third Party Liability Insurance
NFA	Net Foreign Assets
NLB	Nova Ljubljanska Banka
NPC	National Payment Council
NPISH	Non-profitable Institutions Serving Households
NPL	Nonperforming Loans
ODC	Other Depository Corporations
PAK	Privatization Agency of Kosovo
PCB	Pro Credit Bank
POS	Point of Sale
pp	Percentage Point
PPI	Producer Price Index
PPP	Purchasing Power Parity
PTK	Post and Telecommunication of Kosovo
RBK	Raiffeisen Bank Kosovo
REER	Real Effective Exchange Rate
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SDR	Special Drawing Rights
SEE	South-eastern Europe
SEPA	Single Euro Payment Area
SFR	Swiss Franc
SKPF	Slovenian-Kosovo Pension Fund
ARK	Accounting Registry System
SWIFT	Society for Worldwide International Financial Telecommunication
TAK	Tax Administration of Kosovo
TEB	Türk Ekonomi Bankasi
TPL	Third Party Liability
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
VPN	Virtual Encryption and Network Technology
WB	World Bank

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Foreword of the Chairman of the Board

Dear readers,

I am pleased to present, on behalf of the Board of the Central Bank of the Republic of Kosovo, through the Annual Report 2016, the main economic and financial progress trends during 2016 and CBK activities and results towards promoting and maintaining the sustainability of the financial sector.

In fulfilling its obligations under the Law on Central Bank of the Republic of Kosovo, CBK continued to contribute to the promotion of the country's economic and financial stability during the year 2016.

The CBK Board has worked toward the overall enhancement of many important processes which ensure an effective functioning, supervision and compliance with CBK's strategic objectives. The prudent oversight and regulation of the banking system, and the responsible discharge of our legal duties in support the development of the financial infrastructure, have created a more suitable environment for economic growth. Main economic and financial indicators improved, creating positive premises for fulfilling our main objective – further strengthening of financial stability. Kosovo's financial sector in 2016 has reflected significant sustainability and growth. The main focus of the CBK Board was the review of the current legal framework as well as supplementing this regulation with the new required acts. Within 2016, the CBK Board has approved 32 new regulations in the field of regulating the financial sector, as well as the pension, insurance, payment and central banking sectors. These developments resulted in an increased performance of financial institutions, increasing the quality of risk management, maintaining capital adequacy, liquidity, emergency support for liquidity, the overall quality of the loan portfolio, investments and above all, rationalizing the cost of financial intermediation. The advancement of regulatory framework aimed at supporting the European integration as well as the legal and regulatory approximation with the *Acquis Communautaire* of European Union in the central banking domain.

The CBK Board has continuously supervised the implementation of policies and compliance of duties by the Central Bank in order to ensure that the same is being done in an adequate manner and in compliance with legal requirements, standards and best practices of central banking. The CBK Board has further enriched the CBK's general governing framework by supporting it with sufficient budget, continuously supervising its execution, and by maintaining CBK's financial and operational independence.

Advancement of the CBK's internal regulatory framework was directed toward the establishment of an efficient and effective internal control environment and risk management of the institution.

The increase of CBK's financial reporting quality, increase of statistics, analysis and other publications in the function of a more inclusive transparency have marked progress during 2016 as well.

CBK during 2016 continued its close cooperation with key international financial institutions, enhancing CBK's credibility in the international area. The CBK Board has paid particular importance to addressing and fulfilling efficiently and properly the recommendation and advice received by these mechanisms.

In conclusion of my introductory word, I would like to emphasise that all the dynamic activity during 2016, expressed through this report, is a reflection of a high commitment of the CBK employees and its decision-making bodies and the assistance of international partners towards continuous enhancement of the CBK quality. Therefore, I would like to conclude my foreword of

this Annual Report of the CBK for 2016, by expressing deep gratitude to all employees of the CBK and the financial institutions for their ongoing support and contribution provided to the CBK, such as: US Treasury, International Monetary Fund, World Bank, German Development Fund, European Central Bank and Regional Central Banks.

The present report will inform you in more details regarding the achievement of the institutions and economic and financial indicators during 2016.

Prof. Dr. Bedri Peci



Chairman of the Central Bank Board
of the Republic of Kosovo

Foreword of the Governor

The euro area economy continued to grow for the third consecutive year, showing mainly the impact of the European Central Bank (ECB) unconventional measures, which helped recovering domestic demand. Despite these developments, the level of inflation in the euro area continues to remain at a lower level than the target rate of the ECB, however, compared to the previous year, progress was made towards achieving the target. The further decrease in interest rates on loans has prompted the acceleration of the growth rate of lending within the euro area, which had a direct impact on economic growth. A better performance in the euro area economy had a positive impact on the economies of the Western Balkans, showing the improvement of the net exports position as well as the growth of foreign direct investments, which made a significant contribution to the continued growth of these economies. The low inflation rate in these countries continued to show the similarity of price movements in this region with price developments in the euro area.

In 2016, Kosovo's economy recorded growth due to the positive contribution of both consumption and investments. Accelerating the growth of lending activity of the banking sector had a significant impact on financing the growth of private sector activity. On the other hand, the negative trade balance continues to be the main factor hindering the achievement of a higher rate of economic growth. During 2016, Kosovo's economy continued to be characterized by macroeconomic stability. The inflation rate, as in the euro area economy and the economies of the region, remained at a very low level, while the fiscal position remained stable with low levels of budget deficit and public debt.

The financial system continued to expand its activity, thus offering the country's economy a wider offer of financial products. The financial intermediation activity of the banking sector has continued to grow steadily, thus serving as an important supporter of the sustainable development of the private sector. The year 2016 marked an acceleration of lending both for the enterprise sector and the household sector. The highest loan growth rate was evidenced in loans to households, whose access to banking financing is growing constantly. Interest rates on bank loans in Kosovo continued to decrease in 2016, followed by facilitations in other aspects of access to loans. Lending growth continued based on improving loan access conditions and ongoing development of new financial products, alongside with the good health that Kosovo's banking sector has, is causing the financial intermediation level in Kosovo to grow steadily. Financial health indicators of Kosovo's banking sector reflect a very satisfactory situation, highlighting the further decline in non-performing loans that distinguish Kosovo in terms of good quality of the loan portfolio.

The country's economy during 2016 also benefited from the growth in the activity of other sectors of the financial system. The pension sector recorded an increase in assets due to the increase of new pension contributions and the significant return on investments. The insurance sector also recorded an increase in activity, but continues to have a more unfavourable condition regarding financial performance. Microfinance institutions continued to accelerate lending activity by significantly enriching the credit supply offer in Kosovo.

The Central Bank of the Republic of Kosovo (CBK) played a key role in supporting further development and maintaining the financial system's sustainability by continuously advancing all the functions that serve to achieve its legal objectives. During 2016, the CBK continued the process of approximating the financial system regulatory framework with international standards and participated in the amendment and preparation of new laws aimed at improving the relevant legal infrastructure to provide a more efficient and a more sustainable financial system. In order to increase the capacities for ensuring financial stability in the country, in 2016,

the CBK has completed the mechanisms for the full functionalization of the Emergency Support with Liquidaty scheme and the implementation of the Macroprudential Framework. The CBK has continued to expand international cooperation, where I would like to highlight the signing of the cooperation agreement with the Financial Market Authority regarding the supervision of insurance and pensions, as well as the establishment of cooperation with the European Banking Authority.

Below, this report provides a detailed overview of the economic and financial developments in the foreign sector and in Kosovo and reflects all CBK activities and achievements during 2016.

Bedri Hamza



Governor of the Central Bank
of the Republic of Kosovo

Central Bank Board, Executive Board and Audit Committee

Central Bank Board

The activities of the Central Bank Board were focused towards successful implementation of competencies and duties set out by the Law on Central Bank of the Republic of Kosovo. Therefore, the Central Bank Board held continuous meetings, whereby it was informed and it discussed the overall developments of the financial system in Kosovo. Central Bank Board held a total of 13 meetings.

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

- Regulation on use of external credit assessments for the purpose of calculation of regulatory capital
- Regulation on investment of assets covering technical and mathematical provisions and investment of charter capital for insurers
- Regulation on mergers and acquisitions
- Regulation on Register of Bank Account Holders
- Regulation on Bank Reporting
- Regulation on Microfinance Institutions Reporting
- Regulation on Reporting of Financial non-banking institutions
- Regulation on Insurance Actuaries
- Regulation on risk retention and reinsurance coverage requirements
- Regulation on the opening of representative offices by foreign insurers in the Republic of Kosovo
- Regulation on operation with cash
- Regulation on external audit of insurers, insurance intermediaries, claim handlers and the Kosovo Insurance Bureau
- Regulation on internal controls and internal audit of the insurers
- Regulation on calculation and retention of technical and mathematical provisions for life and non-life insurers
- Regulation on Interest Rate Risk Management in the Banking Book
- Regulation on guarantee instruments and agreements between licensed financial institutions and Kosovo Credit Guarantee Fund
- Regulation on inter-bank payment system
- Regulation on delegation of insurers functions
- Regulation on Publication of Information by the Insurers
- Regulation on Insurers Reporting to CBK
- Regulation on Letter of Credit and Bank Guarantees

- Regulation on Reporting by Kosovo Pension Savings Trust
- Regulation on Payment of Individual Pension Savings
- Regulation on Credit Risk Management
- Regulation on determination of criteria for assessing non-material damage from motor liability
- Regulation on Large Exposures
- Regulation on Pension Fund Holder
- Regulation on prevention of money laundering and financing of terrorism
- Regulation on reporting of supplementary pension funds
- Regulation on corporate governance of banks
- Amendment of the Regulation on investment of assets covering technical and mathematical provisions and investment of charter capital for insurers
- Regulation on sale of compulsory motor liability insurance and management of insurers' expenses

The Board of the Central Bank also approved the following:

- CBK annual report for 2015
- Financial Statements of the CBK for 2015 and Independent Auditor's Report
- CBK budget for 2017
- Annual Plan of the Internal Audit for 2017
- Periodic reports and financial statements of the CBK financial position

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

- Implementation of the process of nominations and appointments within the competences defined by the Law on the CBK;
- Reviewing of all the reports and recommendations of the Executive Board and Governor, with the purpose of safeguarding financial stability; and

The Board has exercised other duties in compliance with the Law on Central Bank of the Republic of Kosovo and other applicable legislation.

As of 31 December 2016, the Board of the Central Bank of the Republic of Kosovo consisted of the following members:

Bedri Peci, Chairman of the Central Bank Board

Bedri Hamza, Governor and member of the Central Bank Board

Behxhet Brajshori, member

Nuhi Ahmeti, member

A vacant position of a non-executive member of the Central Bank Board

Executive Board

Pursuant to the Law no. 03 / L-209 on Central Bank of the Republic of Kosovo, respectively Article 34 paragraph 3, the Executive Board is composed of the Governor (Chairman of the Executive Board) and Deputy Governors.

On 31 December 2016, the Executive Board was composed of the following members: Bedri Hamza (Governor / Chairman of the Executive Board), Lulzim Ismajli (Deputy Governor for Banking Operations), Fatmir Gashi (Deputy Governor for General Functions) and Fehmi Mehmeti (Deputy Governor for Financial Supervision).

During 2016, the Executive Board of the Central Bank of the Republic of Kosovo held 28 meetings.

Within its competences, the Executive Board during 2016 has recommended the following to the Board of the CBK:

Has reviewed and recommended for approval at the CBK Board 27 regulations;

Has reviewed and recommended for approval the Financial Statements and Annual Report of the CBK for 2015;

Has reviewed and recommended for approval at the Board of the CBK Periodic Financial Statements for 2016; and

Has reviewed and recommended the Board of the CBK to approve the Budget of the CBK for 2017.

During 2016, the Executive Board besides the abovementioned, in accordance with the legislation in force has also taken actions/decisions as follows:

- It approved the change of the name for an insurance company, approved the license for a company for the handling of claims, approved a license for insurance agents company, approved a license for an insurance intermediary, approved a license for five brokerage companies and has revoked the license for an insurance intermediary;
- It approved the licence (registration) for four non-bank financial institutions, approved the withdrawal of the registration for a non-bank financial institution, approved the refusal of the application for registration for a non-bank financial institution;
- It approved the merger by acquisition of a microfinance institution;
- It approved the periodic reporting on the implementation of the CBK Strategic Plan 2015-2019 ;
- Has issued/amended and supplemented 21 internal legal acts involving domestic policies and regulations, manuals, procedures, etc.;
- Has issued four guidelines for financial institutions;
- Has imposed administrative measures against sixteen financial institutions;
- It approved the amendment/ supplement of the CBK tariffs.

The Executive Board has performed other duties in accordance with the Law on the Central Bank of the Republic of Kosovo and other applicable legislation.

The Audit Committee

The Audit Committee operates in accordance with the article 62 of Law No. 03 / L-209 on the Central Bank of the Republic of Kosovo and the Statute of the Audit Committee.

The objectives of the Audit Committee are to assist the Central Bank Board in meeting the responsibilities in relation to the operation of the internal and external audit, internal controls, business ethics and transparent governance, as well as financial reports of CBK.

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

On 31 December 2016, the Audit Committee consisted of the following members:

Prof. Dr. Bedri Peci, Head of the Audit Committee;

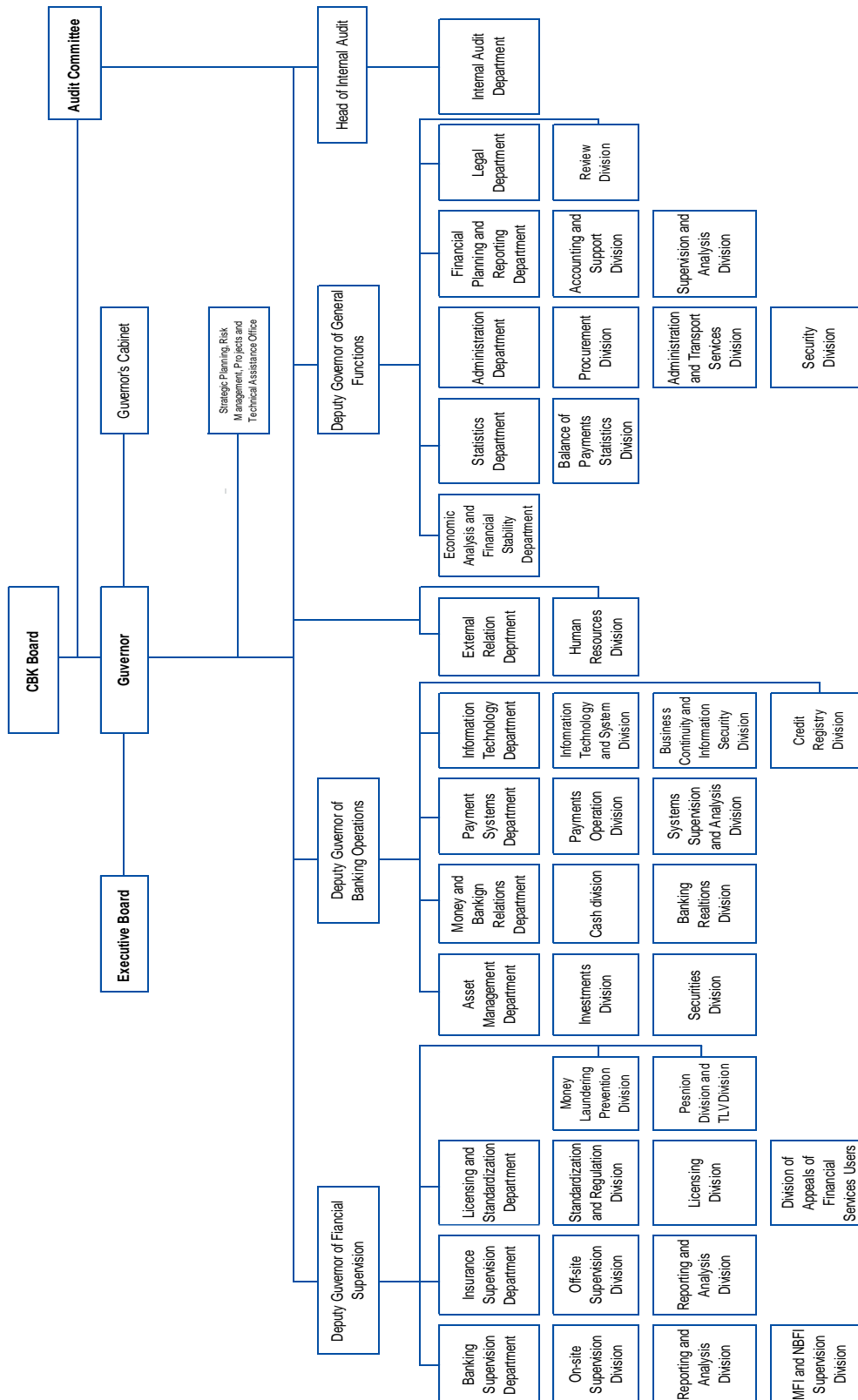
Prof. Dr. Arben Dermaku, External Member; and

Nuhi Ahmeti, Member.

The Audit Committee during 2016 has held 7 meetings. In the meetings of the Committee were addressed various issues dealing with fields that are within its scope in the context of reviewing. The Audit Committee, during 2016, has developed a number of activities, among which:

- Has reviewed the audit results presented in quarterly and annual internal audit reports
- Has reviewed Annual plan of internal audit for 2017, proposed for approval to the CBK Board;
- Has reviewed the results of the external audit for 2015;
- Has continued to contribute to the process of implementing the recommendations provided by the independent external evaluators and assisted the Management in this regard;
- Has implemented all recommendations given after the external evaluations related to the Audit Committee
- Has prepared and submitted to the CBK Board the Audit Committee annual report 2016 ; and
- Has conducted other important activities that are related to its scope.

Organizational structure of CBK, 31 December 2016



1. Executive summary

The global economic activity has recovered during 2016, albeit with significant differences between regions. Euro area was characterized by an expansion of economic activity, supported by increase of domestic demand, which can largely be attributed to the positive impact of the measures of quantitative easing program undertaken by the European Central Bank (ECB). Also, low prices of primary commodities in the international markets, which reigned throughout 2016, have been translated into increasing available income of consumers and increase of the profitability of firms in certain sectors of the economy, promoting gradual increase of investments in euro area. Strengthening of domestic demand in the euro area in 2016 is reflected positively on the economic development of the Western Balkan countries. During this period, economic activity in this region was characterized by growth, supported by the increase of domestic demand and strengthening of external demand.

Kosovo's economy was characterized with an increase of economic activity during 2016 compared to the previous year. Preliminary statistics, prepared by Kosovo Agency of Statistics, related to quarterly GDP, indicate that Kosovo's economy marked an average increase of 3.4 percent during the four quarters of 2016. The CBK projections for 2017 suggest that the real GDP growth rate will reach 3.7 percent. Economic growth in 2016 was supported by increased domestic demand, while net exports had a negative impact on the economic growth rate. During 2016 it was the increase of investment of 9.1 percent as well as the increase of consumption of 3.0 percent that contributed to the real economic growth in the country. According to the manufacturing approach, economic growth in 2016 was mainly a result of the increased value-added activity in the agriculture, trade and financial activity. Whereas real decrease is marked with real estate business, processing industry and public administration.

In line with developments in external markets, Kosovo's economy during 2016 was characterized by weak inflationary pressures. The average annual inflation rate, expressed through the consumer price index, by December 2016 was 0.3 percent (-0.5 percent in 2015).

During 2016, fiscal sector was characterized by an increase of budget revenues and expenditures in comparison to the previous year. Budget revenues amounted to net value of euro 1.60 billion, thus representing an annual increase of 9.6 percent, whereas, budget expenditures amounted to euro 1.66 billion, an annual increase of 5.7 percent.

Consequently, in 2016, Kosovo's budget registered a primary budget deficit of euro 61.1 million, compared to euro 111.4 million in 2015. In 2016, public debt amounted to euro 852.7 million which is 13.9 percent higher compared to 2015. As a percentage to GDP, public debt has reached 14.5 percent from 13.0 percent in previous year.

The country's economy has continued to face imbalances against the external sector. While added value from manufacturing sectors in the country remains low, the growth in internal demand has contributed to a further increase in import. The increase of consumption and investments in 2016 had an impact on the increase of imports, which is translated into increase of current account deficit. Also, during 2016, Kosovo's external sector has been characterized by a decline in exports, mainly as a result of the decrease of prices in international markets and the decline of nickel production in domestic economy.

Also, the increase of deficit of current and capital account is attributed to the decline in the positive balance of the primary income account, whereas the positive balance of services and the secondary income account marked an increase. During 2016, the current and capital account deficit amounted to euro 534.6 million, compared to the deficit of euro 471.4 million (about 8.9 percent of GDP), an annual increase of 13.4 percent. Remittances received in Kosovo, which at

the same time represent the largest category within the secondary income account, amounted to euro 691.0 million, thus representing an annual increase of 3.8 percent. With regards to financial account, FDI received in Kosovo were characterized by a decline to the amount of euro 215.9 million in 2016 from euro 308.8 million that were received in 2015.

In 2016, the financial system was characterized by increased activity, mainly as a result of the marked increase in the banking activities and pension sector. The value of total assets of the Kosovo financial system amounted to euro 5.39 billion in 2016, marking an annual increase of 10.0 percent. Total assets of the banking sector in 2016 amounted to euro 3.64 billion, representing an annual increase of 7.4 percent. In the context of banking sector assets, the value of total loans issued by commercial banks marked an annual increase of 10.4 percent, amounting to euro 2.23 billion. In the same period, the value of total deposits in the banking sector amounted to euro 2.90 billion, representing an annual increase of 7.2 percent.

Performance and financial health indicators continue to reflect high degree of sector stability. Profit realized during 2016 amounted to euro 75.5 million, which represents a decrease compared to the profit realized in the previous year (euro 94.7 million in 2015), mainly as a result of the fall in revenues and increase of sector spending. The indicators of the health of banking sector point to a further strengthening of banking sector capitalization, with the Capital Adequacy Ratio reaching 19.0 percent from 17.8 percent in the previous year. Also, the banking sector's exposure to credit risk was reduced further as a consequence of decrease of nonperforming loans share in total loans to 4.9 percent, a level that is significantly lower compared to Western Balkans countries. Furthermore, the coverage level of non-performing loans with provisions in this period marked an increase of 126.5 percent (115.1 percent in 2015). The banking sector's liquidity position continues to be on a stable level, despite a decline in the liquidity indicator as a result of accelerated lending growth. In 2016, the ratio of liquid assets to short-term liabilities stood at 41.5 percent, which is well above the regulatory minimum of 25 percent.

In 2016, total assets of insurance companies operating in the country amounted to euro 162.1 million, representing an annual increase of 5.9 percent. During 2016, the value of premiums written by insurance companies amounted to euro 83.5 million, thus representing an annual increase of 4.4 percent, while in the same period, total claims paid by insurance companies and the Kosovo Insurance Bureau (KIB) recorded an annual increase of 3.8 percent and amounted to euro 38.6 million. The insurance sector recorded a loss in value of euro 23.9 million, mainly due to high increase of expenditures against the revenues.

Microfinance sector in 2016 marked an increase in lending activity. The value of total assets of MFIs amounted to euro 148.2 million, marking an annual increase of 23.7 percent. In 2016, microfinance sector realized a profit of euro 4.1 million from euro 2.4 million in 2015, mainly as a result of accelerated increase in revenues, while expenditures marked a slower growth pace.

Pension funds were characterized by a positive performance in 2016. The value of total assets of pension sector reached euro 1.43 billion, a significant annual increase of 15.2 percent in 2016 mainly as a result of growth realized from new contributions and the increase in return on investment. Pension sector doubled the return on investment by reaching the amount of euro 65.3 million (euro 29.7 million in 2015), where KPST realized a positive return on investment of euro 64.6 million whereas SKPF euro 704.7 thousand.

In the context of licensing activity of financial institutions, during 2016, the CBK approved the registration of 3 non-bank financial institutions for exercising the currency exchange activity, addition of the activity of currency exchange for one non-bank financial institution, and the merger of 2 Microfinance Institutions with 1 Microfinance Institution. Also, during this year were approved 9 applications for change of status, out of which 4 from banks, 4 from non-bank financial institutions and 1 from a Microfinance Institution.

In view of a stable banking system, during 2016 the commercial banks were examined in compliance with the foreseen plan. Consistent with international practices in the relevant field, special attention was paid to credit risk, liquidity risk, market and other risks, based on the approach of risk-based supervision. In line with the CBK's objectives, namely in providing sustainability of the insurance market and protection of policy holders, the CBK continued its activity during 2016 in conducting on-site examinations of insurers in regular basis such as full and focused examinations, and ad-hoc examinations for insurance companies and insurance intermediaries. In view of maintaining the stability of the financial sector, during 2016, the CBK continued with regular examinations of pension funds and other financial institutions.

Central Bank of the Republic of Kosovo, namely financial supervision plays a key role in the protection of users of financial services in Kosovo. In this context, within the internal process of handling the complaints, the CBK has handled 535 complaints of users of financial services (natural and legal persons), whereby 252 complaints have been filed against banks, MFIs, NBFIs, and pension funds, while 283 complaints were filed against insurance companies.

During 2016, the CBK has approved a number of new regulatory acts for banking supervision and supervision of Microfinance Institutions and Non-Bank Financial Institutions, in order to further strengthen the overall regulatory framework and harmonization with international standards. Also, in January 2016, the Law on Insurance entered into force, based on which virtually all existing rules on insurance supervision that have become regulations were amended during the year.

Similar to previous years, also during 2016, the CBK provided a quantitative and qualitative supply of cash to the banking sector to enable the conducting of cash transactions in the economy. Since mid-2016, the Interbank Electronic Clearing System in CBK was replaced with a new system, and its implementation is one of the key steps that CBK undertook to strengthen the stability and increase the efficiency of the financial sector and the banking sector in particular. In addition to the implementation of the new payment system, in the same period commenced the application of IBAN for domestic payments, thus affecting the unification and standardisation of the validity check process of bank accounts.

In 2016, around 11.6 million transactions were processed in the Interbank Payment System (IPS), totalling approximately euro 10.6 billion. If compared to the IPS transactions of the previous year, the volume of transactions increased by 17.9 percent while the value of transactions increased by 42.5 percent.

The Credit Registry of Kosovo (CRK) has also made progress during 2016, in which are registered 274 users as a result of the requests submitted by member institutions, while the number of surveys on the obligations and credit history of credit applicants reached 645,246 surveys.

During 2016, all the assets under CBK's management were invested in financial instruments under the category of safe and liquid instruments. In 2016, CBK had positive returns on investments in financial instruments and from foreign exchange rates. The financial market unsustainability of euro area during 2016 caused the CBK's investment portfolio to be managed through lower risk instruments regarding price fluctuations, namely in government bonds of central and peripheral euro area countries, as well as government bonds issued by the Government of Kosovo.

In pursuit of its objectives, the CBK continued to pay particular attention to the analysis of the overall economic developments in the country as well as analysis related to the assessment of the country's financial stability and financial system activities. Besides periodical publications, CBK already performs, on regular basis, macroeconomic projections, thus enriching the analysis of

macroeconomic developments in the country and providing an overview of the expected developments in the country's economy. In 2016, for the first time CBK managed to publish the Map of Financial Stability, a study material that develops the model of Financial Stability Map for Kosovo as additional analytical tool to monitor and assess the financial stability.

During 2016, the CBK has made significant progress in harmonizing statistics in line with European Union (EU) requirements and commencing the regular reporting of data in Eurostat – a project in which CBK was involved during the last three years. In an effort to improve the quality of statistics, CBK has expanded the range of statistics with new publications, increased the coverage with source data, further improved the quality of assessment based on new collected data and undertook important initial steps to establish a framework for compiling financial accounts statistics.

CBK continued to benefit from technical assistance during 2016, provided by international financial institutions and various donors through current projects, and also new initiatives. The support was mainly provided by US Treasury, International Monetary Fund, World Bank, USAID, German Development Fund and European Central Bank.

CBK has continued to maintain close cooperation with important international institutions including the US Treasury, International Monetary Fund, World Bank, USAID, German Development Fund and the European Central Bank. During 2016, the implementation of the project *"Strengthening of Financial Sector and Market Infrastructure"*, has been completed, which was funded by the International Development Association (IDA), a project that focused on financing the cost related to implementation of CBK strategy, establishment of a Real Time Gross Settlement System, establishment of a Business Continuity Centre of CBK and the provision of seed funding for the Deposit Insurance Fund of Kosovo (DIFK).

2. External Economic Environment

2.1. Euro area and Western Balkans

Economic activity in the euro area continued to recover during 2016, while in line with ECB expectations, the inflation rate has marked gradual increase. The economy of euro area has continued to show consistency over the side effects of the slow growth of global economy and political uncertainties, while the expansionist policies and the unconventional measures undertaken by the ECB within the quantitative easing program have continued to be reflected in improved financing conditions in euro area. In 2016, annual GDP growth in the euro area stood at 1.8 percent, a slowdown compared to 2015 when an annual growth of 2.0 percent was recorded (table 1). During 2016, economic growth in the euro area was largely driven by domestic demand. Continued improvement of labour market conditions and low oil prices have been translated into increased disposable income, thus contributing to the increase of domestic consumption. Economic growth in the euro area was mainly supported by central economies of euro area such as Germany (1.9 percent), France (1.2 percent), Austria (1.5 percent), Spain (3.2 percent) and Italy (0.9 percent).

Table 1. Real annual GDP growth

Description	2013	2014	2015	2016
Euro area	-0.3	1.2	2.0	1.8
Germany	0.5	1.6	1.7	1.9
France	0.6	0.6	1.3	1.2*
Italy	-1.7	0.1	0.8	0.9
Austria	0.1	0.6	1.0	1.5
Spain	-1.7	1.4	3.2	3.2*
Greece	-3.2	0.4	-0.2	0.0*

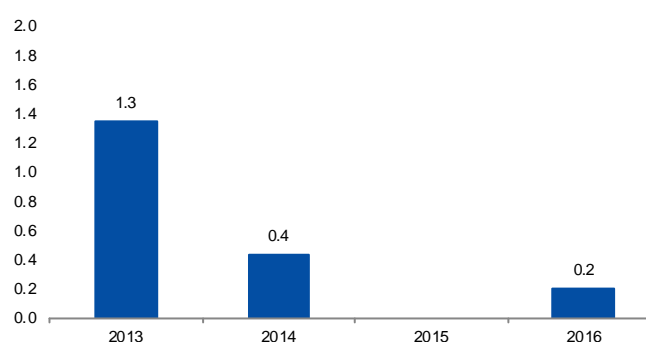
*Estimate

Source: Eurostat (2017)

The inflation rate in euro area continued to be below the ECB's target, however, it is estimated to have reached the level outside the so-called 'danger zone'. In December the inflation rate was 1.1 percent, while the average inflation rate during 2016 was 0.2 percent (figure 1).

The new measures undertaken by the ECB in March 2016 under the quantitative easing program were primarily aimed at avoiding deflation and restoring the inflation rate closer to the target of 2 percent. However, the impact of monetary expansionary policies on the price level in the euro area has been limited, mainly as a result of the sharp decline in energy prices during 2016. The ECB's projections for 2017 suggest that the average inflation rate in the euro area is expected to be 1.4 percent.

Figure 1. Inflation rate in euro area, in percent



Source: Eurostat (2017)

The launch of the broad stimulus program since March 2016 has directly affected the further fall of Euribor 1-month and 12-month interbank lending rates (figure 2). Also, the ECB continued to maintain the interest rate on the main refinancing operations at zero percent.

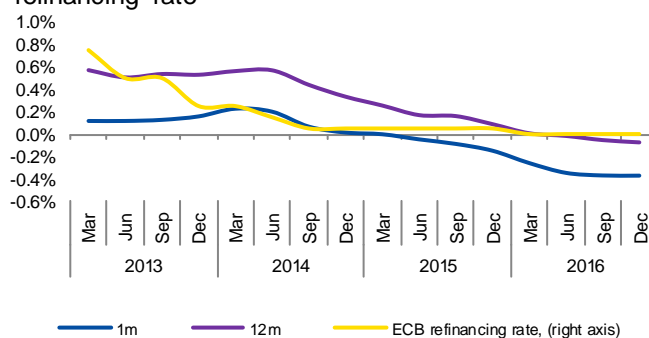
Recovery of lending activity in the euro area during 2016 was mainly supported by the growth of demand for loans by both businesses and households, driven mainly by improved lending conditions. The euro area was characterized by an annual credit growth of 2.2 percent in 2016, an accelerated growth compared to the 0.6 percent growth marked in 2015. Households marked a faster lending growth of 2.2 percent (1.9 percent in 2015), while loans to enterprises marked a growth of 1.9 percent (-0.3 percent in 2015). The increases of available income in euro area during this period as well as the low level of investments have contributed to the increase of residents' deposits in the banking sector in the euro area countries. The highest growth of deposits in this period was marked by enterprises (6.4 percent in 2016), followed by household deposits (3.2 percent).

The performance of economic activity in the Western Balkans continued to be strengthened. Growth in demand in the euro area, as the main trading partner for the Western Balkan countries, was translated in improvement of net export position in several countries in the region. Increase of exports, coupled with the increase of foreign investment and domestic consumption, contributed significantly to the average growth of about 3.0 percent of GDP in the Western Balkans in 2016 (table 1).

Similar to the euro area, Western Balkan countries were characterized by weak inflationary pressures, mainly attributable to price developments in international markets. In 2016, countries in the Western Balkans recorded an average inflation rate of about 0.3 percent. Regarding developments in the banking sector, the countries of the region were characterized by an increase of lending activity in this period, with the highest increase marked by Kosovo (10.4 percent), Serbia (6.1 percent) and Montenegro (1.3 percent), while lowest increase was marked by Macedonia with 0.7 percent. Countries in the region also reported an increase in deposits, where Serbia marked the highest increase of deposits as of December 2016 (11.5 percent) and Montenegro (9.4 percent), while the lowest increase was marked by Albania (5.4 percent).

By December, euro currency slightly depreciated against US dollar and appreciated against other major currencies like the British pound sterling and the Swiss franc. During this period, the average exchange rate of euro against the US dollar depreciated by 0.1 percent, while against the Swiss franc and British pound sterling appreciated by 2.2 respectively 12.0 percent. ECB's decisions not to change the interest rates further after the recent changes in March this year have reflected in the strengthening of the euro currency against several major currencies. Within the currencies of the region, the euro has appreciated against the Macedonian denar and the Serbian dinar by 0.01 respectively 2.0 percent, while it depreciated against the Albanian lek by 1.7 percent.

Figure 2. EURIBOR interbank lending and ECB refinancing rate



Source: Euribor (2017) and ECB (2017)

3. Kosovo's economy

3.1. Real sector

Kosovo's economy, according to preliminary estimates of KAS, has grown by 3.4 percent in 2016. This growth of economic activity was generated mainly by investment growth of 9.1 percent and increase of consumption by 3.0 percent, while net exports are estimated to have been characterized with significant deepening of the deficit of 7.2 percent in real terms. The real growth of Kosovo's economy during 2016 is estimated to have been mainly driven by the growth of activity in the sector of agriculture (7.6 percent), trade (4.8 percent) and financial activities (12.4 percent). Whereas real decline is estimated to have been marked in real estate business (1.5 percent), processing industry (1.1 percent) and public administration (0.4 percent).

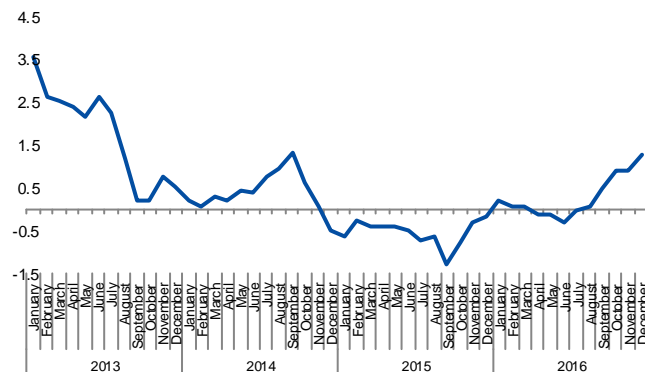
3.2. Prices

The overall level of prices in Kosovo, expressed through the consumer price index, is characterized by an average growth of 0.3 percent in 2016 (figure 3). In terms of CPI components, there was an increase in the prices of alcoholic beverages and tobacco (8.1 percent), followed by clothing (2.7 percent). On the other hand, there was a decrease in price of electricity, gas and other fuels (2.3 percent) and transport services (1.9 percent). Food prices were also down by 0.1 percent, representing about 33.9 percent of the Kosovo consumer basket (figure 4).

The movement of prices in Kosovo continues to be mainly determined by the price movements in international markets, as a result of the high dependence of Kosovo's economy on imports.

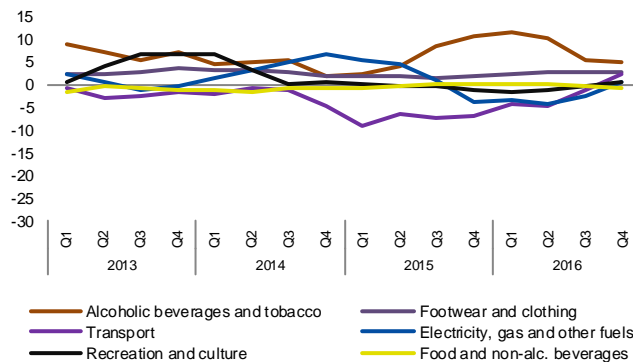
In 2016, the import price index marked an average decline of 2.5 percent. Prices of mineral products, which are the main category of the import price index, marked highest decline (12.3 percent), while the prices of edible oils recorded the highest increase of prices (5.7 percent) (figure 5). Also, in 2016, the producer price index was

Figure 3. Inflation rate, annual change in percent



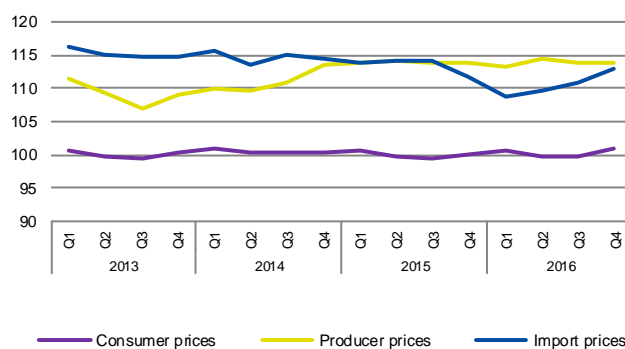
Source: CBK(2017)

Figure 4. Price movements by main components, annual change in percent



Source: CBK(2017)

Figure 5. Consumer, producer and import price indices



Source: CBK(2017)

characterized with a decrease of 0.1 percent. In this period, there was a decrease in the price of wood and furniture production. Whereas there was an increase of prices in electricity, leather production, metals, etc.

3.3. Business registry

Regarding the Business Registry, in 2016 was marked an increase in the number of registered enterprises and also an increase in the number of closed enterprises. The number of new registered enterprises was 10,424 or 591 enterprises more than in the previous year, while 2,376 enterprises were closed or 171 more than in the same period of the previous year (figure 6).

The largest number of registered enterprises continues to be concentrated in the trade sector with 2,738 new enterprises, followed by the manufacturing sector with 1,181 enterprises, agriculture with 1,090 enterprises and hospitality with 1,017 enterprises (figure 7).

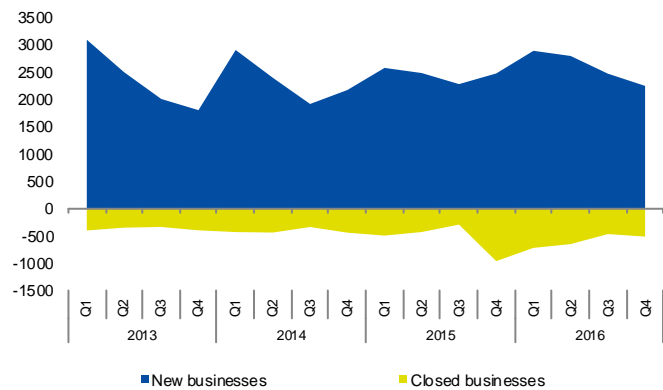
In comparison to 2015, almost all sectors have marked an increase of registered enterprises. In the agricultural sector, it is marked the highest growth of the registered enterprises, i.e. 145 enterprises more, followed by the manufacturing sector that was characterized by 134 enterprises more. The sectors that marked the lowest number of registered enterprises were the trade and real estate sector (165 namely 16 enterprises less).

3.4. Fiscal sector

In 2016, budget revenues¹ amounted to euro 1.60 billion, representing an annual increase of around 9.6 percent. Budgetary expenditures² amounted to euro 1.66 billion, representing an annual increase of around 5.7 percent. Consequently, Kosovo budget marked a total deficit of euro 61.1 million compared to the deficit of euro 111.4 million in 2015, while as a share of GDP, the primary deficit has declined from 1.9 percent to 1.0 percent.

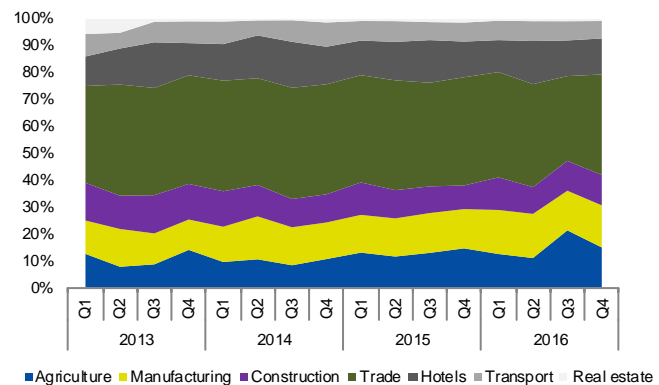
With regards to the tax type, it is observed a high increase of direct tax revenues, which reached the amount of euro 232.1 million (an increase of 17.4 percent), followed by indirect tax revenues which amounted to euro 1.2 billion (an increase of 11.2 percent), whereas non-tax revenues marked a decrease of 8.3 percent and amounted to euro 175.3 million.

Figure 6. Business registry, noncumulative



Source: CBK(2017)

Figure 7. Structure of new enterprises



Source: KAS (2017)

¹ Within budgetary revenues are not included revenues from borrowings, privatization, donor designated grants and revenues from deposits in trust.

² Within budgetary expenditures are not included debt payments, payments for membership to IFI and returns from deposit funds.

In 2016, almost all budget expenditures categories were characterized with an increase, except goods and services which marked a decrease. Government expenditures for wages and salaries marked an increase of 3.6 percent and amounted to euro 543.7 million. Subsidies and transfers also marked an increase of 13.5 percent and amounted to euro 474.7 million. Capital investments, which represent around 26.8 percent of total budgetary expenditures, marked an increase of 9.8 percent and amounted to euro 443.6 million. Government expenditures for goods and services (including utilities) marked a decrease of 1.3 percent and amounted to euro 202.8 million.

In 2016, public debt amounted to euro 852.7 million, which is 13.9 percent higher compared to 2015. As percentage of GDP, public debt amounted to around 14.5 percent from 13.0 percent in the previous year. This increase of public debt is mainly attributed to the increase of internal debt of 26.8 percent (which reached euro 479.0 million), whereas external public debt marked a slight increase of 0.7 percent, reaching euro 373.8 million. Share of external public debt in total internal debt decreased to 43.8 percent from 59.6 percent in 2015.

3.5. Securities market

Based on the calendar published by the Ministry of Finance, in 2016, the number of auctions for issuance of securities of Government of Kosovo resulted to be 19, while the value declared in auctions was euro 420.0 million.

During 2016, Government of Kosovo declared a smaller number and value of treasury bonds compared to the same period of previous year. While the number of bonds was the same as in the previous year, their value was higher during 2016. With regards to the issued amount, it remained the same with the value declared for both treasury bonds and bonds. Based on maturity, the structure of securities of Government of Kosovo continues to show a trend of moving from short-term securities towards long-term securities.

The main category in the structure of securities remains the one of treasury bonds with maturity of 364 days, followed by bonds with maturity of two years.

The submitted offer by participants exceeded the amount announced in auctions by the Ministry of Finance for 2.17 times (1.58 in December 2016). Compared to the previous year, during this year is observed an increase in the offer and at the same time an increase of issuance of securities of Government of Kosovo.

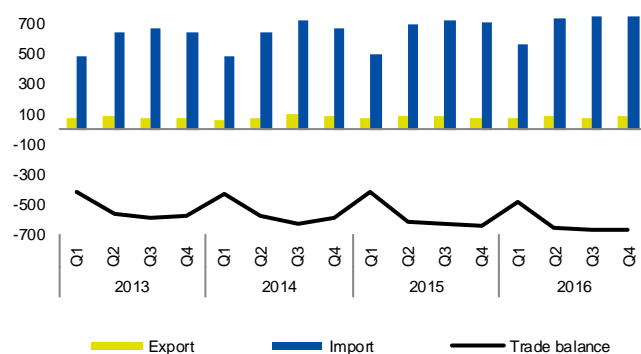
In 2016, the average interest rate in securities of the Government of Kosovo marked a decrease to 0.79 percent (1.94 percent in 2015).

During this period, interest rates for all maturities were lower compared to 2015.

3.6. External sector

During 2016, the deficit of current and capital account amounted to euro 534.6 million, compared to the deficit of euro 471.4 million in the previous year. This increase of deficit of current and capital account is attributed to the increase of deficit in account of goods and decrease marked in the positive balance of primary income account. On the other hand, positive balance of services and account of secondary sources marked an increase.

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



Source: KAS (2017)

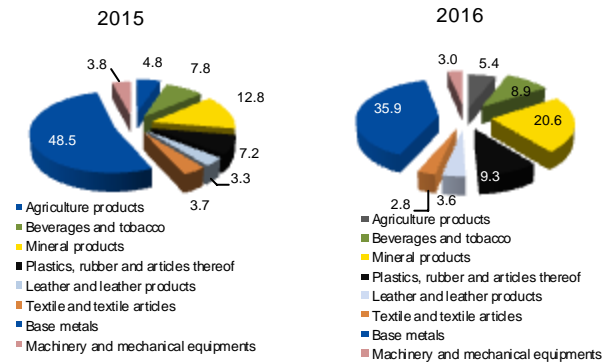
Deficit in the trade of goods was characterized with an annual increase of 7.4 percent in 2016 as a result of decrease in exports and increase in imports. Export of goods amounted to euro 309.7 million, which coincides with an annual decrease of 4.8 percent (an increase of 0.2 percent in 2015) (figure 8).³

The decrease in the value of exports of goods during this period is mainly attributed to the decrease in exports of base metals, which at the same time have the highest share in the structure of total exports of the country (around 35.9 percent) (figure 9). The decrease of production of nickel in the economy of the country, as well as the decrease of the price of metals in international markets during 2016 resulted in the decrease in value of total exports of base metals. Exports of textile and items of textile, as well as exports of machineries and electricity appliances were characterized with a decrease. On the other hand, exports of mineral products marked an increase, mainly as a result of the increase of electricity export value. Also, exports of plastic and rubber products, as well as exports of beverages and tobacco marked an increase.

The value of total imported goods amounted to euro 2.8 billion, representing an annual increase of 5.9 percent. Within the import of goods, the import of transport means, machineries and mechanical equipment, plastic and rubber products, cooked foods, etc., was characterized with an increase. On the other hand, the import of mineral products marked a significant decrease (figure 10). The decrease in the value of exports and increase in the value of imported goods resulted in the decrease in the coverage ratio of imports by exports to 11.1 percent (12.3 percent in 2015).

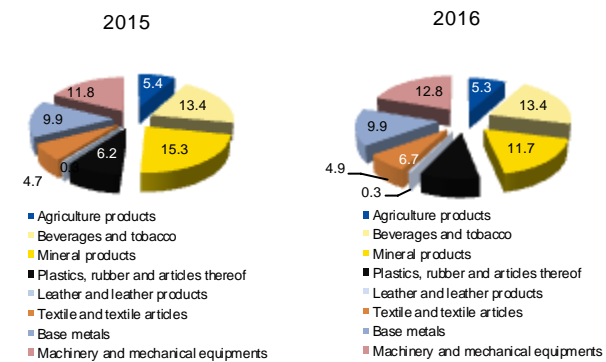
Balance in the trade of services amounted to euro 565.0 million, an increase of 23.6 percent compared to the previous year. The value of total exported services marked an annual increase of 9.1 percent, amounting to euro 1,038.4 million. On the other hand, the value of imports of services marked a decrease of 4.3 percent and reached euro 473.4 million. Within the export of services, travel services and transport services were characterized with an annual increase of 12.4 and 6.6 percent respectively, while the category of computer, information and telecommunication services marked a decrease of 11.6 percent. With regards to the imports of services, transport services marked a decrease of 15.1 percent, whereas travel services marked an increase of 4.2 percent.

Figure 9. Structure of exports by category, in percent



Source: KAS (2017)

Figure 10. Structure of imports by category, in percent

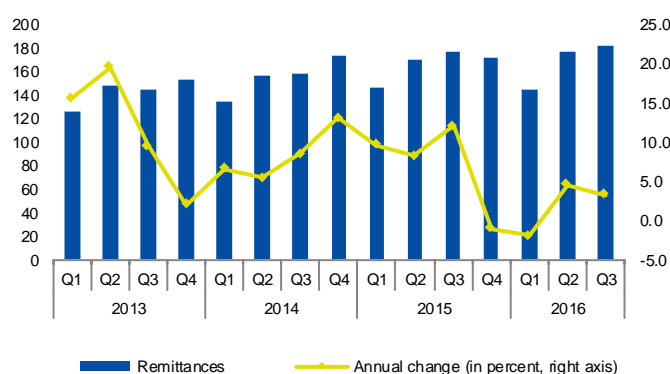


Source: KAS (2017)

³ Source of data on export and import of goods in Kosovo is the Kosovo Agency of Statistics.

The primary income account was characterized with a decrease of 12.6 percent. Balance of incomes from compensation of employees⁴ decreased by 5.6 percent, while the balance of incomes generated from investments decreased by 1.6 percent. In 2016, the balance of secondary incomes marked an increase of 3.2 percent, which is attributed to the higher level of remittances. Remittances received in Kosovo, which at the same time represent the largest category within the secondary income account, amounted to euro 691.0 million, which represents an annual increase of 3.8 percent (figure 11).

Figure 11. Remittances, in millions of EUR

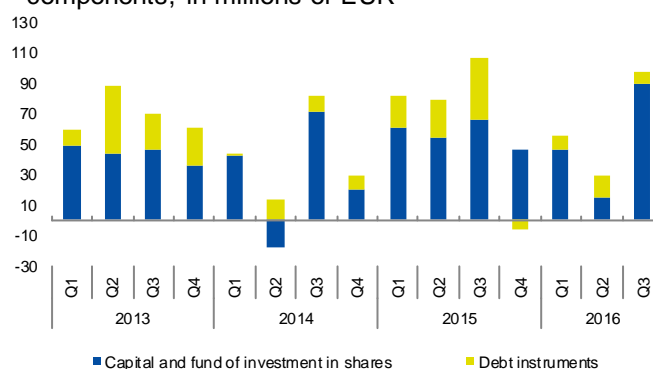


Source: CBK(2017)

Remittances received in Kosovo come mainly from Germany and Switzerland, countries from which 37.1 percent, respectively 22.6 percent of all remittances are received in Kosovo. A significant part of remittances comes from USA, namely 6.8 percent of total remittances received in Kosovo.

Foreign Direct Investments (FDIs) received in Kosovo amounted to euro 215.9 million, representing a lower level compared to the amount of euro 308.8 million recorded in 2015. Within FDIs structure, two forms of FDIs were characterized with a decrease in value, including the capital and fund of investments in shares, as well as investments in debt instruments (figure 12).

Figure 12. Structure of foreign direct investments by components, in millions of EUR



Source: CBK(2017)

Capital and fund of investments in shares, which accounts for about 85.3 percent of total FDIs, amounted to euro 179.0 million, which is 21.5 percent lower compared to the previous year. Also, FDIs in the form of debt instruments amounted to euro 36.9 million, a decrease of 54.3 percent compared to the previous year. The decrease in FDIs was evident in almost all sectors. A more significant decrease was observed in the real estate sector and financial service sector, which was characterized with an annual decrease of 11.6 and 70.5 percent respectively.

⁴ Compensation of employees includes wages, salaries and other benefits received from resident employees abroad. It includes seasonal employees or other short-term employees (less than one year) and border employees whose centre of economic interest is in their economy.

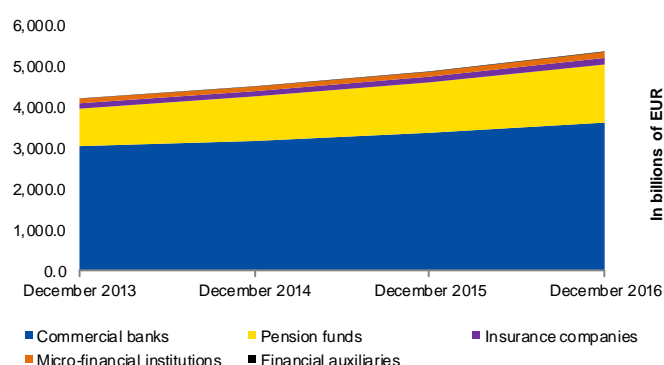
3.7. Financial sector

3.7.1 General characteristics

The value of total assets of the Kosovo financial system amounted to euro 5.39 billion in 2016, corresponding to an annual increase of 10.0 percent (figure 13). The banking sector and pension funds continue to have the main contribution to expanding the activity of financial system in the country.

The number of commercial banks, insurance companies and pension funds remained similar to the previous year, unlike financial auxiliaries that marked an increase, whereas microfinance institutions marked a decrease (table 2).

Figure 13. Assets value of Kosovo's financial system



Source: CBK (2017)

Table 2. Number of financial institutions

Description	2012	2013	2014	2015	2016
Commercial banks	9	9	10	10	10
Insurance companies	13	13	14	15	15
Pension funds	2	2	2	2	2
Financial auxiliaries	38	39	42	44	48
Micro-financial institutions	17	17	18	18	16

Source: CBK (2017)

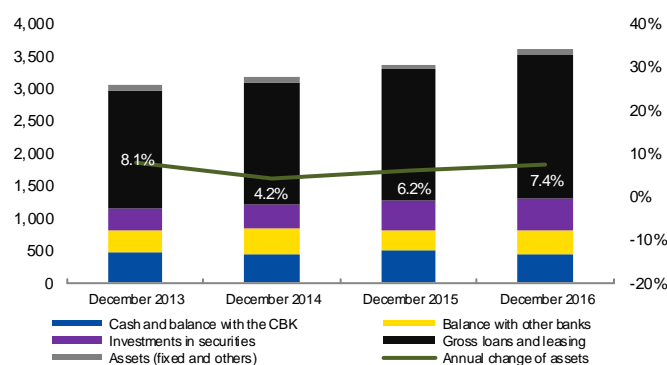
3.7.2 Banking sector

Assets

During 2016, assets of banking sector marked an annual increase of 7.4 percent, reaching euro 3.64 billion (figure 14). The expansion of credit portfolio continued to be the largest contributor to the increase of banking sector assets. This expansion mainly reflects the ongoing increase of deposits of banking sector as the main funding source for lending activity in the country.

During 2016, the banking sector's securities stock marked a slowdown in growth to 7.8 percent, from 23.3 percent a year earlier. This change is a result of slowdown of investment growth in securities of Government of Kosovo to 5.8 percent (17.3 percent in 2015) and investments in securities of foreign governments to 9.7 percent (29.4 percent in 2015).

Figure 14. Assets of commercial banks, annual changes, in millions of EUR



Source: CBK (2017)

The slowdown of investments in securities of the Government of Kosovo is a result of increase of competition from other market stakeholders, as pension funds, insurance companies and other

public institutions, which increased the amount invested in Kosovo securities. Also, the progress in this category of assets may be attributed to the increase of funds dedicated to lending, given the increase of demand for loans, low rate of non-performing loans, as well as higher return from investment in loans.

Cash and balance with CBK marked an annual decrease of 6.9 percent compared to the growth of 9.6 percent the previous year. The decrease of this category may have been affected by the moving of means toward lending, as well as measures taken by CBK, where as of August 2016, CBK applies a negative interest rate for banks' reserves above the mandatory reserves level.

Table 3. Structure of the banking sector assets

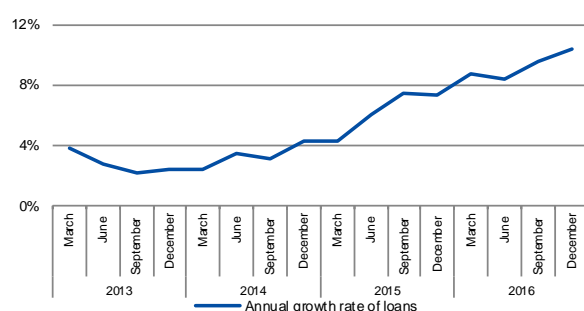
Description	2012		2013		2014		2015		2016	
	In millions of EUR	Share (%)	In millions of EUR	Share (%)	In millions of EUR	Share (%)	In millions of EUR	Share (%)	In millions of EUR	Share (%)
Cash and balance with the CBK	425.7	15.0%	463.3	15.1%	447.1	14.0%	491.2	14.5%	457.3	12.6%
Balance with commercial banks	287.9	10.2%	339.9	11.1%	390.7	12.3%	316.0	9.3%	342.0	9.4%
Securities	256.6	9.1%	354.5	11.6%	383.8	12.0%	473.5	14.0%	510.3	14.0%
Gross loans	1,763.4	62.3%	1,805.8	59.0%	1,882.4	59.1%	2,019.4	59.6%	2,230.0	61.3%
Fixed assets	57.7	2.0%	55.5	1.8%	53.7	1.7%	57.3	1.7%	58.5	1.6%
Other assets	38.1	1.3%	40.3	1.3%	27.9	0.9%	29.8	0.9%	38.7	1.1%
Total	2,829.3	100%	3,059.3	100%	3,185.6	100%	3,387.3	100%	3,636.8	100%

Source: CBK (2017)

Loans

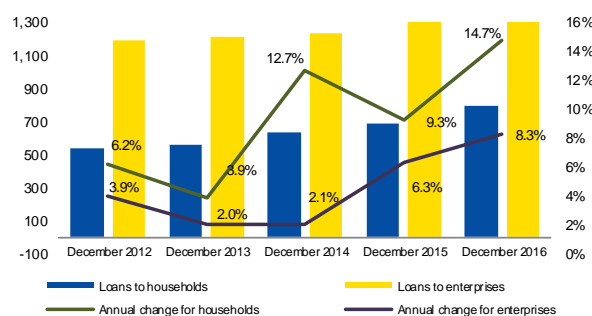
Banking sector loans accelerated the annual increase to 10.4 percent (figure 15). As of December 2016, the value of total loans amounted to euro 2.23 billion. During 2016, lending increased mainly as a result of increased demand for loans, as well as improved lending offer from the banking sector through lowering the interest rate, increasing approved loan amount and lowering other non-interest tariffs.

Figure 15. Growth trend of loans, in percent



Source: CBK (2017)

Figure 16. Loans to enterprises and to households



Source: CBK (2017)

Loans to households was the category that recorded the highest annual growth rate of 14.7 percent (figure 16).

Also, new loans to households marked an annual increase of 10.8 percent in 2016. Similar to loans to households, loans to enterprises marked an accelerated annual increase compared to the previous year (figure 16). Structure of loans to enterprises by economic activities continues to be dominated by loans intended for trade sector, followed by those for production and construction (figure 17).

By December 2016, lending to all economic sectors marked an increase, excluding agriculture and other financial services, which were characterized with a decrease (0.3 percent and 39.5 percent) (figure 18). An annual increase of lending that is worth highlighting was marked in the construction and energy sector (3.5 percent and 6.6 percent). However, new loans to enterprises marked an annual decrease of 17.3 percent, whereby the category of investment loans marked an annual decrease of 28.2 percent, whereas that of non-investment loans marked an annual increase of 4.2 percent.

Liabilities and own sources

The structure of banking sector liabilities is dominated by deposits, which account for about 79.7 percent of total liabilities and own sources, thus representing the main funding source of banking sector activity. A very important integral part of the category of liabilities continues to be the category of “other liabilities” and “balance with commercial banks.” Category of own

sources of banking sector was characterized with an annual increase of 7.1 percent, mainly as a result of sharp increase in the value of retained earnings at euro 68.7 million in 2016 (24.4 million in December 2015).

Table 4. Structure of the banking sector liabilities

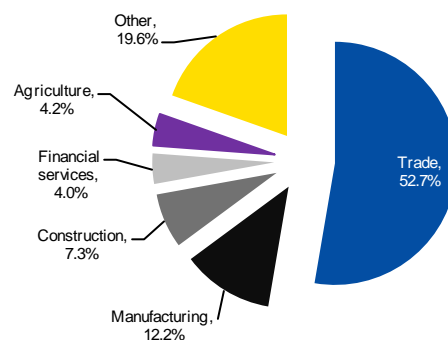
Description	2012		2013		2014		2015		2016	
	In millions of EUR	Share (%)	In millions of EUR	Share (%)	In millions of EUR	Share (%)	In millions of EUR	Share (%)	In millions of EUR	Share (%)
Balance with other banks	6.0	0.2%	16.5	0.5%	31.6	1.0%	43.4	1.3%	59.1	1.6%
Deposits	2,279.0	80.6%	2,449.0	80.1%	2,537.5	79.7%	2,701.4	79.8%	2,897.9	79.8%
Other borrowings	18.9	0.7%	13.4	0.4%	14.1	0.4%	17.6	0.5%	17.8	0.5%
Other liabilities	223.6	7.9%	246.2	8.0%	232.1	7.3%	194.3	5.7%	199.0	5.5%
Subordinated debt	31.0	1.1%	56.3	1.8%	47.3	1.5%	36.8	1.1%	38.4	1.1%
Own resources	270.8	9.6%	277.8	9.1%	323.0	10.1%	394.0	11.6%	420.7	11.6%
Total liabilities	2,829.3	100%	3,059.3	100%	3,185.6	100%	3,387.3	100%	3,632.8	100%

Source: CBK (2017)

Deposits

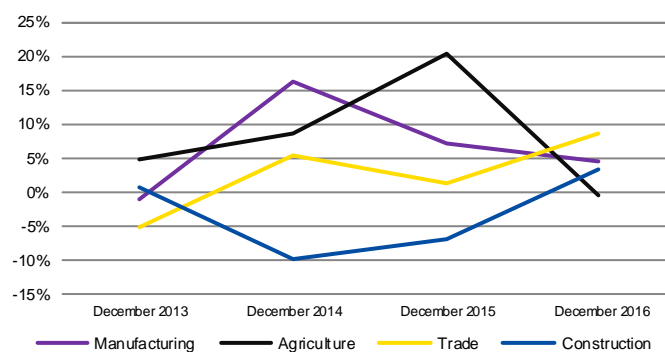
Deposits in banking sector of Kosovo marked an annual increase of 7.2 percent, an accelerated increase compared to previous year. In 2016, deposits amounted to euro 2.90 billion (figure 19).

Figure 17. Loans by economic sectors, in percent (December 2016)



Source: CBK (2017)

Figure 18. Annual growth of loans by economic sectors



Source: CBK (2017)

The growth pace of total deposits is mainly dictated by household deposits, which marked an annual increase of 8.0 percent. This category also continues to dominate the structure of total deposits, followed by deposits of enterprises (figure 19).

During the same period, the deposits of enterprises recorded an accelerated annual increase of 14.5 percent. This increase may have resulted from the increase in the average interest rate on deposits to enterprises to 1.6 percent (1.5 percent in December 2015). It is worth mentioning that the category of transferable deposits continued to increase the share in the structure of total deposits to 57.9 percent from 54.7 percent in December 2015. This increase is mainly due to the low interest rate on deposits.

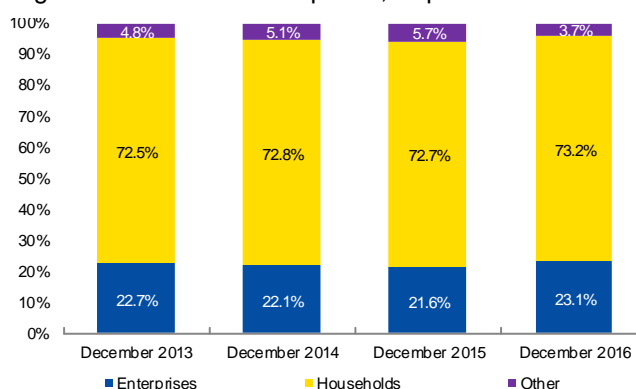
Interest rates

Difference between average interest rate on loans and that on deposits was narrowed to 6.0 percent compared to the same period of the previous year (6.5 percent in 2015). Average interest rate on loans in December 2016 decreased to 7.2 percent, while the average interest rate on deposits increased to 1.2 percent (figure 20).

Interest rates on loans

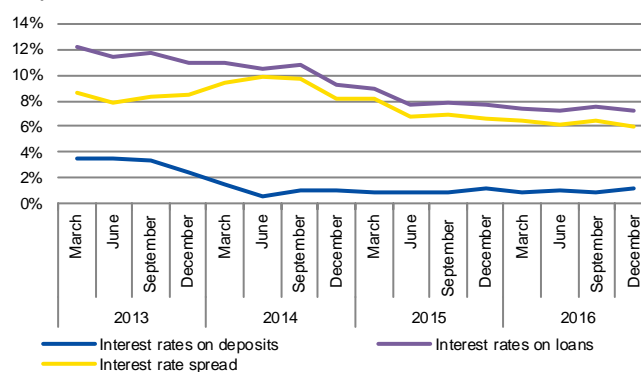
Average interest rate on loans to enterprises decreased to 6.8 percent from 7.4 percent in December 2015 (figure 21). Within this category, interest rates on investment and non-investment loans continue to show a downward trend.

Figure 19. Structure of deposits, in percent



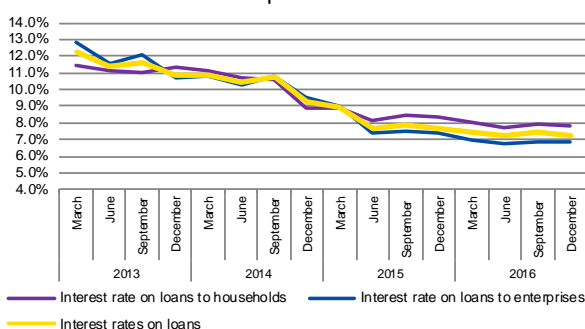
Source: CBK (2017)

Figure 20. Average interest rate on loans and deposits



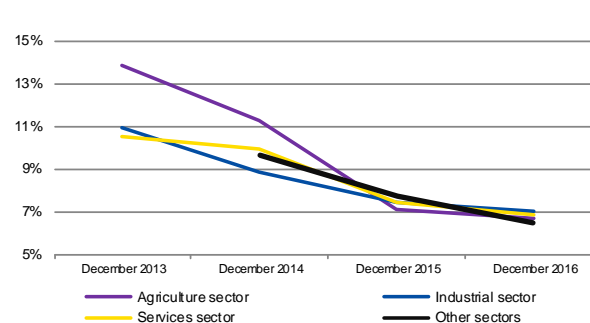
Source: CBK (2017)

Figure 21. Average interest rate on loans to households and to enterprises



Source: CBK (2017)

Figure 22. Average interest rate on loans, by economic sectors



Source: CBK (2017)

In December 2016, it was observed a slighter decrease in interest rates on loans to enterprises compared to previous periods. Interest rates in all economic sectors marked a decrease, some at a

more accelerated pace, as “other sectors” and “service sectors,” unlike sector of agriculture and industry (figure 22).

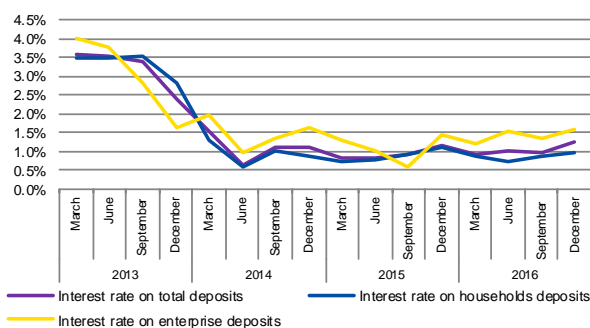
Loans to households also marked a decrease in the average interest rate to 7.9 percent (8.4 percent in December 2015). Within this category, average interest rate for consumer and mortgage loans continued to follow a downward trend.

Interest rates on deposits

Average interest rate on total deposits remained similar to that of the previous period (1.2 percent in December 2015) (figure 23).

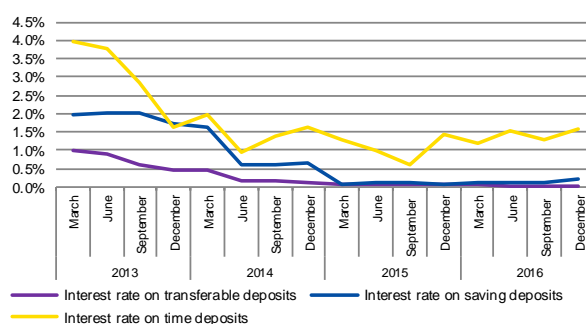
Average interest rate on deposits of enterprises reached 1.6 percent, a slight annual increase of 0.1 percentage points. Specifically, an increase of 0.1 percentage points was marked in interest rates on savings and term deposits of enterprises (figure 24).

Figure 23. Average interest rate on deposits



Source: CBK (2017)

Figure 24. Average interest rates on enterprises deposits, by category



Source: CBK (2017)

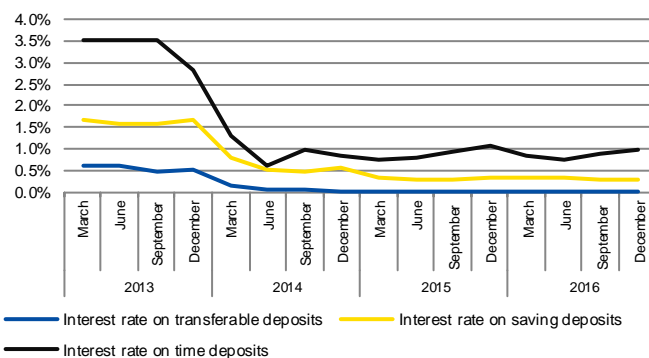
On the other hand, the average interest rate on household deposits dropped to 1.0 percent (1.1 percent in December 2015). This decrease mainly reflected the decrease of average interest rate on transferable deposits (figure 25).

Banking sector performance⁵

During 2016, the banking sector continued to be characterized by good financial performance, maintaining a high level of profitability. Profit realized during 2016 was euro 75.5 million, representing an annual decrease of 20.2 percent compared to the profit realized in the previous year, a decline mainly attributable to the fall in revenues and the growth of banking sector expenditures (figure 26).

Revenues of the banking sector followed a downward trend (figure 27). In 2016, revenues marked an annual decrease of 3.0 percent, amounting to euro 231.1 million. The decrease of revenues is mainly attributable to the decrease of revenues from interest as a result of decrease of average interest rate on loans.

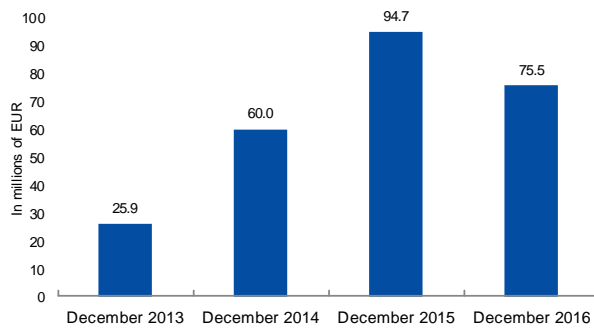
Figure 25. Average interest rate on household deposits, by categories



Source: CBK (2017)

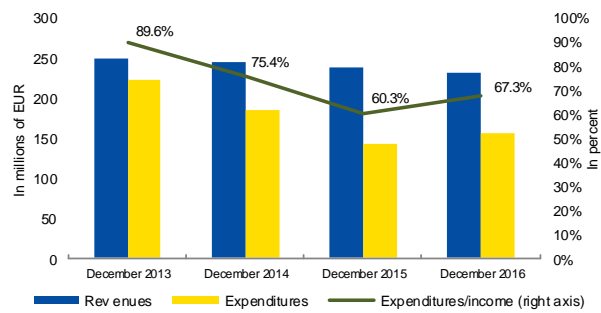
⁵ Based on unaudited data.

Figure 26. Net profit of the banking sector, in millions of EUR



Source: CBK (2017)

Figure 27. Income and expenditures of the banking sector



Source: CBK (2017)

The value of total banking sector expenditures amounted to euro 155.6 million in 2016, representing an annual increase of 8.4 percent (figure 27). The main contributor to the increase of total expenditures was the increase of non-interest expenditures.

Expenditures to sector revenues ratio has deteriorated compared to the same period of the previous year, as a result of decrease of revenues and increase of expenditures in this period (figure 27).

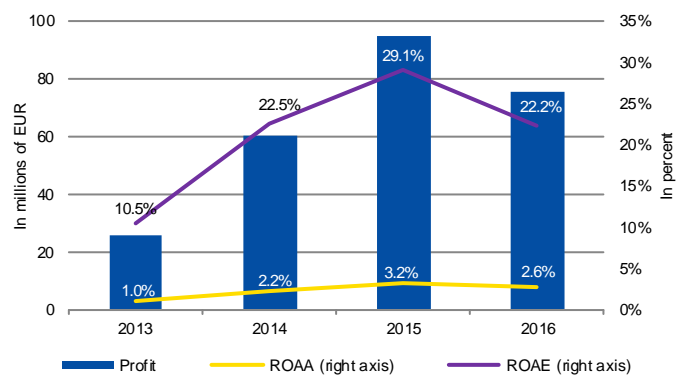
Profitability indicators continue to remain at a high level. However, as a result of the decline in profits, Return on Average Assets (ROAA) and Return on Average Equity (ROAE) dropped to 2.6 percent respectively 22.2 percent, from 3.2 percent respectively 29.1 percent in the previous year (figure 28).

Financial health indicators

As of December 2016, banking sector marked a decrease of non-performing loans and improved coverage with provisions. The level of non-performing loans dropped to 4.9 percent, a low level compared to countries in the Western Balkans (figure 29). Moreover, the level of coverage of non-performing loans with provisions increased to 126.5 percent.

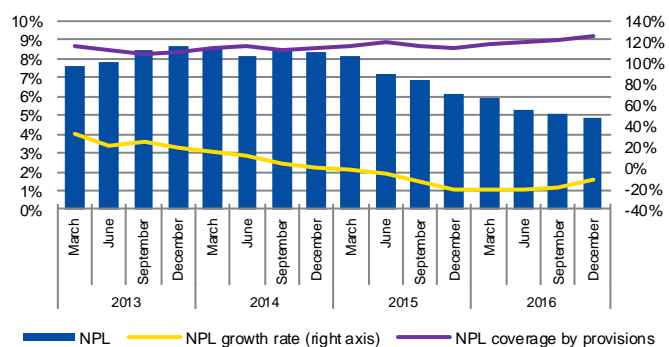
The banking sector continues to have a high level of capitalization, where capital adequacy indicator stood at 17.9 percent in December 2016. The liquidity position of the banking sector continues to be at stable level, despite accelerated growth in lending. The ratio of liquid assets to short-term liabilities stood at 41.5 percent, which is well above the regulatory minimum of 25 percent.

Figure 28. Profitability indicators of the banking sector



Source: CBK (2017)

Figure 29. Indicators of credit portfolio quality and NPL growth rate



Source: CBK (2017)

3.7.3 Pension sector

Pension sector was characterized by a significant increase in assets of 15.2 percent in 2016. Total value of pension sector assets amounted to euro 1.43 billion, making it the second largest sector in financial system with 26.5 percent of assets (figure 30). Increase of new contributions and return on investments contributed to this increase.

Value of new collections amounted to euro 152.0 million (euro 138.0 million in 2015), representing an annual increase of 10.2 percent. Value of new collections of Kosovo Pension Savings Trust (KPST) reached euro 151.5 million, whereas that of Slovenian – Kosovo Pension Fund (SKPF) reached euro 496.5 thousand.

Pension sector doubled the return on investment, reaching euro 65.3 million, as opposed to the return of euro 29.7 million in the previous year. KPST realized a positive return on investment of euro 64.6 million, whereas SKPF euro 704.7 thousand. Markets were characterized with significant fluctuations during this year due to low interest rates on investments, uncertainties about the Great Britain's exit from the European Union and expectations for change of the monetary policy by the Federal Reserve System. Despite these developments, the investment strategy of pension funds results to have amortized fluctuations and ensured an increase in the return on investment value.

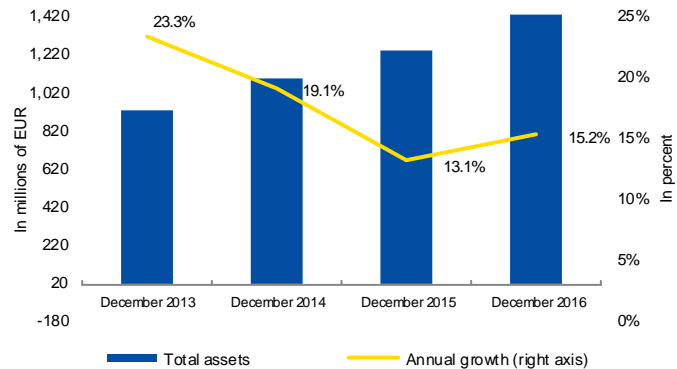
KPST, which consists of 99.5 percent of assets of pension sector, changed its investment strategy compared to the previous year by orienting investments abroad. Investments in securities of the Government of Kosovo marked a decrease of 12.2 percent, whereas investment in mutual investment funds, which are abroad, marked an increase of 20.2 percent (figure 31).

3.7.4 Insurance sector

The insurance sector, representing about 3.0 percent of total financial system assets, in December 2016 recorded an annual asset growth of 5.9 percent and reached euro 161.8 million (figure 32). One of the key contributors to asset growth was the increase in liquid assets, respectively of cash held in commercial banks, which has the highest share in the assets structure of insurance companies.

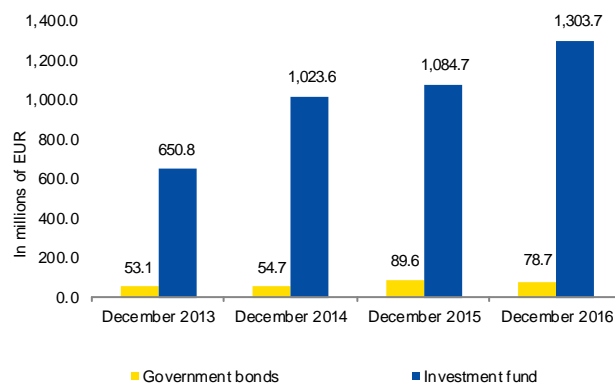
Non-life insurance, which at the same time has the highest share in the total sector assets (about 90 %), recorded an annual growth of 5.6 percent in 2016. In the meantime, 'life' insurance constituting the remaining part of assets marked an annual growth of 8.3 percent.

Figure 30. Assets of pension sector, in millions of EUR



Source: CBK (2017)

Figure 31. KPSF investments



Source: KPSF (2017)

During 2016, the value of premiums written by insurance companies amounted to euro 83.5 million, an annual increase of 4.4 percent. The structure of written premiums is lead by non-life insurance premiums, which represent 96.9 percent of total written premiums. Their value of euro 80.9 million during this period is 4.7 percent higher than in 2015. Meanwhile, the value of premiums written by life insurance amounted to euro 2.6 million (an annual decrease of 3.7 percent).

Claims paid by the insurance sector, including insurance companies and the Kosovo Insurance Bureau (KIB) claims, recorded a slower annual increase of 4.9 percent in 2016 (an increase of 15.1 percent in 2015).

The higher increase in claims paid during this period along with the smaller increase in written premiums, resulted in a slight decrease in the ratio of total claims paid to written premiums (figure 33).

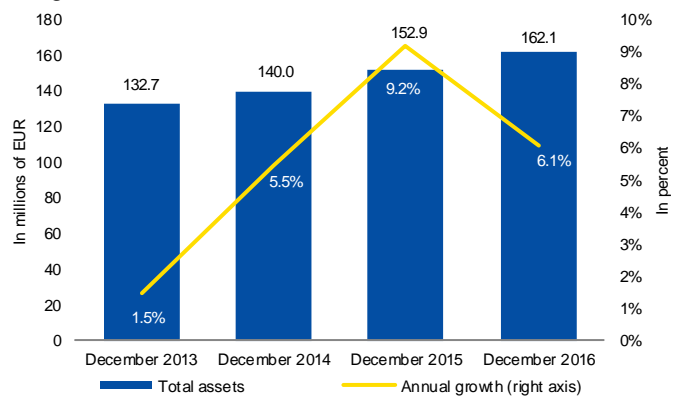
Performance of insurance sector

The insurance sector continued to record losses, which in 2016 deepened significantly compared to the previous year. The net income from the insurance sector premiums in December 2016 recorded a slight annual growth of 1.2 percent, whereas in the same period, expenditures were characterized by an annual growth of 10.7 percent, and claims incurred recorded an annual growth of 32.5 percent. As a result of higher growth of expenditures and claims incurred in relation to incomes, the insurance sector recorded a loss of euro 25.6 million (loss of 8.9 million in December 2015).

The financial loss in the insurance market was influenced by two main factors. The first and most influential factor relates to the actuarial revaluation of technical provisions of some non-life insurance companies which for many years have undervalued technical provisions, i.e. provisions for pending claims. As a result, the revaluation of these provisions during 2016 had marked a significant increase, which subsequently affected the performance of the market as a whole. Due to the underevaluation of the technical provisions of some insurance companies from previous years, the loss carried forward from underevaluation of the technical provisions as a consequence of not fair presentation of these reserves for claims from previous years (2002-2015) is a total of euro 15.96 million.

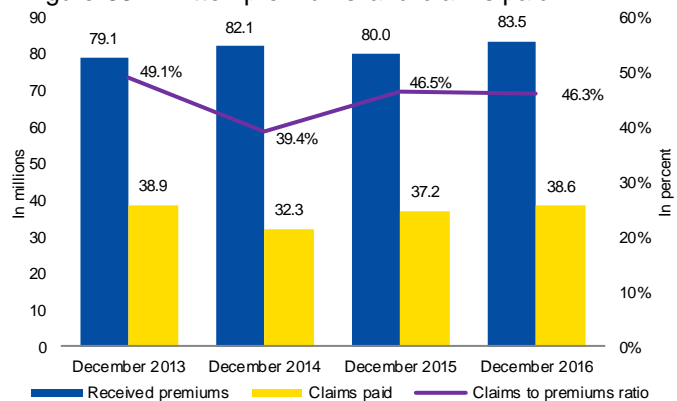
Moreover, when to this is added the amount of sales tax paid (despite realized losses) of euro 4 million, as well as payments of the Compensation Fund (caused by uninsured cars) amounting to over euro 4 million, the sector of insurance incurs the loss presented in 2016 in the amount of euro 25.6 million. Consequently, based on CBK's request for fair presentation of technical

Figure 32. Assets of insurance sector



Source: CBK (2017)

Figure 33. Written premiums and claims paid



Source: CBK (2017)

provisions and financial statements, previous year losses were carried forward in 2016. This has led other companies to review, re-evaluate and reflect fairly the technical provisions.

The second factor is related to the high level of expenditure. The sharp increase in technical provisions on the one hand and the lack of proper management of the expenditure level on the other hand had a major impact on the increase in financial loss in the insurance market during 2016. Due to the high recorded costs, at the end of 2016, the CBK issued a regulation on the sale of compulsory motor liability insurance and the management of insurers' expenses, with a view to limiting and reducing expenditures.

The annual growth of cash and cash equivalents of 3.1 percent, in addition to the significant increase of 30.4 percent of the technical reserves of the insurance sector contributed to the decrease of the liquidity level. The cash and its equivalents to reserves ratio decreased to 90.7 percent in December 2016 (114.8 percent in December 2015), while the ratio of cash and its equivalents to total liabilities decreased to 83.4 percent (103.4 percent in December 2015).

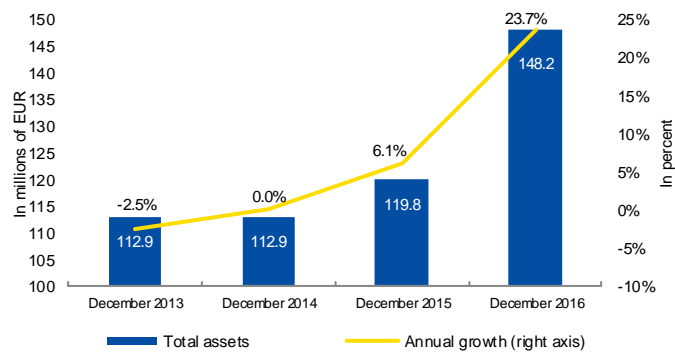
3.7.5 Microfinance sector

Assets

During 2016, the assets of the microfinance sector reached 148.2, marking a significant annual growth of 23.7 percent (figure 34).

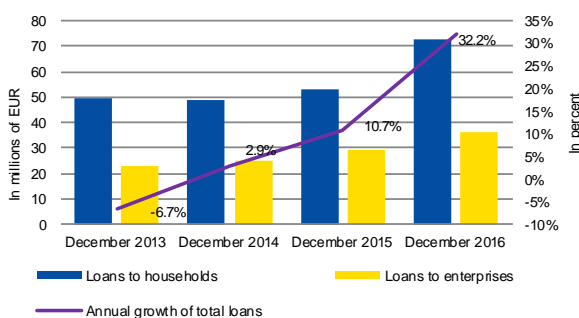
The growth of microfinance sector assets in 2016 is mainly attributable to the growth of gross loans, an activity largely financed by external sector borrowing. The structure of microfinance sector assets continues to be dominated by gross loans (73.5 percent), followed by leasing (15.2 percent).

Figure 34. Assets of microfinance sector, in millions of EUR)



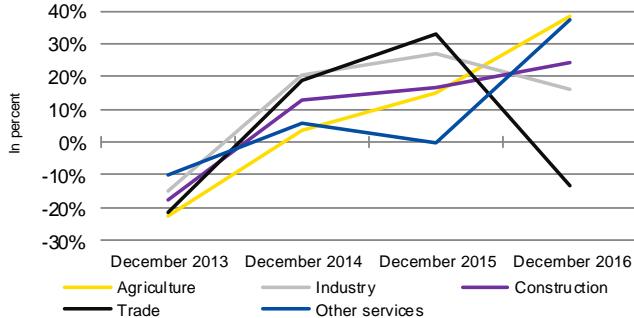
Source: CBK (2017)

Figure 35. Value of loans to households and loans to enterprises, annual growth of loans



Source: CBK (2017)

Figure 36. Growth rate of loans to enterprises, by economic sectors



Source: CBK (2017)

Loans

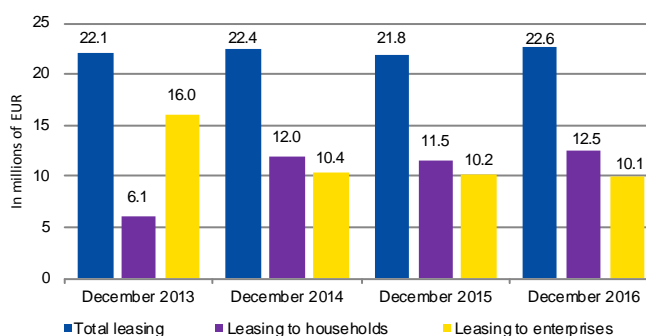
The lending activity of the microfinance sector during 2016 had a significant improvement, where the value of loans recorded an annual growth of 32.2 percent (figure 35). Household loans category had the largest contribution to credit growth (67.0 percent of total sector loans) which marked an annual growth of 35.7 percent. Loans to enterprises, representing 33.0 percent of total sector loans, contributed significantly to total loans growth, recording an annual growth of 22.7 percent.

Regarding loans issued to the economic sectors, agriculture was characterized by the highest annual growth, followed by construction and other sectors. Trade is the only sector that recorded a decrease (figure 36).

Leasing

Leasing, as the second-largest category by share in the structure of assets of the microfinance sector, marked an annual growth of 3.4 percent in 2016 and amounted to euro 22.6 million (figure 37). The main contributor to the growth in leasing was the growth of mortgage leasing and 'other leasing', which recorded an annual growth of 6.0 percent and 6.8 percent, respectively.

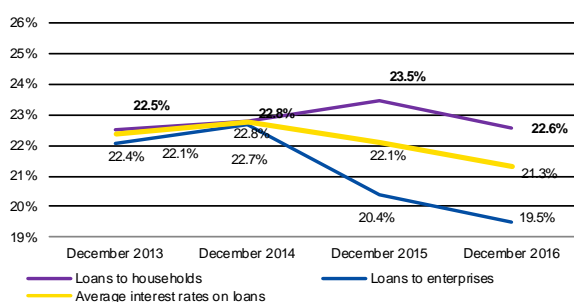
Figure 37. Microfinance sector leasing (in percent)



Source: CBK (2017)

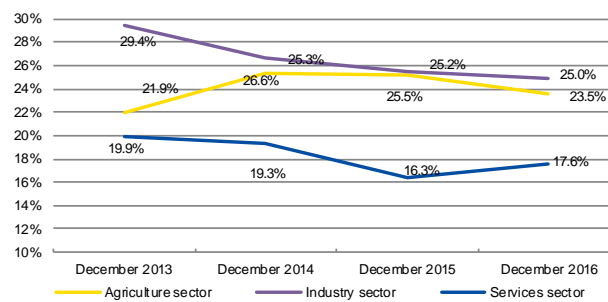
Interest rates

Figure 38. Average interest rate on microfinance sector loans



Source: CBK (2017)

Figure 39. Average interest rate on loans, by economic sectors

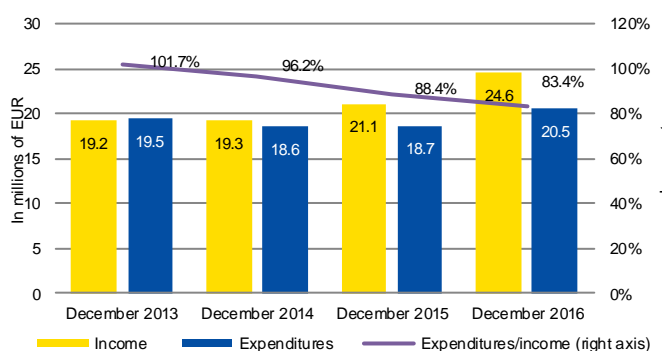


Source: CBK (2017)

The average interest rate on microfinance sector loans in December 2016 continued the downward trend, dropping to 21.3 percent. The interest rate on loans to households as well as loans to enterprises recorded the same decrease of 0.9 percentage points (figure 38).

In terms of loans to enterprises, the service sector resulted to have the lowest interest rate on loans. Meanwhile, the industry sector continues to have the highest interest rate on loans (figure 39).

Figure 40. Income and expenditures of microfinance sector



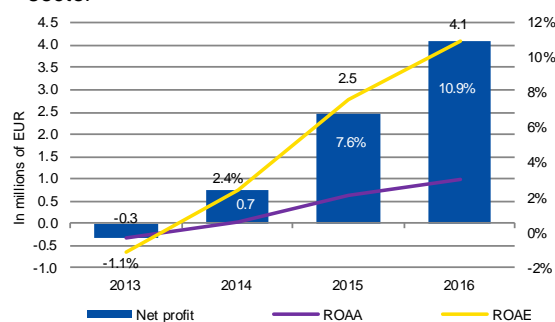
Source: CBK (2017)

Performance of the microfinance sector

As of December 2016, the microfinance sector realized a profit of euro 4.1 million, which represents a significant annual increase of 73.3 percent. The main contributor to this growth was higher growth of revenues (mainly from interest), along with increase of expenditures (figure 40).

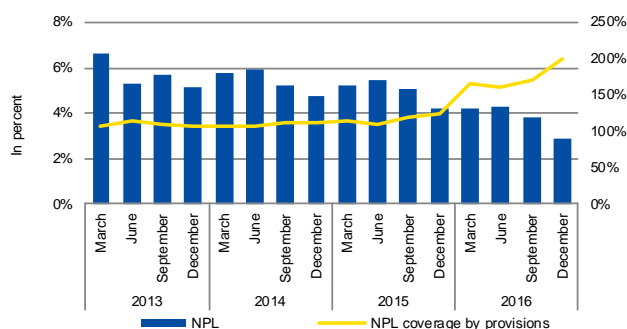
As a result of the positive financial result during 2016, profitability indicators improved (figure 41).

Figure 41. Profitability indicators of microfinance sector



Source: CBK (2017)

Figure 42. Credit portfolio quality indicators



Source: CBK (2017)

The level of non-performing loans in relation to total loans in December 2016 decreased by 1.3 percentage points, representing the lowest level in recent years, and decreased to 2.9 percent (figure 42).

Moreover, the level of coverage of non-performing loans with provisions recorded a significant increase of 200.2 percent, driven by the decrease of non-performing loans (figure 42).

3.8. Macroeconomic projections for 2017

CBK projections for 2017 suggest that Kosovo's economy will be characterized with a real growth of 3.7 percent. This growth is expected to be generated by domestic demand, whereas net exports are expected to have a lower negative impact on the GDP growth rate. Consumption, as the main component of internal demand, is expected to mark a real growth of 2.1 percent, based on expectations that the private consumption will mark an increase of 2.4 percent and the public consumption of 0.6 percent. Factors that are expected to have an impact on the increased private consumption are, among others, increased remittances and increased loans. By the end of 2017, remittances are expected to mark an annual increase of around 2.8 percent. In addition, loans to households, which in recent years have marked a considerable increase (14.7 percent in 2016 and 9.3 percent in 2015), are expected to continue with the growing trend also in 2017.

Investments in 2017 are expected to mark a real growth of 6.8 percent, based on projections for significant public investment growth (16.9 percent) but also private investment (3.3 percent). An important contribution to the increase of the private investments will continue to be provided by bank leasing, which was characterized by a rapid increase and lower interest rates. In addition, changes in taxation policy in the recent years (such as VAT exemption for production and production related machinery, and VAT exemption for IT equipment), are expected to encourage private investments. The increase of FDI is also expected to contribute to the growth of investments general position, which in the previous year marked a significant decrease.

Net exports of goods and services in 2017 are expected to have a lower negative contribution to GDP compared to the previous year, an assumption largely based on the forecasts for rising metal prices that are expected to affect the growth of the total value of exports. In terms of goods, exports are foreseen to increase by 8.3 percent in real terms, whereas imports are expected to mark an increase of around 2.5 percent. Consequently, the trade deficit of goods is expected to mark a slight increase of 1.7 percent in real terms. On the other hand, the positive trade position within services is expected to grow by about 2.8 percent in real terms.

The trend of prices in Kosovo is mainly in line with the movements of prices in international markets, especially the prices of food and oil products. Both these categories of products, which account for about 50 percent of the Kosovo consumer basket, were characterized by falling prices in 2016 and are expected to increase in 2017. Consequently, Kosovo's economy, which was characterized by an inflation of 0.3 percent in the previous year, is expected to be characterized by an increase of inflation rate of 1.5 percent in 2017.

The bank lending growth rate for 2017 is expected to remain similar to the previous year, with around 10.0 percent. CBK projections for lending growth are also in line with the bank reports as part of the banking lending survey, the findings of which suggest that there will be an acceleration of lending activity over the coming periods. Specifically, banks expect improvement of credit supply through the easing of lending standards, decrease in interest rates on loans and improvement of credit conditions. Likewise, credit activity will also be affected positively by credit demand. Deposits are expected to continue with the increasing trend with which were characterized in the recent years. Households will continue to remain the main contributors to the increase of deposits. Household deposits are expected to mark an increase of 7.0 percent during 2016. The expected flow of deposits is related to national disposable income, which is expected to mark an increase of 4.6 percent in 2017.

4. Supervision, regulation and licensing of financial institutions

4.1. Adapting the Basel Capital Framework

Financial supervision has chosen a gradual and secure approach towards approximation with international standards, with special focus on relevant EU directives for the supervision of banks, which regulate the activities of credit institutions and determine the requirements for their capital. This is a well-analyzed process in order to assess the applicability and impact of any changes in the further improvement of the conditions for the financial sector and its users. Particularly during this period, new amendments and supplements have been envisaged, considering that after the recent financial crisis of 2008, the international standards known as the Basel Capital Framework have changed in order to review issues that are considered as factors driving financial crisis, as well as considering the development and needs of the banking system in Kosovo.

In this regard, in September 2014, the CBK launched a specific project for adapting and implementing the regulatory framework known as Basel Capital Framework. As a long-term objective of Kosovo to join the EU and as one of the key strategic goals, CBK has started this project with the strong support of the German Institution for International Cooperation (GIZ). Bearer of this project is the GIZ advisor, who has led the project for the past two years and will continue for the next two years after obtaining approval from GIZ.

Within this project, the CBK continued in 2016 with the amendment of existing regulations and the adoption of some new regulations to address a number of requirements for banks in accordance with the Basel Capital Framework. However, the complete harmonization of the existing regulations for the supervision and regulation of banks with Basel Capital Framework and European Directives is a long-term project, which with the CBK strategy is planned to be finalized during the period 2015 - 2019.

During 2016, in view of the adoption of the Basel Capital Framework Standards, we continued the preparation of amendments to the Bank's Capital Adequacy Regulation, which lays down the requirements for capital to address requirements for capital against credit risk through the harmonization of certain risk weighting for different asset classes, as well as for the adaptation of risk mitigation techniques. In addition, during 2016 two important regulations have been finalised in relation to the adoption of Basel Capital Framework requirements – Regulation on the use of external credit assessments in order to calculate regulatory capital, which is approved by CBK's Board on 28 January 2016 and Regulation on interest rate risk management in bank books, approved by the Board on 28 April 2016.

The lessons from the 2008 crisis highlighted the need to revise the Basel II standards, which today, in terms of the revised framework, are known as Basel Capital Framework. This framework has also been adopted by the EU through the new Directive known as the CRD IV Directive and the Regulation on Credit Institutions, known as "The Single Rule Book". These changes mainly include the review of requirements for capital and constituent elements of capital in order to increase the quality and establish requirements for the purposes of liquidity risk and leverage ratio monitoring.

According to the CBK plan for alignment of the regulation with the Basel Framework for Capital and the EU Regulation, it is foreseen to further continue with the completion of the regulatory framework to adopt necessary requirements drawn by these standards also during the following years, with particular focus on complete adaptation of the first pillar and further advancement regarding adoption of the second pillar of Basel Capital Framework.

These changes provide for a complete adaptation of the standardized method for risk-weighted exposures, expanding the number of exposure classes to reflect developments in the banking market in Kosovo, as well as adapting more sophisticated principles and rules for calculating risk-weighted exposures for each exposure class; principles and methods of recognition of mitigating techniques (mitigating factors) of credit risk. Also, during 2017 it is envisaged to adapt capital requirements for market risk coverage as well as to review the capital definition for alignment with the Basel Capital Framework.

Another important step of this project is the adaptation of the requirements of the second pillar of the Basel Capital Framework, known as ICAAP, or the adaptation of the internal process of capital adequacy assessment by the banks themselves, as well as the review process by the supervisor of this internal process of banks for assessing capital needs. In this respect, during 2016, initially in January 2016, a conference was organized for ICAAP, on which occasion representatives of the European Central Bank, representatives of the regulatory authorities of Germany and Slovenia, BaFin, Deutsche Bundesbank and the Bank of Slovenia were invited. Besides the CBK staff, the representatives of banks and the private sector also had the opportunity to participate in this conference which provided information and lectures on the recent developments regarding the ICAAP field, and the ongoing process of examination and monitoring of banks, as well as on the methods used to assess banks risks.

Within this project and in the continuation of the conference, a Bank Advisory Paper on the Internal Capital Adequacy Assessment Process was prepared, which was published and provided to banks and interested parties in August 2016. As regards the adaptation of the requirements of the Second Pillar of the Basel Capital Framework and ICAAP in particular, the preparation of the regulation and capacity building of the CBK and of the banks through the provision of specific training in this area will also continue during 2017, and the full adaptation and implementation of ICAAP is planned to be carried out during 2018.

Also, with the entry into force of new requirements for capital, the minimum requirements for information disclosure by banks will be reviewed and updated, which will enhance transparency for stakeholders and are known as requirements of the third Pillar of the Basel Framework aiming to increase market discipline through disclosure requirements and increased transparency.

4.2. Supporting the Establishment of the Credit Guarantee Fund

The CBK has supported the USAID project for establishing a credit guarantee fund, which was developed in cooperation with the Ministry of Trade and Industry and the Ministry of Finance. This fund was established by Law no. 05/L-057 on the Establishment of the Kosovo Credit Guarantee Fund, published in the Official Gazette on 8 January 2016. In support of the operationalization of this fund and the commencement of issuing credit guarantees from this fund, the CBK on April 28, 2016 has issued a regulation on guarantees instruments and agreements between licensed financial institutions and the Kosovo Credit Fund. This regulation has set out the elements to be included in credit guarantee agreements, between the fund and financial institutions. Also, during 2016, the CBK has supported the Fund in preparing "appropriate and proper" criteria to be applied for the election of board members of this fund, and an understanding agreement has been prepared and signed between the CBK and the Fund for co-operation through the exchange of necessary information and reports in order to fairly assess the credit risks and credit trends of lending institutions. CBK is also ready to support this fund in the future in order to achieve its objectives to facilitate access to finance for micro, small and medium enterprises, with the aim of creating jobs, increasing local production and services, as well as improving the trade balance and increasing funding opportunities for less-served

MSMEs. In view of this, it is foreseen to set a lower risk weight for the part of the loans covered by the guarantees provided by this fund, in the case of amendment of the regulation on the capital adequacy of banks, which is planned to be finalized at the end of 2017.

4.3. Engagement within inter-institutional groups for the amendment of laws related to the financial system

During 2016 the CBK has contributed to the amendment and preparation of the following laws in support of improving the legal infrastructure to further advance the legal framework with regard to addressing issues related to financial services and its harmonization with EU directives and good international standards.

CBK is engaged in the working group established by the Ministry of Trade and Industry in support of the USAID CLE project. This law clarifies the legal basis for the regulation of late payment by which the CBK is authorized to issue a regulation on late payment applied by financial institutions. Based on this law, the CBK will issue the regulation on late payment in the first half of 2017.

CBK has played a key role in drafting the new Law on Consumer Protection which is in line with the EU Directive on Credit Agreements for Consumers (Directive 2008/48 EC), and the EU Directive concerning the distance marketing of consumer financial services (Directive 2002/65 EC); and has addressed and regulated issues that have so far caused problems in the implementation of the Law in force: a) granting credit to the limited public which in practice has posed dilemmas in the manner of understanding and implementation; and b) through this draft amendment was clarified the issue of the competence (of the institutions) regarding the taking of administrative measures in case of violation of the provisions of the law. This law is expected to enter into force in 2017.

During 2016, CBK staff has also been engaged within the working group for amending the Law on Enforcement Procedure, led by the Ministry of Justice. The main changes to this law relate to Article 155, which deals with sequestration and enforcement in the bank account through the electronic system of banking account register, which is maintained by the CBK; and Article 234 dealing with the sale of immovable property in the enforcement procedure through public auction, where only two sale sessions were decided to be held. These changes have been made in cooperation with the International Monetary Fund, which is expected to increase the efficiency of case execution in enforcement processes as an important factor for the country's economic development.

CBK's involvement within the inter-institutional working groups for the preparation and amendment of the abovementioned laws, but also for the preparation of the action plan for the implementation of the SAA and certain groups for harmonization of the legislation with the EU directives in the field of free movement of services and capital, demonstrates CBK's contribution to the improvement and further advancement of legal infrastructure, and in the support of other institutions, for the construction and maintenance of a sound and sustainable financial system as a prerequisite for economic development of the country.

4.4. Improvement of real estate assessment

CBK has contributed to the further advancement of the quality of immovable properties appraisal for the needs of the financial sector. As a participant within the Supervisory Board on Appraisal of immovable properties, established by the Ministry of Finance in cooperation with the Kosovo Chamber of Commerce, in support of the US Treasury Advisor, CBK has contributed to the advancement of the regulation for the licensing program of the immovable properties appraisers and improvement of the training program. In the framework of this program, during

2014 and 2015, a number of representatives of banks and financial institutions as well as five members from CBK staff have successfully completed the training on immovable properties appraisal. Currently, two other members of the CBK are attending the training, as well as members of the banking and insurance staff, who started the training in 2016. Preparation of the staff in the appraisal field will enable a fair appraisal of the practices applied by financial institutions on the appraisal of immovable properties for their needs and will enable the application of adequate requirements to them concerning this field. With the preparation of capacities, as well as further improvement of regulatory requirements based on international standards and EU directives, the occupation of the immovable properties appraiser is expected to advance further, as one of the important factors for the further development of the financial sector.

In the framework of this program, it is planned to build sufficient infrastructure and capacities for the establishment of appeals committee in function of further preparations for implementation of quality control in order to improve and maintain the quality of immovable property appraisals in Kosovo in general and in particular by banks and other financial institutions.

4.5. Cooperation with international institutions

During 2016 a number of visits and activities were held in order to enhance the cooperation with international institutions related to the field of oversight of financial institutions.

In the first quarter of 2016 EBA⁶ conducted the assessment process regarding the equivalence of confidentiality criteria, as a prerequisite to sign the co-operation agreement. The results of this assessment confirmed the full compliance of CBK's criteria with regard to confidentiality with the criteria applied in the EU, therefore during 2016 the meeting with the EBA in London was made possible, whereby it was discussed and foreseen that the agreement between CBK and the EBA will be signed during 2017. At the same time, it is made possible for the CBK staff to participate in the specialized training on bank supervision organized by the EBA, starting from the year 2017, and after the signing of this agreement there will be cooperation opportunities in specific fields for further advancement of the regulatory framework and banking supervision methodology.

Furthermore, during 2016 the CBK has signed Cooperation Agreement with the Austrian Financial Market Authority (FMA) regarding the supervision of insurance and pensions in order to protect the interests of policyholders and aiming to promote the scope of cooperation between the two institutions in the field of supervision and exchange of information.

4.6. Emergency Liquidity Assistance

For the purpose of completing the legal framework related to the emergency liquidity assistance for banks, following the approval of the Internal Regulation and Procedure for Emergency Liquidity Assistance, on 15 September 2016, the CBK Executive Board approved the establishment of the Supervisory Committee on the Implementation of Emergency Liquidity Assistance. Moreover, this was also a recommendation from the mission of the International Monetary Fund in the field of Safeguard Assessment. With the approval of the Committee in question, the entire cycle with regard to the legislative framework in the area of emergency liquidity assistance for banks is completed.

⁶ European Banking Authority - EBA

4.7. Regulatory framework and licensing process

4.7.1 Regulatory framework

Central Bank of Kosovo, since its establishment, and with the continuous support of recognized international institutions such as World Bank, International Monetary Fund, USAID, US Treasury, KfW, GIZ, European Central Bank, and other international financial institutions, developed a regulatory framework for regulation and supervision of financial institutions, based on international standards and best practices. CBK, in recent years, particularly after the financial sector assessment within the FSAP program of the International Monetary Fund and the World Bank, has started a gradual process towards approximation with the Basic Principles for the Supervision of Banks issued by BIS- Bank for International Settlements, Basic Principles for the Supervision of Insurance Companies issued by the IAIS - International Association of Insurance Supervisors and European Directives addressing the regulation of financial institutions, such as best international standards and practices for financial institutions regulation and supervision. This is a continuous and complex process as it requires the amending and supplementing of existing legal and regulatory framework, and requires an adequate approach in order to carefully study the specific circumstances of Kosovo, for a proper adaptation of these standards, for the needs of financial sector in Kosovo. This is due to the fact that these standards have undergone numerous changes in developed countries, mainly in the last decade, in particular after the recent financial crisis, thus it is continuously required to review and supplement them in order to adapt to the dynamics of their development and developments of the market in Kosovo.

Regulations on financial supervision (banks, microfinance institutions, non-banking financial institutions, insurance companies and pension funds) are drafted and revised by working groups consisting of representatives of respective departments, such as the department of banking supervision, licensing, insurance and pension, the legal department and other departments depending on the area that is addressed and its link to relevant departments of CBK. During preparation of regulations or any other regulatory instrument, CBK cooperates closely with other institutions and with the industry through meetings and continuous communication with regulated subjects, mainly through respective institutional associations, such as the Kosovo Banking Association, the Insurance Association of Kosovo and the Association of Microfinance Institutions of Kosovo, but also with other domestic institutions in addressing issues that affect other areas related to the financial sector. This process has continuously facilitated clarification of specific issues regulated with regulations and their appropriate regulation, considering their impact on the stability of Kosovo's financial system and economic development.

4.8. Supplement of the regulatory framework for supervision of banks, microfinance institutions and non-bank financial institutions during 2016

The following presents the supplement of the regulatory framework for the supervision of banks, microfinance institutions and non-bank financial institutions during 2016:

Regulation on the use of external credit assessment for purposes of calculation of regulatory capital (approved by the Board of CBK on 28 January 2016) – This regulation was prepared within the framework of the Basel Capital Framework implementation project, the purpose of which is to set out the rules and criteria for the use of external credit assessments by institutions, for determining risk-weighted assets, when calculating the minimum regulatory capital requirement for credit risk according to the standardized approach of Pillar I of the Basel Capital Framework.

Regulation on management of interest rate risk in banking book (approved by the Board of CBK on 28 April 2016) – the purpose of this regulation is to determine the procedures and principles for managing the interest rate risk in banking book, the method of calculating changes in the economic value of a bank related to the change in positions in the banking book as a result of the use of a standard interest rate stress and reporting requirements in the CBK.

Regulation on guarantee instruments and agreements between licensed financial institutions and the Kosovo Credit Guarantee Fund (approved by the CBK Board on 28 April 2016) – the purpose of this regulation is to determine the content of credit guarantee fund agreements with financial institutions which determines the elements to be included in such instruments and agreements. With the issuance of this regulation was functionalized and commenced operation the credit guarantee fund, established by the Law on Establishment of the Guarantee Fund.

Regulation on Letter of Credit and Bank Guarantee (approved by the CBK Board on 31 August 2016) – the purpose of this regulation is to define the rules and procedures for issuing bank letters of credit and bank guarantee that must be applied by banks when issuing letters of credit and bank guarantees.

Regulation on corporate governance of banks (approved by the CBK Board on 29 December 2016) – the purpose of this regulation is to strengthen the regulatory framework regarding the best practices of corporate governance of banks, as an important factor for maintaining the sustainability and stability of the banking sector as a whole. This Regulation establishes minimum requirements for bank shareholders, the Board of Directors and Senior Managers regarding their responsibilities in corporate governance.

During 2016 some of the existing regulations have been amended in order to adapt international standards and harmonize with the requirements applied in the EU, such as:

Amendment of regulations on reporting of banks, microfinance institutions and non-bank financial institutions – Regulations on reporting of banks, MFI/NBFI have been supplemented with the required requirements foreseen by the new reporting framework, supplemented within the framework of the automation of bank reporting project, MFIs and NBFIs for the needs of the analysis of the financial statements and the issuance of periodic reports by the CBK.

Amendment of the regulation on credit risk management – The credit risk management regulation has been amended to standardize the write-off period of bad loans by banks, as well as to clarify the definition of reprogramming of past due loans and differentiation of these cases from cases of additional refinancing in cases where there appear no financial difficulties on the side of borrower.

Amendment of regulation on large exposures – This regulation has been amended in order to harmonize the cases excluded from the calculation of large exposures in accordance with the requirements of the EU regulation, and harmonization on the treatment of off-balance sheet items for the purpose of calculating large exposures with EU regulation.

Furthermore, during 2016, three regulations were prepared for regulation of non-bank financial institutions which, due to the current process of preparing a separate law for MFIs and NBFIs, have not been processed for approval until finalization and the adoption of this law. Draft regulations prepared during 2016 are:

- Regulation on External Audit of NBFIs;

- Regulation on Internal Audit and Internal Controls for NBFIs; and
- Regulation on Credit Risk Management of NBFIs.

4.9. Supplement of the regulatory framework for supervision of insurers during 2016

The Law 05/L-045 on Insurance entered into force in January 2016, whereby almost all the existing insurance supervision rules have been amended during 2016, which have been transformed into regulation. Furthermore, during this year some new regulations have been issued to cover all the requirements of the law on insurances, and a number of new regulations are in the process of finalization and some existing regulations are subject to amendments. The following shows in details the amendments to the regulatory insurance framework during 2016:

Regulation on insurance actuaries (approved by CBK Board on 31 March 2016) – This regulation sets out the requirements, conditions, and criteria for becoming appointed and approved as an insurance actuary eligible to conduct operations in Kosovo, as well as other reporting required by the CBK;

Regulation on mergers and acquisitions (approved by CBK Board on 25 February 2016) – The purpose of this Regulation is to determine procedures that insurers are obligated to perform in process of merger or acquisition, which require prior approval of CBK;

Regulation on risk retention and reinsurance coverage requirements (approved by CBK Board on 31 March 2016) – The purpose of this regulation is to establish requirements that insurers must maintain and follow concerning the insurers obligation to reinsure to a reinsurer, the risks insured, which exceed the maximum coverage limits outlined in this regulation;

Regulation on the opening of representative offices by foreign insurers in the Republic of Kosovo (approved by CBK Board on 31 March 2016) – The purpose of this regulation is to define the conditions, requirements, procedures and deadlines to be followed for the application and granting the approval for opening a representative office in the Republic of Kosovo of foreign insurers;

Regulation on the external audit of insurers, insurance intermediaries, claim handlers and the Kosovo Insurance Bureau (approved by CBK Board on 28 April 2016) – The purpose of this regulation is to strengthen the regulatory framework related to external auditors of the insurers, insurance intermediaries, claim handlers, and the Kosovo Insurance Bureau and to ascertain the quality of the services performed by these external auditors, in relation to the specific risks in insurance and of the financial sector as a whole;

Regulation on internal controls and internal audit of the insurers (approved by CBK Board on 28 April 2016) – The purpose of this regulation is to define basic principles on the organization and operation of internal controls and the function of internal audit for insurers;

Regulation on calculation and retention of technical and mathematical provisions for life and non-life insurers (approved by CBK Board on 28 April 2016) – This regulation sets out the methods of retention and evaluation of technical and mathematical provisions for insurers and branches of foreign insurers;

Regulation on delegation of the functions of insurers (approved by CBK Board on 27 June 2016) – the purpose of this regulation is to establish the conditions and criteria for the delegation of insurer's functions to another person (receiver of the delegated functions);

Regulation on publication of information by insurers (approved by CBK Board on 27 June 2016) – the purpose of this regulation is to define the information that insurers shall publish and the manner, form, and deadlines for its publication in order to increase the transparency and

discipline in the insurance sector, as well as to ensure the sustainability and reliability of this sector;

Regulation on reporting of insurers to the CBK (approved by CBK Board on 27 June 2016) – The purpose of this regulation is to set deadlines, rules, forms and manner of reporting of insurers to the CBK;

Regulation on the determination of criteria for the assessment of non-material damages from motor liability (approved by CBK Board on 31 August 2016) – this Regulation sets out the unique criteria for the compensation of non-material damages and other damages resulting from non-material damages as a result of traffic accidents subject to compulsory motor liability insurance;

Regulation on investment of assets covering technical and mathematical provisions and investment of charter capital for insurers (approved by CBK Board on 29 December 2016) – The purpose of this regulation is to regulate investment categories for assets covering technical and mathematical provisions, maximum allowed investment levels for these assets as well as investment of the insurer's charter capital.

Regulation on sale of compulsory motor liability insurance and management of insurers' expenses (approved by CBK Board on 29 December 2016) – This Regulation defines the criteria and method of selling compulsory motor liability insurance, as well as the restrictions of management expenses from Insurers;

Furthermore, during 2016, final drafts of the Regulation on Capital and Solvency I were prepared, and sent for consideration to the CBK Board for the next meeting in February 2017, the Regulation on Licensing of Insurance Intermediaries, the Regulation on Arbitration Forum and the Regulation on Consolidated Supervision of Insurers, which are expected to be approved during the first quarter of 2017. For 2017, it is planned to finalize other regulations that are in the process of being amended, among which the regulation on licensing insurance companies and foreign insurance companies, the regulation for directors and senior managers of insurance companies and other regulations with the new law on insurance.

4.10. Supplement of the regulatory framework for supervision of pension funds

During 2016, the amendment of the regulatory framework for supervision of pension funds continued in compliance with the requirements of the Law on Pension Funds and Law no. 05/l-116 on amending and supplementing the Law no. 04/l-101 on pension funds of Kosovo, amended and supplemented by the law no. 04/l-115 and Law no. 04/l-168 in order to address issues related to the supervision of pension funds which are deemed necessary to be addressed through secondary legislation.

During 2016, the following regulations were prepared and approved:

Regulation on payment of individual savings pensions (approved by the CBK Board on 31 August 2016) - the purpose of this regulation is to determine the conditions for the payment of pensions to participants and beneficiaries of the Kosovo Pension Savings Trust as well as Individual Supplementary Pension Providers. Furthermore, this Regulation sets out the terms of payments of total amounts and phase payments before annuity contracts are in place and payments through an annuity contract in Kosovo;

Regulation on custodian of pension assets (approved by the CBK Board on 31 October 2016) - the purpose of this regulation is to determine the terms and guidelines for the activity of the Custodian of Pension Assets;

Regulation on Reporting by the Kosovo Pension Savings Trust (approved by the CBK Board on 31 August 2016) - the purpose of this regulation is to define the terms and rules for reporting by the Kosovo Pension Savings Trust to the CBK and to the Kosovo Assembly;

Regulation on reporting by the supplementary pension funds (approved by CBK Board on 24 November 2016) – the purpose of this Regulation is to define the terms and rules for reporting by the Supplementary Pension Funds to the CBK.

4.11. Supplement of the Regulation on PML/TF

During 2016, the review of the Regulation on preventing money laundering and terrorism financing has been finalized, which was approved by CBK Board on 24 November 2016. This Regulation establishes the criteria and procedures required for managing the process of prevention of money laundering and terrorist financing in compliance with the Law no. 05/L- 096 on the Prevention of Money Laundering and Combating Financing of Terrorism. CBK has also contributed to the preparation of amendments to the law on prevention of money laundering and financing of terrorism through participation in meetings and involvement in the preparation of analyzes and comments during the drafting process.

4.12. Manual on Banks liquidation

During 2016, the manual on liquidation of banks was reviewed, in order to adapt new legal requirements and establish a clear operational framework for addressing cases where banks may encounter difficulties, for the purpose of establishing adequate procedures for rapid and fair addressing. New changes provide a clear institutional infrastructure within the CBK and the procedures to be followed in case of taking under administration or liquidation of banks will be accurately specified. These specific procedures will facilitate and accelerate the potential activities of the CBK, in cooperation with relevant stakeholders, such as the Deposit Insurance Fund, by clarifying the way of communication among them, and the responsibilities of action for each authority. This will facilitate resolving the possible problems and their timely and correct addressing in the future, in cases where the CBK intervention is required to improve and solve the problems of the banks.

4.13. Other activities

The Standardization and Regulation Division has given a continuous contribution to the preparation of the regular reports required during the process of signing the Stabilization and Association Agreement with the European Union and the preparation of an action plan for the implementation of the obligations arising from this agreement as regards the field of oversight of financial institutions. Furthermore, the Standardization and Regulation Division has consistently provided legal support to the departments and other financial oversight divisions. Interpretations of the CBK regulatory instruments as well as various legal opinions are mainly provided for internal needs in the framework of licensing and oversight activities, but also during the process of reviewing the complaints of financial service users. At the same time, legal opinions and continuous interpretations have been provided to industry participants, including banks, insurance, MFIs, NBFIs, but also Pension Funds and other state institutions regarding the legal and regulatory framework in force for supervision of financial institutions.

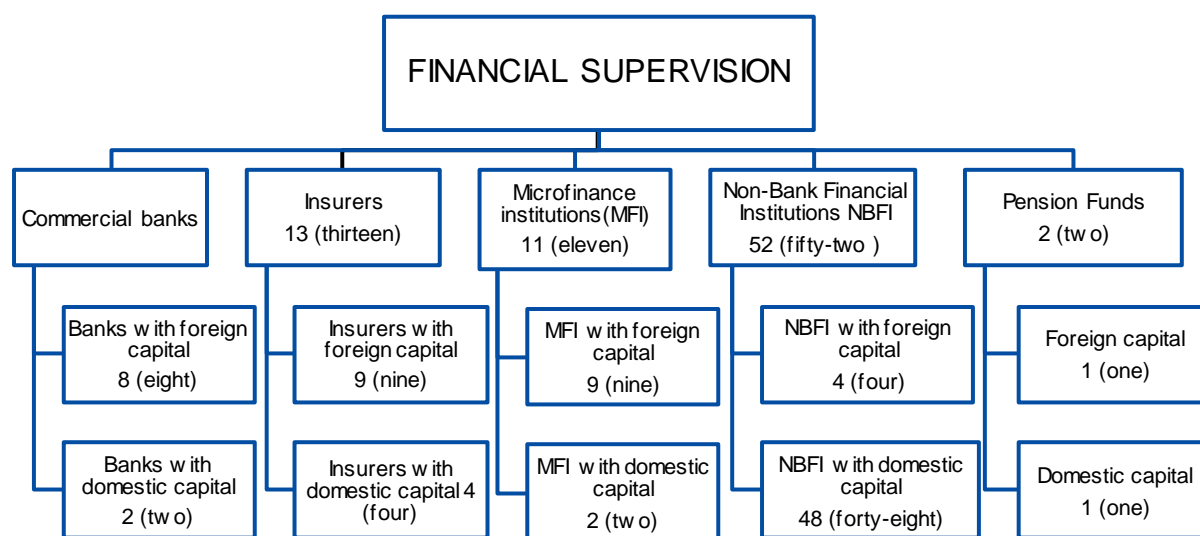
4.14. Licensing

According to Law no. 03/L-209 on the Central Bank of the Republic of Kosovo, the sole authority responsible for regulation, licensing, registration and supervision of financial institutions in the Republic of Kosovo is the Central Bank of the Republic of Kosovo. Pursuant to the legislation in

force are defined the criteria and conditions for obtaining license/registration for conducting banking and financial activities by banks, insurance companies and other financial entities in the Republic of Kosovo.

The licensing criteria set out in the above legislation aim at ensuring a fair and regulated financial market through a process that is based on the principles of justice, honesty and equality. The licensing conditions and criteria are of a supervisory character and are not intended to set barriers to investors whether internal or external. The entry of foreign investors into the Kosovo market, especially in the financial sector, demonstrates CBK’s open policy to foreign investors, without prejudice to legal requirements.

Figure 43. The structure of the financial system in Kosovo



The structure of the financial system at the end of 2016 is as follows: the number of banks operating in the Republic of Kosovo is 10, of which 4 are subsidiaries of renowned banking groups with capital originating from European Union countries, 4 are branches of foreign banks and 2 are banks with a domestic capital. Banks in Kosovo exercise their activity based on the applicable legislation in the Republic of Kosovo and under the regulatory framework of the Central Bank of the Republic of Kosovo. In addition to these ten banks, the structure of the financial system in Kosovo is comprised of 11 microfinance institutions and 52 non-bank financial institutions, divided according to activities : 2 institutions performing lending activity, 2 institutions performing leasing activity; 1 with factoring activity; 6 with the activity of transfer of money and payments service⁷ and 41 with the currency exchange activity.

In accordance and in compliance with the requirements deriving from the Law no. 03/L-093 on banks, microfinance institutions and non-bank financial institutions and the normal functioning of the banking activity, CBK, in 2016 has taken decisions related to:

- approval for the registration of three non-bank financial institutions;
- approval for the merger of three microfinance institutions;

⁷ Four institutions perform payment and transfer activities, 1 institution performs only the transfer activity, 1 institution only performs the payment activity and 1 institution performs the activity of payment, transfer and currency exchange.

- approval for the addition of currency exchange activity for a non-bank financial institution;
- approval of amendments to statutes of banks and other financial institutions;
- approval of the directors and senior managers of banks and other financial institutions;
- approval for the purchase and sale of the shares of financial institutions;
- approval for opening, relocation, closure of branches and sub-branches of banks;
- approval for opening, relocation of offices / MFI and NBFIs agents;
- approval of external auditors of banks, MFIs and NBFIs and insurers.

4.14.1 Licensing activity in the financial sector

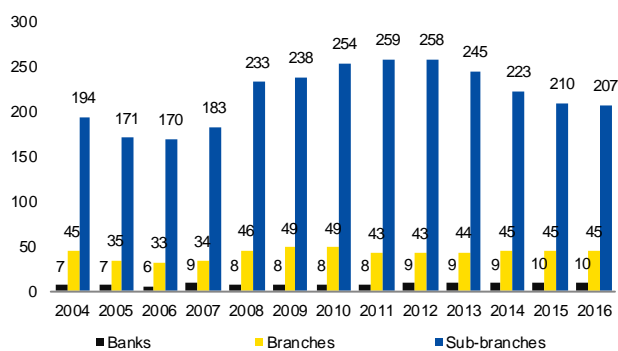
In 2016, the CBK's licensing activity consisted in the approval of registration for 3 non-banking financial institutions for the conduct of foreign exchange activity. In the function of expanding activities, during this year CBK has approved the addition of currency exchange activity for the non-bank financial institution Capital.

Also, during 2016, CBK has approved merging of Microfinance Institutions Mështekna and Perspektiva 4 with the Microfinance Institution Qelim Kosovë.

During this year, 9 requests for amendments to the statute have been approved, of which 4 were from among the banks, 4 from the non-bank financial institutions and 1 from the KEP Trust Microfinance Institution.

In the licensing process, the CBK has paid particular attention to the implementation of basic rules and principles for a responsible and effective stewardship of banks, assessing their organizational structures, management, and sharing of responsibilities. Based on regulations in force, the CBK has approved 12 new members of the Board of Directors, 1 member of the Audit Committee, 1 director of the branch of a foreign bank, 1 chief executive officer and 6 senior bank managers.

Figure 44. Number of banks, branches and sub-branches of the banks



Source: CBK (2017)

At the same time, the CBK has approved the directors and senior managers of microfinance and non-bank financial institutions. During this period were approved 13 new members of the Board of Directors of these institutions, 1 member of the Audit Committee, and 8 senior managers.

Commercial Banks exercise their activity in branches/sub-branches established within the country (see table 5). The CBK, approved this year, the opening of 1 sub-branch in Prishtina, and the relocation of 13 branches and sub-branches. Also during this year commercial banks have closed 4 sub-branches, mainly small units, following the assessment of their performance and efficiency, and because banks lately have invested in the expansion of automated services, in order to offer costumers opportunity to carry out transactions through: e-banking, ATMs, sales terminals, etc.

Table 5. Number of banks, branches and sub-branches

Years	Banks	Branches	Sub-branches
2004	7	45	194
2005	7	35	171
2006	6	33	170
2007	9	34	183
2008	8	46	233
2009	8	49	238
2010	8	49	254
2011	8	43	259
2012	9	43	258
2013	9	44	245
2014	9	45	223
2015	10	45	210
2016	10	45	207

Source: CBK (2017)

The geographical distribution of branches and sub-branches of banks includes almost all of the country's territory (table 6 and figure 45). The largest concentration of bank branches and sub-branches continues to be noticed in the Prishtina region (36%), where the population concentration is also greater (28%).

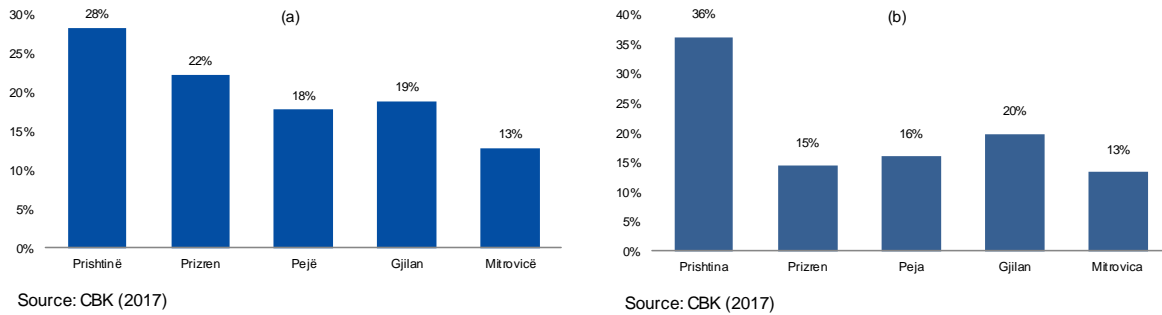
Table 6. Geographical distribution of branches and sub-branches of banks

Description	Prishtina region		Prizren region		Peja region		Gjilan region		Mitrovica region		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
2004	60	24%	37	15%	60	24%	59	24%	30	12%	246
2005	68	32%	39	18%	35	16%	39	18%	32	15%	213
2006	68	33%	37	18%	37	18%	41	20%	26	12%	209
2007	70	31%	39	17%	40	18%	45	20%	32	14%	226
2008	97	34%	44	15%	51	18%	59	21%	36	13%	287
2009	97	33%	46	16%	52	18%	64	22%	36	12%	295
2010	100	32%	49	16%	57	18%	66	21%	39	13%	311
2011	102	33%	50	16%	59	19%	64	21%	35	11%	310
2012	101	33%	50	16%	59	19%	67	22%	33	11%	310
2013	102	34%	47	16%	52	17%	62	21%	35	12%	298
2014	97	35%	45	16%	46	17%	55	20%	34	12%	277
2015.	93	35%	40	15%	45	17%	52	20%	35	13%	265
2016.	95	36%	38	15%	42	16%	52	20%	35	13%	262

Source: CBK (2017)

Whereas, in terms of activity of the insurance industry, during 2016, a total of 469 applications of various types have been received, ranging from applications for insurers, mediators (brokering companies, agent services, claim handlers and insurance agents), dividend distribution and company name change and purchase and sale of the company stock and for decisions for their transfer and their charter capital, approval of statutes and their change and decisions, approval of chairmen / members of the board and senior management (Deputy Chief Executive Officers and directors of relevant departments), internal and external auditors, individual brokers, internal and external agents, approval of opening (relocations) of offices and the licensing and approval of new products and changing of requirements and tariffs for the products.

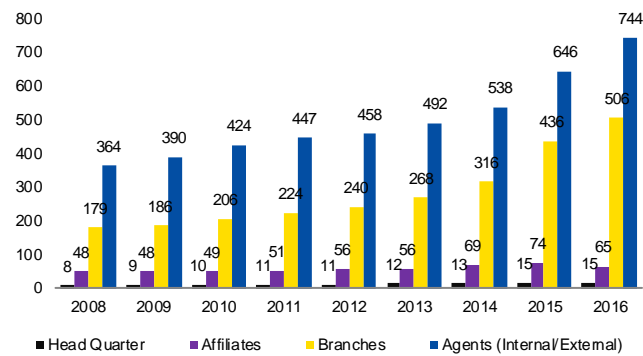
Figure 45. Geographic distribution of population (a) and the network of branches/sub-branches by region



In the context of approvals and rejections as shown in figure 46 and table 7 (reversals of applications by the institutions dealing with insurance and annulments by the CBK for non-fulfillment of the criteria for approval), are processed as follows:

- 6 licenses were granted for insurance intermediaries such as: Auto-Gutachten L.L.C (claims handler), Fersig L.L.C (insurance agent company), IFIS Broker Kosova L.L.C (brokering company), Net Broking House L.L.C (brokering company), and N.T.SH. Eurokoha-Reissen (Travel Agency – additional activity, travel life insurance), 3B Kosova Sh.A. (brokering company), and also license has been revoked to claims handler Ansiia L.L.C.
- In the Insurance Industry, 7 Chief Executive Officers have been approved, while one was rejected, and also 4 deputy Chief Executive Officers have been approved, while one was rejected;
- In the Insurance Industry, 23 board members have been approved, while 7 were rejected, and was approved one Chairman of the Board in the insurance industry;
- In the Insurance Industry, 12 senior managers have been approved;
- Amendment of the statute of the insurance company was approved to Eurosig SH.A, Illyria SH.A, Prisig SH.A, Sigal Uniqa Group SH.A, and the amendment of the manual was approved to Siguria SH.A.
- A total of 25 external auditors were approved, 15 of which belong to the insurance companies, 8 to the insurance intermediaries and the rest to the Kosovo Pension Savings Trust and Slovenian-Kosovo Pension Fund, while regarding internal auditors, 2 auditors of insurance companies have been approved;
- Also were approved 8 insurance brokers, while 5 have been rejected;
- 2 insurance actuaries were approved;
- 237 insurance agents were approved, out of which 184 are internal insurance agents and 53 are external insurance agents, and a total of 6 insurance agents were rejected / the

Figure 46. Number of insurers, branches, sub-branches and insurers agents



Source: CBK (2017)

procedure was cancelled by the companies themselves or by the CBK due to lack of documentation or failure to meet the criteria;

- During 2016, were approved the opening of 85 new offices (central offices, subsidiary offices and new office) and 21 relocation of current offices and 12 closings of offices (a total of 118 office approvals);
- In the framework of approvals for new voluntary products and tariffs, or change of products and change of tariffs, during 2016 was approved 1 new voluntary product and were approved 4 requests for changing the existing terms and tariffs.

Table 7. Number of insurers, subsidiaries, branches and insurers agents

Years	Head Quarter	Affiliates	Branches	Agents (Internal/External)
2008	8	48	179	364
2009	9	48	186	390
2010	10	49	206	424
2011	11	51	224	447
2012	11	56	240	458
2013	12	56	268	492
2014	13	69	316	538
2015	15	74	436	646
2016	15	65	506	744

Source: CBK (2017)

Geographic distribution of insurers' subsidiaries includes almost all of the country's territory. The largest concentration of subsidiaries continues to be evidenced in the Peja region (29%) and Gjilan region (25%), as shown in table 8.

The geographic distribution of the insurers' network, however, does not match with the geographic distribution of the population. As it can be seen in figure 47, while the largest concentration of population is in Pristina, the concentration of insurers is in Peja, which is one of the least populated regions in the country.

Table 8. Geographical distribution of insurers' subsidiaries

Years	Pristina region		Prizren region		Peja region		Gjilan region		Mitrovica region		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
2008	7	13.7%	9	17.6%	14	27.5%	14	27.5%	7	13.7%	51
2009	7	13.7%	9	17.6%	14	27.5%	14	27.5%	7	13.7%	51
2010	9	17.3%	9	17.3%	13	25.0%	14	26.9%	7	13.5%	52
2011	10	18.5%	9	16.7%	14	25.9%	14	25.9%	7	13.0%	54
2012	10	16.9%	10	16.9%	15	25.4%	15	25.4%	9	15.3%	59
2013	10	16.9%	10	16.9%	15	25.4%	15	25.4%	9	15.3%	59
2014	10	15.9%	10	15.9%	16	25.4%	17	27.0%	10	15.9%	63
2015	15	20.8%	41	56.9%	14	19.4%	7	9.7%	9	12.5%	86
2016	11	15.3%	11	15.3%	21	29.2%	18	25.0%	11	15.3%	72

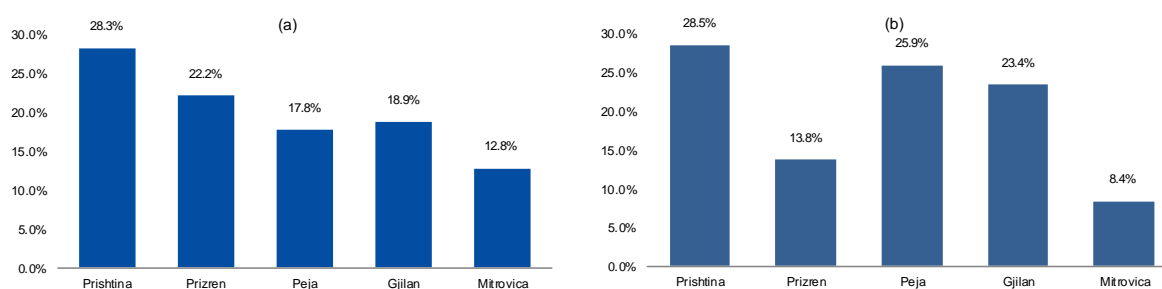
Source: CBK (2017)

As regards other financial institutions, 11 microfinance institutions⁸ operated at the end of 2016, distributed almost throughout the territory of the Republic of Kosovo (table 9) and figure 48.

MFI, at the end of 2016, exercised their activity in 108 branches / sub-branches distributed within the country's territory. During 2016 was approved the opening of 8 sub-branches, and 12 relocations of MFI branches and sub-branches.

⁸ One of the microfinance institutions has suspended the registration

Figure 47. Geographic distribution of population and network of branches of insurance companies



Source: CBK (2017)

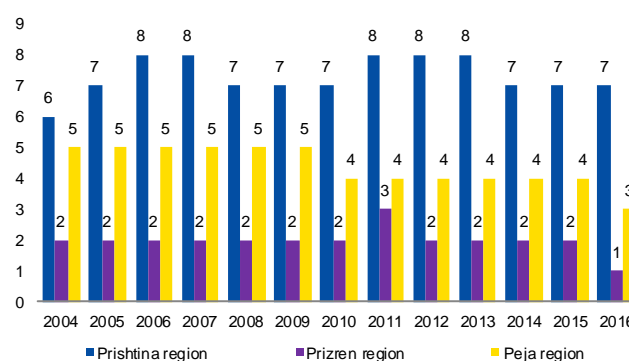
Table 9. Number of microfinance institutions and their geographical distribution by regions

Year	Prishtina region	Prizren region	Peja region	Total
2004	6	2	5	13
2005	7	2	5	14
2006	8	2	5	15
2007	8	2	5	15
2008	7	2	5	14
2009	7	2	5	14
2010	7	2	4	13
2011	8	3	4	15
2012	8	2	4	14
2013	8	2	4	14
2014	7	2	4	13
2015	7	2	4	13
2016	7	1	3	11

Source: CBK (2017)

At the end of 2016 the number of non-bank financial institutions operating in Kosovo reached 52, of which 4 with foreign capital and 48 with domestic capital (table 10 and figure 49). According to the activities they carry out these institutions are divided as follows: 2 institutions perform lending activities, 2 institutions perform leasing activities, 1 institution performs factoring activities, 6 institutions perform money and payment transfer services⁹ and 41 institutions perform foreign exchange activities.

Figure 48. Number of microfinance institutions and their geographical spread by the regions



Source: CBK (2017)

Registration of non-bank financial institutions that perform foreign exchange activity continued also during 2016, albeit at a slower pace of growth, compared to the previous year.

⁹ Four institutions perform payment and transfer activities, 1 institution performs only transfer activity and 1 institution performs only payment activity, and 1 institution performs activity of payment, transfer and currency exchange.

Table 10. Number of non-bank financial institutions and their geographical distribution by regions

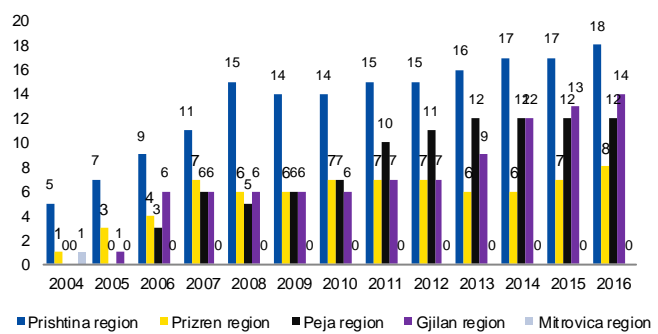
Years	Prishtina region	Prizren region	Peja region	Gjilan region	Mitrovica region	Total
2004	5	1	0	0	1	7
2005	7	3	0	1	0	11
2006	9	4	3	6	0	22
2007	11	7	6	6	0	30
2008	15	6	5	6	0	32
2009	14	6	6	6	0	32
2010	14	7	7	6	0	34
2011	15	7	10	7	0	39
2012	15	7	11	7	0	40
2013	16	6	12	9	0	43
2014	17	6	12	12	0	47
2015	17	7	12	13	0	49
2016	18	8	12	14	0	52

Source: CBK (2017)

Specifically, 3 new foreign exchange activity institutions were licensed. At the end of 2016, 41 registered foreign exchange bureaus carry out their activities in the foreign exchange market.

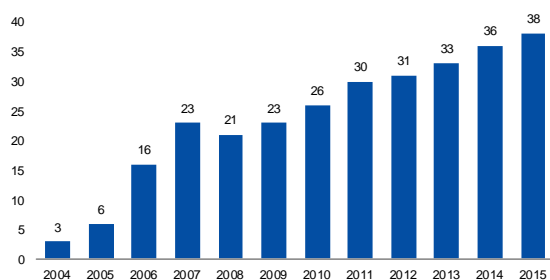
As regards the geographical distribution of foreign exchange bureaus (figure 50), they are localized and operate almost throughout the country, with the exception of Mitrovica region. Their largest concentration is in the region of Gjilan and Peja.

Figure 49. Number of non-bank financial institutions and their geographic spread by regions

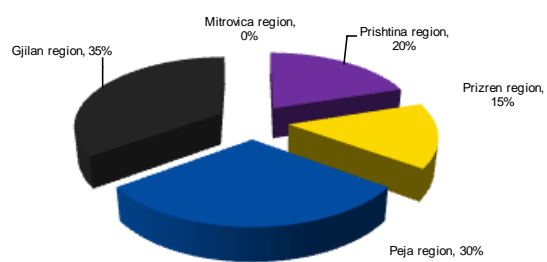


Source: CBK (2017)

Figure 50. Number of exchange bureaus over the years and their geographical spread by regions in 2016



Source: CBK(2017)



Source: CBK(2017)

4.14.2 Complaints of the users of financial services

As licensing, regulating and supervising authority of financial institutions, the Central Bank of the Republic of Kosovo, namely Financial Supervision, has a key role in protecting the rights of the users of financial services in Kosovo.

In the frame of financial supervision, operates the Complaints Division which receives, collates and reviews complaints related to the compliance of the activities of financial institutions with applicable laws and regulations. The objective of the Division is to establish proper grounds for

adequate disclosure to consumers and protection of consumers of services and products of financial institutions in Kosovo. This division investigates complaints addressed by policyholders, depositors / borrowers and users of all services and products of financial institutions supervised by the CBK, and provide the supervision and regulation with concrete recommendations for practices identified as unfavourable for consumers to address them with future actions.

Within the duties and responsibilities assigned to its function, the Complaints Division has continued with the realization of activities foreseen by the 2016 annual plan. During this year, the Division has also received, systematized and reviewed complaints of users of financial services in accordance with the approved regulation.

In accordance with the implementation of the requirements deriving from its responsibilities, this division during 2016 has contributed to the realization of the following activities:

- a) **Review of the complaints on a daily basis** – the Complaints Division has received, systematized and reviewed complaints on a daily basis by financial service users. All complaints received were reviewed on time, depending on their complexity. Also, the appeals process has affected the conduct of on-the-spot examinations within Financial Supervision at financial institutions. These examinations have in some cases resulted even with administrative measures being taken against financial institutions and have affected the regulation of domestic financial services / financial practices.
- b) **Complaints report** – the Complaints Division maintains a database on the number and type of complaints reviewed, and prepares reports on them upon request. The Division has also started regular weekly reporting of the number of complaints per sector and institutions individually.
- c) **Contribution to financial education and consumer protection** – during 2016, the Central Bank of the Republic of Kosovo in cooperation with the international organization Child & Youth Finance International Youth and Banking Association, held a two-day workshop on the topic: “*Workshop on the possibility of involving stakeholders in financial education*” where amongst the participant was also the Division of Complaints. As a result of the memorandum with the Ministry of Trade and Industry (MTI), the Division took part in the round table organized by this ministry with the topic “Consumer rights in practice”, as well as at the round table “Receiving and follow up of customer complaints through the website”. Also, the Appeals Division participated in the working group for the drafting of the new Law on Consumer Protection, answering all questions and issues raised by stakeholders dealing with financial matters.
- d) **Contribution related to the SAA** – during 2016 was continued the regular reporting on a quarterly basis of activities related to handling of complaints of financial services clients. Reports regarding the number and the status of complaints have been forwarded on quarterly basis to the CBK Integration Office; it is also reported on the CBK activities related to the handling of complaints, as required by the MTI within their regular reporting to the European Commission regarding the Action Plan for the Implementation of SAA requirements.

During 2016, 535 complaints of financial service users (natural and legal persons) have been reviewed:

- a) Total complaints on banks, MFIs, NBFIs and pension funds addressed to the CBK for 2016 were 252, while the most common complaints were related to: categorization in the credit registry (21%) and various issues related to credit (27%).

- b) The total number of complaints against insurance companies addressed to CBK for 2016 was 283. The most common complaints were related to: non-compensation on time of material and non-material damages from TPL and non-compensation of medical expenses from health insurance (79%), as well as application of Malus (17%).

Table 11. Number of complaints by years

Financial industry	Number of complaints by years			
	2016	2015	2014	2013
Commercial banks/MFI, NBF	252	221	158	74
Insurance companies	283	221	195	153
Total	535	442	353	227

Source: CBK (2017)

From the above data we note that the complaints against insurance companies and commercial banks or other micro-finance and non-bank financial institutions are approximately the same volume, the proportion is 52.90% to 47.10% (table 11).

Application of the Regulation on the Implementation of the Bonus - Malus System, especially to private persons who have made vehicle purchases, but who have not completed the administrative procedures established under the Law on compulsory motor liability insurance, continues to have an impact on the number of complaints against insurance companies.

Regarding the complaints to commercial banks, IFIs and NBFIs we note that there are a large number of complaints about various credit-related issues, with major complaints being those regarding non-implementation of Law no. 04 / L-121 on Consumer Protection on the occasion of loan prepayment.

The above table shows the number of complaints handled by the Complaints Division of users of financial services over the years, where we note a marked increase in number of complaints over the years. In 2016, compared with 2015, there is an increase of 21% of the total number of complaints handled.

The increase in the number of complaints filed by the policyholders, depositors/borrowers and users of all services and products of licensed financial institutions regulated and supervised by the CBK can be clearly seen in table 12 below. This increase mainly reflects the increased awareness of financial users on their right to file a complaint. Significant impact in this regard may have also been the positive outcome of the complaint process for users of financial services and products. In table 12, we note that 40.60% of complaints are solved in favour of financial service users.

Table 12. Number of complaints by institutions

Financial industry	Number of complaints	Solved in favor of financial services users	Solved in favor of financial institutions
Commercial banks/MFI, NBF	252	56.60%	54.40%
Insurance companies	283	35.30%	64.70%
Number of complaints	535	40.60%	59.30%

Source: CBK (2017)

4.14.3 Banking supervision

During the year we have continued with the implementation of the bank examination annual plan for 2016, applying the risk-based supervision approach, as well as determining the type of examination, as: complete and focused examinations.

On site examinations, as a very important part of the bank supervision process were aimed at close assessment of the risk profile of banks, as well as monitoring of fulfilment of recommendations and decisions arising from past examinations by CBK.

During 2016, a total of 8 bank examinations were conducted, of which 3 complete examinations and 5 focused examinations, including one bank visit. The on-site examinations were performed by assessing the following issues: risk profile of banks, verification of the status of fulfilment of recommendations deriving from the previous CBK examinations, and by giving relevant recommendations for the implementation. Examination reports were prepared based on the types of bank risks, such as: credit risk, liquidity risk, market risk and operational risk.

Also, examinations included assessment of internal controls, compliance with the applicable CBK legal framework, respectively the compliance with banking regulations, best banking practices, assessment of the capital, assessment of policies and procedures, management, earnings and examination of the field of information technology. The main risk within the banking sector in 2016 still remains the credit risk. From the examinations conducted, it results that banks are healthy and stabile, and generally they were in compliance with CBK legal framework.

4.14.4 On-site insurance supervision

In accordance with the CBK objectives, namely ensuring the sustainability of the insurance market and the protection of policyholders, the CBK during 2016 has continued its activity by consistently conducting on-site examinations of insurers, such as complete and focused examinations, as well as ad-hoc examinations of insurance companies and insurance intermediaries.

The classification of insurers to be subject to examinations is based on several factors ranging from the analysis of financial indicators from regular reporting to the CBK, the external auditor opinion on the financial statements, claims of policyholders in CBK, and prior periods of conducted examinations. This has affected the application of selective approach to prioritizing of institutions at higher risk to be subject to examination by the CBK, and consequently to increasing the level of effective supervision.

As a result, in 2016, a total of 18 examinations were conducted, of which 8 were complete examinations, whereas 10 were focused examinations.

The purpose of complete examinations was to assess the general state of the company, including assessment of the effectiveness of the functioning of internal controls, implementation of recommendations from past examinations, compliance with the CBK laws and regulations, evaluation of management and supervision of the company by governing bodies, practices of the insurers, evaluation of policies and procedures for risk management, all this in function of protecting the policyholders and maintaining the financial stability of insurers.

On-site examinations of insurers have, in some cases, identified non-compliance with the CBK legal framework as well as unsound practices, such as: lack of active governing role of the companies' governing board, lack of an effective system of internal controls, poor level of internal audit, delays in treatment and payment of damages and the high number of pending damage claims, violation of the international standards for some positions in the financial statements, not good and sound practises of company's assets management, shortcomings and not good

practices of transactions with related parties, underestimation of technical reserves. Also, based on regular reports of insurers to the CBK were identified cases of non-compliance with legal requirements in relation to the minimum level of capital, assets covering technical provisions.

For all conducted examinations were prepared reports, wherein were raised and addressed issues identified during the examination, along with the relevant recommendations. The companies in question have reported and continue to report on a monthly basis to the CBK for taking the necessary actions for their elimination/improvement.

Also, as a result of findings from the conducted examinations and not good financial performance, the CBK issued decisions imposing fines and other legal measures, provided by the applicable legislation, such as: increasing the funds for fulfilment of regulatory requirements for the minimum required capital, request for re-auditing of financial statements, revoking of licence, demand for recovery plan, monetary fines and other issues.

4.14.5 Supervision of microfinance and non-bank financial institutions

In the function of maintaining sustainability of the financial sector, The Department of Banking Supervision, which is responsible for the supervision of non-bank and micro-finance institutions, during 2016 continuously performed a risk-based supervision of the micro-finance and non-bank institutions, conducting on-site direct examinations focusing on the adequacy of managing capacities against risks of this sector, especially of the credit risk, which was the benchmark of the supervising activity, compliance of these institutions with the CBK legislation and internal institutional policies, as well as the continuation of external monitoring against this sector.

Also, during the examinations in microfinance institutions and non-bank financial institutions, information technology was also examined, assessing the risk in the field of information technology, with particular focus on the overall security of Information Technology Systems (IT) and the creation and completion of the security measures of the IT systems.

Despite the numerous engagements made by the department during 2016, meritorious space has been given to examining of these institutions, where eight complete examinations of microfinance institutions and non-bank financial institutions were conducted, some of which were accompanied by decisions on administrative measures.

Also, a focused examination was conducted at the agents / offices of microfinance institutions and non-bank financial institutions, respectively, 81 of them were examined.

Moreover, as a result of an examination at a microfinance institution, it was initiated a decision for increase of capital, and as a reflection, the institution increased its capital in accordance with CBK regulation.

In addition to the examinations carried out in accordance with the examination plan, in 2016 a microfinance institution was also examined, where as a result of active engagement and meetings with the international founders of this institution it was decided that the funds in the amount of about euro 2.3 mil. should be converted into grant of this microfinance institution.

In relevant examinations carried out in microfinance institutions and non-bank financial institutions, it is evidenced that despite the need for further development, these institutions have continued the advancement of the necessary infrastructure in function of their management, such as: policies, procedures and systems in identification, recognition and monitoring of the relevant risks in relation to their complexity.

Consequently, the conducted examinations showed that microfinance institutions and non-bank financial institutions generally comply with the CBK legal framework. However, in cases of identification of serious non-implementation of legal requirements, administrative and corrective measures are taken in accordance with the legislation in force. The respective measures have generally resulted in improvements for the institutions in question and the microfinance and non-banking sector in general.

Regardless of regular examinations, this department has continued to follow the fulfilment of recommendations for microfinance institutions and non-bank institutions as well as the methodologies for assessment of general provisions on loan losses for some of these institutions.

Positive reflections in their position in conformity with the applicable regulations, as well as the other advances outlined above with regards to the microfinance and non-banking industry, are an indicator of success towards adequate supervision and pro-active approach of the CBK.

4.15. Supervision of pensions and securities market

The pension system during 2016 continues to have the same number of operators. In the pension industry, there were two pension funds in operation, which administered the pension assets, respectively the Kosovo Pension Savings Trust established by the Kosovo Assembly with an exclusive mandate to administer mandatory pension contributions (second pillar) and Slovenian-Kosovo Pension Fund, licensed by the Central Bank of the Republic of Kosovo to administer only voluntary pension funds (third pillar).

The pension system in Kosovo continued to grow in 2016, maintaining the sustainability of constituent components, pension savings security, investment diversity, positive return on investment and liquidity.

Total assets of the pension system in 2016 amounted to euro 1,425 million, or an annual growth of 15.20% compared to 2015. The asset growth is attributed mainly to the increased unit price in global markets during 2016. In increasing the assets of the pension sector during 2016, KPST contributed with euro 1,419 million or 99.52%, followed by SKPF with euro 6,807 thousand or 0.48 % of the total assets of the pension system.

Mandatory contributions, respectively second pillar pension assets remain the main source of funding in the pension sector. In addition, mandatory contributions are under the exclusive management of the KPST, which constitute 99.52% of total liabilities of the pension sector, followed by the SKPF with 0.48% of total liabilities of the pension sector, with voluntary contributions, respectively the third pillar.

During 2016, the return on gross investment in the pension sector is attributed to KPST in the amount of euro 21,588 thousand, followed by SKPF with euro 131 thousand.

4.15.1 On-site examinations of pension funds

In view of maintaining the stability of the financial sector, during 2016 were conducted examinations on pension funds in accordance with the annual plan. Pension supervision has been consistent with international practices in the respective field, supporting a risk-based approach. Special emphasis has been paid to funds administration, investment strategy, and effectiveness of internal controls, maintaining adequate liquidity and other risks.

During 2016, pension supervision conducted complete and focused examinations on pension funds, in order to apply more close supervision of funds. Moreover, over the past year were conducted a total of 4 examinations on pension funds, of which two were complete examinations and two were focused examinations.

Complete and focused examinations were conducted in accordance with the annual plan 2016, which aimed at assessing the overall state of the pension funds, namely assessing the funds governance, policies and procedures, management, investment performance, efficiency of operation of internal controls and compliance with laws and regulations of the CBK.

Whereas, focused examinations on pension funds aimed at following the fulfilment of recommendations from CBK previous examinations.

4.15.2 Development of legal-regulatory framework

In order to advance the legal framework in the area of the pension system, the Central Bank of the Republic of Kosovo has further strengthened the regulatory and supervisory framework. In this regard, certain regulations on the supervision of pension funds have been finalized and approved, which have regulated the supervision of respective functions, and the requirements of the Law on Pension Funds of Kosovo have been met, which derived from the last amendment.

Also, during 2016, a draft law on amending and supplementing the Law no. 04 / I-101 on Pension Funds of Kosovo was drafted, where other relevant areas have been regulated vis-à-vis the respective institutions.

4.15.3 Transparency and public relations in the pension system

In terms of transparency to the public, Kosovo Pension System develops a genuine information process, followed by timely updates. During 2016, the pension industry continued its commitment to public transparency and relations.

In accordance with the Law on Pension Funds of Kosovo and CBK regulations, pension providers publish/offer public access to key information on pension fund operations to the public. Contributors and the general public, on a quarterly basis, are informed by quarterly published reports on the last statement on investments for the quarter covered, information on the share price, and information on the assets under management.

In addition, contributors can at any time access the online pension savings account through relevant websites, to view the balance of the account, receive information on the contributions paid on his/her behalf, update contact notes, such as marital status and ethnicity, update demographic records, such as address, phone number, select the method of accepting the individual statement as well as other services and information.

Information is provided in the official languages according to the Kosovo Constitution, providing easy access for non-majority communities.

4.16. Prevention of money laundering

Annual Report 2016 presents the sector's state of play, namely the situation of banks, micro-financial institutions and non-banking financial institutions along with the measures taken in the field of preventing money laundering and financing of terrorism.

During 2016, the Division for Prevention of Money Laundering (PML), regarding its operation and performance of activities in fulfilling its operational mandate, had as a referral point for its activity the Strategic Plan of the Central Bank of the Republic of Kosovo, the annual plan for financial supervision, the annual plan and the strategy and action plan of the Division for Prevention of Money Laundering.

The transaction monitoring system was upgraded during 2016, thereby incorporating the inter-bank transfer system. The aim of this activity was to increase monitoring of transactions through

Central Bank of Kosovo information systems. The implementation of this objective involved increased cooperation with other divisions and departments outside the financial supervision function, and adaption of information technology systems.

The year 2016 was characterized with significant developments in terms of legislation, whereby the new Law on Prevention of Money Laundering and Combating Financing of Terrorism was issued and by the end of 2016 the Board of CBK approved the new regulation on prevention of money laundering and financing of terrorism, whereby the recommendations under the FSAP report (Financial Stability Assessment Program 2012) of IMF, and the recommendations of the European Central Bank document *Technical Cooperation Programme with the central banks of the Western Balkans preparing their accession to the European System of Central bank (ESCB) / Needs Analysis Report / Central Bank of the Republic of Kosovo (CBK)*, of 2015, were fulfilled.

4.16.1 Supervision of financial institutions for PML/TF

The on-site supervision of financial institutions was focused in protecting their systems through the implementation of standards and legislation to prevent and combat money laundering and terrorism financing. The Division's main focus was to carry out the examination of banks and financial institutions in the field of PML/ FT. These activities are also foreseen in the division's strategic plan and the main purpose was to obtain on-site information regarding the level of measures that financial institutions have undertaken to prevent money laundering and financing of terrorism.

During 2016, a total of 11 examinations were carried out. Out of these examinations, 4 were full examinations, and 7 focused examinations. Examinations have included banks, microfinance institutions and non-banking financial institutions. In this regard, the plan foresaw examinations in 6 banks, 2 microfinance institutions and 1 non-banking financial institution (NBFI). Also, this year unlike previous years, examinations were also planned for two insurance companies (life insurance product), assessing the level of measures of these financial institutions, with regard to products considered to be at increased risk of money laundering.

Last year was practiced the receipt of feedback and follow-up of recommendation compliance from previous examinations. In this regard, during 2016, the division received feedback in 4 cases regarding the fulfilment of recommendations. Key assessment points during certain examinations in financial institutions were the legal and regulatory obligations and responsibilities of financial institutions, with a view to preventing money laundering and financing of terrorist activities. Banks have prepared policies and procedures that create possibilities for effective measures in PML/FT. Foreign-owned banks have created these policies and procedures with the help of parent banks, which have been approved by the board of directors. Examined financial institutions have continued undertaking measures to increase human and technical capacity by recruiting special staff for compliance with PML/ FT and making it significantly independent from the internal control function. With regard to measures and activities, this year the division has proactively received them by banks on a continuous basis.

Also, financial institutions have undertaken significant measures toward increased monitoring efficiency, customer identification procedures and opening new accounts and defining the beneficial owner.

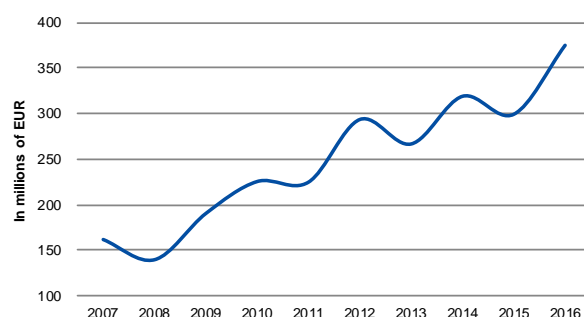
5. Services provided to the authorities, the financial community and to the public

5.1. Operations and cash management

The Central Bank of Kosovo (CBK) is responsible for providing an adequate supply of the domestic economy with euro banknotes and coins. CBK performs this function indirectly through the banking sector, which is directly linked to businesses and citizens. CBK's responsibilities related to operations and cash management during 2016 same as in the previous years were related to euro currency since this is the official currency used in Kosovo.

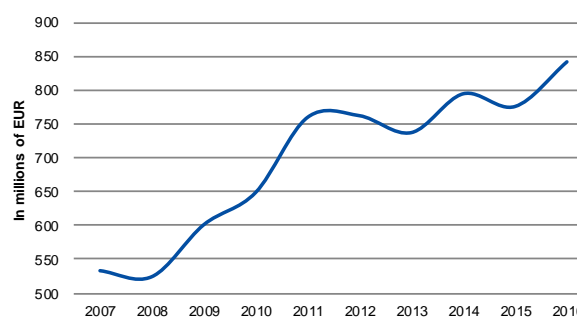
During 2016, CBK supplied a quantitative and qualitative offer of euro banknotes and coins to the banking sector for the purpose of settlement of cash transactions of the economy and citizens. Consequently, the function of ensuring an adequate supply of banknotes and coins for the cash transactions in the economy has been successfully fulfilled by the CBK.

Figure 51. Supply with cash (value), in millions of EUR



Source: CBK (2017)

Figure 52. Cash admission (value), in millions of EUR



Source: CBK (2017)

The total value of cash supply in 2016 increased by 25.34 percent compared to 2015 (figure 51). Structure of cash supplied by denominations, which is primarily determined by the banking sector requirements, did not show any significant changes from 2015 to 2016. Regarding euro banknotes, the requests for supply with denominations - 5, 10, 20 and 50 Euros continued to dominate, while denomination volumes of 100, 200 and 500 Euros remained significantly lower. During 2016, volumes of denominations in the value of 50 and 5 Euros increased significantly compared to the previous year, while the denomination volume in value of 20 Euros and 10 Euros marked a slight decline.

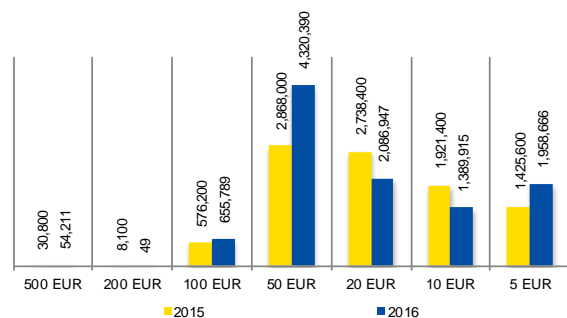
As shown in figures 53 and 54, in 2016, CBK supplied banking sector with approx. 10.5 million pieces of euro banknotes (in the amount of over euro 374 million) and over 5 million pieces of euro coins (in the amount of about euro 0.75 million).

Volumes of requests for supply of coins in 2016 marked an increase of about 10.4 percent compared to 2015. Requests for the supply of euro coins, in 2016, same as in 2015 was mainly dominated by small-value coins from 1 to 5 euro cents. The volumes of requests for supply with small denominations in the value of 5 euro cent, 2 cent and 1 cent, during 2016, marked a group increase of about 21.41 percent representing a significant increase compared to the previous year. Volumes of requests for supply with denomination of 10 euro cent up to 2 euro compared to the previous year marked a group decline of 17.46 percent compared to the previous year.

The total value of cash received as deposits marked a slight increase of over 8.5 percent in 2016 compared to the previous year (figure 52). CBK received around 14.2 million pieces of euro banknotes (on average about 57,000 pieces of banknotes per day) and about 0.93 million pieces of euro coins (on average about 3,700 pieces of coins per day) as cash deposits from the banking

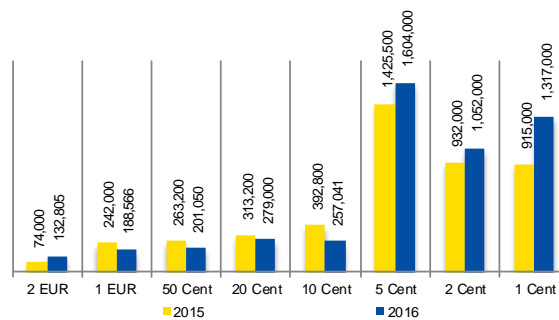
sector. When expressed in amounts, these deposits reached approximately the amounts of 841.4 million Euro banknotes and 0.87 million Euro coins, respectively.

Figure 53. Supply with EUR banknotes, by denominations (number of pieces)



Source: CBK (2017)

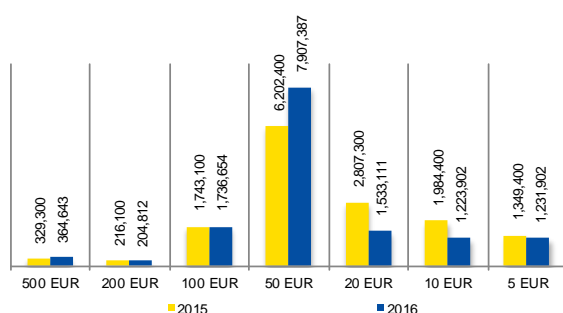
Figure 54. Supply with EUR coins, by denominations (number of pieces)



Source: CBK (2017)

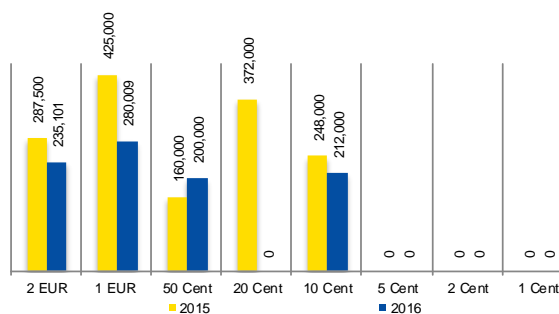
The structure of euro banknotes received during 2016, as seen in figure 55, did not change significantly from the previous year, while the structure of currencies received during 2016 (figure 56) marked a decline for denominations of coins of 20 cents compared to other coins which marked an increase.

Figure 55. EUR banknotes received by denomination (number of pieces)



Source: CBK (2017)

Figure 56. EUR coins received, by denominations (number of pieces)



Source: CBK (2017)

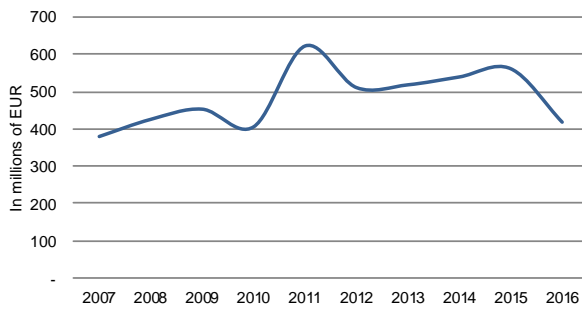
During 2016, similar to previous years, net deposited cash¹⁰ were in higher value than the supplied cash. In fact, reaching about euro 467.2 million, such a change was slightly lower than in the previous year which was approximately euro 477 million. This decrease was mainly due to the increase of request of the banking sector for the supply with euro banknotes.

Since CBK keeps only the optimum required level of cash to perform operations, the surpluses are sent in the Euro area, which then are used for international payments, and through investments are returned to interest-earning assets. Cash net remittances¹¹ abroad in 2016 amounted to euro 327.8 million being lower than the previous year when they were euro 490.2 million. This decrease in net remittances in 2016 was as a result of the increase of cash volume held with the CBK. Trends of cash exports and imports in the recent years are presented in the following two figures (figure 57 and 58).

¹⁰ Deposits minus cash withdrawals.

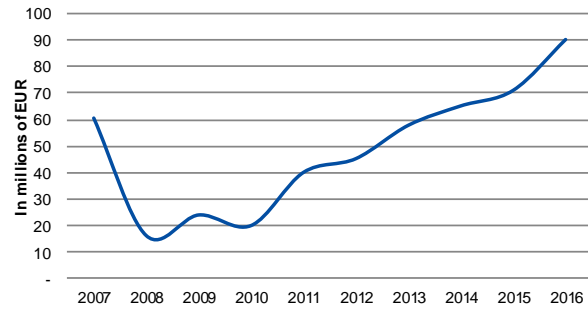
¹¹ Imports minus Exports of cash.

Figure 57. Export of cash (value), in millions of EUR



Source: CBK (2017)

Figure 58. Import of cash (value), in millions of EUR

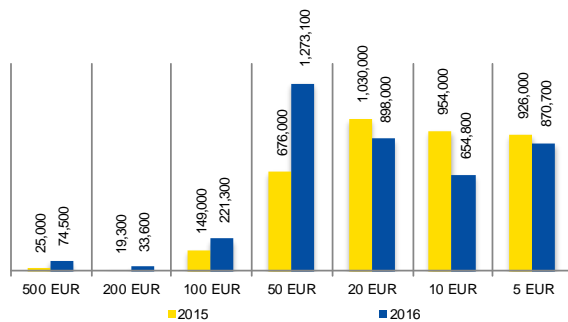


Source: CBK (2017)

Cash operations continued to be carried out through modern processing equipment and in accordance with the standard rules and procedures. All cash received by the commercial banks and other institutions were processed (nearly 14.2 million euro pieces of euro banknotes and 0.93 million euro pieces of euro coins) and were classified according to the level of adequacy.

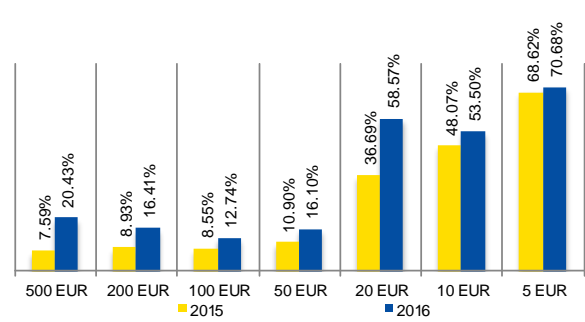
Approximately 4 million pieces of euro banknotes (28.35 percent of total euro banknotes deposited by the banking sector) during 2016 were classified as unfit for recirculation (highly outdated/damaged) and were removed from circulation and sent to euro area banks. Such a considerable volume of unfit euro banknotes removed from circulation contributed significantly to improving the quality of cash in circulation in the Republic of Kosovo. Banknotes which were mostly classified as highly outdated/damaged and were removed from circulation, same as in the previous years, were those of denominations of euro 20, 10 and 5. They represented about 60 percent of unfit banknotes for recirculation due to their higher rate of circulation from hand to hand by citizens.

Figure 59. Number of outdated banknotes withdrawn from circulation (number of pieces)



Source: CBK (2017)

Figure 60. Proportion of the banknotes withdrawn from circulation out of total received



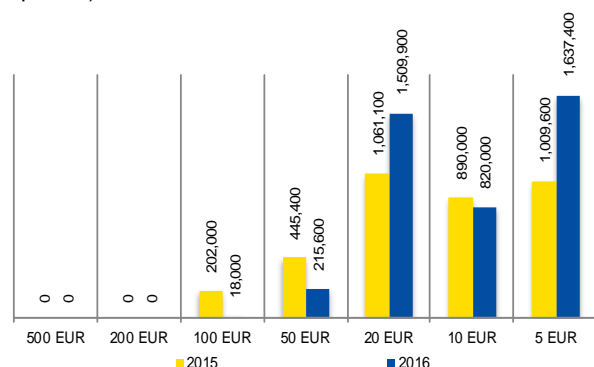
Source: CBK (2017)

Quality of cash in circulation was also improved through the supply of banking sector with completely new euro banknotes, which were brought from the euro area (figures 61 and 62). During 2016, CBK supplied the banking sector with more than 4.2 million pieces of new euro banknotes (40.1 percent of the total supplied euro banknotes). Around 94.5 percent of new banknotes supplied during 2016 were low denomination banknotes (20, 10 and 5 euro), with which were mainly supplied the commercial banks for the purpose of equipping their ATMs. Furthermore, all euro banknotes fit for recirculation with which they were supplied were of a high quality (appropriate quality for ricirculation).

Regarding measures against counterfeiting, Money and Banking Relations Department has followed the cases of counterfeit money in 2016 (figure 63). In particular, it continued to cooperate with the authorities to advance reporting of cash suspected as counterfeited. Money

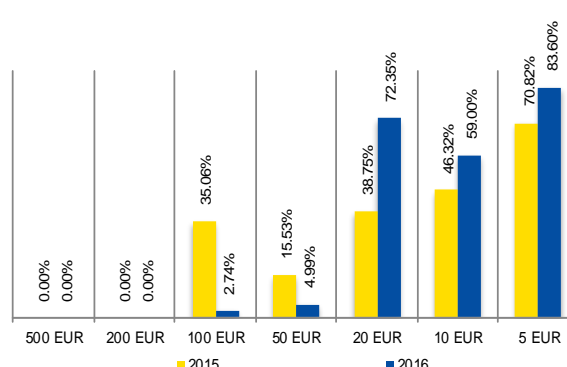
and Banking Relations Department together with Forensic Laboratory published on the CBK website¹² statistics on counterfeited money in the Republic of Kosovo.

Figure 61. Supply with new banknotes (number of pieces)



Source: CBK (2017)

Figure 62. Proportion of new banknotes induced into circulation from the total supplied ones



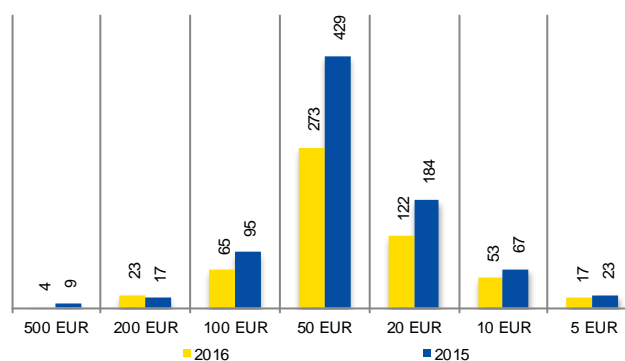
Source: CBK (2017)

Further, educational materials were published with the aim of informing the general public about the security features of Europa series of banknotes.

5.2. Accounts maintenance and transactions

CBK provides banking services for the Government of the Republic of Kosovo, Privatization Agency of Kosovo (PAK) and other institutions such as banks and other financial institutions, public entities, foreign banks, central banks, international financial institutions (International Monetary Fund, World Bank), and international organizations, as specified in Article 9 of the Law no. 03/L-209 of CBK. In 2016, similar with the previous years, these services consisted primarily on maintenance of accounts and payment transactions, excluding any form of lending.

Figure 63. Counterfeited EUR seized in Kosovo (number of pieces)



Source: Forensic Agency of Kosovo (2017)

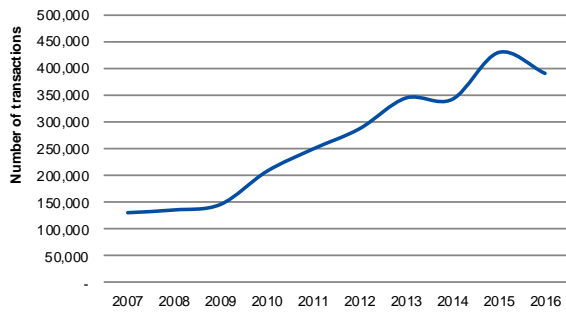
Table 13. Transaction amount by main types of payments (in thousand Euros)

Type of transactions	2012	2013	2014	2015	2016
Transactions with cash	+468,755	+470,786	+475,752	+476,310	+467,362
Deposits with cash	762,596	737,524	794,989	776,195	842,240
Cash withdrawals	293,841	266,738	319,237	299,885	374,878
Domestic transfers	+335,267	+581,797	+839,345	+942,520	+1,041,198
Incoming domestic transfers	1,568,574	1,554,535	1,615,753	1,677,024	1,712,605
Outgoing domestic transfers	1,233,308	972,738	776,408	734,504	671,407
International transfers	-366,873	-321,676	-714,099	-441,312	-580,656
Incoming international transfers	372,967	653,710	404,473	538,375	970,941
Outgoing international transfers	739,840	975,386	1,118,572	979,687	1,551,597

Source: CBK (2017)

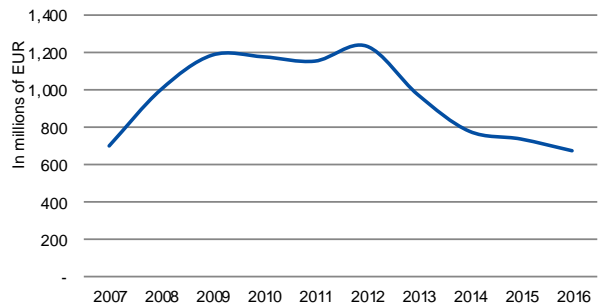
¹² <http://bqk-kos.org/?id=31>

Figure 64. Volume of domestic outgoing transactions, number



Source: CBK (2017)

Figure 65. Value of domestic outgoing transactions, in millions of EUR

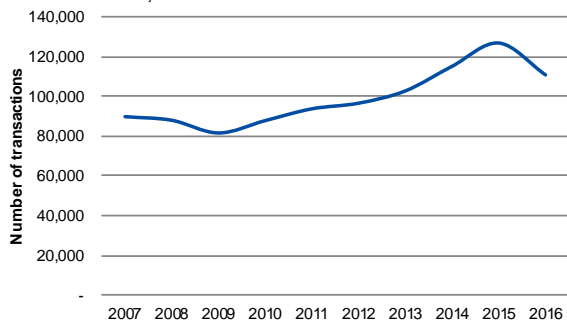


Source: CBK (2017)

CBK supported the advancement of transaction processes and agreements of the Ministry of Finance and Privatization Agency of Kosovo. Forms of payment and ways of communication are adapted to their requirements. It is worth mentioning the full digitalization of international order transfers of the Ministry of Finance. During 2016 all international payments were realized through SWIFT network, shortening time and increasing processing efficiency.

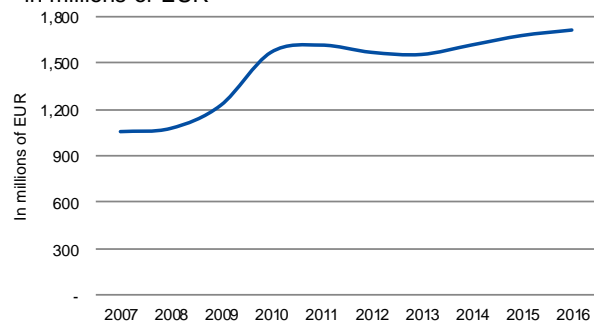
While most of cash operations of the CBK were carried on behalf and for the benefit of commercial banks, most of domestic payments of the CBK are conducted on behalf and for the benefit of the Treasury.¹³

Figure 66. Volume of domestic incoming transactions, number



Source: CBK (2017)

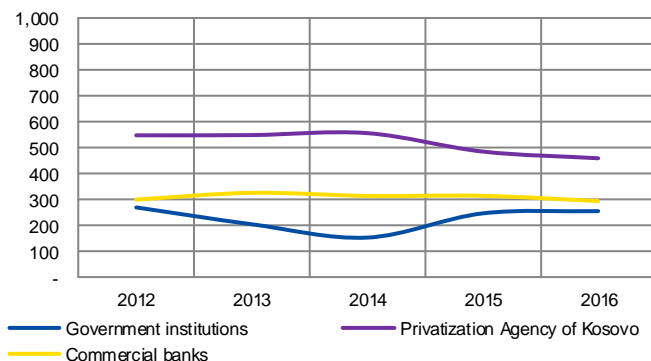
Figure 67. Value of domestic incoming transactions, in millions of EUR



Source: CBK (2017)

CBK has processed on behalf of its clients over 390 thousand domestic outgoing payment orders (a decrease of 9% compared to the previous year) (figure 64), and has received on their account close to 111 thousand incoming payment orders (a decrease of 12.6 percent compared to the previous year). Expressed in value, domestic outgoing payment orders amounted to over euro 671.4 million (a decrease of 8.6% compared to the previous year) (figure 65), and domestic incoming payment orders amounted to over euro 1.7 billion (an increase of 2.1 percent compared to the previous year) (figure 67).

Figure 68. Deposits trend movement of main CBK clients, in millions of EUR



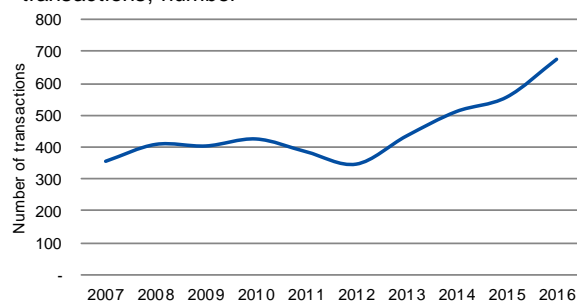
Source: CBK (2017)

¹³ Treasury – Ministry of Finance

The largest number and amount of local transactions was conducted by the CBK by orders of and for the Treasury.

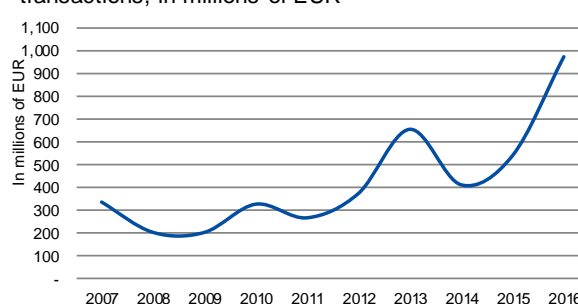
Regarding the outgoing domestic payments, it should be noted that all commercial banks generate them themselves, whereas insurance institutions process the largest number of payments through commercial banks. In fact, all other accountholders of CBK use payment services provided by the CBK in a limited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

Figure 69. Volume of international incoming transactions, number



Source: CBK (2017)

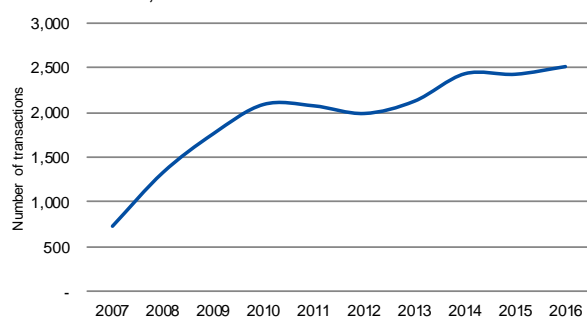
Figure 70. Value of international incoming transactions, in millions of EUR



Source: CBK (2016)

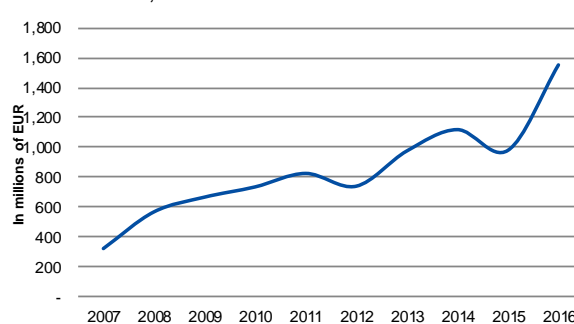
Regarding international transactions, the largest number of such transactions was performed by CBK with the order of the Treasury (figures 69 and 71). On the other hand, considering their value, most of international transactions conducted by the CBK are related to the transfers of commercial banks funds (figures 70 and 72). Annual data on international transactions for the last five years are presented in the following figures (figures 69, 70, 71 and 72).

Figure 71. Volume of international outgoing transactions, number



Source: CBK (2017)

Figure 72. Value of international outgoing transactions, in millions of EUR



Source: CBK (2017)

As of 31 December 2016, deposits of the institutions of the Government of Kosovo amounted to euro 257.4 million, whereas those of the PAK amounted to euro 460.9 million.

Table 14. Level of deposits of the main clients (in thousands of EUR)

Account Statement	2012	2013	2014	2015	2016
Total	1,175,099	1,324,296	1,082,519	1,135,559	1,074,458
Government institutions	271,692	206,838	155,481	248,780	257,393
Privatization Agency of Kosovo	549,403	550,328	557,801	486,819	460,961
Commercial banks	302,147	327,843	315,932	316,406	296,399
Other	51,857	239,287	53,305	83,553	59,705

Source: BQK (2017)

Among other account holders, commercial banks and insurance institutions are the most important in terms of the level of deposits held in the CBK.

Commercial banks and insurance institutions deposits held in CBK mainly relate to legal claims and obligations. They accounted for 28 percent of total deposits held at CBK by the end of 2016. On 31 December 2016, commercial banks and insurance companies deposits amounted to euro 301 million.

Table 15. Level of deposits by type of accounts (in thousands EUR)

Types of accounts	2012	2013	2014	2015	2016
I. Current accounts	977,104	1,110,346	1,017,519	1,135,559	1,074,458
Privatization Agency of Kosovo	549,403	530,328	557,801	486,819	460,961
Government institutions	73,697	12,888	90,481	248,780	257,393
Commercial banks	302,147	327,843	315,932	316,406	296,399
KPSF + Public institutions (PTK, KEK, etc.)	27,339	209,655	20,845	51,212	16,248
DPK + Other	19,060	24,349	26,385	27,669	38,725
Insurance companies	4,983	4,955	5,738	4,528	4,652
International Institutions (EULEX, etc)	406	260	268	144	80
Supplementary pension funds	68	68	68	0	0
II. Time deposits	152,000	133,000	65,000	0	0
Privatization Kosovo Agency	0	20,000	0	0	0
Government institutions	152,000	113,000	65,000	0	0
Commercial banks	0	0	0	0	0
KPSF + Public institutions (PTK, KEK, etc.)	0	0	0	0	0
DPK + Other	0	0	0	0	0
Insurance companies	0	0	0	0	0
International Institutions (EULEX, etc)	0	0	0	0	0
Supplementary pension funds	0	0	0	0	0
III. Government Securities	45,995.19	80,950.60	0.00	0.00	0.00
Government institutions	45,995	80,951	0	0	0
Total	1,175,099	1,324,296	1,082,519	1,135,559	1,074,458

Source: CBK (2017)

5.3. Payment system

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

During 2016, Interbank Payments System was characterized by sustainability, security and interoperable efficiency, ensuring timely clearing and settlement in compliance with the relevant standards and procedures. Also, Registry of the Bank Account Holders has functioned well and there has been marked an increase in users' access, as a result of review and alignment of RBA Regulation. This registry has been subject to changes and corrections with the aim of automating all processes and facilitating electronic communication.

Starting from July 1, 2016, the Electronic Interbank Clearing System (EICS) in CBK was replaced by a new system, which is designed according to the latest standards in the field of payment systems. Implementation of this system is one of the key steps that CBK has undertaken to strengthen the stability and increase the efficiency of the financial sector in general and banking in particular.

The new interbank payments system, called ATS (automatic transfer system) consists of two main components: RTGS component (Real Time Gross Settlement) which enables the transfer of

funds in real-time, and ACH component (automatic clearing house) that processes low value and group payments.

The new payment system is designed according to the latest international standards for payment systems (ISO 20022), according to the latest technology and the best practices that made Kosovo one of the first countries to implement this standard.

In addition to the implementation of the new payment system, since June 30, 2016 has begun the application of IBAN also for local payments which will affect the unification and standardization of the process of checking the validity of bank accounts.

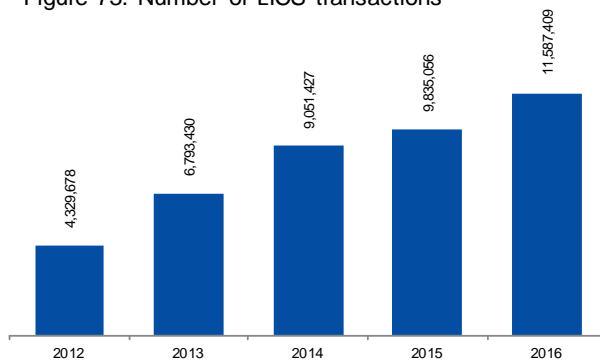
5.3.1 Interbank Payment System Operation

Interbank Payment System (IPS) enables processing of a range of payment instruments, interbank clearing and settlement of securities.

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

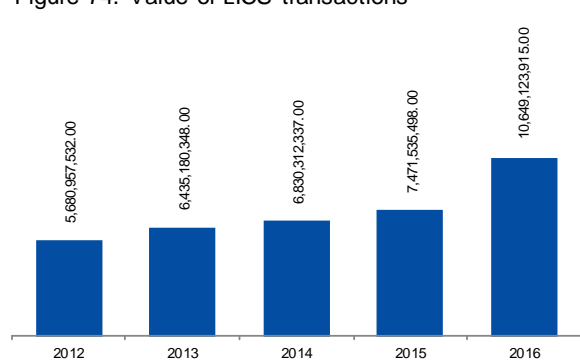
There have been processed around 11.6 million transactions with a total value of approximately euro 10.6 billion. When compared to SPN transactions in the previous year, transaction volume increased by 17.88% and transaction value increased by 42.52% as can be seen in figures 73 and 74.

Figure 73. Number of EICS transactions



Source: CBK (2017)

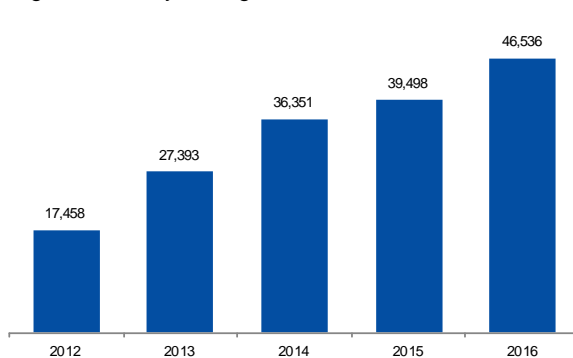
Figure 74. Value of EICS transactions



Source: CBK (2017)

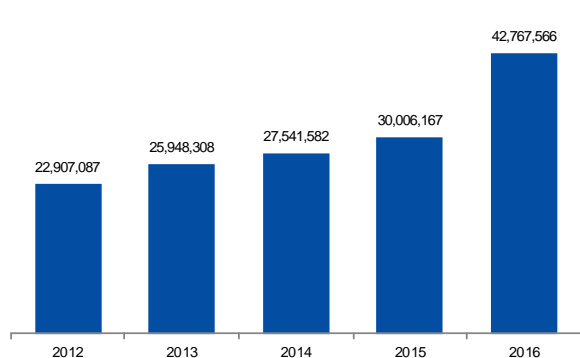
The increase in the value of interbank transactions realized through the IPS results from the addition of new products and new categories of transactions which did not previously pass through the interbank payment system. Figures 75 and 76 show the daily average of the number and value of transactions processed through the ATS system.

Figure 75. Daily average of EICS transaction number



Source: CBK (2017)

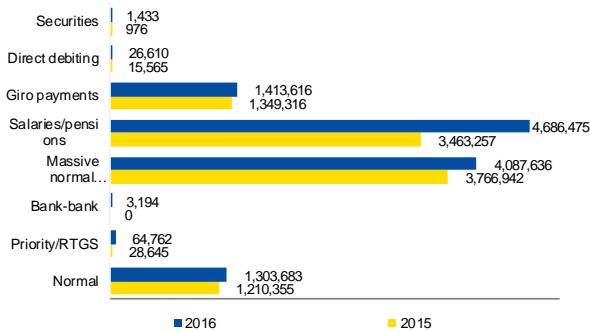
Figure 76. Daily average of EICS transactions value



Source: CBK (2017)

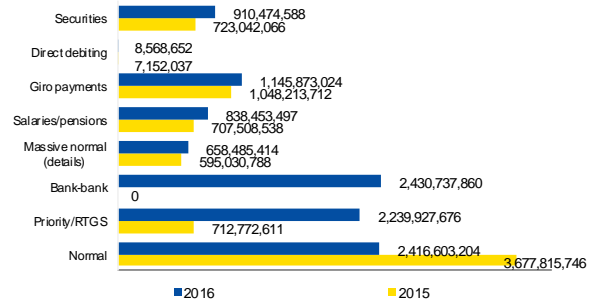
The continued increase in volume and value of IPS interbank transactions reflects the relative increase of non-cash payments and increase of the confidence in the banking system. Within IPS are realized payments through two components: in component RTGS are realized in real time all payments with value of over euro 10,000 as well as all payments ordered with priority by the clients, whereas in the component ACH are realized all payments with value of under euro 10,000 and include these types of payments: regular payments (individual and massive), payment and pensions, Kos-Giro, Direct Debit. Levels of increase in both volumes and values of these categories of payments for 2015 and 2016 are presented in figures 77 and 78:

Figure 77. Annual transaction volume of EICS



Source: CBK (2017)

Figure 78. Annual transaction value of EICS, by their type



Source: CBK (2017)

Regular payments (individual and massive) constitute around 46.5 percent of the volume and around 28.9 percent of the value of IPS transactions.

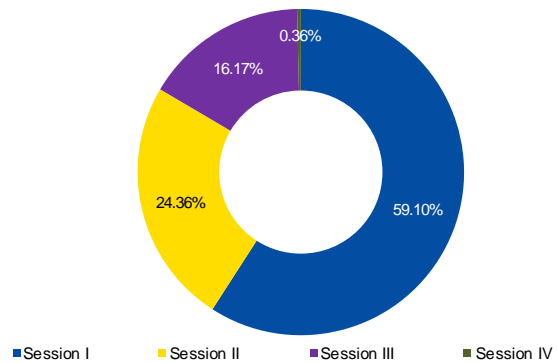
Kos-Giro transactions represent a specific type of regular transactions which are also processed through clearing sessions and are settled on net basis. During 2016, Kos-Giro number of payments increased by 4.77%, while their value increased by around 9.32%.

RTGS transactions are processed and settled during working hours in real time and on a gross basis. During 2016 their number accounted for about 0.6% of the total number of transactions in the IPS, while their value was about 52.4% of the value of the transactions through the IPS.

Direct Debit as a new instrument and payment scheme in Kosovo is not yet being used to the extent other payment instruments are used. Thus, during 2016, this type of transactions, in total, represented less than 1% of the volume and the value of IPS transactions.

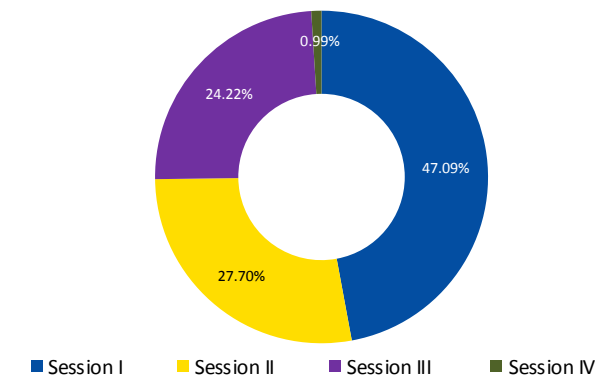
Presentation of payments processed through ACH system by sessions in 2016, shows a more pronounced concentration in the first clearing session, compared with three other sessions

Figure 79. Number of EICS transactions, by sessions



Source: CBK (2017)

Figure 80. Value of EICS transactions, by sessions



Source: CBK (2017)

(figures 79 and 80). Avoiding overload payment flows over the last clearing session minimizes additional risks within the functioning of the payment system.

Number and value of transactions by sessions:

The total value of transactions settled in IPS during 2016 was euro 10,649,123,915, where three first institutions with larger value of initiated transfers comprise 61.19 % of the total value, while all other institutions comprise 38.81%. Regarding the number of initiated transfers, of their total number of 11,597,055, three first institutions with the largest number of initiated transfers comprise 74.75% of the total number, while all other institutions comprise 25.25%.

A detailed overview of concentration indicators of the participation of more active institutions in IPS during 2016 against the total activity in the system is presented in table 16:

Table 16. Indicators of concentration for transactions initiated/delivered in IPS

ATS System	Volume	Value
3 banks	74.75%	61.19%
7 other banks	25.25%	38.81%
Total	11,597,055	10,653,861,256

Source: CBK (2017)

5.3.2 Supervision and analysis of payment systems

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

With the aim of strengthening the function of oversight of payment systems, during 2016, the CBK has undertaken a number of steps to improve the rules and procedures for supervising payment systems. One of the most important developments in this regard is the adoption of the Payment Systems Oversight Policy, which sets out the principles and guidelines for overseeing payment systems operating in the Republic of Kosovo. Under this policy, in exercising its supervisory function for systemically important payment systems, the CBK is based on the Principles for Financial Market Infrastructure adopted by Committee on Payment and Settlement Systems within Bank for International Settlements (BIS), while for the supervision of small value payment systems, the revised ECB Revised Oversight Framework for Retail Payment Systems is applied.

Also during this year regular inspections in banks were performed in order to monitor payment processing according to procedures determined by legal provisions.

We conducted the regular publishing of analytical indicators for payment instruments in Kosovo. The publication of regular analyses on payment system developments, as well as other information material of financial education for the public continued. During this year the following analyses were published:

- The use of cards in Kosovo - this analysis was published for the first time this year and aims to reflect the socio-demographic distribution of cards used by Kosovo citizens and to analyze the factors that have influenced one such distribution:¹⁴;

¹⁴ <http://bqk-kos.org/repository/docs/SistemilPagesave/Perdorimi%20i%20kartelave%20ne%20Kosove.pdf>;

- Analysis on the use of payments instruments in Kosovo (published on a quarterly basis);
- Analysis of Kos-Giro payments scheme developments and the Direct Debit (published on annual basis)¹⁵;

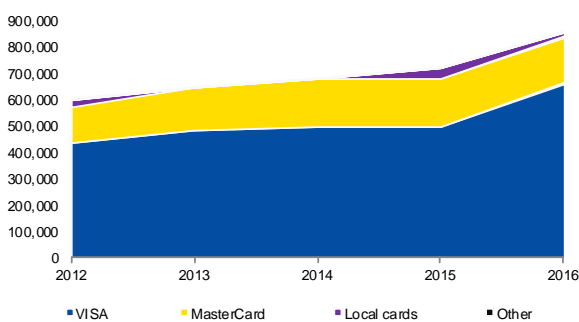
Aiming at approximation with the best international practices and ECB recommendations in the field of payment systems, the following policies and regulations have been drafted, revised and adapted:

- Regulation on the Interbank Payment System,
- Regulation on the Bank Accounts Registry,
- Policy on Payment Systems Supervision

5.3.3 Payment instruments and banking infrastructure for payment services

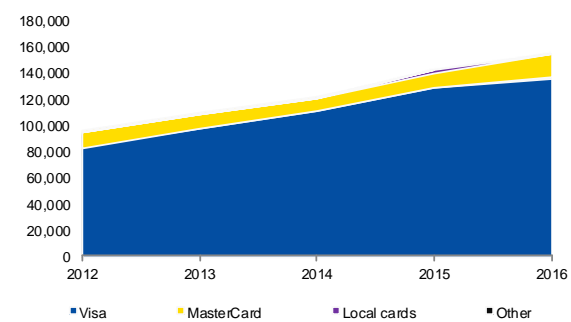
Banking reports on payment instruments indicate that by the end of December 2016 the number of debit cards reached 856,718 while the number of credit cards amounted to 156,437. Compared with the previous year, it is noted that the number of debit cards has increased by 19.2%, while the number of credit cards has increased by 8.74% (figures 81 and 82).

Figure 81. Number of debit card accounts, by their type



Source: CBK (2017)

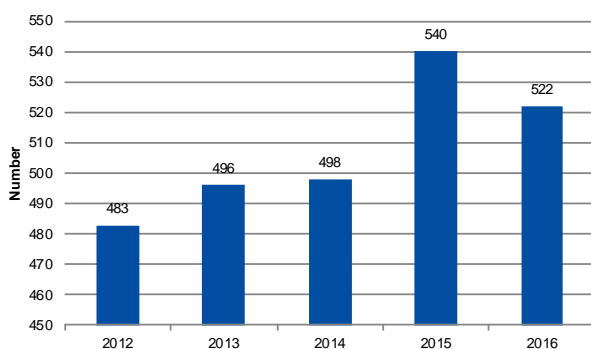
Figure 82. Number of credit card accounts, by their type



Source: CBK (2017)

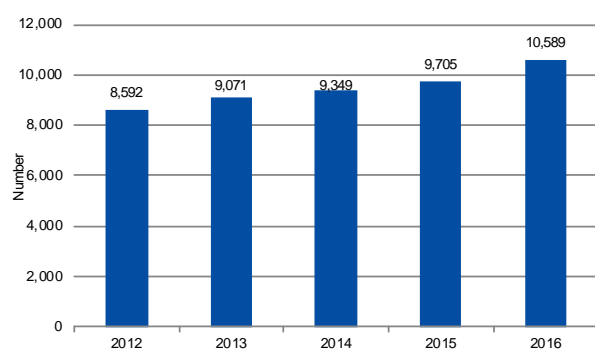
Regarding the ATM terminals and POS (point of sale) infrastructure offered by commercial banks in Kosovo, it is noted a continuous increase in the number of POS terminals (10,589), while ATM terminals are characterized by a slight decrease during this year (522) as can be seen in figures 83 and 84.

Figure 83. Number of ATMs



Source: CBK (2017)

Figure 84. Number of POSs



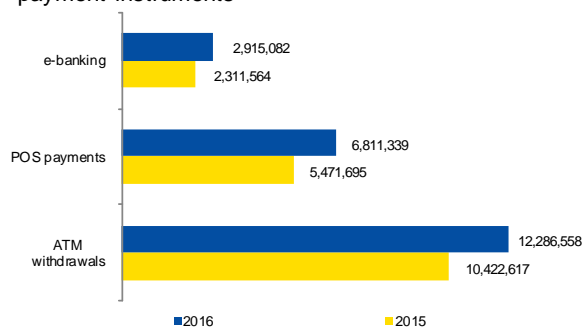
Source: CBK (2017)

¹⁵ <http://bqk-kos.org/?id=125>;

In addition to increase in the number of terminals and payment instruments, the statistical data indicate that the year 2016 was characterized by increased use of electronic payment instruments (figures 85 and 86).

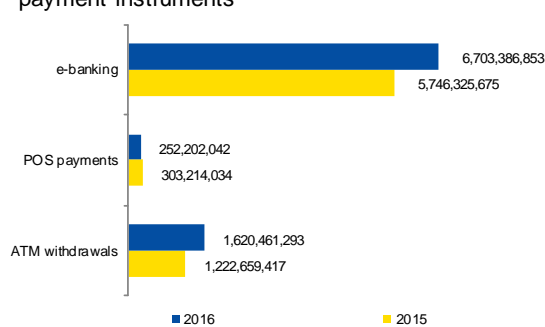
The number of payments via e-banking service reached 2.9 million transactions, which compared to the previous year presents an increase of 26.1%, while their value amounted to euro 6.7 billion, with an annual increase of 16.7 %.

Figure 85. Annual transaction volume of electronic payment instruments



Source: CBK (2017)

Figure 86. Annual transaction value of electronic payment instruments



Source: CBK (2017)

The year 2016 was also characterized by an increasing trend in the use of electronic payment instruments. The number of payments at POS terminals increased by 24.5%, while their value decreased by 16.8%. Likewise, withdrawals at ATM terminals were characterized by an increase. The number of ATM withdrawals during 2016 increased by about 17.9%, while the value of withdrawals increased by 32.5%.

Based on bank reports, it results that the total number of clients' bank accounts by the end of 2016, was around 1.88 million (table 17), representing a decrease of 0.6% compared to the end of 2015. Around 98.45% of them are resident accounts, whereas around 1.55% percent non-resident accounts.

Out of the total accounts by the end of 2016, around 230.9 thousand accounts had "online" access to make payments or check account balance, marking an increase of 23.3% compared to 2015.

Based on statistical data, infrastructure development has a faster pace compared to the countries in the region. The rapid growth trend in the use of electronic payments instruments remains encouraging.

Table 17. Number of accounts

Description of accounts	Total of client accounts			Accessible from the internet		
	2014	2015	2016	2014	2015	2016
Clients account (1+2)	1,917,513	1,886,644	1,875,091	157,761	187,297	230,905
1-Resident accounts (a+b)(%)	98.37%	98.52%	98.45%	97.22%	97.64%	97.86%
a-Individual (%)	93.18%	93.21%	92.85%	79.66%	79.43%	79.68%
b-Company (%)	6.82%	6.79%	7.15%	20.34%	20.57%	20.32%
2-Nonresident accounts (c+d) (%)	1.63%	1.48%	1.55%	2.78%	2.36%	2.14%
c-Individual (%)	96.60%	96.84%	96.99%	91.99%	91.27%	91.54%
d-Company (%)	3.40%	3.16%	3.01%	8.01%	8.73%	8.46%

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

Regarding the comparison of Kosovo to regional countries, it is noted that the rapid trend of development in recent years has contributed to Kosovo improving its position compared to neighbouring countries (table 18).

Table 18. Comparative table of payment instruments and terminals¹⁶

Description	Inhabitants	ATM per millions of inhabitants	POS per millions of inhabitants	Credit accounts per millions of inhabitants	Debit accounts per millions of inhabitants	E-Banking per millions of inhabitants
Kosovo	1.79	292	5,916	87,395	478,613	104,635
Albania	2.89	286	2,315	28,071	285,910	53,014
Czech Republic	10.55	430	13,533	194,825	927,165	-
Turkey	78.67	614	27,435	739,994	1,428,548	-
Slovenia	2.06	820	18,466	56,155	1,151,726	-
Bulgaria	7.18	782	12,846	131,534	864,348	-
Hungary	9.84	489	11,354	140,495	767,056	-
Bosnia	3.81	396	6,714	-	-	82,897
Montenegro	0.62	603	18,377	64,906	626,866	124,511
Croatia	4.22	1,047	24,510	46,966	1,612,261	-
Macedonia	2.08	504	19,472	157,674	619,772	314,495

Source: CBK (2017) and central banks or supervisory authorities of the respective countries

5.3.4. Reduction of cash payments

In Kosovo, in addition to cash payments, in recent years there has been a rapid increase in the use of electronic payment instruments.

From the statistical data for 2016, it is observed an increase in the number and value of credit transfers, which represent an alternative to non-cash payments. Significant increase was marked in payments through electronic instruments such as: transactions through debit card, credit card and e-banking, affecting the reduction in cash payments.

In order to increase the efficiency of card transactions, CBK has foreseen the implementation of an interbank payment card system to provide interoperable functionality between card issuers.

In this context, during this year was conducted the feasibility study for the establishment of interbank transaction system for POS and ATM, supported by Government – for Government program (program G2G) as partnership with the USAID for the development of local capacities.

5.4. Asset management

The Asset Management Department is in charge of placement of the financial means under the management of Central Bank of the Republic of Kosovo (CBK), as well as for operating depository system and electronic platform for trading the securities of the Government of Kosovo. In particular, the task of managing international reserves is specified in the Law on Central Bank of the Government of Republic of Kosovo.

¹⁶ The data in the table is from 2015 since most of the countries in the region have not yet published data for 2016

5.4.1. Managing the investments

According to the Investment Policy approved by CBK Executive Board, main objectives during the asset management are: security, liquidity and return on investment.

During 2016, all assets were invested in financial instruments which are considered as a category of safe and liquid instruments and adequate credit rating.

Categories of financial instruments where assets were invested are:

- bank time deposits with maturity up to one year, namely euro and US dollar deposits in commercial and central banks of the euro area countries;
- government bonds issued in euro area countries, with maturity up to five years;
- government bonds issued by the Government of Kosovo traded in the secondary market of securities, with a maturity up to five years.

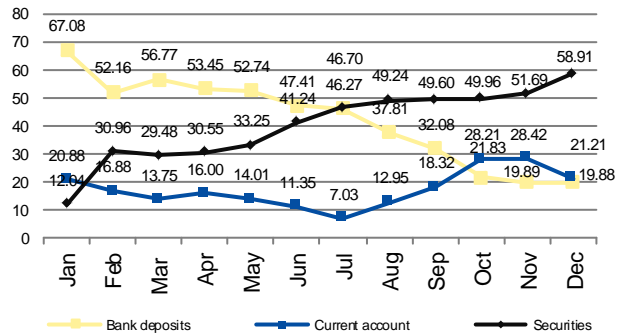
The distribution of the investment portfolio by type of instrument, maturity and amount is determined in accordance with developments in the financial markets and CBK's foreseen liquidity needs. The main characteristic of 2016 is the placement of longer-term assets, respectively three to five years. Such placement results from unfavorable and negative rates in the euro area money market.

The euro area's financial market volatility during 2016 caused the CBK's investment portfolio to be managed through the lower-risk instruments for price fluctuations, respectively government bonds of central and peripheral euro area countries, as well as government bonds issued by the Government of Kosovo. For the purpose of more effective distribution of investment portfolio and realization of returns on investments, investment placements have been realized also in money market instruments in currencies other than euro, such as the US dollar.

The distribution of CBK portfolio in main categories of financial instruments presented in figure 87 shows a high concentration on debt instruments, respectively government securities. Throughout the year the distribution was kept below the total of 70 per cent of the portfolio in securities as a criterion set out in the Investment Policy. Moreover, the other limit of 60 per cent in bank deposits, as well as the maturity limits, were complied to.

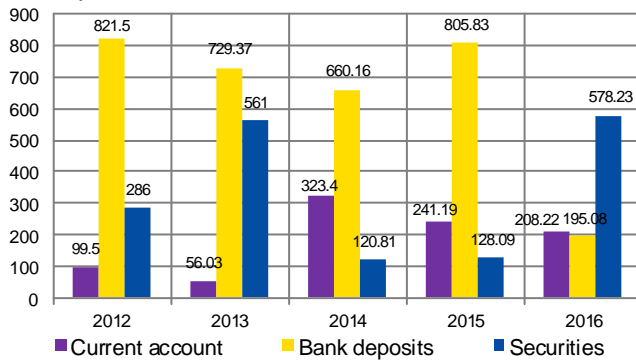
Management of the investment portfolio over longer periods of time has been balanced by holding a significant portion of liquid assets to meet the needs of its depositors for the execution of

Figure 87. Ratio of the CBK portfolio investments spread



Source: CBK (2017)

Figure 88. Distribution of portfolio investments, end of the year



Source: CBK (2017)

payments. Consequently, 21 per cent of the available funds are secured in cash in the CBK's external accounts.

Securities issued by the euro area countries and the Government of Kosovo constitute the main instrument for participation in portfolio of 59 percent of the total available funds for investment. The stable growth in securities during the months presented in figure 87 comes as a result of the allocation of investments from foreign markets to the domestic market. Securities issued by the Government of Kosovo are among the main instruments that have raised the exposure in the category of securities market instruments.

The higher share of securities as explained above is shown in figure 88, where the investment portfolio reflects the categories of financial instruments for 2016 compared with the previous years.

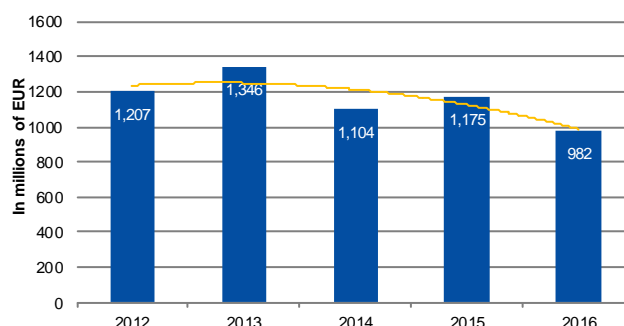
Compared to the previous years, 2016 is characterized by a lower amount of available investment assets (fig. 89). This decline in the total portfolio investment assets comes as a result of the higher concentration of cash assets in the treasury to avoid the negative rates applied by the European Central Bank (ECB) under the deposit rate policy.

5.4.1.2. Portfolio performance for 2016

2016 is characterized as a volatile year due to global events that have created instability in the financial market. The ECB in an attempt to mitigate volatility has continued its asset purchase program and eased the repurchase procedures on the secondary market. This brought a positive short-term impact on the interbank market of euro even though the rates have remained deeply in the negative territory. Other volatilities in the euro area market were triggered by political developments in the UK, Italy and France.

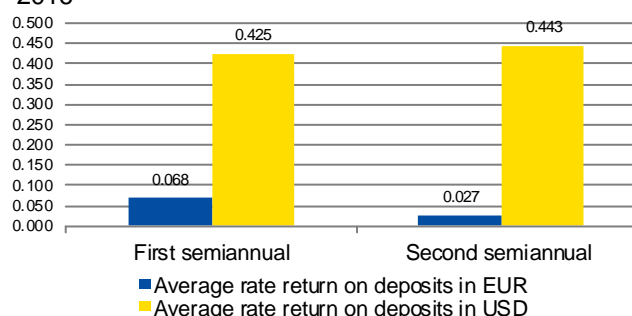
Despite the volatility in the financial market, the Department of asset management has achieved positive returns on investments in financial instruments and exchange rates. At the same time, during this period no deposits were made

Figure 89. The ending balance of funds invested by the CBK as of 31 December of the respective year



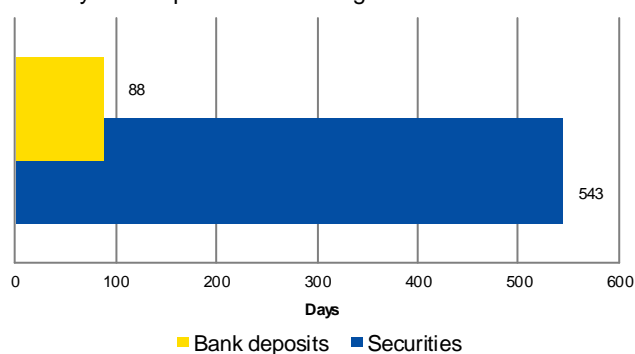
Source: CBK (2017)

Figure 90. Return on investments rate in portfolio from EUR and USD deposits for two semi-annuals of 2016



Source: CBK (2017)

Figure 91. Time horizon average expressed by days up to maturity for two placements categories



Source: CBK (2017)

with European banks which have had legal problems and an adequate level of liquidity in the euro currency has been maintained in order to avoid any eventual losses from the negative rates applied by the central and commercial banks of the euro area.

Figure 90 presents the returns realized by investments in euro and US dollar deposits.

Investments in euro and US dollar deposits resulted in positive returns including favorable exchange rate movements.

The time horizon structure also varies for bank deposits compared to securities as presented in figure 91. The short term time horizon in deposits comes as a result of investments in weekly time periods in dollar which have lowered the average total placements in deposits.

5.4.2. Risk management

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

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

Credit risk - Investment portfolio is distributed in order to keep the credit risk at a low level. All investments are realized in relation to the criteria of short-term credit ranking, as defined in the Investment Policy P-2/A-2 (Moody's/S&P), and in exceptional cases on the market, as in the case of negative interest rates with P-3/A-3.

Interest rate risk - is measured by comparing the return rate from investments in the CBK portfolio with 1 month EURIBOR rate (Average rate of interbank lending for Euro currency) as comparative rate.

Liquidity risk- investments were mainly conducted in compliance with time horizon determined in Investment Policy. Instruments in which was invested are mainly short-term instruments, such as bank deposits, treasury bills and state bonds.

Currency risk- arises as a result of exchange rate movements that involve the value of foreign currency in the financial market where the return or loss may arise as a result changes in the exchange rates. CBK had a low level of exposure to foreign exchange risk during 2016. By the end of 2016, the investment portfolio was only exposed in euro currency.

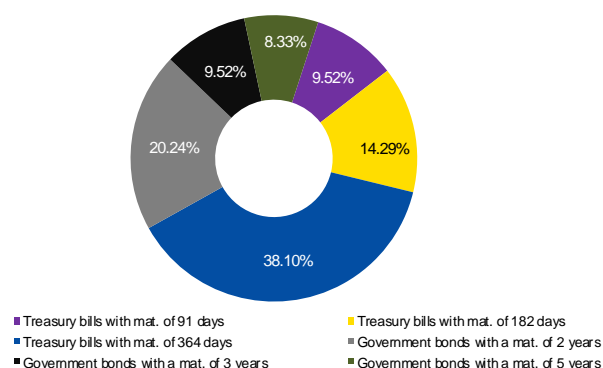
Operational risk – this risk exists in all activities and in order to minimize operational risk, investments are carried out accurately by being subject to the effective control for each transaction.

5.4.3 Kosovo Government Securities

Pursuant to the Law on Public Debts, the CBK acts as a fiscal agent for the Ministry of Finance (MoF).

In accordance with the Government Securities' Issuance Calendar for 2016, there were conducted 19 auctions through electronic platform.

Figure 92. Structure of securities by maturity



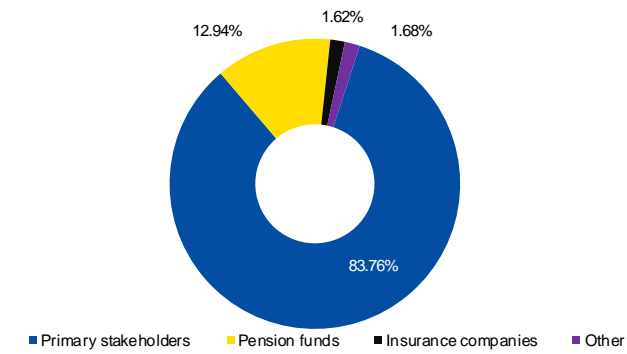
Source: CBK (2017)

Figure 92 shows the structure of Government of Kosovo securities expressed in percentage by maturity.

Figure 93 shows the structure of institutions participating in auctions of the Kosovo Government securities.¹⁷

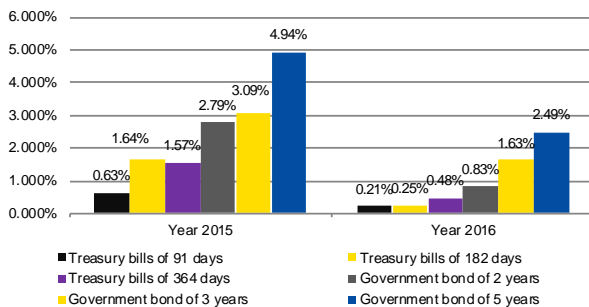
Compared to the previous year, as a result of the high market demand for the purchase of Kosovo government securities instruments, the average annual rate of return on treasury bills with a maturity of 91 days has decreased by 67%, for treasury bills with a maturity of 182 days has decreased by 85%, while for treasury bills with a maturity of 364 days has decreased by 70%. The average return rate for government bonds with a maturity of 2 years in 2016 decreased by 70%, while for government bonds with a maturity of 3 years it decreased by 47% and for government bonds with a maturity of 5 years was marked a decrease of 50% (figure 94).

Figure 93. Structure of auction participants



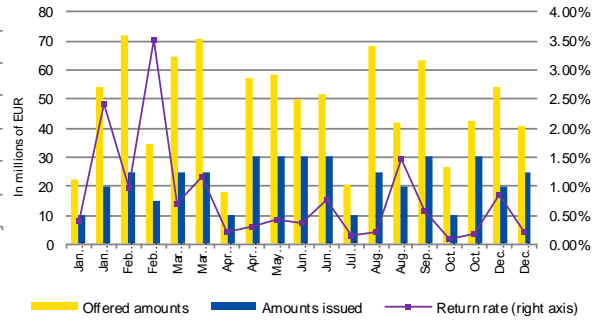
Source: CBK (2017)

Figure 94. Annual average rate returns for 2015 and 2016, in percent



Source: CBK (2017)

Figure 95. Auctions of Treasury bills and government bonds for 2016



Source: CBK (2017)

Figure 95 shows all auctions where it is noted that the highest demand was for one-year treasury bills and for government bonds of two and three years of maturity.

Activities in the secondary market of Government of the Republic of Kosovo Securities have continued with lower intensity, due to the decline in return rates in the primary market.

5.5. Credit Registry of Kosovo

Based on the Law on the Central Bank of the Republic of Kosovo, the CBK may operate, regulate, license, register and supervise credit information systems in order to collect and disseminate credit information between financial institutions and may issue regulations for its implementation.

Based on this objective, since January 3, 2006, CBK operates the Credit Registry System (CRK), which functions as an Internet-based application and aims at collecting and disseminating

¹⁷ Participants in the market of Government Securities have been all Primary Stakeholders, Kosovo Pensions Savings Trust as a primary participant, insurance companies and other participants through Primary Stakeholders.

positive and negative information of natural and legal persons, with the aim of improving the credit rating process and the performance of the Central Bank's supervisory function.

From a general economic perspective, the Credit Registry facilitates lending in terms of volume and cost as well as contributes to financial stability in general by helping lenders make a right decision within a shorter time in a more accurate and objective manner.

Based on the Credit Registry Regulation, members of the CRK system are all financial institutions designated by the Central Bank to be credit providers, including all licensed microfinance banks and institutions as well as those non-banking financial institutions and insurance companies licensed to deal with special credit activities.

Member institutions authorize officials and their rights to be users of the CRK system. Based on the CRK system, currently there are 1400 active users from lending institutions registered. During 2016, the Credit Registry has registered 274 users based on the requests submitted by the lending institutions.

Figure 96 shows the number of users registered in CRK system for the years 2013, 2014, 2015 and 2016.

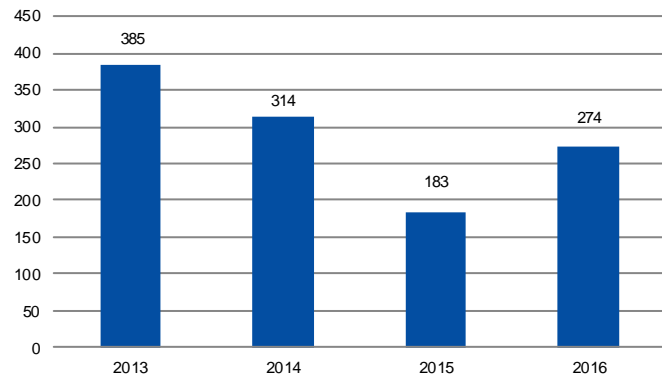
The Credit Registry System is designed to provide an advanced infrastructure for the functioning of the credit market by presenting an important tool for lending institutions in credit risk assessment.

The CRK system is an internet-based application and can be accessed directly and in real time by authorized lending institution staff.

The lending institutions access the CRK system in order to search the creditor applicants' liabilities and credit history where according to statistics deriving from the CRK, the number of searches during 2016 was 645,246 (figure 97).

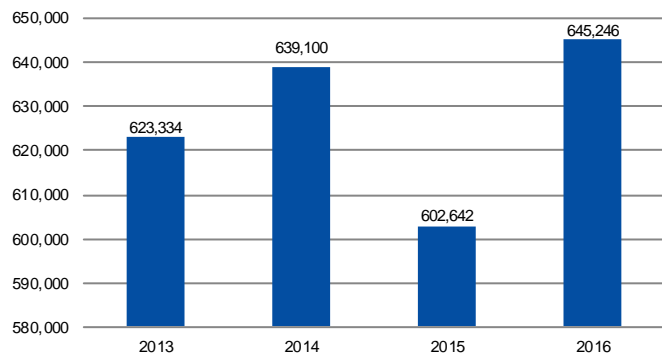
An overview for this activity on annual basis is shown in figure 97 for 2013, 2014, 2015 and 2016.

Figure 96. Number of registered users



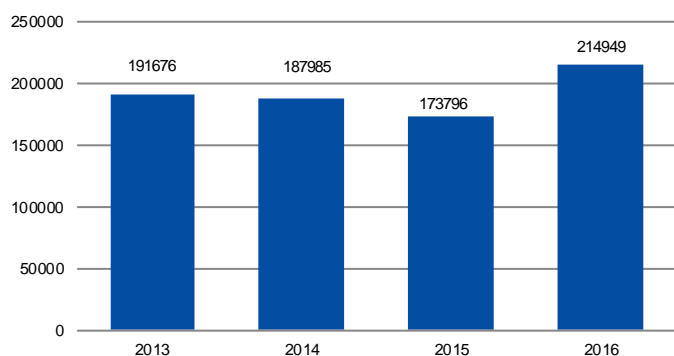
Source: CBK (2017)

Figure 97. Number of surveys in CRK system



Source: CBK (2017)

Figure 98. Number of new loans



Source: CBK (2017)

All loan providers are required to report to the Credit Registry on all loan applications and loans approved to their clients, in accordance with the terms of the relevant guidance issued by the Central Bank.

Loan providers shall provide to the Credit Registry accurate, complete and in time information.

Lending institutions should include a clause of consent in their loan application forms and loan contracts and they should receive the written or electronic signature of clients, authorizing the submission of their credit information to the Credit Registry.

During 2016, lending institutions reported 214,949 new loans in the credit registry system including loans, credit cards, overdrafts, credit lines, guarantees, leasing, factoring and other credit assets (figure 98).

The ratio of the number of new loans for 2013, 2014, 2015 and 2016 is shown in figure 98.

Loans reported by member institutions in the CRK system are classified according to the Regulation on Credit Risk Management.

Furthermore, based on the Guideline for Credit Registry, lending institutions must update the status of any active loan on a monthly basis according to the state on the last calendar day of each month.

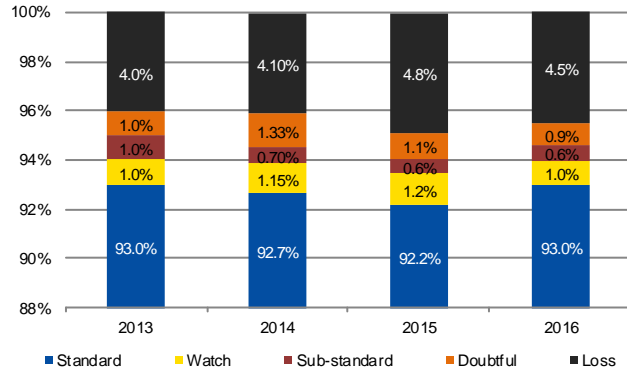
In figures 99 and 100 are presented credit exposures based on classifications reported in CRK system for years 2013, 2014, 2015 and 2016.

The subject of the data in the CRK system is any natural or legal person who undertakes a credit obligation. Credit obligation means any loan, credit card, guarantee, leasing or other credit-related product.

Data subjects other than their role as borrowers may also appear in other roles as a co-borrower, guarantor, or as a shareholder and director of the legal entity to whom the credit obligation is issued.

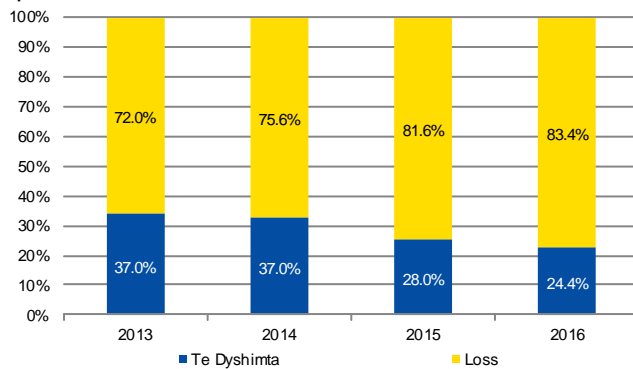
The data subjects, based on the Regulation on Credit Registry and the Law for Protection of Personal Data, in order to control their own information, have the right to be provided with their

Figure 99. Structure of loans by classification



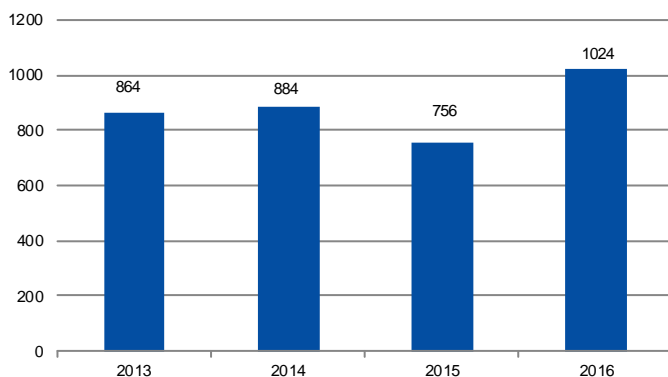
Source: CBK (2017)

Figure 100. Structure of nonperforming loans, in percent



Source: CBK (2017)

Figure 101. Number of requests for credit reports



Source: CBK (2017)

individual credit report. This is provided by any bank or even directly in the Central Bank of Kosovo.

For natural persons, the generation of individual credit report once a year is free of charge, while for legal entities and natural persons who have applied more than once within a year, payments in the amount of 3 Euros are applied in accordance with CBK tariffs.

Figure 101 presents the number of requests for individual report of borrowers (natural/legal) for 2013, 2014, 2015 and 2016.

In 2016, just like in the previous years, the Credit Registry has contributed directly to the data collected by the World Bank for the purpose of the Doing Business 2017 report (DB 2017) (table 19).

Table 19. Ranking in “Doing Business Report 2017”

Country	Ranking
Montenegro	7
Macedonia	16
Republic of Kosovo	20
Albania	44
Bosnia and Herzegovina	44
Serbia	44
Croatia	75
Slovenia	133

Source: CBK (2017)

According to the ‘Doing Business’ report published by the World Bank, the area which belongs to the Credit Registry, “getting credit” is evaluated to be in the 20th position.

With this assessment, the “getting credit” indicator is evaluated to be the second best indicator of DB 2017 report for the Republic of Kosovo. Compared to region countries, the “getting credit” indicator for Kosovo is evaluated to be in the third position.

5.6. Activities in the field of Economic Analysis and Financial Stability

In order to achieve its objectives, the CBK has continued to pay a special attention to the analyses of general economic developments in the country and analyses related to the assessment of financial stability and the activity of the country's financial system. Much of these analyses are published on a periodic basis within CBK publications, thereby serving as an important source of information for policy making authorities, the business sector (including the financial industry itself), and the general public.

One of the most important periodic publications is the Financial Stability Report, which started to be published twice a year since 2014. Financial Stability Report reflects stability of the financial system by analysing general economic developments along with other activity developments, performance and stability of all components of financial system in country.

To provide the public with a faster access on information about developments in the country's economy, the CBK has continued to publish on a regular basis the Quarterly Economic Assessment. Moreover, CBK continues to publish Monthly Financial Sector Information Report, which presents a summary of key indicators for all components of Kosovo financial system and which is published every month.

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

In 2016, the Map of Financial Stability was published for the first time, a study paper developing the model of Kosovo Financial Stability Map as an additional analytical tool for monitoring and assessing financial stability. The Map of Financial Stability for Kosovo aims to graphically and easily present the main sources of external and internal risks to the banking sector and financial stability in Kosovo.

In 2016, DAESF as a member of the Macroprudential Advisory Committee, started to report on a regular quarterly basis, on key developments of the country's economy, key financial sector indicators, market conditions and systemic risks.

During 2016, aiming to help the risk-based supervision of banking institutions, specific analyses were compiled reflecting macroeconomic developments and those related to financial stability, as well as potential macroeconomic risks which could endanger the financial stability in the country. During this year, the frequency of compiling the internal analyses on the financial system was also increased, especially the compilation of banking sector analyses, such as the analysis of banking risks, the performance of non-performing loans. In the same period was done the advancement of the methodology for identifying systemically important banks, whereas a lot of work has been carried out in advancing the methodology for compiling the stress test model.

The Macroprudential Framework

During 2016, the CBK has adopted the Macroprudential Framework, which was prepared with the technical assistance support from the US Treasury and the International Monetary Fund. The Macroprudential Framework includes the Policy, Instruments and Indicators of Macroprudence for Financial Stability Assessment and Monitoring at System level. Also, the CBK has established the Macroprudential Advisory Committee as a mandated functional body to regularly review the stability of the financial system by monitoring systemic risks, ties, interdependencies, trends and their impact on the functioning of the financial system as a whole.

During the reporting period, the MPAC has compiled the Macroprudential Supervision Policy, a document approved by the CBK Executive Board, which defines the scope, objectives and instruments required for Macroprudential Supervision in order to maintain financial stability.

The main objective of this Policy is to help maintain the financial system stability by reducing the accumulation of systemic risk and by strengthening the financial system's resistance. While the intermediate objectives of this policy are reducing and preventing excessive credit and leverage growth, reducing and preventing excessive discrepancy and maturity, reducing and preventing non-liquidity, limiting the concentration of credit exposures, limiting the systemic impact of incentives that aim at reducing moral hazard and strengthening the sustainability of financial infrastructure.

Instruments as an integral part of the Macroprudential Supervision Policy are designed to ensure the achievement of the abovementioned objectives. These instruments have a preventive character towards reducing the opportunities for the occurrence and expansion of an unstable financial situation. The range of Macroprudential Supervision Policy instruments includes regulatory requirements for risk-weighted capital adequacy, requirements for maintaining and securing necessary liquid funds, credit concentration limitations to natural persons, related

parties and corporations, credit limitations in relation to solvency and other limitations in function of preventing and avoiding systemic risk increases. In a proactive approach, the MPAC in regular meetings reviewed the appropriateness of using these instruments together with other preventive measures.

MPAC has held regular periodic meetings in accordance with the terms of engagement, with core and extended membership, examining the current state and trends of developments in the financial system. The findings, assessments and recommendations relevant to the situation and developments in the financial system have been sent to the CBK Executive Board for informed and timely decision-making.

5.7. Main activities in the field of statistics during 2016

During 2016, CBK has made significant progress in harmonizing statistics in line with European Union (EU) requirements and commencing regular reporting of data on Eurostat - a project in which CBK has been working for the last three years. Also, CBK has improved its statistical system by fully implementing the new software for newly developed statistics. Moreover, CBK has expanded the range of statistics with new publications; has increased the coverage with source data; has further improved the quality of assessments based on new collected data; and has made important initial steps to create a framework for compiling statistics of financial accounts.

CBK has continued its efforts to make the full harmonization of external sector statistics (ESS) with Eurostat requirements, which are implemented by EU member states. During 2016, the implementation of the coding system in databases, recommended by Eurostat for the balance of payments, international investment position, direct investments and statistics on international trade in services has been implemented. The prepared data are converted to the data transmission system "Statistical Data and Metadata eXchange (SDMX)" recommended by Eurostat. Further, the CBK is registered on the DAMIS web platform, adding Kosovo as the newest country on the list of member and candidate states for membership in the EU, that report to Eurostat. With this, all the preconditions for starting to report in Eurostat have been completed. In September 2016, Kosovo ESSs were fully compiled in accordance with the EU *acquis* for the first time and regular reporting began in Eurostat. By the end of 2016, all the statistics for previous years have been sent, the publication of which is expected to be done for the first time for Kosovo in early 2017. From 2017 onwards, the CBK will make regular ESS forwarding to Eurostat for further publication (just like all EU countries), thus making a very important step in developing the Kosovo statistics system. Kosovo will benefit from the publication of data in Eurostat and this participation will lead to a more accurate and reliable production and distribution of statistics.

In an effort to expand coverage with new information, the CBK Board has approved the regulation for reporting of all insurers in Kosovo. The regulation entered into force on 1 July 2016. Subsequently, the Department of Statistics has started collecting data on financial statements directly from insurance companies. The new reporting forms are implemented in the new software. Extension of coverage with new source data has continued with the inclusion in reporting of some new companies, mainly non-financial corporations with foreign ownership. Data from these corporations are needed to compile direct investment statistics in Kosovo and external debt statistics.

The Department of Statistics is committed to the continuous increase of the statistical data quality. In this regard, CBK conducted a survey in August 2016 with non-residents that visited Kosovo during summer to assess their expenditures during their stay in Kosovo. The new data provided by this survey have shown that the model for estimating non-resident spending within

the balance of payments needs to be corrected. Based on the results of this survey, balance of payments statistics have been revised at the end of 2016, including the time series for the last five years to adapt them to the new assessment methodology.

CBK has made a significant progress in preparing new tables for publication. New data on interest rates and the value of new loans for micro-financial institutions have been published; Data on the balance sheet of insurance companies (monthly frequency); as well as data on interest rates, and emitted values, for Kosovo government securities.

CBK has advanced the data collection and processing system; new software developed in 2015 has started to be fully implemented in 2016. With the help of the new statistical software, all financial sector data is collected through an online platform, which enables the reporters to directly upload reports into the system and validate the data in advance. The new method of sending data is a safer and more effective way compared to the one of previous years when reporting was done via e-mail. The new software provides greater opportunities for data processing, generating reports, and is also used by more departments within the CBK. The latter increases the ability to improve the efficiency and consistency of data within the CBK. In addition, all reports of previous year have been migrated to this platform, enabling the CBK staff to conduct analyses with longer time series. The advancement of this process is expected to be accompanied by the shortening of the publication deadlines for statistics that are in the CBK domain.

Cooperation with international organizations, central banks in the region and relevant local institutions in the field of statistics continued throughout 2016. Regular periodic data were sent to the IMF, the World Bank, Eurostat, and the European Central Bank (ECB) for publication purposes. CBK participated in regular meetings at the *Committee on Monetary, Financial and Balance of Payments Statistics* organized by Eurostat and the European Central Bank. CBK has made a visit to the Central Bank of Slovenia to increase co-operation and benefit from their experience in the field of statistics. CBK is a member of the Statistical Council of Kosovo and is the country's coordinator for the IMF's General Data Distribution System.

5.8. Review of financial institutions requirements

During 2016, the Review Division received requests for review by financial institutions supervised by the CBK, a review of the regulation was conducted and other work was carried out at the request of the CBK management.

Of the institutions supervised by CBK, requests have been received from:

- Banka Kombëtare Tregtare (National Commercial Bank) - BKT,
- Insurance Company “Kosova e Re”
- “Raiffeisen Bank Kosovo” J.S.C (RBKO)
- RISK" L.L.C Insurance Broker Company
- Non-banking Financial Institution "LESNA" JSC.
- IC “SIGKOS”

All requests were reviewed by content and nature, analyzed with special and professional care (meetings were held with the parties) and respective recommendations were prepared, which were then sent to the CBK Executive Board for decision-making.

6. Internal Developments

6.1. Internal Audit

The Internal Auditor (hereafter IA) in institutional practices is an independent body within the organization, but is considered one of the key links in the internal controls established by the Organization and, together with the external audit, completes the chain of accountability within it.

The CBK legal framework has provided full mandate to the IA to conduct audit engagements and to provide recommendations for the best economic, efficient and effective management of the institution's budget and assets. At the same time, this framework makes the IA responsible for performing the duties professionally and reporting on the commitments undertaken and the performance shown.

Internal Audit during 2016 has been focused and has carried out audits in the fields of: Finance, Compliance, Operational and Information Technology. Audits were engagements that were set based on prior risk analysis and which are foreseen in the Annual Audit Plan and approved by the Board of the CBK.

The Office of the Chief Internal Auditor of CBK has performed regular audits according to the Annual Plan 2016, approved by the CBK Board, but during this year it has developed other supporting activities related to the audit function. IA's scope has been oriented towards improving and advancing systems and processes that help the Management and that will affect the further enhancement of corporate governance.

In accordance with the CBK Law and the Internal Audit Statute, the Chief IA has reported regularly in quarterly and annual periods during 2016 at the Audit Committee and the CBK Board regarding the findings of the auditor, recommendations and actions taken to address them. Reports have been discussed in advance in the Audit Committee and the CBK Board and then the issues for further handling have been addressed to the Executive Management. Through them, the IA has also reported regarding the fulfilment level of the recommendations given in the previous periods.

In the previous three years, IA has been involved in four external assessments, such as by: World Bank; European Central Bank; IMF - Safeguard Assessment and recently by the USAID in 2015. These assessments have recommended the improvement and advancement of processes so that the quality of audit work is always in line with international standards and professional audit practice. Currently, most of the recommendations given are met. This has contributed to the advancement of the quality of work and the overall performance of the IA function.

In September 2015, the technical assistance project for the IA function, provided by the Bank of Slovenia, was started. The activities foreseen by the respective Action Plan for the realization of this project have been met. In addition to other activities, two audit engagements were carried out to assist the staff of this bank in order to exchange experiences and best practices.

IA, has prepared the Audit Universe for the three-year period 2017-2019. On the basis of this Universe, the IA's Annual Work Plan for 2017 has been prepared. The plan prepared by IA after being reviewed and discussed with the Audit Committee in December 2016 was approved by the CBK Board.

Within the analyses for identifying and assessing audit risks so as to design in the most qualitative manner audit engagements, IA has preliminarily conducted consultations with the Management to receive important process information from them.

During 2016, IA has continued to carry out auditing activities set out in the Annual Work Plan 2015/2016. In addition to the planned audits, on the basis of requirements under the agreement between the Government of Kosovo, the CBK and the International Monetary Fund, two independent audits of the reconciliation of government accounts were conducted on a six-month basis. Reports were sent to the IMF through the resident representative, at the time specified in the Agreement.

In providing information on the implementation of the Information Management System, IA has designed and prepared relevant documents that describe the internal audit processes that IA uses, from the initial stage to the archiving.

Also, the IA has continued professional staff development. During 2016, two (2) auditors were certified in the "National Training Program for Internal Auditors in the Public Sector" to comply with the Professional Standards for Internal Auditing and Best Practices. The Head of the IA in 2016, in addition to the previous professional certification, has also been certified in the CIPFA International Program in Finance and Auditing in the Public Sector.

6.2. Human resources

At the end of 2016, the number of employees in the CBK was 217, with average age: 40.46 years.

Out of the total number of employees, 109 or 50.45% are female and 108 or 49.55% are male.

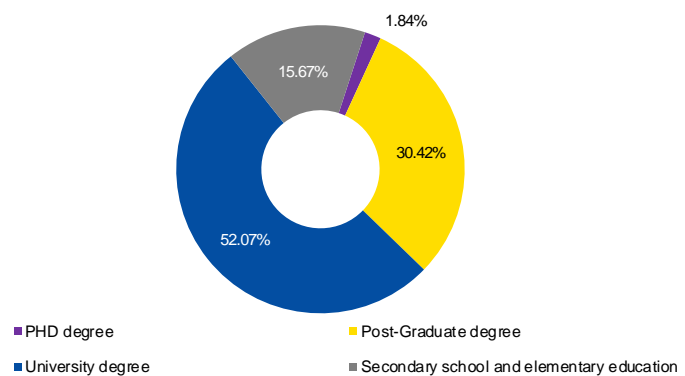
In the general structure of education: 1.84% have doctoral degrees, 30.42% with postgraduate education, 52.07% with university education, 14.29% with secondary education and 1.38% with basic education.

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

Out of the total number employees, 115 or 52% of them participated in vocational training mainly organized by the IMF, JVI, Deutsche Bundesbank, the Bank of Netherlands, the Bank of Poland, the Kosovo Banking Association and the "Center of Excellence in Finance - CEF".

Also, CBK continuously provides opportunities for students from universities/colleges both from the country and from abroad for internship in order to provide them the unique opportunity to gain practical experience in various fields of the functions and operations of the CBK. In 2016 a total of 15 students attended the internship program at the CBK. 10 of them, organized/trained by representatives of the statistical department during July and August conducted the task of field surveyors in collecting information at three Kosovo border points regarding the level and structure of emigrants' expenditures during their stay in Kosovo.

Figure 102. Structure of employees by education



Source: CBK (2017)

6.3. CBK legal activity

The legal activity of the Central Bank of the Republic of Kosovo during 2016 was focused on the implementation, harmonization and advancement of the legal infrastructure of the financial sector in accordance with the legislation in force, the European Union legislation and the best international standards and practices.

In order to fulfil the respective objectives and tasks, in accordance with the competences and responsibilities established by law, the CBK's decision-making bodies have adopted a number of sub-legal acts which, prior to their approval, have been legally confirmed and reviewed. In this regard, significant achievements have been noted in terms of strengthening the regulatory framework for supervision and regulation of banks, microfinance institutions and non-bank financial institutions, for payment systems, pension funds, supplementing in this regard the legal and regulatory framework for the purpose of harmonization with the new and existing legislation.

Also, the legal activity has continued with the conclusion of cooperation agreements with local and foreign institutions with a view to performing more efficiently the tasks related to issues within the areas of mutual competencies of respective institutions.

In general, all legal activity during this year has been oriented towards the further development of legal infrastructure that has enabled the continuation of safe and effective functioning of the financial sector in Kosovo. In order to guarantee financial stability as CBK's primary objective and safe and effective functioning of the financial sector in Kosovo, CBK will focus on the continuation of revising and advancing the legislation in line with the latest developments in the financial sector.

6.4. Information Technology

During 2016, the Central Bank of Kosovo has relocated the Business Continuity Center to another location. The Business Continuity Center is built with the latest technology standards. At the same time, there has been the advancement of devices and configurations, which have made it possible that in case of need, this center is activated for a short time and without any loss of data.

6.5. Risk Management Function

Operational Risk Management and avoidance of potential losses from operational activities has been the main focus of the Risk Management activities. In this area is continued with the increase of awareness and providing guidance to process carriers for the reporting framework and operational risk recognition parameters.

Special attention has been paid to the adequacy of key risk indicators development and reporting on emergency risks. The evaluation of the adequacy of risk management has been weighed against the strategic objectives of the work units set out in the strategic plan of the CBK and the operational responsibilities of each working unit.

Other significant activities in the reporting period were the enrichment of the regulatory framework and the development of knowledge, measurement and risk monitoring models. In this context, operational reporting and measurement forms are in place, including reporting potential incidents and losses.

Concerning the access, the Risk Management function has coordinated control and evaluation activities with the other protection lines, in particular co-ordination with Internal Audit, whereas

the Audit Committee was provided with required information and assessments in regular quarterly meetings.

The perspective of the Risk Management function is oriented towards building a communication platform of a strong Risk Management culture, built on ethical practices and integrity in all work.

7. External relations and international cooperation

7.1. International cooperation

The Central Bank of the Republic of Kosovo (CBK) in compliance with its responsibilities continued to develop functional relations and cooperation with the main financial international institutions such as: International Monetary Fund (IMF) and World Bank (WB). Always in the spirit of cooperation with international institutions and mechanisms, CBK had special communications and interactions with the European Central Bank, the counterpart institutions in the region and other institutions with which it has bilateral agreements. In the area of CBK agreements with international financial institutions and financial authorities, we can emphasize the signing of the agreement between the central banks / supervisory authorities of the Western Balkans on the one hand with the European Banking Authority (UAE) and the Central Bank of the Republic of Kosovo on the other, as well as the signing of the Cooperation Agreement with the Austrian Financial Market Authority (FMA) regarding the supervision of insurance, with the aim of protecting the interests of policyholders and promoting the scope of cooperation between the two institutions in the area of supervision and information exchange.

In 2016, the CBK has actively participated in continuous cooperation with IMF through bilateral programs for technical assistance, where besides the CBK, other institutions of the country are part of these programs. In the area of World Bank's (WB) continued Assistance, the CBK has carried out activities and continued implementation of projects supported by WB assistance, such as the Business Continuity Centre in Prizren. Moreover, in the field of cooperation and participation in international activities and roundtables, Governor Hamza has represented CBK at the annual IMF and WB meetings in Washington. Meanwhile, in the course of the commitment to further advance CBK's functions in adopting standards and practices of central banks in European Union countries, Governor Bedri Hamza has conducted a working visit to the Bank of Italy. On this occasion, he met with the Governor of the Bank of Italy, Ignazio Visco. Governor Ignazio Visco has offered the support and readiness of the Bank of Italy to provide technical support to CBK in developing its capacities and aligning with European standards. In the same spirit of cooperation, Mr. Bedri Hamza, Governor of the Central Bank of the Republic of Kosovo with his associates hosted a meeting in Prishtina with Mr. Milojica Dakić, the Governor of the Bank of Montenegro. Also, in the course of cooperation with counterpart institutions, the Governor of the Central Bank of the Republic of Kosovo, Bedri Hamza, hosted a meeting with Mr. Gent Sejko, the Governor of the Bank of Albania. Both interlocutors on this occasion have highly appreciated the cooperation between the two institutions, where CBK through the Governor Sejko from the Bank of Albania has been offered the deepening of cooperation in different areas, corresponding with the developments aligned with the most contemporary practices. Also, Governor Hamza has shown the readiness of the CBK, to provide its assistance to the various areas always conforming to the spirit of excellent cooperation, which the BoA regards as important in gaining experience. Governor Hamza has hosted in a meeting at the Central Bank of the Republic of Kosovo, the Executive Director of the Alliance for Financial Inclusion, Mr. Alfred Hanning.

Furthermore, in the field of cooperation with international financial institutions, a delegation from the Deutsche Bundesbank stayed for a working visit to the Central Bank of Kosovo to discuss the best stockholding practices between the Republic of Kosovo and the Federal Republic of Germany. This delegation was hosted by the Governor of the Central Bank of Kosovo, Bedri Hamza and his associates.

Bank of Albania, in co-operation with the South East European Studies Centre of the University of Oxford, has organized its annual conference on "Aligning monetary policy with financial

stability – their objectives, responses and interaction in times of uncertainty". Participants at the conference were the regional Central Bank Governors, representatives and members of leading boards and senior representatives of central banks, representatives of the diplomatic corps accredited in Tirana, representatives of international financial institutions such as the International Monetary Fund and the World Bank. Governor Hamza participated in the capacity of panelist, and the representatives of the CBK Board were the other CBK participants in this conference.

The Governor of the Central Bank of the Republic of Kosovo, Bedri Hamza, accompanied by Deputy Governor for Banking Operations, Lulzim Ismajli hosted a delegation of the Central Bank and the Ministry of Finance, Economic Planning and Development of Uganda, as well as the Non Residential Counsellor from the US Treasury Department, Ms. Ellyn Greenwald.

The purpose of the visit was to make the Ugandan delegation closely acquainted with the functioning of the government securities market and the government auctioning through the electronic CSD platform. CBK has shifted from being recipients of practices and experiences to information exchange providers by providing best practices for developed systems and platforms.

Within the frame of the commitment to further development of the area of banking supervision, Governor Bedri Hamza has conducted a working visit to the headquarters of the European Banking Authority (EBA) in London. The EBA is a specialized European Union (EU) agency established to achieve better integrated approach to banking supervision throughout the EU. Its overall objectives are to maintain financial stability and to safeguard the integrity, efficiency and orderly functioning of the banking sector. During the visit, Governor Bedri Hamza met with the head of EBA, Andrea Enria, and other senior officials of this authority. At the meeting held, Governor Hamza informed the hosts on CBK's strategic orientations regarding the advancement of overall financial supervision and in particular on banking supervision. He stressed out the efforts being made to achieve alignment of banking standards and practice of banking supervision in Kosovo, adapting as much as possible with those in EU countries. In respect of the current process of reaching agreement on co-operation and information exchange between EBA and CBK, Governor Hamza emphasised the importance of this process for the CBK and thanked EBA for its commitment to date. Also in view of intensifying CBK's operational and international affirmation, CBK Governor, Bedri Hamza, had a working visit to the Bank for International Settlements (BIS) headquarters in Basel, Switzerland. BIS as the oldest international financial institution serves as a bank for central banks, and promotes monetary and financial cooperation through its permanent committees. In the wake of regional co-operation, the Governor participated in the renowned Regional Summit in which the governors and finance ministers of regional countries participate and conduct works, in Beçiq, Montenegro. The topic of the 2016 Session was "Regional Financial Stability in Changing Global Situations", where Governor Hamza was part of this panel. During 2016, visits and meetings were held by senior CBK officials in important financial institutions such as the BAF of Germany where a delegation of CBK, represented by the Deputy Governor for Financial Supervision together with representatives of GIZ Germany, in Frankfurt, Germany, held separate meetings with representatives of the Federal Financial Supervisory Authority FFSA, respectively with Dr. Johannes Engels, Banking Supervisor for International Cooperation and representative of Deutsche Bundesbank Dr. Martin Pontzen, Director of the Centre for Technical Cooperation of the Central Bank. The CBK was also represented in the proceedings of the Panel held in Vienna on the occasion of the World Bank's "Risks and Returns: (effects): Managing Financial Compromises for Inclusive Growth in Europe and Central Asia", On this occasion a contribution to this panel was also provided by the Deputy Financial Supervisory Vice-Governor at the CBK.

Kosovo for the first time organizes annual meetings of the Constituencies of the WB and IMF.

In Pristina are held annual World Bank -International Monetary Fund constituency meetings. Following Kosovo's membership in the International Monetary Fund and in the World Bank in 2009 as a member with full rights, for the first time in Pristina were held proceedings of annual IMF and World Bank constituency meetings. The International Monetary Fund and World Bank Constituency proceedings are annual meetings where the general global economic developments, regional challenges and internal issues of the Constituencies are discussed. During these World Bank and International Monetary Fund Constituency proceedings in Prishtina, hosted by Central Bank of Kosovo Bedri Hamza, and Minister of Finance Avdullah Hoti and other senior officials of public institutions of the Republic of Kosovo, delegations of the World Bank and International Monetary Fund led by the Vice President for Europe and Central Asia in World Bank Cyril Muller, Executive Director of the World Bank Franciskus August Godts, Deputy Managing Director of the International Monetary Fund Mitsuhiro Furusawa, Executive director of the International Monetary Fund Ibrahim Halil Canakci, and representatives of the International Finance Corporation (IFC). Participating countries in the World Bank and International Monetary Fund Constituency, which participated in these annual meetings, are: Austria, Turkey, Slovenia, Czech Republic, Hungary, Slovakia, Belarus, Luxembourg and Belgium. Organization of the International Monetary Fund and World Bank Constituency meeting in Pristina is a clear indicator of the constructive role and strong partnership that Kosovo has with the International Monetary Fund, the World Bank, and these nine countries. But, it is also evidence that Kosovo institutions are increasingly strengthening economic and political relations with international financial organizations and member states of the IMF and World Bank.

Another important event held in the CBK was the first regional conference titled "**Initiative on Implementation of Basel Framework Pillar II: ICAAP / SREP Introduction and Practical Examples**" organized by the Central Bank of the Republic of Kosovo in cooperation with the German Organization for International Cooperation (GIZ) on behalf of the German Federal Ministry for Economic Cooperation and Development - office in Pristina. This conference was held in the framework of the CBK project for implementation of the Basel- Banking Supervision, supported by GIZ. These Standards are prepared by the Basel Committee on Banking Supervision within the Bank for International Settlements with Headquarters in Basel, Switzerland, which aims to create unified international standards for bank supervision.

The greatest importance of this conference is the fact that it has gathered representatives and prominent professionals of internationally recognized institutions, including diplomatic representatives as well as economy experts of the German Embassy and the Embassy of the United States of America. During the three working days presented their papers as lecturers the representatives of the European Central Bank (ECB), the Deutsche Bundesbank, the German Financial Sector Supervisory and Financial Regulatory Authority - Bafin and the Bank of Slovenia.

7.2. Financial education

In line with the CBK's primary objective of maintaining and ensuring financial stability, and in order to contribute to consumer protection, DER continues to carry out various activities and events that affect the general public by increasing financial knowledge and information.

During 2016, DER has carried out numerous activities with the purpose of promoting and increasing financial knowledge in the country, targeting different public groups through relevant activities.

For the third consecutive year DER organized and held the 2016 International Monetary Week - during which were carried out:

- Activities with Primary School pupils in Prizren, where the International Money Week 2016 was officially launched, by Deputy Governor Mr. Lulzim Ismajli.
- Quiz with pupils of the Secondary School of Economics in Mitrovica where the Governor participated.
- Lecture with students at the University of Prishtina "The Auction of Securities".

In order to disseminate information and increase the knowledge about financial education, in cooperation with the US Embassy, the project "Financial Education for Smart Decisions" was implemented, attended by students of 10 high schools of Prishtina. The activity was carried out into two parts.

- The first part included preparing and presenting the material and informing pupils with the educational brochure for pupils.
- Second Part: On 31st October 2016, the World Savings Day, the CBK marked this day by holding a quiz on financial literacy with pupils of Prishtina schools.

Involvement of other local institutions in the area of financial education remains the goal of DER and in order to contribute to this aspect, we organized a two-day workshop attended by about 50 participants from all financial institutions in Kosovo, including ministries, NGOs, associations, donors and officials of all departments of CBK, etc. The conference included comprehensive topics in the field of financial education, topics not covered previously but of particular importance, and this was also confirmed by the participants' interactivity and their assessment of the event.

In the meantime, lectures and study visits were conducted by primary and secondary school pupils as well as university students. We can highlight the visit of students of the International Summer Academy in the area of finance, banks and insurance, of UBT College where students were hosted by the Governor of CBK, and two lectures were held by the managers of the banking supervision department and the supervisory department of Insurance for students participating in this Summer Academy. Also CBK was visited by the pupils of the Secondary School "Hasan Prishtina" from Mitrovica.

CBK has continued awarding prizes for Young Economists and for the first time has awarded prizes for journalists for the best stories in the journalism field.

In order for the customer to obtain all information on consumer products and services, the DER is currently finalizing the electronic financial education platform, as part of the CBK web site, where consumers can access information on products and financial services from their homes.

In order to expand the financial education program and the greater involvement of financial institutions in a common financial education platform, DER in cooperation with EFSE is finalizing the Business Plan for the establishment of the Curriculum / Centre for Financial Education.

7.3. Technical Assistance

During 2016, CBK continued to benefit from technical assistance, provided by international financial institutions and various donors, with both existing projects as well as new initiatives. The assistance was mainly provided by the U.S. Treasury, the International Monetary Fund, World Bank, USAID, the German Development Fund and the European Central Bank.

These institutions supported the capacity building of CBK in the following fields: supervision of financial institutions, advancement of legal framework for risk-based supervision, modernization of the payment system, advancement of financial education and consumer protection, institutionalization of international practices and human capacities building for proper implementation of the legal framework.

During 2016, the implementation of the project “*Financial Sector Strengthening and Market Infrastructure*” has been completed, financed by the International Development Agency (IDA) loan. The project’s special focus is : (i) financing cost associated with the implementation of the CBK strategy, development of real time payment system, (ii) establishment of the Business Continuity Center for the CBK and (iii) Provision of initial capital funding for Deposit Insurance Fund of Kosovo (DIFK) in order to collect the reserve in the form of initial capital. The US Treasury continued to support the Central Bank with advisory expertise to advance the Framework for Corporate Governance, preparation of the Operational Framework for the institutionalization of the Macro prudence function, and other areas of development policy. CBK during 2016 has made significant progress in implementing risk-based Banking Supervision, and functioning of the Operational Framework for Supporting Emergent Liquidity, with assistance provided by the International Monetary Fund. The German Development Fund (GIZ) has continued to support the CBK in advancing and implementing the legal framework in compliance with requirements of Basel and international practices.

Furthermore, CBK continued to advance the practices for consumer protection and financial education as an essential element for building and maintaining an efficient competitive and fair financial sector. Therefore, in order to advance this function, CBK with the support of the European Fund for South-Eastern Europe (EFSE) has further advanced the financial education. The above-mentioned projects shall contribute to further enhance the effective and efficient cross-institutional cooperation.

CBK remains devoted and highly appreciates all the support provided by international financial institutions and various donors, and the advancements made during this period are true reflection of the proper utilization of this support.

8. CBK Financial Statements



Central Bank of the Republic of Kosovo
Independent Auditor's Report and Financial Statements
as at and for the year ended 31 December 2016

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INDEPENDENT AUDITOR'S REPORT

To the Management of Central Bank of Republic of Kosovo

Opinion

We have audited the financial statements of Central Bank of Republic of Kosovo ("the Bank"), which comprise the statement of financial position as at December 31, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and its cash flows for the year ended December 31, 2016 in accordance with International Financial Reporting Standards.

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 Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and 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 of 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank'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 Bank'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 Bank'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 Bank 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 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.

Deloitte Kosova Sh.p.k.

Deloitte Kosova Sh.p.k
Str. Lidhja e Pejës nr.177
Prishtina, Republic of Kosovo
Registration No. 80452632
18 may 2017


Banka Qendrore e Republikës së Kosovës

Pasqyra e të ardhurave gjithëpërfshirëse

Për vitin e mbyllur më 31 dhjetor të vitit 2014

<i>In thousands of EUR</i>	Note	2016	2015
Assets			
Cash on hand	7	154,800	15,282
Current accounts with non-resident banks	8	207,742	241,187
Treasury bills	9	572,375	127,319
Deposit accounts with non-resident banks	10	195,049	805,309
Assets related with IMF	11	275,561	268,277
Property and equipment	12	4,484	2,372
Intangible assets	13	2,271	1,552
Other assets	14	1,284	897
Total assets		1,413,566	1,462,195
Liabilities			
Due to domestic banks	15	296,399	316,406
Due to IMF related accounts	16	283,009	273,894
Due to governmental institutions	17	718,435	735,744
Due to public and commercial entities	18	58,867	82,649
Borrowings	19	2,133	680
Other domestic liabilities	20	2,040	1,799
Total liabilities		1,360,883	1,411,172
Capital and reserves			
Authorized capital	21	30,000	30,000
Reserve fund	21a	21,023	20,171
Revaluation reserve		-	164
Retained earnings		1,660	688
Total capital and reserves		52,683	51,023
Total liabilities, capital and reserves		1,413,566	1,462,195

These financial statements set out on pages 4 to 41 were approved by the management of CBK on 17. MAY. 2017 and signed on its behalf by:


Bedri Hamza
Governor


Faton Ahmetaj
Director of Financial, Planning and
Reporting

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

Central Bank of the Republic of Kosovo
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2016

<i>In thousands of EUR</i>	Note	2016	2015
Interest income			
Interest income		1,640	642
Interest expense		(362)	(48)
Net interest income	22	<u>1,278</u>	<u>594</u>
Fees and commission income			
Fee and commission income		1,962	1,442
Fee and commission expense		(294)	(376)
Net fee and commission income	23	<u>1,668</u>	<u>1,066</u>
Regulatory and other operating activities revenue			
Regulatory activity revenue	24	4,046	3,410
Grant revenue	25	80	77
Other operating income	26	517	1,139
Foreign exchange net gain / loss	29	(22)	(298)
Operating income		<u>7,567</u>	<u>5,988</u>
Operating expenses			
Personnel expenses	27	(3,991)	(3,625)
Depreciation and amortization	12,13	(713)	(561)
General and administrative expenses	28	(1,203)	(1,114)
Operating expenses		<u>(5,907)</u>	<u>(5,300)</u>
Profit for the year		<u>1,660</u>	<u>688</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>1,660</u>	<u>688</u>

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 2016

	Capital	Reserve fund	Revaluation fund	Retained Earnings	Total
<i>In thousands of EUR</i>					
Balance at 1 January 2016	30,000	20,171	164	688	51,023
Transfer to reserve fund	-	852	(164)	(688)	-
Total transactions required by law	-	852	(164)	(688)	-
Profit for the year	-	-	-	1,660	1,660
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,660	1,660
Balance at 31 December 2016	30,000	21,023	-	1,660	52,683
Balance at 1 January 2015	30,000	19,561	389	385	50,335
Transfer to reserve fund	-	610	(225)	(385)	-
Total transactions required by law	-	610	(225)	(385)	-
Profit for the year	-	-	-	688	688
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	688	688
Balance at 31 December 2015	30,000	20,171	164	688	51,023

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

Central Bank of the Republic of Kosovo

Statement of cash flows

For the year ended 31 December 2016

<i>In thousands of EUR</i>	Note	2016	2015
Cash flows from operating activities			
Profit for the year		1,660	688
<i>Adjustments for:</i>			
Depreciation	12	464	359
Amortization	13	249	202
Grant revenue	25	(80)	(77)
Gain on sale of equipment		-	-
Interest income	22	(1,640)	(642)
Interest expense	22	362	48
		1,015	578
Change in treasury bills		(438,693)	(3,493)
Change in deposit accounts with nonresident banks		610,027	(554,965)
Change in assets with IMF		(7,255)	(33,449)
Change in other assets		(387)	(11)
Change in due to domestic banks		(20,007)	474
Change in due to IMF related accounts		9,084	35,138
Change in due to governmental institutions		(17,309)	22,193
Change in due to public and commercial entities		(23,782)	32,041
Change in borrowings		1,453	647
Change in other domestic liabilities		171	(1,547)
		114,317	(502,394)
Interest received		1,787	197
Interest paid		(331)	(21)
Net cash generated from/used in operating activities		115,773	(502,218)
Cash flows from investing activities			
Proceeds from sale of equipment		-	-
Purchase of equipment	12	(2,576)	(775)
Purchase of intangible assets	13	(968)	(503)
Net cash used in investing activities		(3,544)	(1,278)
Cash flows from financing activities			
Proceeds from grants		149	243
Net cash generated from financing activities		149	243
Net increase / decrease in cash and cash equivalents		112,378	(503,253)
Effect of exchange rate		-	-
Cash and cash equivalents at 1 January		259,333	762,586
Cash and cash equivalents at 31 December	30	371,711	259,333

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 statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

1. Reporting entity

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

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

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

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

33 Garibaldi Street

Pristina, Kosovo.

Central Bank Board, Executive Board and Governor

The decision-making bodies of CBK are the Central Bank Board, the Executive Board, and the Governor. As per Article 79, paragraph 2 of the CBK Law, the Central Bank Board comprises of the Governor, the General Director of Treasury¹ and three non-executive members and is charged with the supervision of the implementation of the policies, and the supervision of the administration and the operations of CBK.

As at 31 December 2016, the Board of the Central Bank of Kosovo comprised of the following members:

- Bedri Peci Chairman
- Bedri Hamza – Governor
- Behxhet Brajshori – Member
- Nuhi Ahmeti – Member

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

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

¹ Once the condition of point 2 of Article 79 is met, the General Director of Treasury from August 2015 is no longer a member of the CBK Board. From this date, the Board of CBK shall comprise Guvenrator and 4 (four) non-executive members (please refer to paragraph 2 of Article 79 of the Law on CBK).

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

2. Basis of preparation (continued)

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

a) Foreign currency transactions

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

b) Interest

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

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

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

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

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

c) Fees and commission

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

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

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

d) Employee benefits

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

e) Taxation and profit allocation

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

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

f) Financial assets and liabilities

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

i. Recognition

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

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

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

ii. Derecognition

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

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

iii. Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, CBK has a legal right to set off the amounts and intends either to settle on a net basis or to 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 gains and losses arising from a group of similar transactions.

iv. 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, minus any reduction of impairment.

v. Fair value measurement

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

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

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

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

vi. *Identification and measurement of impairment*

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

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

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

g) Cash and cash equivalents

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

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

h) Investment securities

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

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

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

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

i) Property and equipment

i. Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, 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:

	2016	2015
Leasehold improvements	20 years	20 years
Equipment	5 years	5 years
Computers	3 years	3 years
Vehicles	5 years	5 years

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

j) Intangible assets

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

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 expensed 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 statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

k) 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 largely are 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.

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

l) Financial liabilities

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

m) Grant revenue

Government grants are recognized initially as deferred income when there is reasonable assurance that they will be received and that CBK will comply with the conditions associated with the grant. Grants that compensate CBK for expenses incurred are 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.

n) Donor financed 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.

o) Provisions

A provision is recognized if, as a result of a past event, CBK has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash 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, CBK recognizes any impairment loss on the assets associated with that contract.

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

i) Standards and Interpretations effective in the current period

The following new standard and amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting year:

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 “Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** -Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 27 “Separate Financial Statements”** - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),

Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank’s financial statements.

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

ii) Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following new standards, amendments to existing standards and new interpretations were in issue, but not yet effective:

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 “Revenue from Contracts with Customers”** and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 “Insurance Contracts”** - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Bank anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

4. Financial risk management

a) Introduction and overview

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

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

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

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

b) Credit risk

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

Management of Credit Risk

i. Investment and exposure of other banks

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

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

ii. Exposure to credit risk

The maximum exposure to credit risk as at 31 December 2015 and 31 December 2016 is presented by the carrying amount of its: current accounts with non-resident banks, treasury bills and money market placements with non-resident banks. For details on the exposures please see Notes 8, 9 and 10.

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

c) Liquidity risk

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

Management of liquidity risk

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

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

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

ii. Exposure to liquidity risk

Residual contractual maturities of financial liabilities, excluding future interest payments

31 December 2016	Note	Carrying amount	Less than 1 month	1-3 months	3 months to 1 year	1 year to 6 years
<i>Non-derivative liabilities</i>						
Due to domestic banks	15	296,399	296,399	-	-	-
Due to IMF related accounts	16	283,009	181,518.00	12,469	17,348	71,674
Due to governmental institutions	17	718,435	718,435	-	-	-
Due to public and commercial entities	18	58,867	58,867	-	-	-
Due to borrowings	19	2,133	2,133	-	-	-
Other domestic liabilities	20	756	756	-	-	-
		1,359,599	1,258,108	12,469	17,348	71,674
31 December 2015						
<i>Non-derivative liabilities</i>						
Due to domestic banks	15	316,406	316,406	-	-	-
Due to IMF related accounts	16	273,894	178,949	4,357	29,331	61,257
Due to governmental institutions	17	735,744	735,744	-	-	-
Due to public and commercial entities	18	82,649	82,649	-	-	-
Due to borrowings	19	680	680	-	-	-
Other domestic liabilities	20	756	756	-	-	-
		1,410,129	1,315,184	4,357	29,331	61,257

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

c) Liquidity risk (continued)

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

d) Market risks

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

i. Management of market risks

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

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

ii. Exposure to interest rate risk – non-trading portfolios

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

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

d) Market risks (continued)

Exposure to interest rate risk – non-trading portfolios

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-6 years
31 December 2016						
Current accounts with non-resident banks	8	207,742	207,742	-	-	-
Treasury bills	9	572,375	9,406	25,550	5,496	531,923
Deposit accounts with non-resident banks	10	195,049	-	-	195,049	-
Assets related with IMF	11	188,376	86,885	12,469	17,348	71,674
Total		1,163,542	304,033	38,019	217,893	603,597
Due to domestic banks	15	(296,399)	(296,399)	-	-	-
Due to IMF related accounts	16	(203,258)	(101,767)	(12,469)	(17,348)	(71,674)
Due to governmental institutions	17	(718,435)	(718,435)	-	-	-
Due to public and commercial entities	18	(58,867)	(58,867)	-	-	-
Due to borrowings	19	(2,133)	(2,133)	-	-	-
Due to other domestic liabilities	20	(756)	(756)	-	-	-
Total		(1,279,848)	(1,178,358)	(12,469)	(17,348)	(71,674)
Gap		(116,306)	(874,325)	25,550	200,545	531,923
31 December 2015						
Current accounts with non-resident banks	8	241,187	241,187	-	-	-
Treasury bills	9	127,319	3,109	53,773	8,187	62,249
Deposit accounts with non-resident banks	10	805,309	-	-	805,309	-
Assets related with IMF	11	211,318	125,619	4,889	19,554	61,257
Total		1,385,133	369,915	58,662	833,050	123,506
Due to domestic banks	15	(316,406)	(316,406)	-	-	-
Due to IMF related accounts	16	(216,666)	(130,966)	(4,889)	(19,554)	(61,257)
Due to governmental institutions	17	(735,744)	(735,744)	-	-	-
Due to public and commercial entities	18	(82,649)	(82,649)	-	-	-
Due to borrowings	19	(680)	(680)	-	-	-
Due to other domestic liabilities	20	(756)	(756)	-	-	-
Total		(1,352,901)	(1,267,202)	(4,889)	(19,554)	(61,257)
Gap		32,232	(897,288)	53,773	813,496	62,249

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

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

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

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

2016

	100 pb Increase	100 pb Decrease
Estimated profit (loss) effect	1,163	(1,163)

2015

	100 pb Increase	100 pb Decrease
Estimated profit (loss) effect	322	(322)

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

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

2016

	100 pb Increase	100 pb Decrease
Estimated profit (loss) effect	149	(149)

2015

	100 pb Increase	100 pb Decrease
Estimated profit (loss) effect	53	(53)

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

31 December 2016	EUR	SDR (EUR equivalent)	Total
Assets			
Cash on hand	154,800	-	154,800
Current accounts with non-resident banks	207,742	-	207,742
Treasury bills	572,375	-	572,375
Deposit accounts with non-resident banks	195,049	-	195,049
Assets related with IMF	113,960	161,601	275,561
Other assets	1,284	-	1,284
Total	1,245,210	161,601	1,406,811
Liabilities			
Due to domestic banks	296,399	-	296,399
Due to IMF related accounts	193,719	89,547	283,266
Due to governmental institutions	718,435	-	718,435
Due to public and commercial entities	58,867	-	58,867
Due to borrowings	2,133	-	2,133
Other domestic liabilities	2,040	-	2,040
Total	1,271,594	89,547	1,361,141
Net foreign currency position	(26,384)	72,054	45,670
<hr/>			
31 December 2015	EUR	SDR (EUR equivalent)	Total
Assets			
Cash on hand	15,282	-	15,282
Current accounts with non-resident banks	241,187	-	241,187
Treasury bills	127,319	-	127,319
Deposit accounts with non-resident banks	805,309	-	805,309
Assets related with IMF	127,823	140,454	268,277
Other assets	897	-	897
Total	1,317,817	140,454	1,458,271
Liabilities			
Due to domestic banks	316,406	-	316,406
Due to IMF related accounts	184,821	89,304	274,124
Due to governmental institutions	735,744	-	735,744
Due to public and commercial entities	82,649	-	82,649
Due to borrowings	680	-	680
Other domestic liabilities	1,799	-	1,799
Total	1,322,099	89,304	1,411,402
Net foreign currency position	(4,282)	51,150	46,869

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

CBK deals predominantly in EUR, while the foreign currencies CBK deals with are predominantly Special Drawing Rights (“SDRs”). The exchange rates used for translation at 31 December 2016 and 2015 were as follows:

	2016 EUR	2015 EUR
1 SDR	1.27534	1.27283

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

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with CBK’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of CBK’s operations and are faced by all of the organization’s units. CBK’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to CBK’s reputation with overall cost effectiveness.

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

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

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

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(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 gains and losses owing to its positions with SDR.

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

The earnings available for distributions shall be determined:

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

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

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

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

(g) Asset management

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

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

5. Use of estimates and judgments

Management discusses with the Central Bank Board the development, selection and disclosure of CBK's critical accounting policies and estimates, and the application of these policies and estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These disclosures supplement the commentary on financial risk management (see note 4).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy 3(f) (VI). The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes 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.

Critical accounting judgments in applying CBK's accounting policies

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

Financial asset and liability classification

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

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

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

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

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

<i>In thousands of EUR</i>	Note	Loans and receivables	Held-to-maturity	Other amortized cost	Total carrying amount	Fair value
31 December 2016						
Cash on hand	7	154,800	-	-	154,800	154,800
Current accounts with non-resident banks	8	207,742	-	-	207,742	207,742
Treasury bills	9	-	572,375	-	572,375	567,381
Deposit accounts with non-resident banks	10	-	195,049	-	195,049	195,049
Assets related with IMF	11	275,561	-	-	275,561	275,561
		638,103	767,424	-	1,405,527	1,400,533
Due to domestic banks	15	-	-	296,399	296,399	296,399
Due to IMF related accounts	16	-	-	283,009	283,009	283,009
Due to governmental institutions	17	-	-	718,435	718,435	718,435
Due to public and commercial entities	18	-	-	58,867	58,867	58,867
Due to borrowings	19	-	-	2,133	2,133	2,133
Other domestic liabilities	20	-	-	756	756	756
		-	-	1,359,599	1,359,599	1,359,599
31 December 2015						
Cash on hand	7	15,282	-	-	15,282	15,282
Current accounts with non-resident banks	8	241,187	-	-	241,187	241,187
Treasury bills	9	-	127,319	-	127,319	127,378
Deposit accounts with non-resident banks	10	-	805,309	-	805,309	805,309
Assets related with IMF	11	268,277	-	-	268,277	268,277
		524,746	932,628	-	1,457,374	1,457,433
Due to domestic banks	15	-	-	316,406	316,406	316,406
Due to IMF related accounts	16	-	-	273,894	273,894	273,894
Due to governmental institutions	17	-	-	735,744	735,744	735,744
Due to public and commercial entities	18	-	-	82,649	82,649	82,649
Due to borrowings	19	-	-	680	680	680
Other domestic liabilities	20	-	-	756	756	756
		-	-	1,410,129	1,410,129	1,410,129

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

7. Cash on hand

Cash on hand is all denominated in EUR.

8. Current accounts with non-resident banks

These accounts were held at the following banks:

	2016	2015
Deutsche Bundesbank	-	-
Raiffeisen Zentralbank	29,421	152,006
Deutsche Bank	97,408	79,161
Commerzbank AG	79,913	23
Pohjola Bank Plc	-	9,997
Bayerische Landesbank	1,000	-
Total	207,742	241,187

All current accounts of the above banks have credit ratings of A-2/P-2 as per 2016 rankings by Standard & Poor's/Moody's ratings. The decrease compared to the 2015 it's a normal flow of daily activities, and at the same time the decrease in current accounts is related with increase in notes 7 and 9 (cash on hand and securities)

9. Securities (treasury bills and government bonds)

Both categories are debt securities issued by governments of European Union countries. Treasury bills disclosed below have maturity up to one year. Government bonds have maturity up to two and a half year. All bills are denominated in EUR and have effective interest rates ranging from 0.008% to 1.716% p.a. in 2016 (2015: 0.016% to 2.696% p.a.).

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

As per state:

	2016	2015
Netherlands	50,248	50,490
Italy	368,853	49,996
Slovenia	23,542	-
Kosovo	129,732	26,833
Total	572,375	127,319

As per type:

	2016	2015
Treasury bills	40,452	64,514
Government bonds	531,923	62,805
Total	572,375	127,319

Credit rating for financial instruments that CBK has invested for the year ended December 31, 2016 was A-3/P-2, according to Standard& Poor's/Moody's. Increase compared to 2015 is affected from the transfer between categories i.e. Note 10 has decreased and balances in Note 7 and 9 have increased.

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

10. Deposit accounts with non-resident banks

Deposit accounts with nonresident banks are composed from:

	2016	2015
Term deposits		
Raiffeisen Zentralbank	195,000	200,000
ING Bank	-	185,000
Rabobank	-	90,023
Danske Bank	-	140,004
Deutsche Bank	-	160,000
Pohjola Bank Plc	-	30,000
	195,000	805,027
Interest accrued on term deposits		
Raiffeisen Zentralbank	49	131
ING Bank	-	31
Rabobank	-	21
Danske Bank	-	24
Deutsche Bank	-	73
Pohjola Bank Plc	-	2
	49	282
Total	195,049	805,309

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective interest rates ranging from 0.020% to 0.460% p.a. (2015: 0.010% to 0.260% p.a.) and have original maturities from 1 to 368 days (2015: from 3 to 367 days). All deposits have minimum credit ratings A-2/P-2, as per December 2016 ranking by Standard & Poors/Moody's ratings.

Comparing year ended 2015, there is a decrease in 2016 compared to 2015, which is affected from the normal activity of portfolio management, also described in Notes 8 and 9 related to the movements in the portfolio and due to the movements between the categories disclosed in Notes 7, 8, 9 and 10 for a better management of funds.

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

11. Assets related with IMF

	2016	2015
IMF quota	105,343	75,097
SDR Holdings	56,001	65,127
Accrued interest	257	230
IMF	161,601	140,454
Government		
Due from the Government for the use of IMF funds (SBA)	113,960	127,823
Total	275,561	268,277

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

IMF Quota represents a subscription amount determined at the time of admission of Kosovo into IMF and is expressed in SDR. The increase represents the increase of quota from 59 million DVT in 82.6 million (disclosed in Note 11 above in euro equivalent) and its amount is determined based on IMF rules and regulations.

SDR Holdings represents assets approved by the IMF Board of Governors as per allocations of SDRs to IMF's member countries (decisions made on 28 August 2009 and 9 September 2009). SDR holding assets bear annual average interest rates in 2016 ranging from 0.044% to 0.243% p.a. (2015: 0.044% to 0.050% 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 2015 through which the Government of Kosovo obtained from IMF a line for use of funds in accordance with Stand-by Arrangements, while the outstanding as of 31 December 2016 is SDR 89.4 million (EUR: 113.9 million). The interest rate of this arrangement is tied to IMF's market-related interest rate, known as basic rate of charge, which is itself linked to the SDRs interest rate. The interest rate for the period 2016 fluctuated in quarterly basis annually in average of 1.050% - 1.249%p.a., (on 2015 fluctuated from 1.044% - 1.050% 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 Stand-by Arrangement "on the Procedure for Request, Acceptance, Service and Repurchase of the Funds from the IMF in terms of the Stand -By Arrangement". Based on this arrangement CBK withdraws the SDRs from IMF, on behalf of the Government and credits them to the Government's account.

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

12. Property and equipment

Property and equipment is composed as follows:

	Leasehold improvements	Equipment	Computers	Vehicles	Assets in process of capitalization	Total
Cost						
At 1 January 2015	2,057	1,680	1,026	175	30	4,968
Acquisitions	7	124	372	145	127	775
Transfer from/to	-	-	-	-	-	-
Transfer from / to (adjustment)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 December 2015	2,064	1,804	1,398	320	157	5,743
At 1 January 2016	2,064	1,804	1,398	320	157	5,743
Acquisitions	356	202	546	-	1,472	2,576
Transfer from/to	-	-	122	-	(122)	-
Transfer from / to (adjustment)	-	-	-	-	-	-
Disposals	-	(2)	-	-	-	(2)
At 31 December 2016	2,420	2,004	2,066	320	1,507	8,317
Depreciation						
At 1 January 2015	574	1,384	879	175	-	3,012
Charge for the year	103	86	142	28	-	359
Transfer from / to (adjustment)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 December 2015	677	1,470	1,021	203	-	3,371
At 1 January 2016	677	1,470	1,021	203	-	3,371
Charge for the year	113	111	211	29	-	464
Transfer from / to (adjustment)	-	-	-	-	-	-
Disposals	-	(2)	-	-	-	(2)
At 31 December 2016	790	1,579	1,232	232	-	3,833
Carrying amounts						
At 1 January 2015	1,483	296	147	-	30	1,956
At 31 December 2015	1,387	334	377	117	157	2,372
At 31 December 2016	1,630	425	834	88	1,507	4,484

There are no assets pledged as collateral as at 31 December 2016 (31 December 2015: nil).

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

13. Intangible assets

Intangible assets are composed as follows:

	Software under development	Software	Total
Cost			
Balance at 1 January 2015	59	2,212	2,271
Acquisitions	424	79	503
Transfers from / to	-	-	-
Transfers from / to (adjustments)	-	-	-
Disposals	-	-	-
Balance at 31 December 2015	483	2,291	2,774
Balance at 1 January 2016	483	2,291	2,774
Acquisitions	-	968	968
Transfers from / to	(483)	483	-
Transfers from / to (adjustments)	-	-	-
Disposals	-	(25)	(25)
Balance at 31 December 2016	-	3,717	3,717
Amortization			
Balance at 1 January 2015	-	1,020	1,020
Amortization for the year	-	202	202
Disposals / write offs	-	-	-
Balance at 31 December 2015	-	1,222	1,222
Balance at 1 January 2016	-	1,222	1,222
Amortization for the year	-	249	249
Disposals / write offs	-	(25)	(25)
Balance at 31 December 2016	-	1,446	1,446
Carrying amounts			
Balance at 1 January 2015	59	1,192	1,251
Balance at 31 December 2015	483	1,069	1,552
Balance at 31 December 2016	-	2,271	2,271

14. Other assets

Other assets are composed as follows:

	2016	2015
Accrued fee income	1,059	808
Accounts receivables and prepayments	225	89
Total	1,284	897

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

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

15. Due to domestic banks

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

Due to domestic banks

	2016	2015
ProCredit Bank Kosovë	31,764	31,592
Raiffeisen Bank Kosovë	35,625	32,682
NLB Prishtina	4,306	15,955
Banka Ekonomike	7,404	6,754
Banka për Biznes	5,629	4,522
Banka Kombëtare Tregtare (dega në Prishtinë)	8,945	8,774
Banka Ekonomike Turke (TEB)	15,227	15,230
Komercijalna Banka – Dega në Mitrovicë	2,630	2,501
Turkiye is Bankasi a.s.	2,085	1,305
T.C. Ziraat Bankasi A.S. - Dega në Kosovë	190	63
Banka Kreditore e Prishtinës	-	-
Total required reserve	113,805	119,378
Additional amount above required reserve		
ProCredit Bank Kosovë	13,154	45,633
Raiffeisen Bank Kosovë	34,019	19,250
NLB Prishtina	37,553	23,254
Banka Ekonomike	29,463	10,818
Banka për Biznes	21,619	18,054
Banka Kombëtare Tregtare (dega në Prishtinë)	17,100	30,958
Banka Ekonomike Turke (TEB)	16,761	35,779
Komercijalna Banka – Dega në Mitrovicë	2,563	2,436
Turkiye is Bankasi a.s.	9,270	4,999
T.C. Ziraat Bankasi A.S. – Dega në Kosovë	916	5,788
Banka Kreditore e Prishtinës	176	59
Total addition on current account	182,594	197,028
Total amount on current account	296,399	316,406

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

16. Due to IMF related liabilities

	2016	2015
IMF Account no. 1	264	188
IMF Account no. 1	6	6
IMF Security Account	193,450	184,627
IMF SDR Allocation	70,613	70,475
Accrued interest	261	230
Total due to IMF	264,594	255,526
Due to Government		
IMF – Paid proportion of Government quota	18,415	18,368
Total due to Government	18,415	18,368
Total	283,009	273,894

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

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

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

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

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

SDR Allocations and Paid portion of quota are interest-bearing with annual interest rates for quarterly averages ranging from 0.050% - 0.243% p.a. for 2016 (2015: 0.044% - 0.050% p.a.).

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

17. Due to Governmental institutions

Due to Governmental institutions includes current accounts from the following:

Current accounts	2016	2015
Treasury – Ministry of Finance	257,393	248,780
Privatization Agency of Kosovo	460,961	486,819
Interim administration institutions	81	145
Total current accounts	718,435	735,744
Term deposits		
Treasury – Ministry of Finance	-	-
Privatization Agency of Kosovo	-	-
Total term deposits	-	-
Total	718,435	735,744

The effective annual interest rate for current accounts for the year ended 31 December 2016 is zero (for the year ended 31 December 2015: zero). For time deposits the effective interest rates for the year 2016 is not applicable. (2015: not applicable)

18. Due to public and commercial entities

	2016	2015
Current accounts		
Insurance companies	4,652	4,528
Other public institutions	54,213	78,119
Licensed Pension Funds	-	-
Other	2	2
Total	58,867	82,649

The effective interest for current accounts as at 31 December 2016 and 2015 is zero. The change in the group comes from the withdrawal of assets held in the current account of one public institution based on their operating goals in their own account in CBK.

19. Borrowings

	2016	2015
Borrowings	2,133	680
Total	2,133	680

The amount shown above is from borrowings from the World Bank. The Bank has used the opportunity of borrowing with favorable terms (the low interest rates and the repayment period of principal up to 10 years). The borrowing is related to the project for payments system within Kosovo in terms of their real time processing and for the project for the center of continuity of work.

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

20. Other domestic liabilities

	2016	2015
Safe custody accounts	756	756
Deferred grant income	691	622
Other deferred income	5	9
The reserve fund	162	168
Sundry creditors	426	244
	2,040	1,799

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

As of 31 December 2016 in the safe custody accounts is included the amount from EUR 756 thousand related to the current accounts of the Kosovo Insurance Company which was liquidated on April 2010. Only this account is safe custody account as of 31 December 2016 and on 31 December 2015 has the same balance.

The movement in deferred grant revenue was as follows:

	Ministry of Finance	World Bank	Total
Deferred grant revenue at 1 January 2015	435	21	456
Grants received during the year	10	233	243
Grants recognized as revenue for the year	(70)	(7)	(77)
Deferred grant revenue at 31 December 2015	375	247	622
Deferred grant revenue at 1 January 2016	375	247	622
Grants received during the year	11	138	149
Grants recognized as revenue for the year	(69)	(11)	(80)
Deferred grant revenue at 31 December 2016	317	374	691

21. Authorized capital

The CBK statutory fund as at 31 December 2016 and 2015 is EUR 30,000 thousand as per Law no. 03/L-209 approved on 22 July 2010.

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

21a. Reserve fund and revaluation reserve

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

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

22. Net interest income

Net interest income is composed as follows:

	2016	2015
Interest income		
From deposit accounts	655	528
From treasury bills	731	81
From current accounts	44	33
From negative rates in deposits	210	-
	1,640	642
Interest expense		
On current accounts from non-banking entities	57	37
On foreign correspondent banks	296	-
On current accounts from bank entities	0	8
On term deposits	9	3
	362	48
Net interest income	1,278	594

23. Net fees and commission income

Net fee and commission income is composed as follows:

	2016	2015
Fee income		
From cash deposits	471	438
From foreign incoming transfers	71	51
From foreign outgoing transfers	345	258
From the inter-bank clearing system	915	520
From the credit registry system	126	116
From management of treasury fund	-	25
Other fees	34	34
	1,962	1,442
Fee expenses		
For cash transportation	254	360
For correspondent bank transactions	40	16
	294	376
Net fee and commission income	1,668	1,066

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

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

24. Revenues from the regulatory activity

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

Revenues from regulatory activity:

	2016	2015
Fees charged from commercial banks	2,501	2,056
Fees charged to insurance companies	1,346	1,196
Fees from non-bank financial institutions	175	146
Pension renewal fees	24	12
Total	4,046	3,410

25. Grant revenue

Grant revenue is composed as follows:

	2016	2015
Treasury – Ministry of Finance	69	70
World Bank	11	7
Total	80	77

26. Other Income

Other income:

	2016	2015
Other income	517	1,139
Total	517	1,139

Within other income are included extraordinary income related to Note 26 and other income, which were not related with the ordinary activity of the Bank and any other balance disclosed in a separate Note.

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

27. Personnel expenses

Personnel expenses are composed as follows:

	2016	2015
Wages and salaries	3,132	2,812
Pension contributions	497	449
Health insurance costs	167	175
Staff training	77	63
Central Bank Board expenses	93	101
Other	25	25
Total	3,991	3,625

The number of employees at CBK as at 31 December 2016 is 222 (2015: 215). As it can be seen from the Note above personnel expenses have increased in 2016 compared to 2015 and this is affected from the increase in number of personnel and partially from the effect of work experience.

28. General and administrative expenses

General and administrative expenses are as follows:

	2016	2015
Insurance expenses	233	203
Repairs and maintenance	52	36
Software maintenance	267	286
Communication expense (telephone, telex and internet)	29	36
Utilities	86	91
Audit and consulting expense	11	17
Security and guard services	66	62
Travel and transportation	137	134
Vehicle operating expenses	32	29
Stores and stationery	7	6
Representation expenses*	119	37
Other representation expenses*	14	12
Cafeteria expenses	39	28
Computer and other consumables expense	13	12
Consumable expenses for equipment	9	8
Publication and literature expenses	14	24
Technical professional assistance and other external services	3	30
Membership in professional organizations**	39	27
Provisional expenses***	-	23
Other	33	13
Total	1,203	1,114

* Other Representation expenses are mainly representative lunches/dinners of the Bank.

Representation expenses include: *conferences during 2016, the financial education program, representation in regional sport competitions, picnic, children's gifts for the end of the year, ceremonies and gifts for retired staff, gifts for 8 march and suchlike. In 2016, the CBK was the organizer and host of sports events for regional Central Banks, in which sport events the CBK was only a guest in the previous years.*

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

*** Provisions for legal cases that are ongoing as at 31 December 2016.

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

29. Foreign exchange net income gain / loss

Foreign exchange net income loss is EUR 22 thousand for the year ended 31 December 2016 (2015: gain of 298 thousand) represents unrealized foreign exchange gains and losses in relation to foreign exchange differences resulting upon translation of SDR assets and liabilities on the CBK books.

30. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

	Note	2016	2015
Cash on hand	7	154,800	15,282
Current accounts with non-resident banks	8	207,742	241,187
Treasury bills with maturity up to three-months	9	9,169	2,864
Deposit accounts with non-resident banks with maturity up to three months	10	-	-
Total		371,711	259,333

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

Legal cases

There are several open legal cases against CBK as at the reporting date. 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 and for the year ending December 31, 2016; however due to professional care CBK has estimated and recorded a provision disclosed under other liabilities, even though during 2016 this provision has not increased compared to the prior year.

Credit related commitments

As at 31 December 2016, CBK had commitments to place deposits in total amount of EUR 20 million (31 December 2015, CBK had commitments to place deposits in total amount of 0/nil/ million EUR).

Other commitments

Other commitments are composed as follows:

	2016	2015
Service contract	139	79
Contract for renovation of building	1,037	2,041
Equipment contracts	30	61
Total	1,206	2,181

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2016

(in thousands of EUR, unless otherwise stated)

31. Commitments and contingencies (continued)

Other commitments (continued)

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

In June 2009, the Government of Kosovo issued promissory notes to make payments concerning membership subscription to the World Bank sub-agencies above mentioned upon their requests and payment instructions. The total balance at 31 December 2016 amounts 645 thousands and in 2015 total amounts of these promissory notes was EUR 645 thousand.

32. Related party transactions

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

	2016	2015
Compensation to Central Bank Board members	78	80
Compensation to Audit Committee	9	7
Compensation to Key Management Personnel	192	184
Total	279	271

33. Subsequent events

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

9. Statistical Appendix

1.1. Financial Corporation survey - assets

(In millions of EUR: End of period)

Description	Net foreign assets								Domestic claims							
	Claims on non residents							Liabilities to non-residents	Net claims on central government			Claims on other sectors	of which:			
	Monetary gold and SDR	Deposits	Securities other than shares	of which		Assets and other equities	Claims on central government		Liabilities to central government	Loans						
				IMF Quota	Asset and other equities					Other non-financial corp.	Households					
2006	1,173.6	1,245.7	—	660.0	341.3	—	170.8	72.1	231.7	-475.0	—	475.0	706.6	694.3	548.2	146.1
2007	1,622.4	1,704.6	—	955.0	408.9	—	175.4	82.3	124.5	-853.3	—	853.3	977.8	965.9	765.1	200.6
2008	1,593.1	1,726.7	—	795.1	661.6	—	128.2	133.6	419.6	-871.8	—	871.8	1,291.5	1,276.8	995.7	281.0
2009	1,700.5	2,036.2	60.3	910.1	724.5	64.3	144.3	335.7	571.5	-846.3	—	846.3	1,417.8	1,396.1	1,052.3	343.5
2010	1,935.4	2,365.6	64.0	1,235.7	525.2	68.5	269.3	430.2	788.9	-802.7	22.1	824.8	1,591.6	1,568.3	1,127.7	434.2
2011	2,047.3	2,425.6	65.1	1,338.9	230.0	70.1	533.1	378.2	998.8	-778.0	20.5	798.4	1,776.8	1,750.8	1,233.1	514.6
2012	2,224.1	2,660.4	63.3	1,147.7	486.0	68.8	666.5	436.3	1,195.5	-651.7	186.8	838.5	1,847.2	1,819.4	1,271.3	546.3
2013	2,452.7	2,908.3	59.6	1,037.9	818.7	65.9	651.2	455.6	1,369.1	-515.0	258.9	774.0	1,884.2	1,859.9	1,291.1	567.7
2014	2,546.6	3,011.6	62.5	1,313.0	315.7	70.4	1,024.4	465.0	1,609.0	-386.7	349.2	735.9	1,995.8	1,971.5	1,345.5	625.3
2015	2,637.1	3,160.3	65.1	1,271.6	378.2	75.1	1,086.3	523.2	1,837.9	-305.3	454.3	759.6	2,143.2	2,114.8	1,416.3	697.7
2016	2,840.0	3,379.2	56.0	648.0	842.3	105.3	1,307.4	539.2	2,091.6	-289.0	453.3	742.3	2,353.2	2,380.6	1,550.8	799.5

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/01%20Financial%20Corporations%20Survey.xls

1.2. Financial corporation survey – Liabilities

(In millions of EUR: End of period)

Description	Deposits									Loans	Insurance technical reserves			Assets and other equities	Other items (net)
	Transferable deposits	of which:			Other deposits	of which:			Net equity of households in pension funds		Payment of premiums and reserves				
		Public non-financial corporations.	Other financial corp.	Households		Public non-financial corporations	Other non-financial corporations	Households							
2006	886.4	300.5	34.8	96.4	156.2	586.0	193.3	27.6	359.5	3.4	251.4	223.9	27.5	209.3	54.7
2007	1,110.9	386.1	49.6	133.5	187.5	724.8	188.4	43.8	489.3	...	316.1	286.2	29.9	273.8	46.0
2008	1,351.9	390.9	15.4	176.0	186.2	961.0	250.1	51.4	656.7	...	288.6	256.3	32.3	311.1	61.1
2009	1,444.3	483.2	50.1	184.0	237.7	961.0	73.9	82.9	801.9	...	422.3	380.8	41.5	326.1	77.3
2010	1,744.2	621.2	83.8	218.6	303.5	1,123.1	42.8	83.4	995.9	...	540.5	493.7	46.8	361.0	74.0
2011	1,933.6	658.4	68.1	208.1	360.9	1,275.1	60.8	79.7	1,129.6	...	647.8	593.3	54.5	389.7	76.5
2012	2,076.6	700.2	13.8	257.5	407.2	1,376.5	61.8	78.2	1,232.9	...	814.9	745.1	69.8	399.2	128.9
2013	2,275.3	848.0	16.4	299.6	506.6	1,427.3	55.7	98.2	1,268.4	...	990.3	919.0	71.3	403.9	152.4
2014	2,354.4	1,133.9	21.1	338.4	743.5	1,219.8	51.6	58.0	1,104.8	...	1,173.8	1,094.1	79.7	453.2	175.8
2015	2,514.6	1,378.4	11.1	413.8	919.0	1,136.3	20.6	68.3	1,046.8	...	1,329.6	1,237.3	92.3	530.5	100.2
2016	2,739.8	1,630.2	24.7	456.0	1,116.1	1,109.6	32.2	70.8	1,006.2	...	1,535.3	1,425.4	109.8	557.7	98.9

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/01%20Financial%20Corporations%20Survey.xls

2.1. DC survey– net foreign assets and domestic claims

(In millions of EUR: End of period)

Description	Net foreign assets							Domestic claims							
	Claims on non residents						Minus: liabilities to non residents	Net claims on central government			Claims on other sectors				
	Currency (cash)	Deposits	Securities other than shares	IMF Quotas				Claims on central governme nt	Minus: liabilities to central govern- ment		Loans			of which:	
													Other non- financi- al corporations	Househo- lds	
2006	975.4	1,035.6	63.4	660.0	303.1	—	60.2	162.1	-475.0	—	475.0	637.1	636.6	490.5	146.1
2007	1,377.5	1,426.1	145.3	955.0	308.2	—	48.6	39.1	-853.3	—	853.3	892.4	892.1	691.3	200.6
2008	1,436.1	1,512.0	121.1	794.9	581.8	—	75.9	311.9	-871.8	—	871.8	1,183.8	1,183.4	901.7	281.0
2009	1,531.9	1,782.4	111.4	910.0	626.7	64.3	250.6	442.9	-846.3	—	846.3	1,289.3	1,289.0	942.9	343.5
2010	1,594.1	1,935.0	164.3	1,235.7	372.7	68.5	340.9	650.7	-802.7	22.1	824.8	1,453.3	1,452.9	1,006.6	434.2
2011	1,583.3	1,879.9	124.9	1,338.8	227.0	70.1	296.6	888.2	-777.9	20.5	798.4	1,666.1	1,665.6	1,130.6	514.6
2012	1,616.7	1,989.7	141.4	1,147.6	482.7	68.8	373.1	1,075.9	-665.7	172.9	838.5	1,741.6	1,740.9	1,172.9	546.3
2013	1,859.7	2,252.6	157.9	1,037.8	815.3	65.9	392.9	1,219.0	-568.2	205.8	774.0	1,787.2	1,786.0	1,196.7	567.7
2014	1,579.0	1,982.2	160.4	1,312.9	311.6	70.4	403.2	1,441.6	-441.4	294.5	735.9	1,883.0	1,881.9	1,248.7	625.3
2015	1,608.6	2,069.1	190.6	1,271.5	374.3	75.1	460.5	1,614.6	-405.7	353.9	759.6	2,020.3	2,019.2	1,312.0	697.7
2016	1,622.9	2,066.6	316.7	647.9	839.3	105.3	443.7	1,841.8	-389.1	353.2	742.3	2,230.9	2,229.6	1,419.2	799.1

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/02%20Depository%20Corporations%20Survey.xls

2.2. DC survey – Liabilities

(In millions of EUR: End of period)

Description	Deposits included in broad money										Deposits excluded from broad money	Assets and other equities	Other items	
	Transferable deposits					Other deposits								
	Other financial corp.	Public non-financial corp.	of which:		House holds	Other financial corp.	Public non-financial corp.	of which:		House holds.				
Non-financial corporations				Other non-financial corp.										
2006	912.8	336.4	35.9	34.8	96.4	156.2	576.3	30.5	193.3	24.6	322.4	40.6	128.8	55.4
2007	1,126.6	413.7	27.7	49.6	133.5	187.5	712.8	40.3	188.4	41.8	439.0	53.7	186.4	49.8
2008	1,393.0	454.6	63.7	15.4	176.0	186.2	938.3	47.6	250.1	44.2	593.8	74.9	233.8	46.4
2009	1,548.5	621.4	138.2	50.1	184.0	237.7	927.0	60.7	73.9	71.7	718.5	98.1	249.1	79.1
2010	1,746.2	672.6	53.1	83.8	218.6	303.5	1,073.6	85.2	30.2	73.5	883.7	138.2	278.5	84.4
2011	1,899.8	702.9	37.8	77.2	208.1	360.9	1,196.9	91.0	49.2	71.7	979.9	175.8	302.9	90.6
2012	2,035.1	757.8	41.9	31.2	257.5	407.2	1,277.3	100.4	49.8	70.5	1,053.1	206.2	321.1	128.5
2013	2,386.8	1,094.7	226.5	39.1	299.6	506.6	1,292.1	62.2	43.7	92.3	1,088.9	209.7	329.0	151.5
2014	2,285.8	1,193.0	60.8	21.1	338.4	743.5	1,092.7	67.2	39.4	50.2	930.6	208.7	373.8	150.6
2015	2,434.4	1,475.2	96.9	11.1	413.8	919.0	939.6	37.4	7.8	55.0	838.9	252.2	444.4	111.7
2016	2,639.1	1,700.4	70.2	24.7	456.0	1,116.1	938.7	50.5	20.1	56.4	811.7	243.3	474.2	108.1

Note: For more detailed information about this table please visit the link:

http://www.bqk-kos.org/repository/docs/time_series/02%20Depository%20Corporations%20Survey.xls

Table 3.1. CBK Survey - net foreign assets and domestic claims

(In millions of EUR: End of period)

Description	Net foreign assets										Net claims on central government	Claims on other sectors	Liabilities to ODC
	Claims on non residents							Minus: liabilities to non-residents	of which:				
	SDR	Currency	Deposits	Securities other than shares	IMF Quora	SDR allocations	IMF account						
2006	641.1	641.2	—	11.1	424.9	203.6	—	0.1	—	—	-472.9	0.5	94.5
2007	1,057.6	1,057.6	—	63.8	759.0	229.3	—	...	—	—	-849.4	0.3	113.6
2008	1,110.7	1,110.7	—	39.7	529.0	541.3	—	...	—	—	-870.5	0.3	137.2
2009	1,088.3	1,198.5	60.3	21.8	522.3	529.7	64.3	110.2	60.3	49.1	-681.5	0.2	233.2
2010	1,085.9	1,224.8	64.0	60.2	832.3	199.2	68.5	138.9	64.2	73.0	-791.0	0.5	203.6
2011	1,074.1	1,214.2	65.1	13.5	1,038.8	25.0	70.1	140.1	65.7	73.7	-776.7	0.5	209.7
2012	1,125.7	1,356.0	63.3	16.8	921.0	286.0	68.8	230.3	64.6	165.3	-724.8	0.7	302.1
2013	1,286.3	1,504.3	59.6	27.4	790.5	560.8	65.9	218.0	61.9	155.8	-667.5	1.2	333.2
2014	1,044.7	1,266.4	62.5	29.2	983.5	120.5	70.4	221.6	66.1	155.2	-628.8	1.1	315.9
2015	1,073.3	1,329.4	65.1	15.3	1,046.3	127.1	75.1	256.1	70.5	184.8	-626.2	1.1	316.4
2016	1,025.0	1,291.4	56.0	154.8	402.7	568.2	105.3	266.5	70.6	193.7	-622.8	1.4	296.4

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/03%20CBK%20Survey.xls

Table 3.2. CBK survey - Liabilities

(In millions of EUR: End of period)

Description	Deposits included in broad money								Deposits excluded from broad money			Capital and other		Other items (net)	
	Transferable deposits					Other deposits			Other non-financial corporations	Local government	Capital	Profit loss of the year			
		Other financial corporations	Local government	Public non-financial corporations.	Other financial corporations		Other financial corporations								
2006	49.9	41.9	31.0	0.4	10.5	...	8.0	8.0	—	—	—	25.5	10.0	6.4	-1.2
2007	57.2	46.7	22.4	3.2	21.1	...	10.6	10.6	—	—	—	33.8	20.0	9.2	3.9
2008	63.9	56.7	49.9	5.3	1.5	...	7.2	7.2	—	—	—	41.4	30.0	7.5	-2.0
2009	130.8	130.8	129.7	...	1.1	...	...	...	—	—	—	44.9	30.0	3.7	-2.0
2010	45.6	45.6	43.9	...	0.0	...	—	—	—	—	—	48.0	30.0	3.1	-1.8
2011	39.5	39.5	36.8	...	0.2	...	—	—	—	—	—	50.0	30.0	1.5	-1.3
2012	51.5	51.5	49.8	...	0.0	...	—	—	—	—	—	50.4	30.0	0.3	-2.4
2013	239.0	239.0	236.6	...	0.0	...	—	—	—	—	—	50.5	30.0	0.2	-2.7
2014	53.0	53.0	40.5	...	10.9	...	—	—	—	—	—	50.8	30.0	0.4	-2.7
2015	83.4	83.4	82.3	...	0.3	...	—	—	—	—	—	51.6	30.0	0.7	-3.3
2016	59.6	59.6	51.2	...	7.7	...	—	—	—	—	—	53.3	30.0	1.6	-5.8

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/03%20CBK%20Survey.xls

Table 4.1. ODC Survey – Net Foreign Assets and Domestic Claims

(In millions of EUR: End of period)

Description	Net foreign assets								Claims on CBK	Net claims on central government	Claims on other sectors				
	Claims on non residents			Minus: Liabilities to non residents			Loans				Public non-financial corp.	of which:			
	Currency	Deposits	Securities other than shares	Deposits	Loans	Other non-financial corp.	House holds								
2006	334.4	394.5	52.3	235.1	99.4	60.1	21.4	38.7	88.8	-2.1	636.6	636.6	—	490.5	146.1
2007	319.9	368.5	81.5	196.0	78.9	48.6	17.9	30.7	107.5	-3.9	892.1	892.1	0.2	691.3	200.6
2008	325.4	401.3	81.4	265.9	40.5	75.9	42.0	33.7	136.8	-1.3	1,183.4	1,183.4	0.1	901.7	281.0
2009	444.0	583.9	89.6	387.7	97.0	140.0	65.5	74.5	233.1	-164.9	1,289.0	1,289.0	0.3	942.9	343.5
2010	507.6	709.8	103.5	403.5	173.4	202.2	85.5	116.7	203.4	11.6	1,457.5	1,452.7	6.3	1,006.6	434.2
2011	509.2	665.7	111.5	300.0	202.0	156.5	64.8	90.5	220.0	-1.2	1,666.1	1,664.1	1.5	1,130.6	514.6
2012	490.9	633.7	124.6	226.6	196.7	142.8	87.6	50.3	301.1	59.2	1,741.6	1,740.5	1.4	1,172.9	546.3
2013	573.4	748.3	130.6	247.3	254.4	174.9	90.4	82.4	332.8	99.4	1,786.0	1,786.0	0.2	1,196.7	568.6
2014	534.3	715.8	131.2	329.4	191.1	181.5	90.6	87.8	315.9	187.3	1,881.9	1,881.8	0.6	1,248.7	625.3
2015	535.7	740.0	175.5	225.2	247.2	204.3	116.0	85.9	315.7	220.7	2,019.0	2,019.0	0.6	1,324.1	685.6
2016	597.9	775.1	161.9	245.2	271.1	177.2	74.1	95.9	295.4	233.7	2,229.6	2,229.6	2.9	1,419.2	799.1

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/03%20CBK%20Survey.xls

Table 4.2. ODC survey- Liabilities

(In millions of EUR: End of period)

Description	Deposits included in broad money											Deposits excluded from broad money	of which:		Share capital and other	Other items (net)
	Transferable deposits						Other deposits						Other non-financial corporations	House holds		
	Other financial corp.	Public non-financial corp.	of which:		Households	Other financial corp.	Public non-financial corp.	of which:		House holds						
Other non-financial corp..				Other non-financial corp.				House holds								
2006	862.9	294.5	4.9	24.3	96.4	156.2	568.4	22.5	193.3	24.6	322.4	40.6	3.0	37.1	103.3	50.9
2007	1,069.3	367.1	5.3	28.5	133.5	187.5	702.3	29.8	188.4	41.8	439.0	53.7	2.0	50.3	152.7	39.8
2008	1,329.0	397.9	13.8	13.8	176.0	186.2	931.1	40.4	250.1	44.2	593.8	74.9	7.3	63.0	192.3	48.1
2009	1,417.6	490.6	8.5	48.9	184.0	237.7	927.0	60.7	73.9	71.7	718.5	98.1	11.2	83.5	204.6	81.0
2010	1,702.2	628.6	9.2	83.8	218.6	303.5	1,073.6	85.2	30.2	73.5	883.7	138.2	9.9	112.2	230.4	85.7
2011	1,862.8	665.9	10.1	67.9	208.1	360.9	1,196.9	91.0	49.2	71.7	979.9	175.8	8.0	149.7	252.8	102.2
2012	1,985.3	708.0	9.6	13.8	257.5	407.2	1,277.3	100.4	49.8	70.5	1,053.1	206.2	7.8	179.8	270.7	129.8
2013	2,149.5	857.3	11.8	16.4	299.6	506.6	1,292.2	62.2	43.7	92.3	1,088.9	209.7	5.9	179.4	277.8	154.4
2014	2,234.4	1,141.7	20.4	10.2	338.4	743.5	1,092.7	67.2	39.4	50.2	930.6	208.7	7.8	174.2	323.0	153.3
2015	2,349.6	1,392.0	14.5	10.9	413.8	919.1	957.5	37.6	12.8	54.3	852.3	232.7	13.9	193.1	393.8	115.0
2016	2,579.4	1,640.7	19.0	17.0	456.0	1,116.1	938.7	50.5	20.1	56.4	811.2	243.3	14.3	195.0	420.9	112.9

Note: For more detailed information about this table please visit the link:

http://www.bqk-kos.org/repository/docs/time_series/04%20Other%20Depository%20Corporations%20Survey.xls

Table 5.1. OFC survey– net foreign assets and domestic claims

(In millions of EUR: End of period)

Description	Net foreign assets						Claims on depositor corporations							Net claims on central government	Claims on other sectors	Loans
	Claims on non residents	of which:		Minus: Liabilities to non residents	Loans	CBK			Other depository corporations							
		Securities other than shares	Share capital and other			Transferable deposits	Other deposits		Transferable deposits	Other deposits						
2006	198.1	210.0	38.3	170.8	11.9	11.9	66.9	39.0	31.0	8.0	28.0	4.9	23.0	—	69.5	57.7
2007	244.9	278.5	100.7	175.4	33.6	33.6	72.8	32.9	22.4	10.6	39.8	6.2	33.6	—	85.4	73.8
2008	157.0	214.7	79.8	128.2	57.7	57.7	113.0	57.1	49.9	7.2	55.9	7.9	48.0	—	108.3	94.0
2009	168.6	253.8	97.9	144.3	85.1	85.1	200.0	129.7	129.7	...	70.3	7.4	62.9	—	130.8	109.4
2010	341.3	430.5	152.5	269.3	89.2	89.2	142.8	43.9	43.9	...	98.8	8.2	90.6	—	139.7	116.9
2011	464.0	545.7	3.2	533.1	81.7	81.7	138.1	27.7	27.7	...	110.4	7.3	103.1	—	128.1	102.5
2012	607.6	670.8	3.3	666.5	63.2	63.2	154.0	32.4	32.4	...	121.6	9.7	111.9	13.9	125.5	98.3
2013	593.0	655.8	3.5	651.2	62.7	62.7	313.0	213.9	213.9	...	99.1	14.6	84.5	53.1	117.5	94.4
2014	967.6	1,029.4	4.0	1,024.4	61.8	61.8	119.5	15.7	15.7	...	103.7	13.6	90.1	54.7	119.9	96.8
2015	1,028.4	1,091.1	3.9	1,086.3	62.7	62.7	162.8	55.4	55.4	...	107.3	21.8	85.6	100.5	131.6	104.2
2016	1,217.1	1,312.6	3.0	1,307.4	95.5	95.5	134.7	20.6	20.6	...	114.1	27.9	86.2	100.2	157.6	131.5

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/05a%20Other%20Financial%20Intermediaries%20Survey.xls**Table 5.2. OFC survey– liabilities**

(In millions of EUR: End of period)

Description	Loans	Insurance technical reserves				Share capital and other				Other items				
		Net equity of households in life insuran.	Net equity for households in pension funds	Prepayment of premiums and reserves.		Funds contributed by owners	Retained earnings	General and special reserves	Annual Profit/Loss	Other liabilities	Minus: other assets	Plus: consolidation adjustments		
2006	3.4	251.4	...	223.9	27.5	80.5	55.2	15.8	7.9	1.6	-0.7	7.4	8.2	...
2007	...	316.1	...	286.2	29.9	87.4	62.1	20.1	1.7	3.5	-0.4	9.6	10.0	...
2008	1.0	288.6	...	256.3	32.3	77.4	54.0	12.7	7.4	3.4	11.3	24.2	12.9	...
2009	2.9	422.3	...	380.8	41.5	77.0	53.4	19.4	7.2	-3.1	-2.7	13.1	15.8	...
2010	2.9	540.5	...	493.7	46.8	82.5	59.7	13.6	7.2	2.0	-2.1	20.9	23.1	...
2011	3.3	647.8	...	593.3	54.5	85.4	60.4	13.3	10.8	0.9	-6.3	16.1	22.4	...
2012	7.2	814.9	...	745.1	69.8	78.1	63.5	9.8	10.7	-6.4	0.7	29.0	28.4	...
2013	6.8	990.3	...	919.0	71.3	75.6	64.2	1.3	11.1	-1.0	3.9	29.8	25.9	...
2014	3.2	1,173.8	...	1,094.1	79.7	78.5	64.3	-0.5	14.4	0.3	6.1	30.9	24.8	...
2015	1.0	1,329.5	...	1,237.3	92.1	86.1	76.9	-2.7	17.3	-5.4	6.4	31.2	24.8	...
2016	1.7	1,535.3	...	1,425.4	109.8	83.4	85.0	-3.8	3.8	-1.6	-10.9	19.5	30.4	...

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/05a%20Other%20Financial%20Intermediaries%20Survey.xls

Table 6.1. ODC deposits in euro– according to initial maturity, main sectors

(In millions of EUR: End of period)

Description	Total deposits in euro														
	Government	Financial corporations							Non-financial corporations			Other domestic sectors		Non residents	
		Other depository corporations	Other financial intermediaries	Insurance companies	Pension funds	Financial auxiliaries	Public non-financial corporations	Other nonfinancial corporations	Households	NPISH					
2006	902.4	8.0	28.1	0.1	2.4	24.7	0.4	0.5	337.8	217.4	120.5	510.2	497.1	13.1	18.2
2007	1,094.3	6.5	39.0	3.1	5.5	28.3	0.4	1.6	386.2	215.5	170.7	647.0	631.9	15.1	15.6
2008	1,366.8	1.4	62.8	5.0	6.5	31.5	19.4	0.4	479.7	263.8	215.9	785.0	774.5	10.5	37.9
2009	1,639.7	165.0	77.8	6.1	5.9	43.1	22.2	0.4	371.5	121.6	249.9	962.2	948.8	13.4	63.2
2010	1,827.7	11.7	102.0	7.2	7.8	47.6	38.6	0.6	414.9	122.3	292.5	1,220.0	1,206.1	14.0	79.1
2011	1,982.4	2.7	117.5	9.9	6.8	57.2	43.1	0.5	406.6	128.5	278.1	1,395.6	1,373.4	22.1	60.0
2012	2,162.7	0.7	120.0	3.8	6.2	64.3	45.3	0.4	401.7	75.6	326.1	1,558.6	1,535.4	23.2	81.7
2013	2,314.0	1.8	88.1	2.5	7.4	72.3	5.7	0.3	455.6	72.1	383.5	1,685.1	1,658.7	26.4	83.4
2014	2,426.6	8.8	104.4	2.6	5.1	79.3	17.1	0.3	449.7	61.8	388.0	1,781.6	1,751.1	30.6	82.1
2015	2,579.9	5.9	73.2	3.3	5.0	59.0	4.8	1.1	499.9	31.4	468.5	1,895.5	1,862.3	33.2	105.3
2016	2,779.6	5.6	96.6	5.6	6.9	59.0	23.7	1.1	560.4	49.0	511.5	2,053.4	2,021.5	31.9	63.7

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/08%20Deposits%20at%20ODC%20-%20deposits%20in%20euro.xls

Table 6.2. ODC deposits - non euro deposits

(In millions of EUR: End of period)

Description	Non euro deposits															
	Financial corporations						Non-financial corporations			Other domestic sectors						Non residents
	CBK	of which:				Insurance companies	Public non-financial corporations	Other non-financial corporations	Households			NPISH				
		Other depository corporations	Other financial intermediaries	...	...				Transferable deposits	of which:						
Saving deposits										Other deposits						
2006	34.0	—	—	...	...	...	3.7	0.3	3.4	29.8	29.5	12.4	—	17.2	0.2	0.5
2007	53.3	0.5	—	...	0.1	0.4	8.1	1.5	6.6	44.3	44.2	16.2	—	28.0	0.1	0.4
2008	81.9	0.9	—	...	...	0.9	11.6	0.1	11.5	68.4	68.2	22.9	—	45.2	0.3	1.0
2009	112.0	2.0	—	1.1	...	0.9	18.3	1.3	17.0	91.1	90.9	29.7	—	61.1	0.2	0.7
2010	113.7	3.1	—	2.9	...	—	13.6	4.3	9.3	93.8	93.3	33.1	25.9	34.3	0.5	3.1
2011	131.4	0.3	—	0.3	...	—	9.8	0.1	9.7	117.5	117.0	46.5	31.7	38.9	0.4	3.8
2012	120.9	1.6	—	1.2	0.2	—	9.6	...	9.6	104.9	104.7	45.7	27.0	32.0	0.2	4.8
2013	136.9	0.7	—	...	0.4	—	14.2	...	14.2	116.7	116.2	59.6	29.6	27.0	0.5	5.2
2014	113.0	0.3	—	...	0.3	—	8.5	...	8.5	97.8	97.2	63.2	21.5	12.6	0.6	6.5
2015	124.3	0.2	—	0.2	...	—	13.5	...	13.5	102.8	102.2	76.6	19.3	6.2	0.6	7.8
2016	128.8	0.8	—	—	0.7	—	15.8	0.2	15.6	101.9	100.8	78.3	17.4	5.1	1.1	10.4

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/09%20Deposits%20at%20ODC%20-%20deposits%20in%20non-euro.xls

Table 6.3. ODC loans – main institutional sectors

(In millions of EUR: End of period)

Description	Total loans																
	Financial corporations	of which:		Non-financial corporations	of which:					Other domestic corporations	of which:				Non residents	Loans in non euro currency	
		Other financial intermediaries	Insurance companies		Public non-financial corporations	Other non-financial corporations			Households								
						Up to 1 year	Over 1 year and up to 2 years	Over 2 years	Up to 1 year		Over 1 year and up to 2 years	Over 2 years					
2006	636.6	—	—	—	490.5	0.0	490.5	128.7	127.7	234.1	146.1	146.1	19.7	24.7	101.7	—	—
2007	892.1	—	—	—	691.5	0.2	691.3	174.0	122.6	394.6	200.6	200.6	24.0	29.6	147.1	—	—
2008	1,183.4	0.6	—	0.6	901.8	0.1	901.7	191.0	132.3	578.4	281.0	281.0	20.9	30.9	229.2	—	—
2009	1,289.0	2.3	1.2	1.1	943.2	0.3	942.9	215.7	113.0	614.2	343.5	343.5	27.0	32.1	284.5	—	—
2010	1,458.6	9.9	6.8	3.0	1,010.3	6.2	1,004.1	255.2	64.3	429.5	434.3	434.2	26.5	30.7	201.9	1.6	2.5
2011	1,698.1	16.4	14.7	1.7	1,129.7	1.5	1,128.2	298.8	83.4	480.3	512.4	510.9	44.0	38.1	218.6	32.3	7.3
2012	1,763.4	19.8	16.3	3.5	1,171.2	1.4	1,169.8	313.4	91.7	494.8	542.9	542.6	52.2	37.3	218.8	22.5	6.9
2013	1,805.8	20.4	17.3	3.1	1,194.7	0.2	1,194.5	378.0	97.4	471.5	564.7	563.9	65.4	41.1	212.4	19.8	6.1
2014	1,882.2	7.1	5.8	1.3	1,247.0	0.6	1,246.4	380.7	93.6	496.9	621.8	621.6	55.9	42.6	242.4	0.4	6.0
2015	2,019.3	8.7	7.4	1.1	1,322.2	0.6	1,321.6	306.9	150.5	520.9	682.2	682.0	58.2	39.5	241.3	0.3	5.9
2016	2,230.0	7.9	7.5	0.3	1,420.8	2.9	1,417.9	405.9	100.2	538.1	796.5	796.2	56.1	38.1	269.1	0.4	4.2

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/12%20ODC%20loans%20-%20by%20economic%20sectors.xls

Table 6.4. ODC loans – main economic sectors

(In millions of EUR: End of period)

Description	Total	Agriculture			Industry, energy and construction			Services		
			Up to 1 year	Over 1 year		Up to 1 year	Over 1 year		Up to 1 year	Over 1 year
2006	490.5	16.4	3.4	13.0	97.7	27.5	70.2	376.4	120.6	255.8
2007	691.5	29.0	4.1	24.9	144.5	33.9	110.6	518.0	149.5	368.5
2008	902.4	37.4	4.1	33.3	160.2	28.1	132.0	704.8	126.4	578.4
2009	945.5	38.2	3.8	34.4	236.7	53.3	183.4	670.5	113.2	557.3
2010	1,022.8	38.2	1.7	36.5	269.3	77.1	192.2	715.3	192.8	522.4
2011	1,149.5	40.5	0.8	39.7	284.7	82.3	202.4	824.4	235.7	588.6
2012	1,194.2	43.6	3.0	40.6	290.4	74.1	216.2	860.2	262.4	597.8
2013	1,217.4	45.8	3.3	42.5	291.4	95.8	195.6	880.2	321.2	559.0
2014	1,256.4	49.8	4.1	45.7	300.0	92.4	207.6	906.6	319.1	587.5
2015	1,333.4	59.9	4.6	55.3	300.6	79.1	221.6	972.9	285.6	687.2
2016	1,410.1	59.7	9.1	50.6	324.8	93.7	231.2	1,025.5	322.2	703.4

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/12%20ODC%20loans%20-%20by%20economic%20sectors.xls

Table 6.5. Effective interest rates on ODC deposits

(Annual average interest rates on deposits, in percentage)

Description	Annual average interest rates on new time deposits						Transferable deposits	Saving deposits	
	Up to 1 month	Over 1 month up to 3 months	Over 3 months up to 6 months	Over 6 months up to 1 year	Over 1 year up to 2 years	Over 2 years			
NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS									
2006	3.0	2.0	2.4	3.8	3.4	2.9	2.4	0.1	1.7
2007	3.3	2.4	2.8	4.2	3.5	2.3	2.7	0.2	1.9
2008	4.2	3.1	3.7	5.2	4.3	3.2	3.0	0.3	2.5
2009	4.3	3.3	3.7	5.6	4.7	2.4	3.2	0.5	2.8
2010	3.8	2.8	3.0	3.6	4.5	4.7	5.3	0.5	2.3
2011	3.5	2.5	3.1	3.1	4.2	4.6	5.1	0.7	2.1
2012	3.6	2.3	3.2	3.0	4.3	4.5	5.2	0.7	2.0
2013	3.4	2.0	2.7	2.7	3.7	4.4	4.8	0.6	1.7
2014	1.1	0.5	0.6	0.5	1.2	1.4	1.9	0.1	0.7
2015	0.9	0.4	0.8	0.4	0.7	1.0	1.9	0.0	0.3
2016	1.0	0.5	0.5	0.4	0.9	1.0	2.0	0.0	0.3
Non-financial corporations									
2006	.	2.1	2.5	3.8	3.7	4.6	5.8	0.4	1.6
2007	.	2.6	3.0	4.2	3.6	4.4	4.6	0.5	1.9
2008	.	3.3	3.9	5.2	4.4	5.0	5.2	0.5	2.7
2009	.	3.3	3.9	5.6	5.0	...	5.7	0.8	2.9
2010	3.9	2.9	3.2	4.3	5.2	4.6	5.2	0.9	2.4
2011	3.5	2.4	3.7	3.8	5.0	5.0	5.3	1.0	2.2
2012	3.5	2.1	3.8	3.7	5.0	4.9	5.3	0.9	2.1
2013	3.5	1.5	2.8	2.7	3.7	4.6	4.8	0.7	2.0
2014	1.3	0.6	0.8	0.5	1.4	1.2	1.9	0.2	0.8
2015	1.1	0.7	1.0	0.3	1.0	1.0	1.9	0.1	0.1
2016	1.4	0.6	0.5	0.4	1.4	1.4	1.8	0.0	0.1
Households									
2006	.	1.9	2.3	...	3.2	4.2	4.4	...	1.7
2007	.	2.1	2.5	...	3.3	4.3	4.6	...	2.0
2008	.	2.9	3.4	...	4.2	4.7	5.1	0.1	2.4
2009	.	3.2	3.5	...	4.4	4.8	5.4	0.2	2.6
2010	3.7	2.8	2.8	3.4	4.4	4.6	5.3	0.3	2.3
2011	3.6	2.5	2.6	2.9	4.2	4.5	5.1	0.4	2.1
2012	3.6	2.4	2.5	2.8	4.2	4.5	5.2	0.5	2.0
2013	3.5	2.1	2.3	2.6	3.7	4.3	4.8	0.6	1.6
2014	1.1	0.5	0.6	0.4	1.0	1.3	1.9	0.1	0.7
2015	0.9	0.4	0.6	0.4	0.7	0.9	1.9	0.0	0.3
2016	0.9	0.5	0.5	0.4	0.7	1.0	2.0	0.0	0.3

Note: For more detailed information about this table please visit the link: http://www.bgk.kos.org/repository/docs/time_series/13a%20ODC%20effective%20interest%20rates%20on%20deposits.xls

Table 6.6. ODC effective interest rates – Rates on Loans

(Annual average interest rates on loans, in percentage)

	Annual average interest rates on new loans									Overdrafts	Credit lines
	Consumer loans	Mortgage loans	Loans with favorable conditions	Other loans (classified by economic sectors)							
				Agricultural	Industrial	Services	Other sectors				
NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS											
2006	14.7	12.5	13.1	.	.	.	.	.	.	15.4	12.5
2007	14.6	13.0	12.6	.	.	.	.	.	.	14.8	13.0
2008	14.7	14.1	11.7	.	.	.	.	.	.	16.6	14.1
2009	14.3	13.1	10.6	.	.	.	.	.	.	16.2	14.6
2010	14.4	13.9	11.8	6.6	16.5	25.7	15.2	15.5	15.3	12.9	14.0
2011	13.8	13.9	11.5	7.9	14.5	23.7	13.9	13.9	16.1	12.1	13.2
2012	12.7	12.4	10.6	7.4	13.2	20.7	12.5	13.2	16.0	10.7	11.6
2013	11.8	11.6	10.1	7.6	12.3	17.4	12.3	11.9	13.7	9.3	11.4
2014	10.6	10.9	9.1	4.6	10.6	13.2	10.4	10.7	10.9	9.5	11.3
2015	8.3	9.0	7.4	4.7	8.2	9.8	8.0	8.1	8.9	8.2	9.5
2016	7.5	8.3	6.5	3.7	7.0	8.3	7.0	7.1	6.8	7.1	8.4
Non-financial corporations											
2006	.	.	.	.	.	.	.	.	.	15.4	12.5
2007	.	.	.	.	.	.	.	.	.	14.8	13.0
2008	.	.	.	.	.	.	.	.	.	13.9	14.1
2009	.	.	.	.	.	.	.	.	.	14.6	14.6
2010	16.5	.	.	6.9	16.5	25.7	15.2	15.5	15.3	12.5	14.0
2011	14.4	.	.	7.6	14.4	24.2	13.9	13.9	16.1	11.8	13.2
2012	13.2	.	.	7.5	13.2	21.1	12.5	13.2	16.0	10.5	11.6
2013	12.3	.	.	7.0	12.3	17.6	12.3	11.9	13.7	9.1	11.4
2014	10.6	.	.	5.5	10.6	13.2	10.4	10.7	10.9	9.3	11.3
2015	8.1	.	.	2.9	8.1	9.3	8.0	8.1	8.9	7.9	9.5
2016	7.0	.	.	3.0	7.0	7.7	7.0	7.1	6.8	6.8	8.4
Households											
2006	.	12.5	13.1	.	.	.	.	.	.	.	.
2007	.	13.0	12.6	.	.	.	.	.	.	.	.
2008	.	14.1	11.7	.	.	.	.	.	.	19.2	.
2009	.	13.1	10.6	.	.	.	.	.	.	17.7	.
2010	13.5	13.9	11.8	6.4	25.0	25.0	.	.	.	22.3	.
2011	13.4	13.9	11.5	8.2	22.4	22.4	.	.	.	18.9	.
2012	12.2	12.4	10.6	7.0	19.8	19.8	.	.	.	15.2	.
2013	11.3	11.6	10.1	6.8	16.4	16.4	.	.	.	14.7	.
2014	10.6	10.9	9.1	3.9	15.4	15.4	.	.	.	13.6	.
2015	8.7	9.0	7.4	5.1	13.3	13.3	.	.	.	13.1	.
2016	8.0	8.3	6.5	3.9	12.0	12.0	.	.	.	12.8	.

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/13%20ODC%20effective%20interest%20rates%20on%20loans.xls

Table 7.1 Balance of Payments of Kosovo – main components

(In millions of EUR)

Description	Balance from current and capital account							Balance from financial account					Errors and omission
	Current account						Capital account	Direct Investments	Portfolio investments	Other investments	Reserve assets		
		Goods	Services	Primary income	Secondary income								
2006	-205.2	-226.1	-1163.7	19.6	158.8	759.2	20.8	35.7	-289.2	65.4	181.6	77.9	240.9
2007	-197.4	-213.9	-1354.4	112.2	186.3	842.0	16.5	5.8	-431.0	34.5	108.1	294.3	203.2
2008	-450.5	-460.9	-1644.7	146.6	164.0	873.2	10.4	-288.1	-341.5	109.9	-74.8	18.2	162.4
2009	-273.4	-373.7	-1646.3	227.4	61.8	983.4	100.3	-109.0	-276.9	124.4	138.3	-94.8	164.4
2010	-494.8	-516.1	-1741.6	176.0	67.0	982.5	21.3	-297.2	-331.1	48.6	-57.4	42.7	197.6
2011	-569.4	-611.4	-2047.1	395.7	111.2	928.8	42.0	-377.5	-378.9	57.8	4.8	-61.2	191.8
2012	-280.2	-293.1	-2050.1	499.6	153.6	1103.7	13.0	-232.4	-213.3	185.7	-420.5	215.8	47.8
2013	-144.3	-179.0	-1995.6	520.0	121.5	1175.0	34.7	-132.2	-250.2	139.3	14.4	-35.7	12.1
2014	-363.4	-384.6	-2058.6	459.9	113.8	1100.3	21.2	-145.0	-123.8	13.3	22.6	-57.0	218.4
2015	-471.4	-497.3	-2109.3	457.1	92.6	1062.4	25.8	-275.7	-271.8	48.8	-146.3	93.6	195.7
2016	-534.6	-548.8	-2290.8	565.0	80.9	1096.1	14.2	-120.3	-176.3	370.2	-238.5	-75.7	414.3

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/26%20Balance%20of%20payments%20-%20main%20components.xls

7.2. Current Account

(In millions of EUR)

Description	Balance					Credit					Debit				
		Goods	Services	Primary income	Secondary income		Goods	Services	Primary income	Secondary income		Goods	Services	Primary income	Secondary income
2006	-226.1	-1163.7	19.6	158.8	759.2	1483.3	98.5	311.9	187.8	885.1	1709.4	1262.3	292.2	29.03	125.89
2007	-213.9	-1354.4	112.2	186.3	842.0	1720.9	164.1	382.5	239.2	935.1	1934.9	1518.5	270.3	52.91	93.12
2008	-460.9	-1644.7	146.6	164.0	873.2	1813.8	211.3	396.9	233.3	972.3	2274.7	1856.0	250.3	69.32	99.08
2009	-373.7	-1646.3	227.4	61.8	983.4	1984.5	172.5	521.7	183.5	1106.8	2358.2	1818.8	294.3	121.72	123.41
2010	-516.1	-1741.6	176.0	67.0	982.5	2147.2	299.2	574.3	186.3	1087.4	2663.3	2040.8	398.3	119.24	104.96
2011	-611.4	-2047.1	395.7	111.2	928.8	2417.0	316.5	820.3	239.0	1041.3	3028.4	2363.7	424.5	127.77	112.46
2012	-293.1	-2050.1	499.6	153.6	1103.7	2614.1	281.9	894.5	230.0	1207.7	2907.2	2332.0	394.8	76.42	103.92
2013	-179.0	-1995.6	520.0	121.5	1175.0	2678.4	291.5	875.1	227.5	1284.3	2857.4	2287.0	355.1	105.96	109.28
2014	-384.6	-2058.6	459.9	113.8	1100.3	2667.3	324.3	928.6	215.8	1198.7	3052.0	2382.9	468.7	102.01	98.40
2015	-497.3	-2109.3	457.1	92.6	1062.4	2628.2	322.5	951.5	221.7	1132.5	3125.5	2431.8	494.4	129.07	70.16
2016	-548.8	-2290.8	565.0	80.9	1096.1	2733.6	307.9	1038.4	215.7	1171.6	3282.4	2598.7	473.4	134.8	75.4

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/26a%20Current%20account.xls

7.3.1 Primary income

(In millions of EUR)

Description	Balance			Credit			Debit				
	Compensation of employees	Investment income	Other primary income	Compensation of employees	Investment income	Other primary income	Compensation of employees	Investment income	Other primary income		
2006	158.8	146.5	12.2	187.8	147.3	40.5	0.0	29.0	0.7	28.3	
2007	186.3	154.9	31.4	239.2	155.6	83.6	0.0	52.9	0.8	52.2	
2008	164.0	175.4	-11.4	233.3	176.2	57.1	0.0	69.3	0.8	68.5	
2009	61.8	168.7	-106.9	183.5	169.7	13.9	0.0	121.7	1.0	120.8	
2010	67.0	171.6	-104.6	186.3	176.1	10.1	0.0	119.2	4.5	114.7	
2011	111.2	208.1	-96.9	239.0	221.2	17.8	0.0	127.8	13.1	114.7	
2012	153.6	214.3	-60.6	230.0	219.9	10.1	0.0	76.4	5.6	70.8	
2013	121.5	218.9	-97.4	227.5	223.2	4.3	0.0	106.0	4.3	101.6	
2014	113.8	200.4	-85.9	215.8	206.5	8.0	1.3	102.0	6.1	93.9	2.0
2015	92.6	205.7	-112.0	221.7	210.3	9.6	1.8	129.1	4.6	121.6	2.8
2016	80.9	194.2	-110.3	215.7	199.9	14.2	1.6	134.8	5.7	124.5	4.6

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/28%20Primary%20Income.xls

7.3.2 Secondary income

(In millions of EUR)

Description	Secondary income			Credit			Debit		
	Government	Financial corporations, non-financial corporations, households and NPISHs	Financial corporations, non-financial corporations, households and NPISHs	Government	Financial corporations, non-financial corporations, households and NPISHs	Financial corporations, non-financial corporations, households and NPISHs	Government	Financial corporations, non-financial corporations, households and NPISHs	Financial corporations, non-financial corporations, households and NPISHs
2006	759.2	319.9	439.3	885.1	327.4	557.7	125.9	7.5	118.4
2007	842.0	245.1	596.9	935.1	251.4	683.8	93.1	6.3	86.8
2008	873.2	223.5	649.7	972.3	223.5	748.8	99.1	-	99.1
2009	983.4	322.9	660.5	1106.8	322.9	783.9	123.4	-	123.4
2010	982.5	319.5	662.9	1087.4	319.5	767.9	105.0	-	105.0
2011	928.8	322.2	606.6	1041.3	322.2	719.1	112.5	-	112.5
2012	1103.7	401.6	702.2	1207.7	401.6	806.1	103.9	-	103.9
2013	1175.0	369.7	805.3	1284.3	369.7	914.6	109.3	-	109.3
2014	1100.3	291.9	808.4	1198.7	291.9	906.8	98.4	-	98.4
2015	1062.4	202.9	859.5	1132.5	202.9	929.6	70.2	-	70.2
2016	1096.1	207.2	888.9	1171.6	207.2	964.3	75.4	-	75.4

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/29%20Secondary%20Income.xls

7.4 Remittances- by countries

(In percentage)

Description	Germany	Switzerland	Italy	Austria	Belgium	USA	Sweden	France	Norway	Canada	England	Denmark	Finland	Holland	Slovenia	Other
2009	37.45	21.075	10.35	5.725	3.05	2.75	3.225	3.775	2.75	1.875	1.375	0.9	1.05	1.15	1.3	2.2
2010 Q1	34.8	21	8.8	5.7	2.6	3.9	3.1	3.5	2.8	1.3	1.5	0.9	1.1	1.2	3.4	4.4
Q2	34.7	20.7	7.9	3.9	2.9	4.7	3.1	3.6	3.1	2	1.7	0.7	0.7	1	3.7	5.9
Q3	33.2	21.4	7	6.5	2.5	4.8	3.4	4	2.5	2.3	1.6	0.6	0.9	1	5.6	2.7
Q4	34.1	21.6	7.2	5.5	2.9	3.1	3.7	4.1	2.6	1.9	1.3	0.6	0.7	1	4.5	5.3
2011 Q1	32.7	23.7	7.5	5.6	2.8	4.6	3.9	3.8	2.8	1.5	1.5	0.7	0.8	1.2	3.9	3
Q2	32.8	23	7	5.5	2	4	3.1	3.7	2.8	2.1	1.3	0.9	1	1	3.9	6.1
Q3	33.8	23.4	6.2	5.5	2.9	2.3	3.6	4.2	2.6	2	1.2	0.6	0.8	1	3.3	6.7
Q4	33.7	22.1	7.4	5.5	2.7	3.9	3.4	3.8	2.8	1.9	1.4	0.7	0.9	1.1	4	4.9
2012 Q1	30.9	23.7	4.8	6	1.1	6.3	3.6	2.8	4.9	0.7	3.2	0.8	0.7	0.5	5	5
Q2	37.4	26.3	8.4	6.4	6.6	3.9	0.8	0.4	1.3	0.1	1.9	0.1	0.1	0.1	5.4	0.8
Q3	34.6	22.6	7.9	5.9	3.2	3.9	3.1	3.2	2.8	1.5	1.8	0.7	0.8	0.8	3.6	3.7
Q4	34.5	21	8.5	6.2	2.6	3.8	3.3	3.3	2.3	1.9	1.8	0.5	0.8	...	3.7	5.9
2013 Q1	33.6	22.5	7.5	5.8	2.7	4.2	3.4	3.5	3	1.6	1.8	0.7	0.9	1	3.7	4.3
Q2	33.3	25.5	5.9	5.7	2.5	4.6	2.5	1.4	2.3	1.3	4	0.8	0.9	1	5.3	3.1
Q3	33.6	24.4	6.6	7.8	2.5	4.3	3.5	4.5	2.3	0.4	1.9	0.7	0.8	0.9	4.9	1.1
Q4	35.3	22.7	10.6	4.6	1.6	4.4	2.1	5	2.7	1.8	1.7	0.5	0.6	1.5	0.5	4.2
2014 Q1	36.7	21.4	5.9	3.8	2.3	6	3.1	4.1	2.3	1.5	3.1	0.4	0.6	1.1	0.8	7
Q2	36.6	23.7	5.4	4.5	2.1	6.4	2.7	3.2	2.4	1.3	3.3	0.4	0.6	0.6	1.5	5.6
Q3	35.5	23.9	4.6	3.6	2.1	6.5	3.4	3.5	2.6	1.9	3	0.5	0.7	0.7	1.1	6.5
Q4	36.8	21.1	3.8	3.1	4	6.1	2.4	2.4	5.5	0.7	3.1	1	0.3	0.1	2.2	7.3
2015 Q1	35.2	21.8	5	3.9	3.3	8.1	2.9	3.6	3.1	1.6	1.6	0.4	0.7	0.9	0.8	7.2
Q2	36.9	21.6	3.6	3.5	2.3	8.2	2.5	1.6	4	3.5	3.7	0.2	0.6	0.7	0.5	6.6
Q3	35.9	23.8	5.6	3.4	2.1	7.4	3.2	3.7	2.1	1.5	3.3	0.3	0.6	0.6	0.7	5.8
Q4	38.8	22.2	5.1	3.3	2.2	8.4	2.9	3.3	1.8	1.5	3	0.4	0.6	0.7	1.3	4.4
2016 Q1	37.8	21.3	5.9	3.8	2.4	7.6	3.2	3.7	1.7	1.5	3.3	0.4	0.7	0.8	0.7	5.2
Q2	37.6	21.8	5.2	3.7	2.2	6.4	3	3.5	1.8	1.4	3.1	0.5	0.6	0.8	1.7	6.5
Q3	35.1	24	5.6	3.3	2.2	6.6	4.2	3.9	2.5	1.8	2.5	0.3	0.7	0.5	1.5	5.2
Q4	38.0	23.5	4.3	3.6	2.4	6.9	3.1	4.0	2.1	1.5	2.8	0.3	0.7	0.7	0.5	5.9

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/32%20Remittances-by%20country.xls

8.1. Direct Investments – by geographic criteria

(In millions of EUR: As at end-31 December 2016)

Country	Total incoming direct investments			Total outgoing direct investments		
		Equity	Other capital transactions		Equity	Other capital transactions
European Union	1,094.5	839.7	254.7	99.8	97.1	2.7
AT Austria	186.2	147.5	38.8	4.9	4.2	0.7
BE Belgium	17.4	16.5	1.0	3.3	3.2	0.1
BG Bulgaria	33.6	4.8	28.8	0.6	0.6	-
CY Cyprus	7.2	2.0	5.2	19.6	19.6	-
FR France	20.1	19.7	0.5	3.6	3.6	-
DE Germany	318.8	300.3	18.5	29.1	29.1	-
GR Greece	9.6	8.9	0.7	2.0	2.0	-
IT Italy	24.4	22.8	1.5	4.1	4.1	-
NL Holland	99.1	86.0	13.1	7.0	5.1	1.9
RO Rumania	4.8	3.9	0.9	0.3	0.3	-
SI Slovenia	216.9	88.8	128.2	9.2	9.2	-
SE Sweden	36.9	36.6	0.3	1.7	1.7	-
GB Great Britain	82.0	68.1	13.9	9.1	9.1	-
Other EU countries	37.4	33.9	3.5	5.3	5.3	-
Other European Countries	959.0	697.8	261.1	132.0	126.9	5.0
AL Albania	161.6	85.4	76.2	62.4	58.2	4.2
HR Croatia	7.9	6.5	1.4	4.5	4.5	-
MK Macedonia	21.2	13.8	7.4	20.0	19.9	0.2
NO Norway	22.1	20.9	1.2	1.3	1.3	-
RS Serbia	14.5	11.0	3.4	6.7	6.7	-
CH Switzerland	302.3	275.9	26.3	14.5	14.2	0.3
TR Turkey	411.3	269.2	142.1	5.1	5.1	0.0
Other European Countries	18.5	15.4	3.1	17.5	17.0	0.4
Other Countries	191.0	147.1	43.9	19.3	19.0	0.3
US United States	112.9	83.3	29.6	10.9	10.6	0.2
AE United Arab Emirates	42.5	34.2	8.3	1.5	1.5	-
Other Countries	35.6	29.6	6.0	7.0	6.9	0.1
Other Countries (not allocated)	1,198.4	935.6	262.8	-	-	-
ZZ Non specified	1,198.4	935.6	-	-	-	...
Total	3,442.9	2,620.3	822.6	251.1	243.1	8.1

Note: For more detailed information about this table please visit the link: http://www.bkg-kos.org/repository/docs/time_series/34a%20Direct%20investment%20in%20Kosovo%20by%20geographical%20breakdown.xls

9.1. Assets in form of portfolio investments by countries

(In millions of EUR: As at end-31 December 2016)

Description	Country	Equity	Total debt securities		Total	
			Long-term debt securities	Short-term debt securities		
AE	United Arab Emirates	-	0.1	0.1	-	0.1
AT	Austria	-	44.4	24.9	19.5	44.4
BE	Belgium	-	0.1	-	0.1	0.1
BG	Bulgaria	-	10.1	0.1	10.0	10.1
BR	Brazil	-	0.1	0.1	-	0.1
CZ	Czech Republic	-	0.1	0.1	-	0.1
DE	Germany	0.3	61.3	9.8	51.5	61.6
FI	Finland	-	24.7	5.2	19.5	24.7
FR	France	50.5	16.6	-	16.6	67.2
GB	Great Britain	-	0.1	0.1	-	0.1
GR	Greece	-	0.0	0.0	-	0.0
IE	Ireland	534.3	0.2	0.2	-	534.5
IS	Island	-	0.1	0.1	-	0.1
IT	Italy	-	199.8	199.8	-	199.8
LU	Luxemburg	719.9	48.3	30.9	17.4	768.2
NL	The Netherlands	-	54.0	38.8	15.1	54.0
PL	Poland	-	8.3	-	8.3	8.3
PT	Portugal	-	0.0	0.0	-	0.0
RO	Romania	-	0.1	0.1	-	0.1
RU	Russia	-	0.1	0.1	-	0.1
SI	Slovenia	-	12.0	11.9	0.0	12.0
SK	Slovakia	-	1.0	1.0	-	1.0
TR	Turkey	-	0.1	0.1	-	0.1
US	Unite States	2.4	30.9	-	30.9	33.3
Total value of portofolio investments		1,307.4	512.7	323.7	189.0	1,820.1

Note: For more detailed information about this table please visit the link:
http://www.bsk-kos.org/repository/docs/time_series/34%20Portfolio%20Investments%20Position.xls

10.1. International investments position – main components

(In millions of EUR: End of period)

Description	Net	Assets				Liabilities				
		Direct investment	Portfolio investments	Other Investments	Reserve assets	Direct investment	Portfolio investments	Other Investments		
2007	1,254.2	2,397.2	15.2	444.4	1,285.6	652.0	1,143.0	924.5	-	218.6
2008	912.4	2,537.1	43.8	463.9	1,359.1	670.3	1,624.6	1,294.3	-	330.3
2009	484.2	2,816.9	59.1	622.0	1,559.4	576.5	2,332.7	1,589.8	-	742.9
2010	406.7	3,234.8	96.6	693.8	1,821.0	623.4	2,828.0	1,971.0	-	857.0
2011	113.5	3,304.7	102.0	740.2	1,897.9	564.5	3,191.2	2,326.1	-	865.1
2012	135.8	3,592.0	117.8	986.6	1,704.1	783.5	3,456.3	2,524.3	-	931.9
2013	258.0	3,996.9	147.5	1,192.6	1,910.4	746.4	3,738.8	2,816.4	-	922.4
2014	195.6	4,174.9	174.6	1,274.7	2,030.6	695.0	3,979.3	2,961.4	-	1,017.9
2015	-17.5	4,391.5	211.5	1,388.8	1,994.1	797.1	4,409.0	3,254.4	-	1,154.6
2016	1.1	4,667.3	251.1	1,820.1	1,861.5	734.7	4,666.2	3,442.9	-	1,223.3

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/34b%20International%20Investments%20Position.xls

10.2. International investments position – by sectors

(In millions of EUR: End of period)

Description	Net International investments position												
	Total	The Central Bank of the Republic of Kosovo		Banks		Government		Other sectors					
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities		
2007	1,254.2	1,057.6	1,057.6	0.0	319.9	368.5	48.6	0.0	-	-	-123.3	971.1	1,094.4
2008	912.4	1,110.7	1,110.7	0.0	318.1	401.3	83.2	0.0	-	-	-516.4	1,025.0	1,541.4
2009	484.2	1,089.3	1,149.6	60.3	427.3	583.9	156.7	-249.0	-	249.0	-783.3	1,083.4	1,866.7
2010	406.7	1,106.9	1,172.8	65.9	488.0	709.8	221.8	-260.0	-	260.0	-928.1	1,352.2	2,280.3
2011	113.5	1,094.4	1,160.8	66.4	479.1	675.5	196.4	-253.6	-	253.6	-1,206.4	1,468.4	2,674.8
2012	135.8	1,238.8	1,303.8	65.0	458.0	633.6	175.6	-336.5	-	336.5	-1,224.5	1,654.7	2,879.3
2013	258.0	1,391.5	1,453.6	62.1	540.2	748.3	208.1	-321.8	-	321.8	-1,351.9	1,794.9	3,146.9
2014	195.6	1,145.6	1,211.9	66.3	481.6	715.8	234.2	-326.4	-	326.4	-1,105.2	2,247.1	3,352.3
2015	-17.5	1,200.3	1,271.0	70.6	480.9	740.0	259.1	-371.2	-	371.2	-1,327.6	2,380.5	3,708.1
2016	1.1	1,140.7	1,211.6	70.9	539.2	775.1	235.9	-373.8	-	373.8	-1,305.1	2,680.6	3,985.7

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/34c%20International%20Investment%20Position%20-%20by%20sectors.xls

10.3.1 International investments position – assets

(In millions of EUR: End of period)

Description	Net IIP	Kosovo's international assets								
		Equities				Debt				
		Direct investments abroad	Equity securities	Abroad Investments	Debt securities	Other investments	Reserve Assets			
2007	1,254.2	2,397.2	174.1	15.2	158.9	2,223.1	0.0	285.5	1,285.6	652.0
2008	912.4	2,537.1	152.9	40.4	112.5	2,384.2	3.4	351.4	1,359.1	670.3
2009	484.2	2,816.9	191.7	51.6	140.1	2,625.2	7.4	481.9	1,559.4	576.5
2010	406.7	3,234.8	280.6	86.4	194.2	2,954.2	10.2	499.6	1,821.0	623.4
2011	113.5	3,304.7	398.0	102.0	296.0	2,906.7	-	444.3	1,897.9	564.5
2012	135.8	3,592.0	784.2	117.8	666.3	2,807.9	-	320.3	1,704.1	783.5
2013	258.0	3,996.9	786.2	135.4	650.8	3,210.6	12.1	541.7	1,910.4	746.4
2014	195.6	4,174.9	1,186.3	161.9	1,024.4	2,988.6	12.6	250.3	2,030.6	695.0
2015	-17.5	4,391.5	1,284.9	198.6	1,086.3	3,106.6	13.0	302.4	1,994.1	797.1
2016	1.1	4,667.3	1,550.4	243.1	1,307.4	3,116.9	8.1	512.7	1,861.5	734.7

Note: For more detailed information about this table please visit the link:

http://www.bqk-kos.org/repository/docs/time_series/34e%20IIP%20Assets%20and%20Liabilities.xls

10.3.1 International Investment Position – Liabilities

(In millions of EUR: End of period)

Description	Net IIP	Liabilities							
		International equity			International debt				
		Direct Investments	Equity and shares of investing funds	Direct Investments	Debt instruments	Other investments			
2007	1,254.2	1,143.0	621.2	621.2	-	521.8	303.2	-	218.6
2008	912.4	1,624.6	886.5	886.5	-	738.1	407.8	-	330.3
2009	484.2	2,332.7	1,139.4	1,139.4	-	1,193.3	450.4	-	742.9
2010	406.7	2,828.0	1,455.3	1,455.3	-	1,372.8	515.8	-	857.0
2011	113.5	3,191.2	1,760.7	1,760.7	-	1,430.5	565.4	-	865.1
2012	135.8	3,456.3	1,938.4	1,938.4	-	1,517.8	585.9	-	931.9
2013	258.0	3,738.8	2,129.9	2,129.9	-	1,608.9	686.5	-	922.4
2014	195.6	3,979.3	2,241.4	2,241.4	-	1,737.9	720.0	-	1,017.9
2015	-17.5	4,409.0	2,476.3	2,476.3	-	1,932.7	778.2	-	1,154.6
2016	1.1	4,666.2	2,620.3	2,620.3	-	2,045.9	822.6	-	1,223.3

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/34e%20IIP%20Assets%20and%20Liabilities.xls

11.1. Gross external debt position

(In millions of EUR: As at end-December 2016)

Description	Total gross external debt															Direct investments: crediting between companies
	Public debt and publicly guaranteed public debt								Private sector external debt not publicly guaranteed							
	Government				Central bank of the Republic of Kosovo				Deposit-taking corporations, except the Central Bank				Other sectors			
	Short-term		Long-term		Short-term		Long-term		Short-term		Long-term		Short-term	Long-term		
2008	736.6	-	-	-	-	-	-	-	736.6	83.2	83.2	-	245.6	194.5	51.1	407.8
2009	1,191.4	309.3	249.0	-	249.0	60.3	0.8	59.5	882.1	156.7	156.7	-	275.0	221.2	53.8	450.4
2010	1,371.5	325.9	260.0	-	260.0	65.9	1.7	64.2	1,045.6	221.8	221.8	-	308.0	232.7	75.4	515.8
2011	1,428.4	320.0	253.6	-	253.6	66.4	0.7	65.7	1,108.4	196.4	196.4	-	346.6	259.8	86.8	565.4
2012	1,517.3	401.4	336.5	-	336.5	65.0	0.4	64.6	1,115.9	175.6	175.6	-	354.4	321.0	33.5	585.9
2013	1,608.2	383.9	321.8	-	321.8	62.1	0.3	61.9	1,224.3	208.1	208.1	-	329.7	281.1	48.5	686.5
2014	1,737.1	392.8	326.4	-	326.4	66.3	0.3	66.1	1,344.3	234.2	234.2	-	390.1	294.8	95.3	720.0
2015	1,931.8	441.8	371.2	-	371.2	70.6	0.1	70.5	1,490.0	259.1	259.1	-	452.8	313.8	139.0	778.2
2016	2,045.0	444.6	373.8	-	373.8	70.9	0.1	70.8	1,600.4	235.9	235.9	-	541.9	353.1	188.8	822.6

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/34i%20Gross%20External%20Debt%20Position.xls

11.2. Public sector debt service payment schedule

(In millions of EUR: As at end-31 December 2016)

Description	One year or less (several months)					Over one year up to two years				Third year	Forth year	Fifth year	Over 5 years up to 10 years	Over 10 years up to 15 years	Over 15 years
	Immediate	0 - 3	4-6	7 - 9	10 - 12	13 - 18	19 - 24								
External debt of public sector	46.8	-	1.3	8.8	15.2	21.5	40.2	28.8	11.4	40.3	57.6	39.3	108.2	81.3	82.5
Principal	40.0	-	1.3	5.7	14.8	18.1	33.4	25.4	8.1	34.1	52.2	34.7	92.0	75.6	82.5
Interest	6.8	-	-	3.1	0.4	3.3	6.7	3.5	3.3	6.2	5.4	4.6	16.1	5.7	-
External debt of private sector guaranteed by the Government	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	46.8	-	1.3	8.8	15.2	21.5	40.2	28.8	11.4	40.3	57.6	39.3	108.2	81.3	82.5
Principal	40.0	-	1.3	5.7	14.8	18.1	33.4	25.4	8.1	34.1	52.2	34.7	92.0	75.6	82.5
Interest	6.8	-	-	3.1	0.4	3.3	6.7	3.5	3.3	6.2	5.4	4.6	16.1	5.7	-

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/34i%20Public%20Sector%20Debt%20Service%20Payment.xls

11.3. Gross External Debt – By Creditors

(In millions of EUR: As at end-31 Decemeber 2016)

Description	Total gross external debt						
		Gross external debt excluding direct investments					Direct investments: Crediting between companies
			Government	Central Bank of the Republic of Kosovo	Deposit-taking Corporations, except the Central Bank	Other sectors	
International Monetary Fund	184.7	184.7	114.0	70.8	-	-	-
World Bank	205.7	205.7	205.7	-	-	-	-
IBRD	169.7	169.7	169.7	-	-	-	-
IDA	36.0	36.0	36.0	-	-	-	-
Other creditors	1,654.6	832	54.1	0.1	235.9	541.9	822.6
Total Debt	2,045.0	1,222.4	373.8	70.9	235.9	541.9	822.6

Note: For more detailed information about this table please visit the link: http://www.bqk-kos.org/repository/docs/time_series/34h%20Gross%20External%20Debt%20Statistics%20-%20by%20creditors.xls

11.4. Net external debt position

(In millions of EUR: As at end-31 Decemeber 2016)

Description	Gross external debt (1)	External assets in debt instruments (2)	Gross external debt (3)=(1)-(2)
General Government	373.8	0.0	373.8
Short-term			
Long-term	373.8	0.0	373.8
Special Drawing Rights (SDRs), allocations			
Currency and deposit			
Debt securities			
Loans	373.8	0.0	373.8
Trade credits and advances			
Other debt liabilities			
Central Bank	70.9	1,211.6	-1,140.7
Short-term	0.1	890.2	-890.2
Currency and deposit	0.1	561.9	-561.9
Debt securities	0.0	328.3	-328.3
Loans			
Trade credits and advances			
Other debt instruments			
Long-term	70.8	321.4	-250.6
Special Drawing Rights (SDRs), allocations	70.8	81.6	-10.8
Currency and deposite			
Debt securities	0.0	239.8	-239.8
Loans			
Trade credit and advances			
Other debt instruments			
Depository corporations except the Central Bank	235.9	775.1	-539.2
Short-term	235.9	775.1	-539.2
Currency and deposit	132.8	407.1	-274.3
Debt securities	0.0	271.1	-271.1
Loans	95.9	89.4	6.5
Trade credit and advances	0.0	0.0	0.0
Other debt instruments	7.1	7.5	-0.3
Long-term			
Other sectors	541.9	1,122.1	-580.2
Short-term	353.1	17.3	335.8
Currency and deposit			
Debt securities			
Loans	176.5	0.0	176.5
Trade credit and advances	176.6	17.2	159.3
Other debt instruments	0.0	0.0	0.0
Long-term, of which::	188.8	1,104.8	-916.0
Currency and deposit	0.0	1,103.0	-1,103.0
Debt securities	0.0	1.8	-1.8
Loans	188.8	0.0	188.8
Direct investments: Intercompany lending	822.6	8.1	814.5
Debt liabilities of direct investment enterprises to direct investors	0.0	4.4	-4.4
Debt liabilities of direct investors to direct investments enterprises	822.6	3.6	819.0
Debt liabilities to fellow enterprises	0.0	0.0	0.0
NEt external debt (3)	2,045.0	3,116.9	-1,071.9

Note: For more detailed information about this table please visit the link: http://www.bgk-kos.org/repository/docs/time_series/34g%20Net%20External%20Debt%20Position.xls.

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