ANNUAL REPORT

2018

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LETTER OF THE CHAIRMAN OF THE BOARD

Dear reader,

I have the honour of reporting on another excellent performance in 2018 for the Banka për Biznes, preceded by a positive financial year and a relatively stable market environment in the country. Total assets in the banking sector amounted to EUR 4 billion, with a significant increase of 11% in customer loans and 8.7% in deposits, while the level of non-performing loans (2.7%) remained the best in the region.

Banka për Biznes has achieved significant growth in all major segments. Same as in the previous year, the Bank generated a stable net profit of EUR 5.5 million attributable to the further increase of the loan portfolio to a total of EUR 157 million compared to EUR 131 million from the same period of the previous year and the increase of revenues from interest income in the amount of EUR 11.6 million compared to EUR 9.9 million in 2017. On the other hand, the level of deposits, as our main source of lending to our customers, amounted to EUR 221 million, compared to EUR 177 a year earlier. All of these resulted in the Bank's total capital increase to EUR 25 million compared to EUR 20 million in the previous year.

Even this year, improvements in customer service and Bank products continued to be the key focus of our strategy. Loan portfolio quality improved from 2.97% in 2017 to 2.87% in 2018, being in line with the credit growth trend at the level of the banking industry. This positive development of asset quality is derived as a result of improvement of the portfolio quality over the last years. As a result, these achievements were recognized by the well-known financial magazine "The Banker", which gave BPB the prestigious award "The Best Bank of 2018".

The results achieved by the Bank this year also confirmed that the strategic decisions taken over the past few years have played a key role by helping the Bank succeed through a challenging period of transformation. As our business efficiently continues to generate reliable revenue in leading sectors, I am convinced that our Bank will have another stable performance in 2019. This is supported by solid capital strength and a cautious risk management which was built during the recent years.

Finally, on behalf of the Board of Directors, I would like to thank our loyal customers for their continued trust and support and to express my gratitude to all Bank staff for their significant expertise, commitment and achievements in 2018. I consider that the Bank has the level and strength to ensure a sustainable performance in the following years.

On behalf of the Board of Directors,

Albert Matoshi

Chairman of the Board of Directors

LETTER OF THE CHIEF EXECUTIVE OFFICER

Dear reader,

2018 has been a good year both for our economy and for the financial sector in Kosovo. Undoubtedly, Kosovo's economy, as an economy integrated to and dependent from both the region and other countries where our diaspora comes from as a supplier of remittances, is affected by the political and economic developments around the globe. In this respect, Kosovo in 2018 continued with economic growth by about 4%, as a continuation of positive economic growth trends, and this is a stable indicator for future trends.

Kosovo's banking system in general has continued to remain stable and be among the indisputable pillars of Kosovo's economy. Low levels of non-performing loans, about 3%, and credit growth of the banking sector with over 10% are among the main factors that feature highly the sustainability of the system and the commitment of banks for a consolidated and well-organized banking in this economic environment.

In 2018, BPB continued its advancement in the strategic directions set in 2016, which are the expansion of the customers' base in the main segments - SMEs and Salary receivers, upgrading the technological infrastructure to support the continuous growth of business and the improvement of internal processes in increasing the customer services. Concrete steps have been taken in all three strategic directions, and the results achieved show that the bank is on the right path towards its advancement in the market and being an important factor with active participation in the banking sector.

Financial results have continued to be extremely successful both in terms of profit and consequently return on equity, as well as qualitative portfolio growth with a significant diversification of large exposures and an acceptable rate of non-performing loans. Consequently, in 2018, BPB was awarded as the best bank in Kosovo for 2018 by the prestigious magazine "The Banker" published by the "Financial Times".

The Bank has continued to work towards increasing the quality of services and new products that add value to the daily business of our customers, proving that the Bank lives with its customers and its constant priority is providing solutions to the challenges that customers face.

All of our achievements would not be possible without a special relationship with our customers, hence, it is of utmost importance we continuously invest on it by improving in daily bases. Also, I use the opportunity to thank all BPB staff for these achievements during 2018 and I am sure that 2019 will be even more successful since we have already started working for.

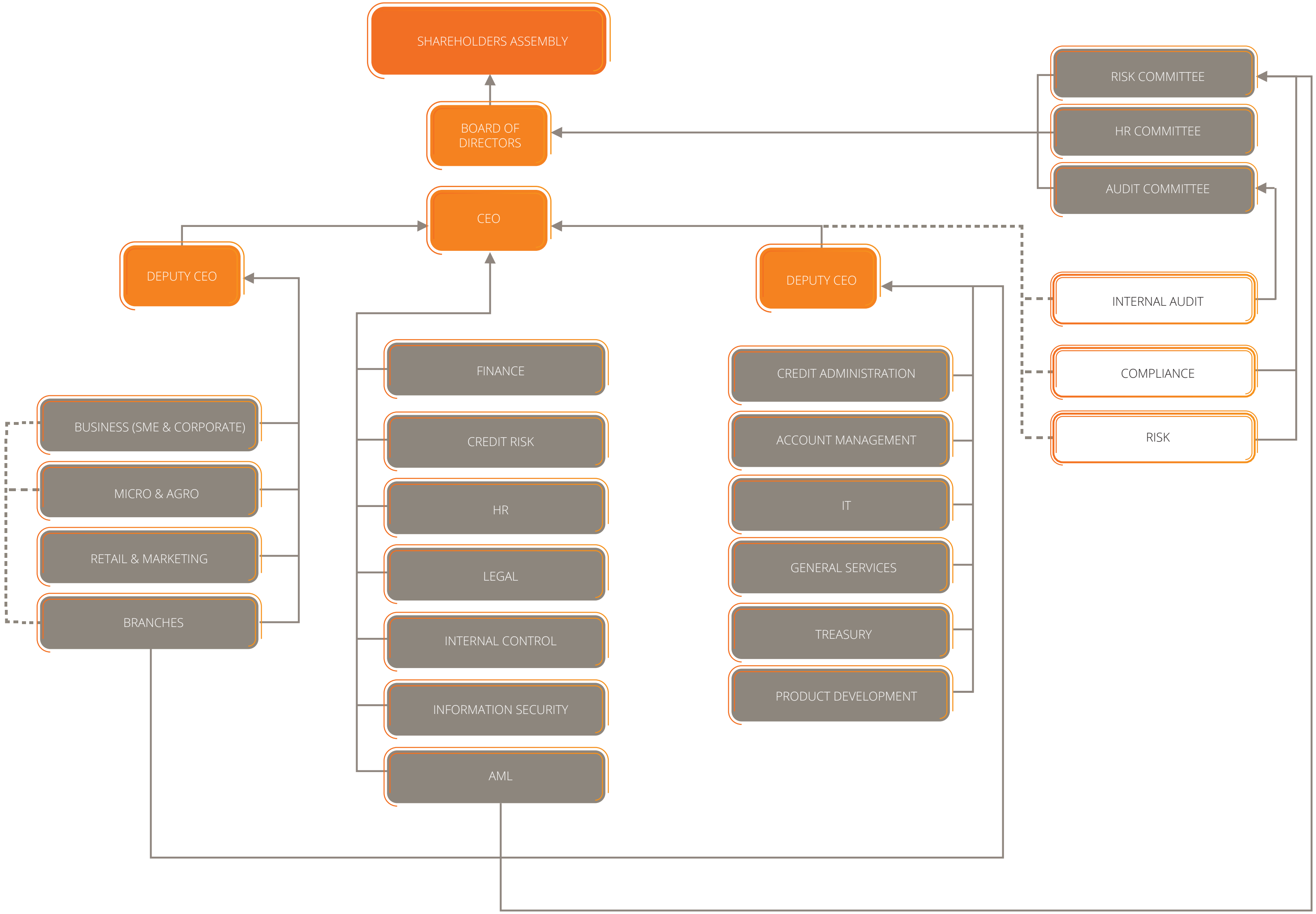
Sincerely,

The Banker

Banka më e mirë e vitit 2018

KOSOVË

ORGANIZATION STRUCTURE



FINANCIAL RESULTS ACCORDING TO IFRS

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During 2018, BPB generated net interest income in the amount of EUR 11.6 million. Net interest income represents approximately 78.8% of the Bank's total operating income, and compared to the previous year, we have near to EUR 1.7 million, or 17,4%, increase.

Interest expense for 2018 was about EUR 1.8 million (2017: EUR 1.5 million). This increase comes as a result of increase in customer deposits volume by EUR 43.8 million, or by 24.6% compared to the previous year, while the average interest rate on deposits was rather stable throughout the year 2018.

The net interest margin was 7.0% compared to 7.6% last year, and this as a result of the decrease in the interest rate on loans.

The second category of income by size is net income from fees and commissions that reached the level of EUR 1.6 million. Although gross income from fees and commissions increased by 2.1%, fees and commission expenses had a higher increase for about 16.2%; which resulted in decrease in the net income from fees and commissions.

As a result of the implementation of IFRS 9, the Bank recognized an increase in the reserve for loans around EUR 5.2 million at the end of 2018, compared to EUR 4 million in 2017. The impact from the implementation of this standard was recognized in the opening balance of 2018.

Compared to 2017, the operating costs of the Bank during 2018 increased by 8.1%. Cost to income ratio was associated by a slight increase from 53.4% in 2017 to 56.5% in 2018.

During 2018, net profit amounted to EUR 6.6 million, by increasing significantly shareholders equity from EUR 21.1 million in 2017 to EUR 26.5 million at the end of 2018. The indicator of return on average equity was 28.3% this year and 29.8% last year.

During 2018, the BPB noted an improvement in capital adequacy indicators, with total capital on risk-weighted assets at 15.7%, compared to 15.4% in 2017. During this year, the Bank also received a subordinated debt in the amount of EUR 0.5 million from BlueOrchard. This debt will be used to finance Tier 2 Capital.

The investment in securities issued by the Government of the Republic of Kosovo during 2018 increased by EUR 13.0 million, resulting in EUR 30.1 million at the end of 2018 compared to EUR 17.2 million at the end of 2017.

Even during 2018, BPB continued to increase the stability of the funds by focusing on more stable and longer-term deposits, as well as on diversifying their structure by switching from higher amount deposits from different institutions to lower amount deposits from private individuals and SMEs which are considered as more sustainable and more stable.

Throughout 2018, the Bank continued its cooperation with international financial institutions such as the European Fund for Southeast Europe (EFSE), and the European Bank for Reconstruction and Development (EBRD). During 2018, BPB also signed a loan agreement with EBRD to support Micro, Small and Medium-sized Enterprises in the amount of EUR 5 million. During 2018, the amount of EUR 2.5 million has been received, while the remaining amount of EUR 2.5 million will be received in 2019.

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BUSINESS CUSTOMERS AND PRIVATE INDIVIDUALS

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During 2018, BPB has continued to develop and offer quality banking services to Micro, Small and Medium-sized Enterprises (MSMEs) as well as to Private Individuals (PI) with the view to support and further develop them. Apart from financing and deposits, the Bank has been focused on providing electronic banking services, namely alternative distribution channels.

In 2018, the portfolio of deposits has increased by EUR 44 million or by 25%, with the current account increased by EUR 27.7 million; the time deposit account has increased by EUR 16.1 million, while the savings account has been maintained. The increase in deposits in the current account confirms that customers have increased account turnover with our bank. On the other hand, gross loan portfolio have increased by 26.5 million or 19.4%, with the increase of 14.6 million coming from businesses, while the increase of 11.9 million coming from private individuals. Of the EUR 14.6 million, 88% of the growth of business credit portfolio comes from Micro Businesses and Agribusinesses. The Bank distributed credit exposures in the amount of EUR 113 million. Of the 8,282 credit exposures distributed, 45% of them were to new customers. In addition to developments, the Bank has also improved portfolio quality, which has resulted in reduced non-performing loans. Providing electronic services and enhancing their quality has been a Bank's priority during 2018, where the Bank has launched the latest M-Banking and E-Banking platforms, services that have directly impacted the customer's time and cost saving. The number of customers using our E-Banking and M-Banking platform has increased by 22%.

In order to meet customer needs, during 2018 we continued designing specific offers for specific sectors, which has directly impacted the increase of efficiency and effectiveness of the work of businesses and private individuals. Increasing the efficiency and meeting customer's needs will remain the focus of the Bank.

The Bank has taken significant steps in improving the quality of service to its business customers by expanding the specific areas to serve these customers. The Business Corner is used to guide customers on the use and utilization of electronic services. This area has been highly appreciated by existing customers and has also served as a bridge for new BPB customers.

In the course of supporting our customers, BPB has been the first bank to sign an agreement with the EBRD (European Bank for Reconstruction and Development) to increase the competitiveness of Small and Medium-sized Enterprises in the amount of EUR 5 million. In addition to access to finance, SMEs will also receive grants funded by EU IPA (Instrument for Pre-Accession Assistance), managed by EUO/EUSR Kosovo under the EBRD Kosovo SME Competitiveness Support Programme. This program will enable SMEs in Kosovo to acquire assistance to be developed towards EU standards envisaged by the EBRD and the EU according to the parameters of the Kosovo SME Competitiveness Support Programme. EBRD's credit as an incentive enables a 15% loan grant, which implies lowering the cost of the investment to a significant extent. These funds will be used for specific purposes that help improve business facilities and improve the level of environmental protection, health and safety and product quality in line with EU standards. A combination of long-term financing, technical cooperation and investment incentives form a package designed to help develop the full potential of SMEs of the country.

In addition to the business customer program, BPB has considerably invested in supporting family investment simultaneously. The 'Green for Growth Finance' Fund has been an initiative that has helped both the Bank and its customers in terms of financial education and investment, which help to reduce energy consumption and increase household comfort. Through this line only the Bank has managed to distribute over EUR 1 million loans for home improvements.

To increase the quality of staff, the Bank has invested in various trainings, both in terms of customer care and sales, as well as in the field of risk and lending. In addition, in order to increase the quality of the services provided through the Call Center, the responsible staff was trained in order to provide real-time technical support and advice on using and providing information on all Bank services.

The agribusiness sector is one of the pillars of economic development and affects employment growth in the country. This sector contributes with over 10% in the GDP in the country. During 2018, the Bank expanded its staff capacity and specifically provided banking services and products based on the needs of agribusinesses. In order to support the agribusinesses, during 2018 the Bank continued to cooperate with main stakeholders such as MAFRD, different municipalities, as well as other local and international organizations. We have reached a cooperation agreement with prestigious companies in Kosovo to provide farmers with financing options with preferential interest rates for purchasing new machinery and agricultural inputs to expand their business. Agricultural loan portfolio has increased by 67% in 2018. The Bank will continue to provide loan services and products based on the needs of agribusinesses in order to support them and increase their capacity.

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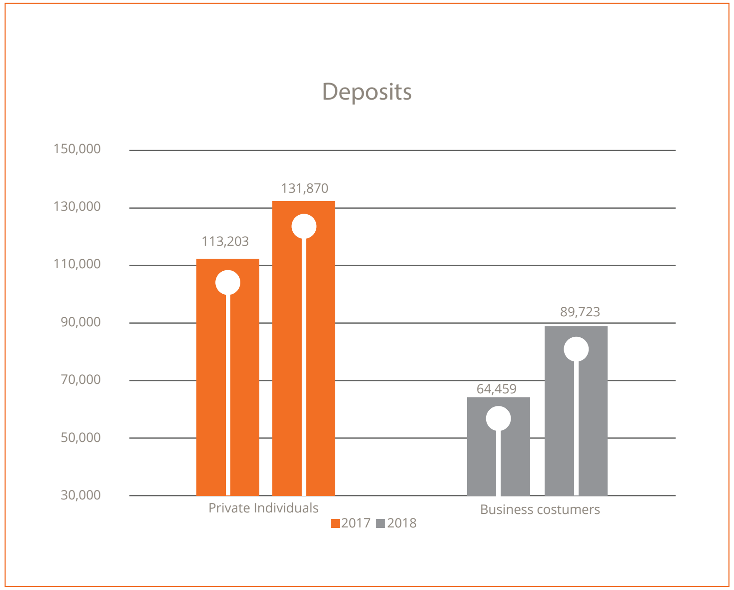
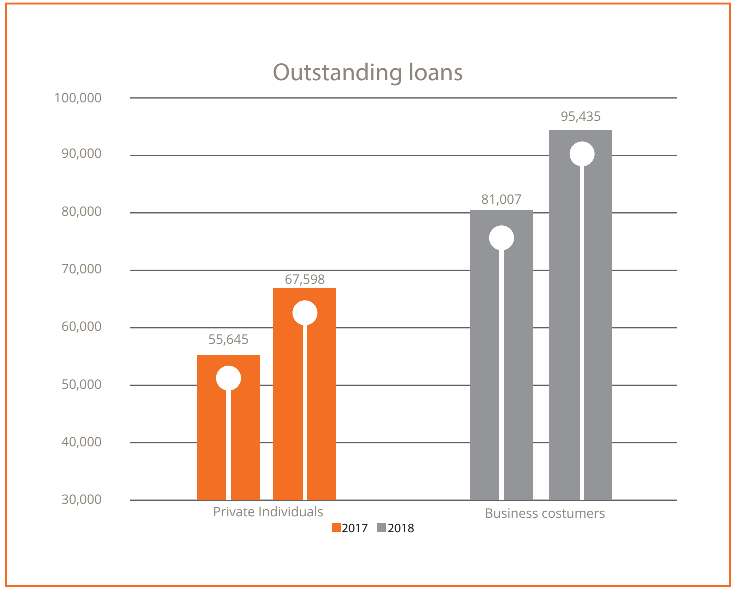
In addition, the Bank has also focused on increasing possibilities for access to finance for small and medium-sized businesses and agribusinesses. In this regard, we have increased the cooperation with the Kosovo Credit Guarantee Fund, so that customers who do not have sufficient collateral coverage can be offered access to finance. We have worked on identifying customers who meet the investment requirements and we have credited substantial projects that have proven to be successful in terms of KCGF and the Bank as lenders. During 2018, we have increased the limit with the Kosovo Credit Guarantee Fund for small and medium-sized businesses, and the Bank has signed the Guarantee Fund "Agro Window" with KCGF (Kosovo Credit Guarantee Fund) for financial support for agribusinesses.

BPB has a broad network of branches and professional staff that enables its customers to have quick and easy access to banking products and services. Significant changes and investments have been made during 2018 in the improvement of the branch network aiming to facilitate the access of customers to banking services. The relocation and opening of new branches strongly confirm our strategy aimed at providing the most quality service to the Bank's customers.

As a result of all investments and achievements, BPB has been awarded as the 'Best Bank of 2018' by the prestigious magazine 'The Banker' published by the 'Financial Times'. This prize makes us believe that our strategy and on-going investments are reflecting the steady growth of the Bank and providing high quality of service.





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HUMAN RESOURCES

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Even in 2018, Banka për Biznes continued with its development trend, where it continued with investing in building human capital competencies by increasing productivity and efficiency at work, the vision of a sustainable bank for shareholders, a credible institution for employees as well as leaders in providing financial products and services to small and medium enterprises in Kosovo is fulfilled.

The focus on recruiting competent employees in the field of the banking system has influenced the creation of a new working culture and has made possible the implementation of the Bank's ambitious plan.
In order to increase the efficiency of recruiting and preparing youth for the banking market, the first group students from the BPB Juniors program have graduated during this year. The Bank is committed to providing this opportunity to participants to be trained by professional staff with many years of experience in the banking system and develop them to become successful bankers in the future. Eight students of this group were employed, while it is worth mentioning that in the second part of 2018 the recruitment process for students who will be part of BPB Juniors 2 has been completed.

A very important part of the human resources strategy alongside building on the competencies of the employees and their motivation has been the career orientation. The main purpose of the career orientation is to motivate and retain employees with excellent performance at work and with the potential to be promoted to managerial positions in the future. This concept is designed so the employees have clear criteria for developing their knowledge and competencies and their opportunities for promotion and advancement in career within the Bank.

Considering the importance of investment in training and development of employees, a professional training on leadership skills has been organized even during this year, which has helped managers to adapt to the new culture of the Bank's work and to reflect on the necessary changes within their team in order to achieve the objectives of the department and of the Bank in general. The same training has been also organized for employees identified as having more potential for management positions, where this training has influenced the motivation and development of their leadership skills. Furthermore, we have identified the needs of employees which have been trained on sales and customer care, as well as other trainings that have had a positive impact on the professional development of the Bank's employees.

As a Bank, we consider of great importance the aspect of trainings organized by the Kosovo Banking Association or any other institution, where, through these trainings, selected employees for participation acquire additional knowledge and experience, which they are able to share with their colleagues.

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PDD AND IT

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The pathway of the Bank's digital transformation has begun years ago and continues to be strengthened every day, in parallel to the global trends in technology advancement and on-going customer needs. In line with the Bank's strategy and with the aim of offering additional channels to meet customer needs, the Product Development Department and Information Technology have been striving to provide sustainable and long-lasting alternatives that provide customers with additional opportunities to meet their needs comfortably, electronically 24/7, regardless of working hours.

If we refer to the previous year, the Bank has successfully launched the very sophisticated new e-banking platforms, providing an excellent example of timely customer-business remodelling. The continued expansion of the range of services and the enhancement of the quality and security of these platforms have had a direct impact on increasing the level of usage by helping customers manage their financial transactions and rational use of time.

To further promote this innovative approach, the Product Development Department has been strongly committed to advancing ATM's performance by investing in the most recent technology fleet, increasing the functionality of depositing cash in ATM and advancing the card services in general.

Increased use of electronic channels and timely identification of customer needs lead the Product Development Department and the Information Technology to further follow and advance the Bank's electronic concept. However, in spite of multiple electronic banking channels, increased efficiency and automation of internal processes will remain the focus of these departments, thus creating room to the front office to further extend the relationship with customers.

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COMPLIANCE AND AML

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The Bank is committed to keeping its activity in line with the regulatory framework, domestic and international standards in order to increase customer confidence and ensure the Bank's compliance. Ensuring Bank compliance with these standards is among the highest priorities of BPB's Managing Board.

Therefore, during 2018, the Bank, through the Compliance Department, has continued to undertake actions in order to ensure that it is in compliance with the regulatory framework.

AML (Anti-Money Laundering)

With regard to prevention of money laundering, Banka për Biznes applies best banking practices in order to be protected from the use of Bank services and products for money laundering or terrorist financing activities. Banka për Biznes supports the fight against money laundering and terrorist financing by applying the basic principle "Know Your Customer", whereby the Bank establishes banking relationships with those customers identified and verified that with established relationships, the Bank ensures that customers' activity is in compliance with the requirements and standards of the Bank.

The Bank's objective and goal in preventing money laundering continues to be the increase of the efficiency of monitoring processes, services and reporting to relevant authorities, thus implementing the independence and responsibility of the Bank's Compliance Department. The Compliance Department for the prevention of money laundering and fighting terrorism monitors the implementation of legal and regulatory requirements in this area. Banka për Biznes implements FATF's risk assessment recommendations by analysing the risks arising from money laundering and the actions to be taken to prevent the use of the Bank for these purposes. The Bank also uses the software that identifies potentially suspicious transactions.

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RISK MANAGEMENT

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The Risk Management Department has continued its commitment to risk management and the advancement of risk-related processes to ensure full compliance with the laws and regulatory requirements of the CBK. Regarding this, existing documents have been reviewed and additional documents have been created according to the new regulatory requirements.

In 2018, the Bank has fully implemented the IFRS 9 project, the model and methodology for calculating the commissions has been built, and all the accompanying documents have been created to be in full harmony with this standard. The application for automatically calculating the commissions will be soon finalized and implemented.

Also, the application for automatically managing the credit monitoring process has been developed, which application allows monitoring of all lending process activities.

As a result of the improvement and automation of many processes, loan quality improvement has continued, including all categories of classified loans. The level of non-performing loans (NPL) has further improved and continues to remain at the level of the banking industry's average. The Bank's strategy and business model for further diversification of loans has also had an impact, where the focus of the Bank continues to be the financing and growth of individual loans and small businesses (MICRO and AGRO), not expanding to financing large credit exposures. This Bank's strategy has also led to a further decline of the large credit exposures, as the largest borrower now accounts for less than 5% of Tier 1 Capital and thus the Bank continued to reduce risk from large exposures.

In order to be in line with the strategy of diversifying loans and financing small businesses, the Bank has continued to cooperate and increase the limits with the Kosovo Credit Guarantee Fund, enabling many small businesses to access funds in order to further develop their businesses. Likewise, the Bank continued to further cooperate with outsourced companies for managing loan arrears, in particular for loss and off-balance-sheet loans.

Regarding liquidity risk management, the Bank has continued to increase steady deposits, providing sufficient funds to support business growth and maintaining high levels of liquidity. In addition to increasing customer deposits, the Bank has also continued its cooperation with the International Financial Institutions (EBRD, EFSE, BlueOrchard), providing additional funds through various credit lines.

Regarding the operational risk management, the Bank has continued to manage the operational risk in line with CBK regulations and Basel international standards. Steps and measures have been undertaken to improve existing processes, and increase controls, resulting in minimum operational financial losses.

The Bank has started to develop and build models and methodologies for implementing ICAAP (Internal Capital Adequacy Assessment Process), as a new regulatory requirement. In this regard, the Bank has determined the level of additional capital allocation for other risks that are not determined by current CBK regulations and has reported the same to be in compliance with regulatory requirements.

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SOCIAL RESPONSIBILITY

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The Bank seriously treats its role in terms of social responsibility. In line with our slogan "Bank of your country", BPB strives to increase the quality of life in the society in which it operates. Therefore, every year, the Bank allocates time and money to address topics of social interest. As an example, in 2019, we engaged in environmental projects, helping Kosovo become more environmentally-friendly.

In 2018, BPB focused on the health of mothers, children and education. BPB was the platinum sponsor of the key event in Kosovo highlighting the mother-child relationship and their health. The event organized by the NGO "Action for Mother and Children" gathers the best companies in Kosovo thus dedicating the incomes from the event to meet various technological shortages in hospitals throughout Kosovo, mainly in paediatric sections.

Moreover, we have also granted donations to agencies dealing with children with special needs. The Bank has also invested in the education system of the country. Primary rural schools were the main focus, taking into account their limited budget and the lack of basic equipment to carry out their daily lessons.

Last year, BPB supported 10 schools in different projects. We have provided boards, facility renovations, sports fields. Most importantly, we have established a number of science labs to help children apply their knowledge into practice. We have built a biology and chemistry laboratory, set up a computer room and spent some time answering to children's questions in relation to the banking sector practices.

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BANKA PËR BIZNES SH.A.

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE YEAR ENDED 31 DECEMBER 2018 WITH INDEPENDENT AUDITORS' REPORT THEREON

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Banka për Biznes Sh.a

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Banka për Biznes Sh.a ("the Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements presents fairly, in all material respects the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kosovo, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in Banka për Biznes Sh.a 2018 Annual Report

Other information consists of the information included in Bank's 2018 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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 IFRS 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.

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Responsibilities of management and those charged with governance for the financial statements (continued)

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 Responsibility for 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 of Banka për Biznes Sh.a 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.

Ernst & Young Certified Auditors Kosovo

Ernst & Young Certified Auditors Kosovo sh.p.k.

April 29, 2019
Prishtina, Kosovo

Banka për Biznes Sh.a.
Statement of Comprehensive Income
For the year ended 31 December 2018

In thousands of EUR	**Note**	**2018**	**2017**
Interest income at effective interest rate	7	13,473	11,377
Interest expense	7	(1,847)	(1,470)
Net interest income		**11,626**	**9,907**
Fee and commission income	8	2,367	2,319
Fee and commission expense	8	(759)	(653)
Net fee and commission income		**1,608**	**1,666**
Recoveries of loans previously written off		993	645
Net foreign exchange gain		10	12
Net gains on financial assets at fair value through other comprehensive income	15	7	1,065
Other operating income	9	504	790
Total operating income		**14,748**	**14,085**
Credit loss expense on loans and advances to customers	16	506	(543)
Credit loss expense on financial assets	12-15	(22)	-
Net reversal of provisions for guarantees		12	27
Repossessed assets write-downs	19	(62)	(197)
Other provisions		(101)	(78)
Other operating expenses	10	(7,736)	(7,156)
Total operating expenses		**(7,403)**	**(7,947)**
Profit before income tax		**7,345**	**6,138**
Income tax expense	11	(753)	(631)
Net profit for the year		**6,592**	**5,507**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Net change in fair value of financial assets through other comprehensive income		(22)	-
Net change in fair value of available for sale financial assets		-	2
Total comprehensive income for the year		**6,570**	**5,509**

The Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 81.

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Banka për Biznes Sh.a.
Statement of Financial Position
As at 31 December 2018

In thousands of EUR	Note	2018	2017
Assets			
Cash on hand and at banks	12	18,679	17,833
Balances with Central Bank of Kosovo	13	39,146	33,998
Loans and advances to banks	14	4,788	1,450
Financial assets at fair value through OCI	15	30,138	-
Financial Investments - Available-for-sale	15	-	17,152
Loans and advances to customers	16	157,849	132,551
Other financial assets	17	378	143
Other assets	18	410	815
Repossessed assets	19	93	155
Intangible assets	20	402	338
Property and equipment	21	2,830	1,725
Total assets		**254,713**	**206,160**
Liabilities			
Due to customers	22	221,593	177,780
Borrowings	23	4,285	4,143
Subordinated debt	23	1,342	840
Other liabilities	24	1,399	1,673
Other provisions	24	482	506
Deferred tax liability	11	59	124
Total liabilities		**229,160**	**185,066**
Equity			
Share capital	25	11,247	11,247
Other capital reserve	25	857	857
Revaluation reserve	25	96	96
Fair value reserve		(52)	(30)
Retained earnings		13,405	8,924
Total equity		**25,553**	**21,094**
Total liabilities and equity		**254,713**	**206,160**

These financial statements were approved by the management of the Bank on 26 April 2019 and signed on its behalf by:

Arton Celina	***Avni Berisha***
Chief Executive Officer	*Head of Finance Department*

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 81.

Banka për Biznes Sh.a.
Statement of Changes in Equity
For the year ended 31 December 2018

In thousands of EUR	Share capital	Other capital reserve	Revaluation reserve	Retained Earnings	Fair value reserve	Total
Balance at 1 January 2017	**11,247**	**857**	**96**	**3,702**	**(32)**	**15,870**
Profit for the year	-	-	-	5,507	-	**5,507**
Other comprehensive income	-	-	-	-	2	**2**
Total comprehensive income for the year	-	-	-	**5,507**	**2**	**5,509**
Transactions with owners of the Bank						
Dividends to equity holders	-	-	-	(285)	-	**(285)**
Balance at 31 December 2017	**11,247**	**857**	**96**	**8,924**	**(30)**	**21,094**
Impact of adopting IFRS 9 Note 6	-	-	-	(1,683)	-	**(1,683)**
Restated opening balance under IFRS 9 (Note 6)	**11,247**	**857**	**96**	**7,241**	**(30)**	**19,411**
Profit for the year	-	-	-	6,592	-	**6,592**
Net change in fair value of financial assets through other comprehensive income	-	-	-	-	(22)	**(22)**
Total comprehensive income for the year	-	-	-	**6,592**	**(22)**	**6,570**
Transactions with owners of the Bank						
Dividends to equity holders	-	-	-	(428)	-	**(428)**
Balance at 31 December 2018	**11,247**	**857**	**96**	**13,405**	**(52)**	**25,553**

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 81.

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Banka për Biznes Sh.a.
Statement of Cash Flows
For the year ended 31 December 2018

In thousands of EUR	Note	2018	2017
Cash flows from operating activities			
Profit for the year before tax		7,346	6,138
Non-cash items in the financial statements:			
Depreciation	21	595	351
Amortisation	20	217	133
Gain from disposal of property, equipment and repossessed assets		(5)	(160)
Gain from repossession of collateral		(428)	(601)
ECL/Impairment losses from loans	16	(506)	543
ECL/Impairment losses from financial assets		21	-
Write down of repossessed assets	19	62	197
Other provisions		1	123
Gain from sale of AFS		(7)	(1,065)
Interest expense	7	1,847	1,470
Interest income	7	(13,473)	(11,377)
		(4,330)	**(4,248)**
Changes in:			
Loans and advances to banks	14	(3,345)	(850)
Loans and advances to customers	16	(26,457)	(28,884)
Restricted balances with the CBK	13	(2,770)	(2,674)
Other assets	18	405	(674)
Other financial assets	17	(235)	94
Repossessed assets	19	-	694
Due to customers	22	43,869	37,056
Other liabilities and provisions		(312)	313
		6,825	**827**
Interest received		13,179	11,278
Interest paid		(1,834)	(1,475)
Income tax paid	11	(611)	(565)
Net cash generated from operating activities		**17,559**	**10,065**
Cash flows from investing activities			
Proceeds/(Investments) from/in Financial assets at fair value through OCI, net		(12,967)	1,886
Purchase of property and equipment	21	(1,754)	(1,105)
Purchase of intangible assets	20	(281)	(245)
Proceeds from sale of repossessed assets		428	-
Proceeds from sale of property and equipment		60	2
Net cash (used in)/from investing activities		**(14,514)**	**538**
Cash flows from financing activities			
Repayment of borrowings	23	(2,343)	(2,600)
Receipts from borrowings	23	3,000	1,500
Dividend Distributed		(428)	(285)
Net cash generated from/(used in) financing activities		**229**	**(1,385)**
Net increase in cash and cash equivalents		**3,276**	**9,218**
Cash and cash equivalents at beginning of the year	**12**	**36,864**	**27,646**
Cash and cash equivalents at the end of the year	**12**	**40,140**	**36,864**

The Statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 81.

Banka për Biznes Sh.a.
Notes to the financial statements
For the year ended 31 December 2018
(Amounts in thousands of EUR, unless otherwise stated)

1. INTRODUCTION

The Bank for Private Business sh.a obtained a license for banking activities on 29 March 2001 and commenced operations on 24 April 2001.

Based on the decision of the Board of Directors dated 28 February 2005, and the final approval from the Central Bank of Kosovo ("CBK") dated 22 March 2005, the Bank changed its name to Banka per Biznes (Bank for Business) (the "Bank"). In 2006, the Bank was registered as a joint stock company ("sh.a"). The Bank operates as a commercial and savings bank to all categories of customers within Kosovo through its network of 9 branches and 17 sub branches located throughout Kosovo (2017: 8 branches and 19 sub branches).

Financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 29 April 2019.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the financial assets listed below, which are measured at fair value:

- Debt instruments held under the business model held to collect and sale.

2.3 New and amended standards and interpretations

In these financial statements, the Bank has applied IFRS 9, IFRS 15 and IFRS 7R, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

2.3.1 IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in Note 6.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting, which however has limited applicability to the Bank, if any.

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

The Bank has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

2.3.1.1 Changes to classification and measurement

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

2. BASIS OF PREPARATION (CONTINUED)

2.3 New and amended standards and interpretations (continued)

2.3.1 IFRS 9 Financial Instruments (continued)

2.3.1.1 Changes to classification and measurement (continued)

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

At 1 January 2018, the Bank does not hold other debt investments and equity investments whose business model requires them to be subsequently measured at fair value through profit or loss (FVTPL).

Management of the Bank reviewed and assessed the Bank's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Bank's financial assets as regards their classification and measurement:

- the Bank's investment in Government debt instruments that were classified as available-for-sale financial assets under IAS 39 have been classified as financial assets at FVTOCI because they are held within a business model whose objective is both to collect contractual cash flows and to sell the bonds, and they have contractual cash flows that are solely payments of principal and interest on principal outstanding. The change in the fair value on these redeemable notes continues to accumulate in the investment revaluation reserve until they are derecognised or reclassified;
- financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

None of the reclassifications of financial assets have had any impact on the Bank's financial position and cumulative reserves as at 1 January 2018.

2.3.1.2 Changes to the impairment calculation

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Bank to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Bank to recognise a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortised cost or at FVTOCI;
- Lease receivables;
- Trade receivables and contract assets; and
- Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

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Notes to the financial statements
For the year ended 31 December 2018
(Amounts in thousands of EUR, unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

2.3 New and amended standards and interpretations (continued)

2.3.1 IFRS 9 Financial Instruments (continued)

2.3.1.2 Changes to the impairment calculation (continued)

In particular, IFRS 9 requires the Bank to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Bank is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances, however the Bank does not have significant assets falling under this category.

The additional credit loss allowance of EUR 1,870 thousand as at 1 January 2018 has been recognised against retained earnings on the same date, net of their related deferred tax impact of EUR 187 thousand resulting in a net decrease in retained earnings of EUR 1,683 thousand at 1 January 2018 (Note 6). The additional loss allowance is charged against the respective asset or provision for financial guarantee, except for the investment in Government debt instruments, which is measured at FVTOCI, the loss allowance for which is recognised against the investment revaluation reserve.

2.3.2 IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 *Financial Instruments: Disclosures* was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 6, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 27. Reconciliations from opening to closing ECL allowances are presented in Note 16. IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

2.3.3 IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 Leases (or IFRS 16 Leases, once applied). Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. As the focus of IFRS 15 is not on accounting for revenue from financial instruments which in Bank's case are treated under IFRS 9, the number of contracts to which the standard is applicable is very limited. The bank had no impact from the implementation of IFRS 15.

The Bank adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. The Bank elected to apply the standard to all contracts as at 1 January 2018. The comparative information was not restated and continues to be reported under IAS 18 and related interpretations.

IFRS 15 primarily includes within its scope the Net Fee and Commission income of the Bank (Note 8). These fees and commissions are normally earned when transactions are executed, or are fees applied for accounts maintenance within a month or year, and typically performance obligations are satisfied, and income recognised within the financial year.

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2. BASIS OF PREPARATION (CONTINUED)

2.3 New and amended standards and interpretations (continued)

2.3.3 IFRS 15 Revenue from Contracts with Customers (continued)

Sale of repossessed collaterals also falls under IFRS 15. Revenue from such sales are recognised when the asset's risk and rewards are transferred to the buyer, even if the ownership title is retained as guarantee for completion of payments.

There are no other material revenues streams that fall under IFRS 15 and the adoption of this standard did not change the revenue recognition practices of the Bank.

2.4 Functional and presentation currency

These financial statements are presented in EUR, which is the Bank's functional currency. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

2.5 Corresponding figures

Certain corresponding figures have been reclassified in order to conform to the current year's basis of presentation.

- Included within fee and commission income note 8 are some categories of interest from payment transfers and transactions in total amount of EUR 37k (2017: EUR 10k) which have been previously classified under interest income in note 7.
- The Deposit Insurance Expense in amount of EUR 367k (2017: EUR 271k) is reclassified from the interest expense note 7, to other operating expense note 10 under the line item of Insurance and security.

2.6 Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting 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 estimates are recognised prospectively.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 4, 5 and 27.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Interest income and expense

Under both IFRS 9 and IAS 39 Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, where appropriate, a shorter period) to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Interest income and expense (continued)

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, under IFRS 9 for financial assets that have become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Under IFRS 9 for financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expense presented in the statement of profit or loss and Other Comprehensive Income (OCI) include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on debt instruments measured at FVOCI calculated on an effective interest basis

b) Fees and commissions

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

Under IFRS 15 the Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations,

Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Under IAS 18 other fees and commission income, including account servicing fees, fund transfer fees, sales commission and placement fees are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

c) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

d) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot rate exchange rate at that date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets and financial liabilities (Policy applicable after 1 January 2018)

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued, borrowings and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All Bank's financial assets are classified as measured at amortised cost or at FVOCI.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within
- that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Bank does not hold Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(ii) Classification (continued)

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities **(Policy applicable before and after 1 January 2018)**

The Bank classifies its financial liabilities as measured at amortised cost.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised 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 recognised in other comprehensive income is recognised in profit or loss.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(iii) Derecognition (continued)

Financial assets (continued)

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

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

Financial liabilities **(Policy applicable before and after 1 January 2018)**

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

(iv) Modifications of financial assets and financial liabilities

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

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

(v) Offsetting (policy applicable before and after 1 January 2018)

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Group of similar transactions such as in the Bank's trading activity.

(vi) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

(vii) Fair value measurement (policy applicable before and after 1 January 2018)

'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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(vii) Fair value measurement (policy applicable before and after 1 January 2018) (continued)

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.
If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred in FV levels (note 5).

(viii) Identification and measurement of impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

The Bank will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
- loans and debt investment securities for which credit risk has not increased significantly since initial recognition.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(viii) Identification and measurement of impairment (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Definition of default

Under IFRS 9, the Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank.

This definition is largely consistent with the definition used for regulatory purposes for loans classified as doubtful or loss (see Note 3 e *vii*).

In assessing whether a borrower is in default, the Bank will consider indicators that are consistent with the risk regulatory requirements for classification of loans as doubtful or lost:

- qualitative: e.g. breaches of contractual covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same borrower to the Bank; and
- regulatory risk classification of the same borrowers in other banks.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on requirements set forth by Credit Risk Management regulation by using qualitative and quantitative factors that are indicative of the risk of default. In addition to the risk classes introduced for regulatory purposes, the Bank identifies and monitors separately standard loans in past due from standard loans not in past due.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk

Significant increase in the risk of default and default itself are key determinants for calculation of the expected credit losses.

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk by comparing: (i) the risk that the loan will default at or after the reporting date with (ii) the risk of default assessed at or after the date of its initial recognition.

When performing this assessment, the Bank considers reasonable and supportable forward-looking and historical information for individual loans, or group of loans when reasonable and supportable information is not available on an individual basis. Measurement of the ECLs pattern reflects the general pattern of deterioration or improvement in the credit quality of financial instruments, expressed in terms of significant increase in credit risk. When the financial instruments are initially originated, loss allowance is measured at an amount equal to 12-month expected credit losses. When the instrument's risk of default has significantly increased since its origination, the Bank shall measure loss allowance at an amount equal to lifetime expected credit losses.

The Bank will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable; and
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired.

Determining whether credit risk has increased significantly

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank has identified whether a significant increase in credit risk has occurred for an exposure that changes the regulatory risk classification from standard to watch assessed in line with the Bank's policy for regulatory risk classification. All loans showing significant increase in credit risk are classified in Stage 2.

As a backstop, and as required by IFRS 9, the Bank presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Beside the backstop indicator, the Bank also considers as a significant increase in credit risk if the loan is classified from standard to watch or a worse risk grade or other loans of the same customer with the Bank are classified from standard to watch or a worse risk grade. The Bank aslo considers that the risk has increased if the client requests a restructuring with easing teams such as: extended maturity, lower instalment, lower interest rate, waivers of accrued penalties and interest.

Grouping of loans

Collective assessment of PD

For the purpose of a collective assessment of PDs, BPB groups loans on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

In consideration to credit risk profile of its loans, BPB has selected to group loans based on ***customer type*** (large and medium businesses, small businesses, individuals) and ***product type*** (business, housing, consumer).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(viii) Identification and measurement of impairment (continued)

Grouping of loans (continued)

Collective assessment of PD (continued)

There has been a segmentation of the loan portfolio based on the similar characteristics of risk. Below are presented seven segments of the loan portfolio and credit cards portfolio:

- Corporate
- Micro
- Agro
- Mortgage
- Veterans&Invalids
- Consumer
- Credit Cards

Collective assessment of LGD

For the purpose of a collective assessment of LGDs, loans are group on the basis of:

- the cash recovery cycle for non-performing loans;
- the collateral type (i.e. real estate collateral); and
- the recovery after write-off.

BPB reviews on annual basis the set limits and criteria to ensure that they remain valid following possible changes in the loans portfolio size and composition.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the Bank will consider whether the asset's credit risk has increased significantly by analysing quantitative and qualitative factors affecting risk of default.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and business loans are subject to the forbearance policy.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(viii) Identification and measurement of impairment (continued)

Modified financial assets (continued)

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit.

Following forbearance, a customer needs to demonstrate consistently good payment behavior over eight months before the exposure is measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are derived from internally developed statistical models and other historical data that leverage regulatory models. PDs are adjusted to reflect forward-looking information as described below.

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank has employed statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators are likely to include GDP growth, interest rates and unemployment. The Bank's approach to incorporating forward-looking information into this assessment is discussed below.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD.

LGD estimates are calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which is estimated based on historical observations and forward-looking forecasts.

The Bank is measuring ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(viii) Identification and measurement of impairment (continued)

Inputs into measurement of ECLs (continued)

For retail overdrafts and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Bank measure ECLs over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be Ranked on the basis of shared risk characteristics that include:

- instrument type; and
- credit risk grading.

The Rankings will be subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

For investments in debt securities in respect of which the Bank has limited historical data, external benchmark information published by recognised external credit rating agencies such as Moody's are used to supplement the internally available data.

Forward-looking information

Under IFRS 9, the Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank formulates a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on advice from the Bank Risk Committee and economic experts and consideration of a variety of external actual and forecast information.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the Organisation for Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

The base case represents a most-likely outcome and be aligned with information used by the Bank for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. The Bank also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include interest rates, unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 years.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(viii) Identification and measurement of impairment (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed in note 15.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

f) Financial assets and financial liabilities (Policy applicable before 1 January 2018)

(i) Recognition

The Bank initially recognises loans and advances, held-to-maturity and available-for-sale investments, deposits, borrowings and subordinated debt on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(ii) Classification

Financial assets

The Bank classifies its financial assets into one of the following categories:

- loans and receivables and
- available-for-sale financial assets.

- **Loans and receivables (Policy applicable before 1 January 2018)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances to banks and to customers are classified as loans and receivables.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable before 1 January 2018) (continued)

(ii) Classification (continued)

Financial assets (continued)

- **Available-for-sale financial assets (Policy applicable before 1 January 2018)**

Investment securities are initially measured at fair value plus incremental direct transaction costs.

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise debt securities. All available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss (see (g)(v)).

Other fair value changes, other than impairment losses (see (g)(v)), are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised 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 recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

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

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable before 1 January 2018) (continued)

(v) Identification and measurement of impairment

Impairment of loans and advances

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

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan by the Bank on terms that the Bank 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 the group, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advance with similar risk characteristics.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (type and amount of the loan). Based on historical data for each of these groups a loss factor is calculated. These expected loss factors are adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends, and then they are applied to estimate impairment loss on each group. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case the original financial asset is derecognised and the new financial asset is recognised at fair value.

The impairment loss is measured as follows:

- If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. The loans are written off after reasonable collection measures have been taken in accordance with the Bank's established policy. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable before 1 January 2018) (continued)

(v) Identification and measurement of impairment (continued)

Impairment of available-for-sale financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognized through OCI.

g) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

h) Deposits, borrowings and subordinated debt (Policy applicable before 1 January 2018)

Deposits, borrowings and subordinated debts are the Bank's main sources of debt funding.

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

i) Repossessed assets

Collateral held under loan agreement can only be possessed by the Bank in case of borrower's default and conduct of legal procedures in accordance with legislation of Kosovo which enable the Bank to take full legal title and ownership. Only after the completion of these procedures, the Bank can sell or transfer the collateral. Repossessed assets are initially recognized at the amount stipulated by the court order and are subsequently measured at the lower of cost and net realizable value and any gain or loss from the sale of these assets is recognized in the profit or loss.

From the initial recognition, the Bank classifies the repossessed property at a minimum of substandard classification and set aside provisioning according to classification. In addition, the Bank recognizes repossessed collateral as an asset only when it has full legal title of the collateral and the fair value of collateral can be determined reliably. The Bank cannot sell, transfer or re-pledge the collateral if legal procedures for transfer of ownership as a result of default have not been completed. The Bank holds the possession of properties acquired through enforcement in the form of a mortgage, for a maximal period of five years. If, within five years, the asset has not been sold by the Bank, it is written down to zero value.

j) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Property and equipment (continued)

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date they are available for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values over their estimated useful lives. Depreciation is recognised in profit or loss.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives for the current and comparative periods are as follows:

	Useful life
Buildings	20 years
Computer and related equipment	5 years
Vehicles	5 years
Furniture, fixtures and equipment	5 years

Leasehold improvements are depreciated using the straight-line basis over the shorter of the lease term and their useful lives. The estimated useful life of the leasehold improvements is 5 years.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

k) Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss over the estimated useful life of the asset, from the date that it is available for use.

Software is amortised using the straight-line method over the estimated useful life of five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

l) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax 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 recognised if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset 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 are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Provisions

A provision is recognised if, as a result of a past event, the Bank 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. The unwinding of the discount is recognised as finance cost.

n) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Kosovo under a defined contribution pension plan.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

o) Financial guarantees and loan commitments (Policy applicable after 1 January 2018)

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by an approximation to the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

p) Financial guarantees and loan commitments (Policy applicable before 1 January 2018)

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Such financial commitments are recorded in the statement of financial position if and when they become payable.

q) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the reporting date are disclosed as events after the end of the reporting period.

r) Equity reserves

The reserves recorded in equity (OCI) on the Bank's statement of financial position include:

- Fair value reserve, which comprises changes in fair value of Financial assets at fair value through OCI investments;
- Other capital reserve, which comprises difference between accumulated losses in accordance with IFRS and CBK;
- Revaluation reserve, which comprises on repossessed collateral recognized in Property and equipment from Bank.

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4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

4.1 Standards and interpretations issued but not yet effective and not yearly adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. An indication of current operating lease agreements is provided in Operating Lease Commitments in Note 26.

The Bank has estimated that, the adoption of IFRS 16 at 1 January 2019, will bring changes to its current measurement of the lease assets and lease liabilities under IAS 17. The Bank is in process of assessing the primary results from the adoption of IFRS 16. The results of this assessment were not available at the date of the approval of these financial statements.

For the following new standards and interpretations, the Bank anticipates that their adoption will have no material impact on the financial statements of the Bank in the period of initial application and are not expected to have an impact over the financial statements of the Bank:

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019),
- **IFRS 17 "Insurance Contracts"** (effective for annual period beginning on or after 1 January 2021),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **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 19: Plan Amendment, Curtailment or Settlement** - accounting when a plan amendment, curtailment or settlement occurs during a reporting period (effective for annual periods beginning on or after 1 January 2019)

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4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

4.1 Standards and interpretations issued but not yet effective and not yearly adopted (continued)

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Conceptual Framework in IFRS standards -** For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020,
- **IFRS 3: Business Combinations (Amendments)** - (effective for annual periods beginning on or after 1 January 2020),
- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)** - (effective for annual periods beginning on or after 1 January 2020).
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS, which become effective for annual periods beginning on or after 1 January 2019, and including:
  - IFRS 3 Business Combinations
  - IFRS 11 Joint Arrangements
  - IAS 12 Income Taxes
  - IAS 23 Borrowing costs.

4.2 Standards issued and effective for the annual period

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period, but their adoption has not led to any changes in the Company's accounting policies:

- **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 IAS 40 "Investment Property"** - Transfers of Investment Property (effective 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),
- **Amendments to IFRS 1 and IAS 28 due to "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 1 and IAS 28 are applied for annual periods beginning on or after 1 January 2018).

5. USE OF ESTIMATES AND JUDGMENTS

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the separate financial statements is disclosed below.

These disclosures supplement the commentary on financial risk management (see Note 27).

a) Expected Credit Losses (policy applicable after 1 January 2018)

Financial assets measured at amortised cost or FVOCI are assessed for impairment on a basis described in Note 3.(e).(vii). The Bank reviews its assumptions and judgments on a regular basis.

The Bank measures the expected credit losses of a financial instrument in a way that reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money; and

(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

b) Net realizable value of repossessed assets

The Bank has established a policy with respect to the fair values of repossessed assets which are being measured at the lower of cost and net realizable value, which is the estimated selling price of the properties less costs to sell. The estimated selling price is derived from fair value measurements that include the use of external, independent property valuers, having appropriate recognized statutory professional qualifications, which is subsequently reviewed from the Bank Management for significant unobservable inputs and any required write down adjustments.

The Bank generally impairs in full repossessed property if they remain unsold for periods longer than 5 years. The fair value measurements involved in determination of the net realizable value of the Bank's repossessed assets are categorized into Level 3 of the fair value hierarchy.

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of repossessed assets, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Reference to the current market: The valuation model uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business)	Market prices were modified to reflect the following: • The level of market transactions when the market activity is low or the price for an identical property is difficult to obtain • Specific condition of each property (construction, position etc.)

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5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

c) Determining fair values

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3.(e).(vii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimation of the fair value is disclosed in note 5 d) below.

d) Disclosure and estimation of fair value

Fair value estimates are based on existing financial instruments on the Bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Financial instruments – fair value hierarchy

The following table sets out the fair values of financial instruments measured and not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. No items have fair value measurements in accordance to Level 1.

	2018			2017		
	Carrying value	**Fair value Level 2**	**Fair value Level 3**	**Carrying value**	**Fair value Level 2**	**Fair value Level 3**
Financial assets measured at fair value						
Financial investments at fair value through OCI	30,138	30,138	-	17,152	17,152	-
Financial assets not measured at fair value						
Cash on hand and at banks	57,825	-	57,825	51,831	-	51,831
Loans and advances to banks	4,788	-	4,788	1,450	-	1,450
Loans and advances to customers	157,849	-	156,098	132,551	-	131,081
Other financial assets	378	-	378	143	-	143
Financial liabilities not measured at fair value						
Due to customers	221,593	-	222,385	177,780	-	178,415
Subordinated debt	1,342	-	1,338	840	-	838
Borrowings	4,285	-	3,652	4,143	-	3,531
Other financial liabilities	1,399	-	1,399	1,673	-	1,673

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value (continued)

Financial instruments – fair value hierarchy

Fair value for financial assets and liabilities above have been determined using Level 2 and Level 3 input described above.

Fair value estimates are based on existing financial instruments on the Bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Balances with banks

Due from other banks include inter-bank placements and accounts. As loans, advances and deposits are short term and at floating rates, their fair value is considered to equate to their carrying amount.

Treasury Bills

Treasury Bills include treasury bills issued by the Government of Kosovo which are bought with the intention to hold till maturity. The fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Bonds

Bonds include bonds issued by the Government of Kosovo which are bought with the intention to hold till maturity. Quoted prices in active markets were not available for these securities. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs.

Loans and advances to customers

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

The Bank's loan portfolio has an estimated fair value approximately equal to its book value due either to their short-term nature or to underlying interest rates which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Due to customers, borrowings and subordinated debt

The fair value of subordinated debt and Due to customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits and subordinated debt of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

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6. TRANSITION DISCLOSURES

a) Classification of financial assets and liabilities from IAS 39 to IFRS 9

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

	IAS 39		IFRS 9	
	Measurement category	**Carrying amount as of 31 December 2017**	**Measurement category**	**Carrying amount as of 1 January 2018**
Financial assets				
Cash on hand and at banks	Amortised cost (Loans and receivables)	17,833	Amortised cost	17,819
Balances with Central Bank of Kosovo	Amortised cost (Loans and receivables)	33,998	Amortised cost	33,968
Loans and advances to banks	Amortised cost (Loans and receivables)	1,450	Amortised cost	1,446
Investment securities	FVOCI (Available for sale)	17,152	FVOCI	17,138
Loans and advances to customers	Amortised cost (Loans and receivables)	132,551	Amortised cost	130,748
Non-Financial Assets				
Deferred Tax Asset	Amortised Cost	-	Amortised Cost	63
Non-Financial Liabilities				
Provisions (financial guarantees)	Amortised cost (Loans and receivables)	(19)	Amortised cost	(24)
Deferred Tax Liability	Amortised Cost	(124)	Amortised Cost	-

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6. TRANSITION DISCLOSURES (CONTINUED)

b) Reconciliation of carrying amounts of financial assets and liabilities from IAS 39 to IFRS 9

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Amortised cost				
Cash on hand and at banks				
Opening balances under IAS 39 and closing balance under IFRS 9	17,833	-	-	17,833
Remeasurement: ECL allowance			(14)	(14)
Closing balance under IFRS 9	17,833	-	(14)	17,819
Balances with Central Bank of Kosovo				
Opening balances under IAS 39	33,998	-	-	33,998
Remeasurement: ECL allowance	-	-	(30)	(30)
Closing balance under IFRS 9	33,998	-	(30)	33,968
Loans and advances to banks				
Opening balances under IAS 39	1,450	-	-	1,450
Remeasurement: ECL allowance	-	-	(4)	(4)
Closing balance under IFRS 9	1,450	-	(4)	1,446
Loans and advances to customers				
Opening balance under IAS 39	132,551	-	-	132,551
Remeasurement: ECL allowance	-	-	(1,803)	(1,803)
Closing balance under IFRS 9	132,551	-	(1,803)	130,748
Total financial assets measured at amortised cost	**-**	**-**	**(1,851)**	**183,981**

6. TRANSITION DISCOUSURES (CONTINUED)

b) Reconciliation of carrying amounts of financial assets and liabilities from IAS 39 to IFRS 9 (Continued)

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Investment securities - Available for sale financial assets				
Investment securities - FVOCI (debt instruments)				
Opening balance under IAS 39	(17,152)	-	-	-
Subtraction: to FVOCI - debt instruments	-	17,152	(14)	17,138
Closing balance under IFRS 9	-	17,152	(14)	17,138
Total financial assets measured at FVOCI			**(14)**	**17,138**
Non-Financial Assets				
Deferred tax Asset				
Opening balance under IAS 39	-	-	-	-
Remeasurement: ECL allowance	-	-	63	63
Closing balance under IFRS 9			63	63
Total non-financial assets	-	-	**63**	**63**
Non-Financial Liabilities				
Provisions (financial guarantees)				
Opening balance	(19)		-	(19)
Remeasurement: ECL allowance	-		(5)	(5)
Closing balance under IFRS 9	(19)		(5)	(24)
Deferred tax Liability				
Opening balance under IAS 39	(124)	-	**-**	**(124)**
Remeasurement: ECL allowance	-	-	124	124
Closing balance under IFRS 9	-	-	-	-
Total non - financial Liabilities	-	-	**119**	**(24)**

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6. TRANSITION DISCLOSURES (CONTINUED)
c) Reconciliation of impairment loss

Measurement category	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurement	Loan loss allowance under IFRS 9
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash on hand and at banks	-	-	(14)	**(14)**
Balances with Central Bank of Kosovo	-	-	(30)	**(30)**
Loans and advances to banks	-	-	(4)	**(4)**
Loans and advances to customers	(3,994)	-	(1,731)	**(5,725)**
Total	**(3,994)**	**-**	**(1,779)**	**(5,773)**
Available for sale financial instruments (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Investment securities	-	-	(14)	**(14)**
Loan commitments and financial guarantee contracts				
Loans and advances to customers (loan commitments)	-	-	(72)	**(72)**
Provisions (loan commitments)	-	-	-	-
Provisions (financial guarantees)	(19)	-	(5)	**(24)**
Total	**(4,013)**	**-**	**(1,870)**	**(5,883)**

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Reserves and Retained Earnings
Retained Earnings	
Closing balance under IAS 39 (31 December 2017)	8,924
Reclassification adjustments in relation to adopting IFRS 9	-
Recognition of IFRS 9 ECLs including those measured at FVOCI	(1,870)
Deferred tax in relation to the above	187
Opening balance under IFRS 9 (1 January 2018)	**7,241**
Total change in equity due to adopting IFRS 9	**(1,683)**

7. NET INTEREST INCOME

Net interest income is composed as follows:

	2018	**2017**
Interest income at effective interest rate		
Loans and advances to customers	12,940	11,203
Loans and advances to banks	38	40
Financial investments	495	134
	13,473	**11,377**
Interest expenses		
Due to customers	(1,659)	(1,192)
Subordinated debt	(83)	(150)
Borrowings	(105)	(128)
	(1,847)	**(1,470)**
Net interest income	**11,626**	**9,907**

8. NET FEE AND COMMISSION INCOME

	2018	**2017**
Fee and commission income		
Payment transfers and transactions	1,532	1,582
Account maintenance fees	627	549
Other fees and commissions	208	188
Total fee and commission income	**2,367**	**2,319**
Fees and commissions on bank accounts	(670)	(557)
Fees and commissions on social aid distribution	(43)	(49)
Other fees and commissions	(46)	(47)
Total fee and commission expense	**(759)**	**(653)**
Net fee and commission income	**1,608**	**1,666**

Included within fee and commission income are some categories of interest from payment transfers and transactions in total amount of EUR 37k (2017: EUR 10k) which have been previously classified under interest income in note 7 above.

9. OTHER OPERATING INCOME

	2018	**2017**
Income from repossession of Gjakova Building	-	580
Gain from sale of repossessed assets	428	168
Other income	76	42
Total	**504**	**790**

The Gjakova Building relates to a loan that has been written off several years ago. The repossession process was not completed until 2017 and the building was recognized against income in 2017.

10. OTHER OPERATING EXPENSES

	2018	2017
Personnel expenses (see below)	3,760	3,472
Rent	674	641
Depreciation and Amortisation	812	484
Insurance and security	651	577
Utilities and fuel	167	168
Repairs and maintenance	69	160
Communications	195	235
Consultancy	126	167
Legal expense	148	141
Card issuance costs	270	252
Advertising and marketing expenses	253	251
Cleaning expenses	51	48
Office materials	45	58
Board member remuneration	42	40
Travel	25	21
Other expenses	448	441
Total	**7,736**	**7,156**

The Deposit Insurance Expense in amount of EUR 367k (2017: EUR 271k) is reclassified from the interest expense note 7, to other operating expense note 10 under the line item of Insurance and security.

The number of employees as at 31 December 2018 is 339 (31 December 2017: 340).

Personnel expenses are details as follows:

	2018	2017
Wages and salaries	3,064	2,741
Pension contribution	157	141
Accrued bonusses	522	545
Other compensations	17	45
Total	**3,760**	**3,472**

11. INCOME TAXES

The income tax charge differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the bank as follows:

	Effective tax rate	2018	Effective tax rate	2017
Profit before tax		7,345		6,138
Tax calculated at 10%	10%	734	10%	614
Written off loans tax effect	0.05%	4	0.78%	48
Tax effect of non-deductible expenses	0.29%	21	0.70%	43
Tax effect of the accrued interest on term deposits	0.59%	43	0.15%	9
Interest income from FVOCI investment taxed at source	0.66%	(49)	1.35%	(83)
Utilisation of tax loss carried forward	-	-	-	-
Income tax	**10.3%**	**753**	**10.3%**	**631**

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11. INCOME TAXES (CONTINUED)

Deferred tax is calculated based on the enacted tax rate of 10%. Deferred tax assets are recognised only to the extent that realisation of the related tax benefit is probable.

	2018	2017
Liability at the beginning	268	202
Effect of adoption of IFRS 9	(187)	-
Liability after adoption	**81**	**202**
Additions during the year	753	631
Payments during the year	(611)	(565)
Liability at the end	**223**	**268**

The carry forward period for any tax losses in accordance with the Kosovo Tax Law is six years. Income tax is assessed at the rate of 10% (2017: 10%) of taxable income.

The movements in deferred tax assets and liabilities are presented as follows:

	Movements in Deferred tax
Deferred tax liability as at 31 December 2017	(124)
Effect of adoption of IFRS 9	187
Deferred tax asset as at 1 January 2018	63
Movement of deferred tax	(122)
Deferred tax liability as at 31 December 2018	**(59)**

12. CASH ON HAND AND AT BANKS

	2018	2017
Cash on hand	11,017	9,981
Cash at banks	7,679	7,852
Total	**18,696**	**17,833**
Allowance for ECL/Impairment losses	(17)	-
Cash on hand and at banks after provisions	**18,679**	**17,833**

Cash and cash equivalents consist of the following:

	2018	2017
Cash on hand and at banks	18,696	17,833
Unrestricted balances with CBK (note 12)	21,444	19,031
Total	**40,140**	**36,864**

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12. CASH ON HAND AND AT BANKS (CONTINUED)

The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all balance are performing.

	2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	-
Strong	699	-	-	**699**
Good	17,997	-	-	**17,997**
Satisfactory	-	-	-	-
Substandard	-	-	-	-
Credit impaired	-	-	-	-
Unrated	-	-	-	-
Total	**18,696**	**-**	**-**	**18,696**

An analysis of changes in the corresponding of Gross carrying amount and ECLs is, as follow:

	Gross Carrying amount		**ECL**		Total
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2018	**17,833**	**-**	**(14)**	**-**	**17,819**
All transfers	-	-	-	-	
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	863	-	(3)	-	860
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	**-**	**-**	**(3)**	**-**	**(3)**
As at 31 December 2018	**18,696**	**-**	**(17)**	**-**	**18,679**

13. BALANCES WITH CENTRAL BANK OF KOSOVO

	2018	**2017**
Statutory reserves	17,737	14,967
Current accounts	21,444	19,031
Total	**39,181**	**33,998**
Allowance for ECL/Impairment losses	(35)	-
Balances with Central Bank of Kosovo after provisions	**39,146**	**33,998**

In accordance with the CBK requirements relating to the deposits reserve for liquidity purposes, the Bank should maintain a minimum of 10% of customer deposits with maturities up to one year, as statutory reserves. The statutory reserves represent highly liquid instruments, including cash on hand, accounts at the CBK or at other banks in Kosovo, and the amounts held at the CBK should not be less than half of the total statutory reserves. The assets with which the Bank may satisfy its liquidity requirement are EUR deposits with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base.

13. BALANCES WITH CENTRAL BANK OF KOSOVO (CONTINUED)

The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all are performing.

	2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	-
Strong	-	-	-	-
Good	39,181	-	-	**39,181**
Satisfactory	-	-	-	-
Substandard	-	-	-	-
Credit impaired	-	-	-	-
Unrated	-	-	-	-
Total	**39,181**	**-**	**-**	**39,181**

An analysis of changes in the corresponding of Gross carrying amount and ECLs is, as follow:

	Gross Carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2018	**33,998**	**-**	**(30)**	**-**	**33,968**
All transfers:					
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	5,183	-	(5)	-	**5,178**
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	**-**	**-**	**(5)**	**-**	**(5)**
As at 31 December 2018	**39,181**	**-**	**(35)**	**-**	**39,146**

14. LOANS AND ADVANCES TO BANKS

	2018	**2017**
Term deposits		
Ziraat Bankasi	2,000	1,000
BKT	1,775	-
IS Bankasi	1,000	350
	4,775	**1,350**
Blocked accounts:		
Raiffeisen Bank International	10	100
Ziraat Bankasi	10	-
	20	**100**
Total	**4,795**	**1,450**
Allowance for ECL/Impairment losses	(7)	-
Loans and advances to banks after provisions	**4,788**	**1,450**

Loans and advances to banks include blocked accounts on behalf of guarantees from customers.

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14. LOANS AND ADVANCES TO BANKS (CONTINUED)

The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all are performing.

	2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	-
Strong	-	-	-	-
Good	4,795	-	-	**4,795**
Satisfactory	-	-	-	-
Substandard	-	-	-	-
Credit impaired	-	-	-	-
Unrated	-	-	-	-
Total	**4,795**	**-**	**-**	**4,795**

An analysis of changes in the corresponding of Gross carrying amount and ECLs is, as follow:

	Gross Carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2018	**1,450**	**-**	**(4)**	**-**	**1,446**
All transfers:	-	-	-	-	
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	3,345	-	**(3)**	-	3,342
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	-	-	(3)	-	**(3)**
As at 31 December 2018	**4,795**	**-**	**(7)**	**-**	**4,788**

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

	2018	**2017**
Treasury Bills	100	5,224
Government Bonds	30,063	11,928
Total	**30,163**	**17,152**
Allowance for ECL/Impairment losses	(25)	-
Net of provisions	**30,138**	**17,152**

During the year 2018 Bank has sold 2 financial instruments at gain. The buyers of financial instruments were Central Bank of Kosovo and another local commercial bank. Gain was recognized through profit and loss in amount of EUR 7 thousand (2017: 1,065 thousand).

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15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI (CONTINUED)

The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all are performing.

	2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	-
Strong	-	-	-	-
Good	30,163	-	-	**30,163**
Satisfactory	-	-	-	-
Substandard	-	-	-	-
Credit impaired	-	-	-	-
Unrated	-	-	-	-
Total	**30,163**	**-**	**-**	**30,163**

An analysis of changes in the corresponding of Gross carrying amount and ECLs is, as follow:

	Gross Carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2018	**17,152**	**-**	**(14)**	**-**	**17,138**
All transfers					
Derecognitions other than write-offs	(9,432)	-	-	-	**(9,432)**
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	22,443	-	(11)	-	22,432
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	-	-	**(11)**	-	**(11)**
As at 31 December 2018	**30,163**	**-**	**(25)**	**-**	**30,138**

16. LOANS AND ADVANCES TO CUSTOMERS

	2018	**2017**
Loans and advances to customers	**163,245**	**136,789**
Accrued interest	836	658
Deferred disbursement fees	(1,048)	(902)
Total	**163,033**	**136,545**
Allowance for ECL/impairment losses on loans and advances to customers	**(5,184)**	**(3,994)**
Loans and advances to customers, net	**157,849**	**132,551**

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

A reconciliation of non - retail and retail loans are as follows:

	2018	2017
Gross carrying amount		
Non - retail loans	95,435	80,974
Retail loans	67,598	55,571
	163,033	**136,545**
ECL/impairment losses		
Allowance for ECL/impairment losses – Non – Retail loans	(4,460)	(3,679)
Allowance for ECL/impairment losses – Retail loans	(724)	(315)
	(5,184)	**(3,994)**
Loans and advances to customers, net	**157,849**	**132,551**

Movements in the allowance for impairment losses on loans and advances to customers are as follows:

	2018	2017
At January 1	3,994	4,667
Additional reserve adjustment for opening figures according to IFRS 9	1,803	-
ECL/Loan loss provision	(506)	543
Loans written off	(107)	(1,216)
At December 31	**5,184**	**3,994**

The Bank manages individual counterparty exposures in order to be compliant with the rules of the Central Bank that require individual counterparty exposures not to exceed 15% of Tier I Capital (or EUR 24,447K).

As at 31 December 2018 and 2017 there are no counterparty exposures above 15% of the limit. In addition, the cumulative exposure of the top 10 clients of the bank is EUR 9,754K or 5% of the loan portfolio (2017: EUR 9,324k or 7%).

Gross carrying amount for total loans are, as follows:

	2018 - Total Loans					2017
Internal Rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
A0	102,554	45,171	-	-	147,725	119,604
A1	2,347	4,215	-	-	6,562	7,430
B	-	1,917	-	-	1,917	3,376
C	-	2,078	-	4	2,082	2,051
Default	-	28	4,719	-	4,747	4,084
Total	**104,901**	**53,409**	**4,719**	**4**	**163,033**	**136,545**

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16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for loans are as follows:

	Stage 1	Stage 2	Stage 3	POCI	
Total Loans	**12-month ECL**	**Lifetime ECL**	**Lifetim e ECL**	**Originated credit-impaired**	**Total**
Gross carrying amount as at 1 January 2018	**38,365**	**94,091**	**4,083**	**6**	**136,545**
Transfers:					
Transfer from Stage 1 to Stage 2	(1,560)	1,560	-	-	-
Transfer from Stage 1 to Stage 3	(486)	-	486	-	-
Transfer from Stage 2 to Stage 3	-	(1,918)	1,918	-	-
Transfer from Stage 3 to Stage 2	-	209	(209)	-	-
Transfer from Stage 3 to Stage 1	761	-	(761)	-	-
Derecognitions other than write-offs	(13,171)	(22,807)	(193)	-	**(36,1271**
Repayments and change in cash flow	(5,723)	(17,726)	(498)	(39)	**(23,986)**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
New loans originated or purchased	86,715	-	-	37	**86,752**
Write-offs	-	-	(107)	-	**(107)**
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2018	**104,901**	**53,409**	**4,719**	**4**	**163,033**

	Stage 1	Stage 2	Stage 3	POCI	
Total Loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
ECL amount as at 1 January 2018	**198**	**2,719**	**2,879**	**1**	**5,797**
Transfers:					
Transfer from Stage 1 to Stage 2	(215)	215	-	-	-
Transfer from Stage 1 to Stage 3	(204)	-	204	-	-
Transfer from Stage 2 to Stage 3	-	(195)	195	-	-
Transfer from Stage 3 to Stage 2	-	145	(145)	-	-
Transfer from Stage 3 to Stage 1	323	-	(323)	-	-
Changes in PDs/LGDs/EADs	(370)	(1,014)	848	(3)	**(539)**
Derecognitions other than write-offs	(86)	(499)	(99)	-	**(684)**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
New loans originated or purchased	714	-	-	3	**717**
Write-offs	-	-	(107)	-	**(107)**
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**162**	**(1,348)**	**680**	**-**	**(506)**
ECL amount as at 31 December 2018	**360**	**1,371**	**3,452**	**1**	**5,184**

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16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Gross carrying amount for total non-retail loans are, as follows:

	2018 - Non – retail Loans					2017
Internal Rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
A0	63,027	18,556	-	-	81,583	65,730
A1	2,050	3,720	-	-	5,770	6,309
B	-	1,733	-	-	1,733	3,203
C	-	2,004	-	-	2,004	1,941
Default	-	17	4,328	-	4,345	3,791
Total	**65,077**	**26,030**	**4,328**	**-**	**95,435**	**80,974**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for non-retail loans are as follows:

Non – retail Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Originated credit-impaired	Total
Gross carrying amount as at 1 January 2018	**24,242**	**52,942**	**3,790**	**-**	**80,974**
Transfers:					
Transfer from Stage 1 to Stage 2	(1,499)	1,499	-	-	-
Transfer from Stage 1 to Stage 3	(439)	-	439	-	-
Transfer from Stage 2 to Stage 3	-	(1,692)	1,692	-	-
Transfer from Stage 3 to Stage 2	-	202	(202)	-	-
Transfer from Stage 3 to Stage 1	582	-	(582)	-	-
Derecognitions other than write-offs	(10,950)	(15,854)	(162)	-	**(26,966)**
Repayments and change in cash flow	(3,605)	(11,067)	(591)	(37)	**(15,300)**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
New loans originated or purchased	56,746	-	-	37	**56,783**
Write-offs	-	-	(56)	-	**(56)**
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2018	**65,077**	**26,030**	**4,328**	**-**	**95,435**

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16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Non – retail Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Originated credit-impaired	Total
ECL amount as at 1 January 2018	**171**	**2,146**	**2,660**	**-**	**4,977**
Transfers:					-
Transfer from Stage 1 to Stage 2	(212)	212	-	-	-
Transfer from Stage 1 to Stage 3	(194)	-	194	-	-
Transfer from Stage 2 to Stage 3	-	(180)	180	-	-
Transfer from Stage 3 to Stage 2	-	140	(140)	-	-
Transfer from Stage 3 to Stage 1	305	-	(305)	-	-
Changes in PDs/LGDs/EADs	(350)	(892)	714	(3)	**(531)**
Derecognitions other than write-offs	(82)	(409)	(88)	-	**(579)**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
New loans originated or purchased	646	-	-	3	**649**
Write-offs	-	-	(56)	-	**(56)**
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**113**	**(1,129)**	**555**	**-**	**(461)**
ECL amount as at 31 December 2018	**284**	**1,017**	**3,159**	**-**	**4,460**

Gross carrying amount for total retail loans are, as follows:

	2018 - retail Loans					2017
Internal Rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
A0	39,527	26,615	-	-	66,142	53,874
A1	297	495	-	-	792	1,121
B	-	184	-	-	184	173
C	-	74	-	4	78	110
Default	-	11	391	-	402	293
Total	**39,824**	**27,379**	**391**	**4**	**67,598**	**55,571**

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16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for retail loans are as follows:

Retail Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Originated credit-impaired	Total
Gross carrying amount as at 1 January 2018	**14,123**	**41,149**	**293**	**6**	**55,571**
Transfers:					
Transfer from Stage 1 to Stage 2	(61)	61	-	-	-
Transfer from Stage 1 to Stage 3	(47)	-	47	-	-
Transfer from Stage 2 to Stage 3	-	(226)	226	-	-
Transfer from Stage 3 to Stage 2	-	7	(7)	-	-
Transfer from Stage 3 to Stage 1	179	-	(179)	-	-
Derecognitions other than write-offs	(2,221)	(6,953)	(31)	-	(9,205)
Repayments and change in cash flow	(2,118)	(6,659)	93	(2)	(8,686)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
New loans originated or purchased	29,969	-	-	-	29,969
Write-offs	-	-	(51)	-	(51)
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2018	**39,824**	**27,379**	**391**	**4**	**67,598**

Retail Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased credit-impaired	Total
ECL amount as at 1 January 2018	**27**	**573**	**219**	**1**	**820**
Transfers:					
Transfer from Stage 1 to Stage 2	(3)	3	-	-	-
Transfer from Stage 1 to Stage 3	(10)	-	10	-	-
Transfer from Stage 2 to Stage 3	-	(15)	15	-	-
Transfer from Stage 3 to Stage 2	-	5	(5)	-	-
Transfer from Stage 3 to Stage 1	18	-	(18)	-	-
Changes in PDs/LGDs/EADs	(20)	(122)	134	-	**(8)**
Derecognitions other than write-offs	(4)	(90)	(11)	-	**(105)**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
New loans originated or purchased	68	-	-	-	**68**
Write-offs	-	-	(51)	-	**(51)**
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**49**	**(219)**	**125**	**-**	**(45)**
ECL amount as at 31 December 2018	**76**	**354**	**293**	**1**	**724**

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16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

A reconciliation of the allowance for impairment losses for loans and advances, by class, is, as follows:

	Non-retail	Retail	Total
At 1 January 2017	**3,950**	**717**	**4,667**
Charge for the year	626	(83)	543
Amounts written off	(897)	(319)	(1,216)
At 31 December 2017	**3,679**	**315**	**3,994**
Restated balance under IFRS 9 at 1 January 2018	1,298	505	**1,803**
At 1 January 2018	**4,977**	**820**	**5,797**
Charge for the year	(461)	(45)	(506)
Amounts written off	(56)	(51)	(107)
At 31 December 2018	**4,460**	**724**	**5,184**

17. OTHER FINANCIAL ASSETS

	2018	2017
Receivables from customers	14	14
Accrued income from banking services	88	40
Accrued fees and commissions	20	54
Other receivables	256	35
Total	**378**	**143**

18. OTHER ASSETS

	2018	2017
Prepaid expenses	410	815
Total	**410**	**815**

19. REPOSSESSED ASSETS

Repossessed assets are properties acquired through enforcement of security over loans and advances to customers. The Bank intends and is taking steps to sell these within a reasonable short period of time.

	2018	2017
Residential real estate	558	558
Commercial real estate	108	1,008
Total	**666**	**1,566**
Less: write-down for impairment	(573)	(1,411)
Net carrying value	**93**	**155**

The fair value of these assets is determined with reference to market values by independent external valuers. The values are further written down depending on their location, maintenance and conditions to reflect delays in likely settlement and the length of time for holding the assets.

19. REPOSSESSED ASSETS (CONTINUED)

Movements in the values written down are as follows:

	2018	2017
At January 1	1,411	1,362
Charge for the year	62	197
Reversal on disposal	(900)	(148)
At December 31	**573**	**1,411**

Bank has sold 3 repossessed assets in amount of EUR 900 thousand which has realized gain of EUR 428 thousand as explained in note 9.

20. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2017	**1,050**
Additions	245
At 31 December 2017	**1,295**
Additions	281
At 31 December 2018	**1,576**
Accumulated amortisation	
At 1 January 2017	**824**
Charge for the year	133
At 31 December 2017	**957**
Charge for the year	217
At 31 December 2018	**1,174**
Net carrying amount	**-**
At 31 December 2017	**338**
At 31 December 2018	**402**

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21. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Vehicles	Total
Cost						
At 1 January 2017	**96**	**827**	**485**	**1,280**	**653**	**3,341**
Additions during the year	587	173	62	186	97	1,105
Disposals during the year	-	(53)	(30)	(26)	-	(109)
At 31 December 2017	**683**	**947**	**517**	**1,440**	**750**	**4,337**
Additions during the year	-	255	181	1,142	176	1,754
Disposals during the year		(94)	(37)	(122)	(161)	(414)
At 31 December 2018	**683**	**1,108**	**661**	**2,460**	**765**	**5,677**
Accumulated depreciation						
At 1 January 2017	**4**	**535**	**462**	**943**	**417**	**2,361**
Charge for the year	3	119	51	122	56	351
Disposals for the year	-	(46)	(29)	(25)	-	(100)
At 31 December 2017	**7**	**608**	**484**	**1,040**	**473**	**2,612**
Charge for the year	25	152	66	280	72	595
Disposals for the year		(93)	(37)	(121)	(109)	(360)
At 31 December 2018	**32**	**667**	**513**	**1,199**	**436**	**2,847**
Carrying amounts						
At 31 December 2017	**676**	**339**	**33**	**400**	**277**	**1,725**
At 31 December 2018	**651**	**441**	**148**	**1,261**	**329**	**2,830**

As at 31 December 2018 and 2017, the Bank does not have any property pledged as collateral.

Included in property and equipment as of 31 December 2018 are buildings with a carrying amount of EUR 651 thousand (2017: EUR 676 thousand) which represent repossessed collaterals and which management is using in its day to day activities.

Below are items of Property and Equipment that are fully depreciated but still in use as at 31 December 2018:

Category	Cost	Accumulated	Net Book Value
Buildings	9	9	-
Leasehold improvements	386	386	-
Furniture, fixtures and equipment	326	326	-
Computers and related	834	834	-
Vehicles	176	176	-
Software	960	960	-
Total	**2,691**	**2,691**	**-**

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22. DUE TO CUSTOMERS

	2018	2017
Current accounts	**98,374**	**70,685**
In EUR	95,050	67,132
In foreign currencies	3,324	3,553
Term deposits	**123,219**	**107,095**
In EUR	122,422	106,368
In foreign currencies	797	727
Total	**221,593**	**177,780**

23. SUBORDINATED DEBT AND BORROWINGS

	2018	2017
Subordinated debt		
Blue Orchard	502	-
Individuals:		
Valon Budima	420	420
Armend Skeja	420	420
Total	**1,342**	**840**

During the year 2018, the Bank entered into a new subordinated loan agreement with Blue Orchard in amount of EUR 500 thousand. The loan bears interest rate of 6.5% per annum, payable on a semiannual basis, and the principal is payable in one single installment on December 12, 2026. As of 31 December 2018, the Bank is in compliance with financial covenants attached to the agreement with Blue Orchard.

The subordinated debt from individuals is repayable on 26 December 2023. This debt has no specific covenants attached to the agreements.

Subordinated debt was provided by the above parties to enable the Bank to maintain the minimum regulatory capital requirements.

Borrowings	2018	2017
Borrowings from EFSE	913	3,128
Borrowings from KOSEP-EBRD	870	1,015
Borrowings from EBRD	2,502	-
Total	**4,285**	**4,143**

During the year 2018, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total loan amount of EUR 5,000 thousand. The purpose is to help finance investments in micro, small and medium sized enterprises. The borrowing bears an interest rate of 2.6% annually, and is repayable within four years. The interest is payable on semi-annual basis. Out of total loan amount of EUR 5,000 thousand, the amount of EUR 2,500 thousand remains unreceived as at December 31, 2018.

During the year 2016, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total of EUR 1,000 thousand. The purpose is to support the private individuals and SME loan portfolio related with energy efficiency programme. The borrowing bears an interest rate of 3.6% annually, and is repayable within five years. The interest is payable on quarterly basis.

During the year 2015, the Bank entered into a borrowing agreement with EFSE (European Fund for South-eastern Europe) for a total of EUR 4,000 thousand. The purpose is to support the private individuals and the SME loans portfolios. The borrowing bears an interest rate of 3.4% annually, and is repayable within three years. The interest is payable on a quarterly basis.

As of 31 December 2018 and 2017 the Bank is in compliance with financial covenants attached to the agreement with EFSE, KOSEP and EBRD.

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23. SUBORDINATED DEBT AND BORROWINGS (CONTINUED)

23.1. Changes in liabilities arising from financing activities are presented as follows:

	1 January 2018	Cash inflows	Cash outflows	Accruals of Interest	Declaration of Dividends	31 December 2018
Subordinated debt	800	500	-	42	-	1,342
Borrowings	4,143	2,500	(2,343)	(15)	-	4,285
Dividends payable	-	-	(428)	-	428	-
Total liabilities from financing activities	**4,943**	**3,000**	**(2,771)**	**27**	**428**	**5,627**

	1 January 2017	Cash inflows	Cash outflows	Accruals of Interest	Declaration of Dividends	31 December 2017
Subordinated debt	1,845	-	(1,005)	-	-	840
Borrowings	4,248	1,500	(1,595)	(10)	-	4,143
Dividends payable	-	-	(285)	-	285	-
Total liabilities from financing activities	**6,093**	**1,500**	**(2,885)**	**(10)**	**285**	**4,983**

24. OTHER LIABILITIES AND PROVISIONS

	2018	2017
Payables on behalf of third parties	788	712
Provisions for letters of guarantee issued by the Bank	12	19
Payable related to clearing transactions with CBK	364	630
Payable on behalf of Ministry of Economy and Finance	61	121
Due to suppliers	174	191
Total Other Liabilities	**1,399**	**1,673**
Other provisions (see note below)	482	506
Total	**1,881**	**2,179**

Gross carrying amount for total letters of guarantees are, as follows:

					2018 - letters of guarantees	2017
Internal Rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
A0	1,419	501	-	-	1,920	1,228
A1	25	10	-	-	35	35
B	-	-	-	-	-	26
C	-	12	-	-	12	-
Default	-	-	5	-	5	15
Total	**1,444**	**523**	**5**	**-**	**1,972**	**1,304**

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24. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for letters of guarantees are as follows:

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Originated credit-impaired	Total
Gross carrying amount as at 1 January 2018	**323**	**966**	**15**	**-**	**1,304**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	(7)	-	7	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	5	(5)	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Derecognitions other than write-offs	(206)	(445)	(15)	-	(666)
Repayments and change in cash flow	-	-	-	-	-
New loans originated or purchased	1,334	-	-	-	1,334
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2018	**1,444**	**523**	**5**	**-**	**1,972**

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased credit-impaired	Total
ECL amount as at 1 January 2018	**1**	**8**	**15**	**-**	**24**
Transfers:					
Transfer from Stage 1 to Stage 2	(2)	-	2	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(1)	1	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-	-
Derecognitions other than write-offs	(1)	(2)	(14)	-	**(17)**
New loans originated or purchased	5	-	-	-	**5**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**2**	**(3)**	**(11)**	**-**	**(12)**
ECL amount as at 31 December 2018	**3**	**5**	**4**	**-**	**12**

Other provisions include reserve for third-party active claims. Based on its policies and procedures, the bank determines in each quarter the current reserve through the reassessment of each claim individually.

Following is presented the movement of provision as of 31 December:

	2018	2017
At the beginning	506	404
Additions during the year	1	123
Utilized during the year	(25)	(21)
At the end	**482**	**506**

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25. SHAREHOLDER'S EQUITY AND RESERVES

Share capital

In accordance with Law no. 04/L-093 on "Banks, Microfinance Institutions and Non-Bank Financial Institutions", the minimum paid-in capital for domestic banks operating in Kosovo is EUR 7 million.

At 31 December 2018, the subscribed capital was divided into 28,530 ordinary shares (2017: 28,530 ordinary shares) with a nominal value of EUR 394.2 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

The structure of subscribed capital is as follows:

Nr.	Name of shareholder	2018 %	2018 EUR ('000)	2017 %	2017 EUR ('000)
1	Afrim Govori	21.27	2,392	21.27	2,392
2	Rrustem Aliaj	17.27	1,942	17.27	1,942
3	Shaqir Palushi	11.81	1,328	11.81	1,328
4	EBRD	10.00	1,125	10.00	1,125
5	Mejdi Rexhepi	9.35	1,052	9.35	1,052
6	Moneta sh.p.k	7.39	833	7.15	804
7	Nazmi Viça	6.89	775	6.89	775
8	Kareman Limani	4.85	545	4.85	545
9	Banka di Cividale	4.62	520	4.62	520
10	Ahmet Arifi	2.39	269	2.39	269
11	Ismet Sylejmani	1.90	214	1.90	214
12	Besnik Vrella	0.46	52	0.50	57
13	Luani Limited	0.44	49	0.44	49
14	Naser Aliu	0.40	45	0.5	57
15	Agim Bilalli	0.40	45	0.5	57
16	Sokol Krasniqi	0.38	42	0.38	42
17	Naim Abazi	0.09	9	0.09	9
18	Flamur Bryma	0.09	10	0.09	10
	Total	**100.00**	**11,247**	**100.00**	**11,247**

Other capital reserve

Other capital reserve was created as of 31 December 2011 as the difference between accumulated losses in accordance with IFRS and CBK which were written off through a reduction in the share capital. As a result, these reserves are restricted and not distributable.

Revaluation reserve

During 2014, the Bank decided to include in the Property and equipment a building which has been previously obtained as repossessed collateral. The building was recognized by the Bank in Property and equipment with a corresponding amount in the revaluation reserve in equity.

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26. COMMITMENTS AND CONTINGENCIES

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted. Guarantees issued in favour of customers are secured by cash collateral, and non-cash collateral (real estate and movable collateral).

Guarantees extended to customers	**2018**	**2017**
Secured by cash deposits	1,344	591
Secured by collateral (real estate and movable collateral)	628	713
Less: Provision recognized as liabilities	(12)	(19)
Total	**1,960**	**1,285**

Commitments represent the undrawn balances of loans, overdraft and card limits granted to the customers.

Credit commitments	**2018**	**2017**
Approved but not disbursed loans	249	51
Unused overdraft limits approved	5,822	5,395
Unused credit card facilities	703	453
Total	**6,774**	**5,899**

Legal

The Bank is involved in routine legal proceedings in the ordinary course of business at 31 December 2018 and 2017. The Bank's management is of the opinion that no material losses will be incurred in relation to legal claims, except for those already provided for and recognized in profit or loss as disclosed in Note 24.

Lease commitments

The Bank has entered into non-cancelable lease commitments, which are composed as follows:

	2018	**2017**
Not later than 1 year	84	138
Later than 1 year and not later than 5 years	589	504
Total	**673**	**642**

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27. FINANCIAL RISK MANAGEMENT

27.1 Introduction and overview

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

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors ("the Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established Risk Committee, the Audit Committee and Human Resource Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board committees report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations. The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank'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 to the Audit Committee.

The Bank operates in the condition of a dynamically developing global financial and economic crisis. Its further extension might result in negative implications on the financial position of the Bank. The management of the Bank performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets. Based on this, the management analyses profitability, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis. In this way the Bank responds to the challenges of the market environment, maintaining an adequate capital and liquidity position.

27.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and to other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

Management of credit risk

The Board of Directors has delegated the responsibility for the management of credit risk in respect to lending authority to its Credit Risk Department for the following categories: business loans (Corporate, SME, and Micro – including also the Agro Segment) and personal loans (PI) up to EUR 50 thousand which are approved by the Credit Risk Department.

Credit exposures larger than EUR 50 thousand and less than 10% of the Bank’s Tier I Capital are approved by the Credit Risk Department / Credit Committee, while exposures over 10% of the Bank’s Tier I Capital are approved by the Board of Directors according to the Credit Risk Policy.

During 2017, according to the Regulation on Corporate Governance of Banks, new organizational structure has been introduced and Risk Department has been divided into two separated departments, the Risk Management Department, and the Credit Risk Department.

Risk Management Department is responsible for drafting or reviewing policies and procedures related to risk and at the same time is responsible for the process of property valuations, credit monitoring process, credit classification and weighting of risk capital under the Capital Adequacy Regulation and identification of credit risk arising from new products / processes involving lending. Risk Management Department is organized in three sectors including Credit Risk Sector, the Market and Liquidity Risk Sector as well as the Operational Risk Sector.

Credit Risk Department is responsible for managing the process of assessing the creditworthiness and credit capacity, the assessment of collateral adequacy, the decision-making process, monitoring/managing arrears of problematic and nonperforming loans, including loans in loss and write-off managed by outsourced companies, as well as identification of credit risk arising from new products / processes involving lending. Credit Risk Department includes the lending sector and collection.

The Bank has followed the strategy of further diversification and growth in loan portfolio according to the defined segments of the loans, particularly in the individual loans segment - PI, the MICRO and AGRO segment and SME loans segment. During 2018, the bank has made a significant increase in the credit portfolio both by volume and by number, and the increase was mainly due to the targeted loan segments, respectively the PI, MICRO and AGRO loans segment. To support the growth strategy in small loans, the bank was supposed to increase the number of staff especially in the branch level, whereas it had recruited many experienced credit analysts mainly coming from the largest banks operating in the country.

The segmentation of the credit (loan) portfolio is based on the type and size of the subject (borrower), and in general it is grouped in Retail and Business clients.

Retail clients or Private Individuals (PI) are all types of customers who have their main source of repayment from income as wages, stable rents, royalties and other verifiable revenues.

Business clients are segregated in three main segments; MICRO, SME and Corporate. There is also a subcategory of agribusiness clients who are grouped as AGRO clients, which are allocated according to the procedures of segregation between main sectors in MICRO AGRO and SME AGRO.

Business clients are considered all types of customers who have their main source of income from business activity. Segregation between the business segments is based on the annual turnover. All business clients that have annual turnover up to EUR 300 thousand are considered as MICRO clients. All business clients that have annual turnover from 301 thousand up to EUR 2 million are considered SME clients, while all business clients that have annual turnover above EUR 2 million are considered as Corporate clients.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

Management of credit risk (continued)

Regarding the regulatory requirements for reporting under IFRS 9, the bank has hired external consultant to assist in the development of methodology and the implementation of the software. During 2018 the bank has developed the model and methodology including calculations and all relevant documents. For the moment, the bank is doing the calculation of impairments through Macro excel application which soon will be replaced with a special software that is on the way of implementation.

In line with the bank's strategy to increase its portfolio and its business in Micro and SME segments, the Bank signed an agreement with the Kosovo Credit Guarantee Fund (“KCGF”) for the partial coverage of loans to MSME customers (Micro, Small and Medium Enterprises) disbursed by BPB. This fund or this credit guarantee is provided to facilitate the lending growth by the bank for MFIs in Kosovo, by improving the conditions and increasing the volume of loans in MSME-s.

From August 2016, the bank entered into the first contract with Kosovo Credit Guarantee Fund (KCGF), then we have continued with an additional contract in 2017 and two contracts during 2018. In total the amount contracts with KCGF are EUR 8.5 million.

During 2017, the bank continued to maintain its relations with different International Financial Institutions (EBRD, EFSE, and Blue ORCHARD Finance Ltd), where it has also received a credit line from EBRD in the amount of EUR 5 million. Also during 2018 Bank have received a subordinated debt from Blue Orchard in the amount of EUR 500 thousand.

The bank has enhanced the lending process by developing a software for loan applications management. The development has been divided in three phases with the objective to cover the whole life of loans from application to liquidation. The first phase or module has been developed and functionalized during 2017. This module has enabled the automation and digitalizing of the lending process, which has increased the speed of approval and at the same time has increased the quality, quantity, availability and access to information for clients. This development has also enabled advanced multi-level analysis and full control of lending process to the ultimate detail.

During 2018, the bank has implemented the second phase of the application which has the objective to cover the Monitoring process. This module covers the monitoring of financial exposures and will serve as an early warning system not only to manage and retain credited clients but also to prevent and foresee deteriorations of financial conditions of the clients.

In following months, the third phase of development will take place with the objective to cover the arrears management and collection. This module will be developed to support the process of arrears management and collection by providing structured management of data, correspondences, alerts and notifications.

By developing these three main modules, all the data related to the loans and loan clients will be available in one place, structured and interrelated. This will enable a holistic approach in credit risk management, monitoring and control.

In addition to the growth of the loan portfolio and the reduction of large exposures, the bank has continued with the further improvement of credit quality, in line with the trend of loans improvement at the level of the banking industry. Regarding the loan quality indicator – Non-performing loans (NPL), while in 2017 it was 2.97%, in 2018 this indicator was improved to 2.87% and was close with the average of the banking industry of 2.70%. There were also improvements in other categories of loans, problematic loans (C, D, E) and overdue loans (B, C, D, E).

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

Management of credit risk (continued)

Regarding the improvement of loan quality, the bank has advanced the processes of managing the arrears and has increased the activities and commitments, which have resulted that the net provision for this year to be negative. In this regard, during 2018, the bank has revised and extended contracts with two outsource debt management companies, especially for old loans in Loss and Write off categories, mainly for the amounts up to EUR 10 thousand.

The Bank reviews all credit exposures on a regular basis, while the classification and reporting of loans is performed on a monthly basis in accordance with the requirements of the Central Bank.

Credit exposures above EUR 50,000 are reviewed quarterly, while the same are monitored on a six-month basis. Exposures below EUR 50,000 are monitored on a yearly basis and include analyzing the client's financial position, including analyzing the state of collateral, exposures to other banks, and other factors that may affect the borrower's financial performance.

27.2.1 Impairment assessment (Policy applicable after 1 January 2018)

Under IFRS 9, Bank shall recognize an impairment allowance measured for the expected credit losses (ECLs) at each reporting date for loans and advances to customers measured at amortized cost (AC).

In addition to loans and advances to customers, under this policy, Bank shall also recognise an impairment allowance measured for the expected credit losses for the following financial instruments, if any:

1. Debt instruments measured at fair value through other comprehensive income (FVOCI);
2. Loan commitments not measured at fair value through profit or loss (FVPL);
3. Financial guarantee contracts to which IFRS 9 is applied and that are not accounted for at fair value through profit or loss; and
4. Lease receivables that are within the scope of IAS 17, Leases, and trade receivables or contract assets within the scope of IFRS 15.

Main principles

Measurement of the ECLs pattern reflects the general pattern of deterioration or improvement in the credit quality of financial instruments, expressed in terms of significant increase in credit risk.

When the financial instruments are initially originated[1], loss allowance is measured at an amount equal to 12-month expected credit losses. When the instrument's risk of default has significantly increased since its origination, the Bank shall measure loss allowance at an amount equal to lifetime expected credit losses.

[1] Unless originated as credit impaired financial assets which are subject to different requirements for impairment purposes

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (Policy applicable after 1 January 2018) (continued)

The three stage model

IFRS 9 general approach to impairment and interest revenue recognition can be summarized in the following three-stage model, where transfers from one stage to another depend on the changes in credit risk since origination until credit defaults.

Stage 1	Stage 2	Stage 3	POCI
Newly originated loans non-credit-impaired	Existing loans with **significant increase in risk** since origination.	Credit impaired loans (in **default**)	Credit impaired loans at acquisition
Existing loans with **no significant increase in risk**			Credit impaired loans at origination
Recognition of expected credit losses			
12-month expected credit losses	**Lifetime expected credit losses**	**Lifetime expected credit losses**	**Lifetime expected credit losses**
Interest revenue			
Effective interest on gross carrying amount	**Effective interest on gross carrying amount**	**Effective interest on net carrying amount (amortized cost less credit allowance)**	**Credit-adjusted effective interest on net carrying amount (amortized cost less credit allowance)**

Stage 1 includes newly originated loans that are not credit-impaired and existing loans for which credit risk has not significantly increased since initial recognition, at the reporting date. IFRS 9 requires that ECLs for these loans be assessed on 12 months basis considering:

- the probability that exposures will default within the next 12 months after the reporting date (referred as '12-month PD'), and
- the ultimate loss suffered over the lifetime in case of default (referred as 'loss given default' or 'LGD'.

Stage 2 includes loans that have had a significant increase in credit risk since initial recognition but that do not have objective evidence that default has occurred. IFRS 9 requires that ECLs for these loans be assessed on lifetime basis considering:

- the probability that exposures will default within their entire remaining life after the reporting date (referred as 'cumulative lifetime PD'), and
- the ultimate loss suffered over the lifetime in case of default.

Stage 3 includes loans that have objective evidence of default at the reporting date (hence defaulted assets). IFRS 9 requires that lifetime ECLs is assessed based on the ultimate loss suffered.

POCI includes originated credit-impaired loans or credit-impaired loans acquired at deep discount. IFRS 9 requires that these loans are initially recognized at fair value less cumulative credit losses at initial recognition. ECL is re-measured at each reporting date and changes are recognised in profit and loss.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (Policy applicable after 1 January 2018) (continued)

Expected Credit Loss model

For the purposes of ECL measurement, BPB performs the necessary model parameterization based on observed point-in-time data on a granularity of quarterly time intervals, which is considered appropriate for the circumstances. The ECL calculations are based on the following input parameters:

Probability of Default (PD): This expresses the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon. Such would be 12-month for **Stage 1** loans and the entire lifetime for **Stage 2** loans. For **Stage 3** and **POCI** loans PD is 1, because the default event has occurred.

Exposure at Default (EAD): This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after reporting date, including repayments of principal and interest and expected drawdown on committed facilities and guarantees.

Loss Given Default (LGD): This represents an estimate of the loss arising on a default event. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive based on current and future economic conditions, including from any collateral. It is usually expressed as a percentage of the EAD.

Cure Rate: This expresses the likelihood of exit from Stage 3 status.

Discount Rate: This is used it the discounting of an expected credit loss to a present value at the reporting date. Annex 2 provides discount rate applicable for the assessment of the ECLs.

The following table illustrates how the model applies to the different stages:

Stage	Level	PD	LGD	EAD
Stage 1	Collective	12-months PD (adjusted for macro-economic conditions)	Lifetime losses	Exposure at default over the next 12 months
	Individual	Not applicable*		
Stage 2	Collective	Lifetime PD (adjusted for macro-economic conditions)	Lifetime losses	Exposure at default over the remaining lifetime
	Individual	Not applicable *		
Stage 3	Collective	PD equals 1, because default event has occurred	Lifetime losses depending on the point of the recovery cycle	Exposure in default at the reporting date.
	Individual		Estimated future cash flows discounted at the reporting date	

* Individual assessment of the Point in Time - PiT probability of default and the lifetime losses is inherently difficult when there is no objective evidence of impairment. However, for significant exposures classified in Stage 1 and Stage 2, Bank may wish to corroborate LGD assessed on a collective basis to the expected recovery from the collateral foreclosure strategy in a default event.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (Policy applicable after 1 January 2018) (continued)

The Bank's internal rating and PD Estimation process

The Bank's independent Credit Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from A0 to Default using internal grades.

Below are disclosed internal credit rating grades used by bank with IFRS 9 and IAS 39:

Rating IAS 39	Rating IFRS 9	Outstanding 31 December 2018	ECL 31 December 2018	Average of 12-month PD	Average of LGD
Standard grade	A0	147,725	844	0.5%	48.9%
Standard grade	A1	6,562	235	6.7%	43.6%
Watch grade	B	1,917	213	35.6%	42.5%
Substandard grade	C	2,082	416	22.8%	43.2%
Default	Default	4,747	3,476	100%	30.2%
Grand Total		**163,033**	**5,184**	**0.8%**	**48.8%**

Forborne and modified loans

The Bank sometimes makes modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

The Bank considers a loan forborne when such modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Risk Management Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

All of its facilities have to be considered performing

- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contracts that are more than 30 days past due.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (Policy applicable from 1 January 2018) (continued)

Forborne and modified loans (continued)

The following tables provide a summary of the Bank's forborne assets:

		Stage 2		Stage 3			
31 December 2018	**Gross carrying amount**	**Permanent modification to T&Cs**	**Total performing forborne loans**	**Permanent modification to T&Cs**	**Total nonperforming forborne loans**	**Total forborne loans**	**Forbearance ratio**
Due from banks	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
Non Retail loans	95,435	909	909	32	32	941	0.99%
Retail loans	67,598	2	2	8	8	10	0.01%
Total loans and advances to customers	**163,033**	**911**	**911**	**40**	**40**	**951**	**0.58%**

31 December 2018	**Gross amount of forborne loans**			**ECLs of forborne loans**		
	Stage 2	**Stage 3**	**Total**	**Stage 2**	**Stage 3**	**Total**
Due from banks	-	-	-	-	-	-
Loans and advances to customers						
Non Retail loans	909	32	941	175	14	189
Retail loans	2	8	10	-	5	5
Total loans and advances to customers	**911**	**40**	**951**	**175**	**19**	**194**

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (Policy applicable from 1 January 2018) (continued)

Forborne and modified loans (continued)

The following tables provide a summary of the Bank's forborne assets as of 31 December 2017

		Performing portfolio		Non-performing portfolio			
31 December 2017	**Gross carrying amount**	**Permanent modification to T&Cs**	**Total performing forborne loans**	**Permanent modification to T&Cs**	**Total nonperforming forborne loans**	**Total forborne loans**	**Forbearance ratio**
Due from banks	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
Non Retail loans	80,974	945	945	1	1	946	1.17%
Retail loans	55,571	7	7	-	-	7	0.01%
Total loans and advances to customers	**136,545**	**952**	**952**	**1**	**1**	**953**	**0.70%**

	Gross amount of forborne loans				**Impairment allowance of forborne loans**		
31 December 2017	**Performing**	**Non-performing but not impaired**	**Non-performing and impaired**	**Total**	**Specific allowance**	**Collective allowance**	**Total**
Due from banks	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
Non Retail loans	871	73	1	945	75	7	82
Retail loans	-	7	-	7	-	1	1
Total loans and advances to customers	**871**	**80**	**1**	**952**	**75**	**8**	**83**

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (Policy applicable after 1 January 2018) (continued)

	Stage 1	Stage 2	Stage 3	POCI	
Assets to be measured at Amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased or originated credit-impaired**	**Total**
Gross carrying value per asset type					
Agro	11,562	2,120	29	-	**13,711**
Corporate	32,654	16,552	3,453	-	**52,659**
Credit cards	100	3	31	-	**134**
Consumer	16,928	8,435	276	4	**25,643**
Micro	20,861	7,358	846	-	**29,065**
Mortgage	19,379	9,537	73	-	**28,989**
Veterans &Invalids	3,417	9,404	11	-	**12,832**
Total gross carrying value	**104,901**	**53,409**	**4,719**	**4**	**163,033**
Loss allowance under IFRS 9 per asset type					
Agro	(58)	(97)	(27)	-	**(182)**
Corporate	(147)	(758)	(2,552)	-	**(3,457)**
Credit cards	(4)	-	(33)	-	**(37)**
Consumer	(34)	(142)	(195)	(1)	**(372)**
Micro	(80)	(162)	(579)	-	**(821)**
Mortgage	(36)	(190)	(58)	-	**(284)**
Veterans & Invalids	(1)	(22)	(8)	-	**(31)**
Total loss allowance under IFRS 9	**(36-)**	**(1,371)**	**(3,452)**	**(1)**	**(5,184)**

Set out below is an analysis of collateral and credit enhancement obtained during the year ended 31 December 2018:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Retail Loans:				
Credit cards	134	(37)	97	-
Consumer	25,643	(372)	25,271	13,111
Mortgage	28,989	(284)	28,705	23,532
Veterans&Invalids	12,832	(31)	12,801	208
Total Retail Loans	**67,598**	**(724)**	**66,874**	**36,851**
Non – Retail Loans				
Agro	13,711	(182)	13,529	30,383
Corporate	52,659	(3,457)	49,202	206,564
Micro	29,065	(821)	28,244	83,600
Total Non – Retail Loans	**95,435**	**(4,460)**	**90,975**	**320,547**
Total credit-impaired assets	**163,033**	**(5,184)**	**157,849**	**357,398**

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.2 Analysis of risk concentration – Industry analysis

Financial assets as of 31 December 2018	**Financial Institutions**	**Central Government**	**Central Bank of Kosova**	**Total**
Cash on hand and at banks	18,679	-	-	**18,679**
Balances with Central Bank of Kosova	-	-	39,146	**39,146**
Loans and advance to banks	4,788	-	-	**4,788**
Financial assets at fair value through other comprehensive income	-	30,138	-	**30,138**
Total	**23,467**	**30,138**	**39,146**	**92,751**

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.3 Analysis of credit quality

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2018 and 2017, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	Cash and balances with banks and CBK		**Financial assets at fair value through OCI**		**Loans and advances to customers**		**Other financial assets**		**Financial guarantees**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Maximum exposure to credit risk										
Carrying amount	57,825	51,831	30,138	17,152	157,849	132,551	378	143	-	-
Amount committed/guaranteed	-	-	-	-	-	-	-	-	8,746	7,203
	57,825	**51,831**	**30,138**	**17,152**	**157,849**	**132,551**	**378**	**143**	**8,746**	**7,203**
At amortised cost										
Stage 1	57,877	51,831	30,163	17,152	104,901	38,365	378	143	-	-
Stage 2	-	-	-	-	53,409	94,090	-	-	-	-
Stage 3	-	-	-	-	4,719	4,084	-	-	-	-
POCI	-	-	-	-	4	6	-	-	-	-
Total	**57,877**	**51,831**	**30,163**	**17,152**	**163,033**	**136,545**	**378**	**143**	-	-
Allowance for impairment (individual and collective)	(52)	-	(25)	-	(5,184)	(3,994)	-	-	-	-
Net carrying amount	**57,825**	**51,831**	**30,138**	**17,152**	**157,849**	**132,551**	**378**	**143**	-	-
Off balance: maximum exposure										
Credit commitments: Low - fair risk	-	-	-	-	-	-	-	-	6,774	5,899
Financial guarantees: Low - fair risk	-	-	-	-	-	-	-	-	1,972	1,304
Total committed/guaranteed	-	-	-	-	-	-	-	-	**8,746**	**7,203**
Provisions recognised as liabilities	-	-	-	-	-	-	-	-	(12)	(19)
Total exposure	-	-	-	-	-	-	-	-	**8,734**	**7,184**

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.3 Analysis of credit quality (continued)

	2018			**2017**		
Loans and advances to customers	**Retail**	**Corporate**	**Total Loans**	**Retail**	**Corporate**	**Total Loans**
Total gross amount	67,598	95,435	163,033	55,571	80,974	136,545
Allowance for impairment (individual and collective)	(724)	(4,460)	(5,184)	(315)	(3,679)	(3,994)
Net carrying amount	**66,874**	**90,975**	**157,849**	**55,256**	**77,295**	**132,551**
At amortised cost						
Stage 1	39,824	65,077	104,901	14,123	24,241	38,364
Stage 2	27,379	26,030	53,409	41,149	52,942	94,091
Stage 3	391	4,328	4,719	293	3,791	4,084
POCI	4	-	4	6	-	6
Total Gross	**67,598**	**95,435**	**163,033**	**55,571**	**80,974**	**136,545**
Stage 1	(76)	(284)	(360)	(83)	(628)	(711)
Stage 2	(354)	(1,017)	(1,371)	(25)	(826)	(851)
Stage 3	(293)	(3,159)	(3,452)	(201)	(2,225)	(2,426)
POCI	(1)	-	(1)	(6)	-	(6)
Total Allowance for impairment	**(724)**	**(4,460)**	**(5,184)**	**(315)**	**(3,679)**	**(3,994)**
Loans with renegotiated terms						
Carrying amount	94	5,256	5,350	164	6,026	6,190
From which: Impaired	30	3,875	3,905	26	5,000	5,026
Allowance for impairment	(74)	(2,377)	(2,451)	(8)	(2,765)	(2,773)
Net carrying amount	**20**	**2,879**	**2,899**	**156**	**3,261**	**3,417**

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.3 Analysis of credit quality (continued)

Impaired loans (policy applicable before 1 January 2018)

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are graded A to E in the Bank's internal credit risk grading system where A is Standard while E is Loss. The provisioning policy for these loans is detailed in Note 3.(f) (v).

Individual and collective assessment of loan portfolio

For internal management purpose, the Bank segregates the loans into loans that are assessed individually for impairment: these are loans that are classified as substandard-list or lower. All other loans are analysed collectively for impairment assessment purposes.

The Bank's policy requires the review of individual loans and advances to customers that are above materiality thresholds of EUR 50 thousand (2017: EUR 50 thousand) at least quarterly when individual circumstances demand it.

Past due but not impaired loans (policy applicable before 1 January 2018)

Loans and securities, where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Write-off policy

The Bank writes off a loan (and any related allowances for impairment) with the decision of the Board of Directors, in accordance with the regulations of Central Bank of Kosovo. The write (off decision is taken after considering information such as the occurrence of significant changes in the borrower issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The total amount written off during 2018 is EUR 107 thousand (2017: EUR 1,216 thousand).

Due from banks

Interbank exposures are closely monitored on a daily basis by risk management and the Treasury Department. The Bank limits its deposits and other banking transactions to sound local or international banks. Before a business relationship is initiated with a given bank, the management and the Risk Department carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's.

In accordance to the new regulation on large exposures of the Central Bank of Republic of Kosovo, banks shall not have any aggregate credit risk exposure to related counterparties exceeding 15% of Tier I Regulatory Capital.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.3 Analysis of credit quality (continued)

Loans and advances to banks are granted without collateral. The table below presents the Bank's current accounts and time deposits with corresponding banks by credit ratings:

	2018	2017
A+ to A-	699	1,492
BBB+ to B-	2,340	767
Not rated	9,434	7,043
At 31 December	**12,473**	**9,302**

Lending commitments and financial guarantees

The maximum exposure from financial guarantees represents the maximum amount that the Bank should pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability. The maximum credit exposure for lending commitments is the full amount of the commitment.

Risk limit control and mitigation policies

The Bank manage limits and controls the concentrations of credit risk wherever they are identified in particular to individual counterparties and groups, and to affiliates.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review, if necessary.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other controls and mitigation measures are outlined below.

Collateral held and other credit enhancements, and their financial effect

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property and other movable assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and on subsequent valuations, when applicable. Collateral generally is not held over loans and advances to banks.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances to customers	Maximum exposure to credit risk	Property	Cash Collateral	Equipment	Total collateral used	Surplus collateral	Net uncollaterized exposure
31 December 2018	163,033	273,147	5,180	79,071	109,771	(194,365)	53,262
31 December 2017	136,545	240,564	5,666	57,869	93,114	(167,554)	43,431

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.4 Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Cash and balances with Banks and CBK		Loans and advances to banks		Financial assets at fair value through OCI		Loans and advances to customers		Other financial assets		Financial guarantees	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Concentration by sector												
Corporate	-	-	-	-	-	-	90,975	77,295	-	-	8,746	7,203
Banks	57,825	51,831	4,788	1,450	30,138	17,152	-	-	-	-	-	-
Retail	-	-	-	-	-	-	66,874	55,256	378	143	-	-
Total	**57,825**	**51,831**	**4,788**	**1,450**	**30,138**	**17,152**	**157,849**	**132,551**	**378**	**143**	**8,746**	**7,203**
Concentration by location												
EU countries	3,038	2,158	10	100	-	-	-	-	-	-	-	-
Republic of Kosovo	54,571	49,160	4,778	1,350	30,138	17,152	157,849	132,551	378	143	8,746	7,203
Other countries	216	513	-	-	-	-	-	-	-	-	-	-
Total	**57,825**	**51,831**	**4,788**	**1,450**	**30,138**	**17,152**	**157,849**	**132,551**	**378**	**143**	**8,746**	**7,203**

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, exchange rates will affect Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The relevant market risks that the bank deals with are foreign currency risk and interest rate risk in the banking book and these risks are managed in accordance with their respective policies.

27.3.1 Interest rate risk

Interest rate risk is the risk of suffering losses due to the fluctuation of interest rates in financial instruments and is mainly because of maturity mismatches between assets and liabilities. Consequently, this can increase bank's funding costs compared to the return obtained from assets which might remain unchanged and thus, potentially decrease the interest margin.

In order to mitigate this risk, the bank measures and monitors interest rate risk based on repricing gap analysis between assets and liabilities in order to limit its exposure to this risk and ensure compliance with CBK regulation on Interest rate risk on banking book which was enforced since 1st of January 2017. For the purpose of measuring interest rate risk, bank's assets and liabilities are distributed within time buckets according to their maturities and then maturity/ repricing gaps are analyzed. The interest rate gap is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. These scenarios aim to simulate interest rate fluctuations in order to measure the impact on banks financial result and capital. Standard scenarios include a 2% parallel shift in the yield curve as required by the CBK regulation.

The results from these scenarios are reported on a monthly basis to bank's Liquidity Risk Management Committee ("LRMC") and on quarterly basis to Risk Committee on board level. As a result, bank's exposure to interest rate risk remains in line with bank's risk profile and within internal and regulatory limits as set by the CBK.

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2018 and 2017 are as follows:

	USD		*EUR*	
Assets	**2018**	**2017**	**2018**	**2017**
Cash at banks	-	0.65%	-	-
Loans and advances to banks	2.40%	1.34%	0.94%	0.93%
Loans to customers	-	-	8.03%	8.45%
Financial assets at fair value through OCI	-	-	2.13%	1.69%
Liabilities				
Due to customers	-	-	1.41%	1.41%
Subordinated debt	-	-	8.65%	10.04%
Borrowings	-	-	2.97%	3.50%

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

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 statement of financial position) is as follows:

2018	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(637)	637	773	(773)

2017	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(571)	571	686	(686)

Effect on other comprehensive income	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	10 bp Increase	10 bp Decrease	10 bp Increase	10 bp Decrease
2018: Estimated Financial assets at fair value through OCI effect	-	-	97	(97)
2018: Total effect on equity	(605)	605	831	(831)

Based on the analysis above if interest rates increase with 10 basis point, fair value decreases with EUR 97 thousand. The effect of interest rate risk on equity is similar to that on Profit and Loss.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

The following table shows the interest bearing and non-interest bearing financial instruments by repricing date.

31 December 2018		**Up to 1 month**	**1-3 Month**	**3-6 Month**	**6-12 Month**	**Over 1 year**	**Total**
Assets							
Cash on hand and at banks							
Non-interest bearing		15,985	-	-	-	-	**15,985**
Interest bearing	*Fixed*	697	1,997	-	-	-	**2,694**
Balances with CBK							
Non-interest bearing		39,146	-	-	-	-	**39,146**
Loans and advances to banks							
Interest bearing	*Fixed*	-	-	998	3,780	10	**4,788**
Investment securities							
Interest bearing	*Fixed*	50	100	250	-	29,738	**30,138**
Loans to customers							
Interest bearing	*Fixed*	5,152	10,717	14,979	29,282	97,719	**157,849**
Other financial assets							
Non-interest bearing		378	-	-	-	-	**378**
Total		**61,408**	**12,814**	**16,227**	**33,062**	**127,467**	**250,978**
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	20,632	6,288	6,997	42,315	46,137	**122,369**
Non-interest bearing		99,224	-	-	-	-	**99,224**
Subordinated debt							
Interest bearing	*Fixed*	-	-	42	-	1,300	**1,342**
Borrowings							
Interest bearing	*Variable*	158	313	455	613	2,746	**4,285**
Other liabilities							
Non-interest bearing		1,399	-	-	-	-	**1,399**
Total		**121,413**	**6,601**	**7,494**	**42,928**	**50,183**	**228,619**
Gap		**(60,005)**	**6,213**	**8,733**	**(9,866)**	**77,284**	**22,359**
Cumulative gap		**(60,005)**	**(53,792)**	**(45,059)**	**(54,925)**	**22,359**	

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

31 December 2017		Up to 1 month	1-3 Month	3-6 Month	6-12 Month	Over 1 year	Total
Assets							
Cash on hand and at banks							
Non-interest bearing		13,516	-	-	-	-	**13,516**
Interest bearing	*Fixed*	4,317	-	-	-	-	**4,317**
Balances with CBK							
Non-interest bearing		33,998	-	-	-	-	**33,998**
Loans and advances to banks							
Interest bearing	*Fixed*	-	-	-	1,450	-	**1,450**
Investment securities							
Interest bearing	*Fixed*	50	-	340	4,983	11,779	**17,152**
Loans to customers							
Interest bearing	*Fixed*	5,358	6,459	13,039	24,572	83,123	**132,551**
Other financial assets							
Non-interest bearing		143	-	-	-	-	**143**
Total		**57,382**	**6,459**	**13,379**	**31,005**	**94,902**	**203,127**
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	18,834	4,628	9,110	50,122	23,605	**106,299**
Non-interest bearing		71,481	-	-	-	-	**71,481**
Subordinated debt							
Interest bearing	*Fixed*	-	-	-	40	800	**840**
Borrowings							
Interest bearing	*Variable*	-	1,114	-	1,114	1,915	**4,143**
Other liabilities							
Non-interest bearing		1,673	-	-	-	-	**1,673**
Total		**91,988**	**5,742**	**9,110**	**51,276**	**26,320**	**184,436**
Gap		**(34,606)**	**717**	**4,269**	**(20,271)**	**68,582**	**18,691**
Cumulative gap		**(34,606)**	**(33,889)**	**(29,620)**	**(49,891)**	**18,691**	

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.2 Exposure to currency risk

Currency risk is the risk of potential losses from open position in foreign currencies due to fluctuations in exchange rates. The Bank is exposed to currency risk through transactions in foreign currencies. The Bank ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short-term balances. The bank manages and monitors currency risk against the limits set in its risk policy and in CBK regulation on Foreign Exchange Risk.

Exposure to currency risk is discussed and reported on monthly basis to liquidity and market risk committee. The foreign currencies the Bank deals with, are predominantly United States Dollars (USD), Swiss Franc (CHF) and Great Britain Pounds (GBP). The bank has stopped accepting GBP, and the remaining balance is managed closely. The rates used for translation as at 31 December 2018 and 2017 are as follows:

	2018	2017
CURRENCY	**EUR**	**EUR**
1 USD	0.8734	0.8338
1 CHF	0.8874	0.8546
1 GBP	1.1179	1.1271

An analysis of the Bank's sensitivity to an increase or decrease in foreign currency rates is as follows:

in thousands of EUR	**USD**		**CHF**		**GBP**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Sensitivity rates	5%	5%	5%	5%	5%	5%
Profit or loss						
+5% of Euro	12.23	2.97	12.89	2.02	0.90	0.24
- 5% of Euro	(12.23)	(2.97)	(12.89)	(2.02)	(0.90)	(0.24)

The Bank's exposure to foreign currency risk is as follows:

All amounts are translated in thousands of EUR

31 December 2018	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Financial Assets					
Cash on hand and at banks	15,812	1,359	1,490	18	**18,679**
Balances with CBK	39,146	-	-	-	**39,146**
Financial assets at fair value through OCI	30,138	-	-	-	**30,138**
Loans and advances to banks	3,013	-	1,775	-	**4,788**
Loans and advances to customers	157,849	-	-	-	**157,849**
Other financial assets	378	-	-	-	**378**
Total financial assets	**246,336**	**1,359**	**3,265**	**18**	**250,978**
Financial Liabilities					
Due to customers	217,472	1,114	3,007	-	**221,593**
Subordinated debt	1,342	-	-	-	**1,342**
Borrowings	4,285	-	-	-	**4,285**
Other liabilities	1,399	-	-	-	**1,399**
Total financial liabilities	**224,498**	**1,114**	**3,007**	-	**228,619**
Net foreign currency position	**21,838**	**245**	**258**	**18**	**22,359**

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.2 Exposure to currency risk (continued)

All amounts are translated in thousands of EUR

31 December 2017	EUR	USD	CHF	GBP	Total
Financial Assets					
Cash on hand and at banks	13,451	1,657	2,720	5	**17,833**
Balances with CBK	33,998	-	-	-	**33,998**
Available-for-sale investments	17,152	-	-	-	**17,152**
Loans and advances to banks	1,450	-	-	-	**1,450**
Loans and advances to customers	132,551	-	-	-	**132,551**
Other financial assets	143	-	-	-	**143**
Total financial assets	**198,745**	**1,657**	**2,720**	**5**	**203,127**
Financial Liabilities					
Due to customers	173,502	1,598	2,680	-	**177,780**
Subordinated debt	840	-	-	-	**840**
Borrowings	4,143	-	-	-	**4,143**
Other liabilities	1,673	-	-	-	**1,673**
Total financial liabilities	**180,158**	**1,598**	**2,680**	**-**	**184,436**
Net foreign currency position	**18,587**	**59**	**40**	**5**	**18,691**

27.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its obligations as they come due and to meet any unexpected demands for funds by its depositors or other creditors. Moreover, liquidity risk includes also the risk that the bank will be unable to fund the growth of assets.

The Bank'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 the Bank's reputation. For this purpose, on daily basis the bank monitors its liquidity position and market conditions. Moreover, continuously assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

In order to ensure an effective management of liquidity risk, and ensure that no liquidity shortfalls occur, the Bank keeps its deposit base diversified. As such, the bank aims to raise funds using a broad range of instruments such as customers' deposits, or funding from IFIs which will ensure that funding base remains stable.

In addition to daily reporting, the bank monitors liquidity risk on monthly basis also. This monitoring includes the liquidity position under normal circumstances and also under stress tests. The results are discussed in Liquidity Risk Management Committee ("LRMC").

Furthermore, the bank has also a liquidity contingency plan which enables the effective management of liquidity in case of unexpected circumstances.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.4 Liquidity risk (continued)

27.4.1 Management of liquidity risk

The bank measures liquidity risk using liquidity gap analysis which represents the residual maturities of financial assets and liabilities. The residual maturity is the period between the contractual due date of the asset/ liability and the balance sheet date.

The following tables shows the discounted cash flows of the Bank's financial liabilities and unused loan commitments and guarantees on the basis of their earliest possible contractual maturity. The Bank's expected cash flows from these instruments vary significantly from this analysis. For example, demand accounts are expected to maintain a stable or increasing balance.

31 December 2018	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
Financial Assets						
Cash on hand and at banks	16,683	1,996	-	-	-	**18,679**
Balances with CBK	39,146	-	-	-	-	**39,146**
Loans and advances to banks	-	-	998	3,780	10	**4,788**
Loans and advances to customers	5,152	10,717	14,979	29,282	97,719	**157,849**
Financial assets at fair value through OCI	50	100	250	-	29,738	**30,138**
Other financial assets	378	-	-	-	-	**378**
Total	**61,409**	**12,813**	**16,227**	**33,062**	**127,467**	**250,978**
Financial Liabilities						
Due to customers	119,857	6,288	6,996	42,315	46,137	**221,593**
Subordinated debt	-	-	42	-	1,300	**1,342**
Borrowings	158	313	455	613	2,746	**4,285**
Other liabilities	1,399	-	-	-	-	**1,399**
Guarantees issued	1,972	-	-	-	-	**1,972**
Unused credit commitments	6,774	-	-	-	-	**6,774**
Total	**130,160**	**6,601**	**7,493**	**42,928**	**50,183**	**237,365**
Liquidity gap	**(68,751)**	**6,212**	**8,734**	**(9,866)**	**77,284**	**13,613**

31 December 2017	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
Financial Assets						
Cash on hand and at banks	17,833	-	-	-	-	**17,833**
Balances with CBK	33,998	-	-	-	-	**33,998**
Loans and advances to banks	-	-	-	1,450	-	**1,450**
Loans and advances to customers	5358	6,459	13,039	24,572	83,123	**132,551**
Available-for-sale financial assets	50	-	340	4,983	11,779	**17,152**
Other financial assets	143	-	-	-	-	**143**
Total	**57,382**	**6,459**	**13,379**	**31,005**	**94,902**	**203,127**
Financial Liabilities						
Due to customers	90,315	4,628	9,110	50,122	23,605	**177,780**
Subordinated debt	-	-	-	40	800	**840**
Borrowings	-	1,114	-	1,114	1,915	**4,143**
Other liabilities	1,673	-	-	-	-	**1,673**
Guarantees issued	1,304	-	-	-	-	**1,304**
Unused credit commitments	5,899	-	-	-	-	**5,899**
Total	**99,191**	**5,742**	**9,110**	**51,276**	**26,320**	**191,639**
Liquidity gap	**(41,809)**	**717**	**4,269**	**(20,271)**	**68,582**	**11,488**

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.5 Operational risk

In line with CBK regulation, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. This definition includes legal risk, but excludes strategic and reputational risk. In order to ensure effective management of operational risk the bank has implemented an operational risk framework which includes policies and procedures, techniques and tools for identifying, assessing, mitigating/ controlling and monitoring operational risk.

In order to improve and increase the effectiveness of internal controls in bank's processes and record all operational risk losses, the bank has established a "loss event database" where all events that cause operational losses or potential risks that may cause losses are registered. Limits and reporting lines of these losses are determined in operational risk management policy. Furthermore, operational risk procedure describes in detail the steps that the bank undertakes from collected information on operational risk loss event database.

This database is considered to be the best source of information for the development of models for measuring bank's exposure to operational risk as it offers information on the causes of loss. Furthermore, through the information gathered from this database corrective or preventive measures are set in order to mitigate/ control this risk.

Yearly assessment for different processes in bank is part of bank's operational risk management framework. Through this assessment the bank collects useful information for determining bank's operational risk profile and assesses the risks the bank is exposed to, including the degree of control implementation. This enables the improvement of control processes through different measures, thus reducing the impact of losses from operational risk.

Effective management of operational risk means knowing bank's position and risk profile. Therefore, for this purpose, the bank is using Key Risk Indicators (KRIs) to monitor drivers of exposures associated with key risks. These indicators are monitored on regular (monthly/quarterly) basis in order to facilitate operational risk management by providing early warning signals for the changes that may be indicative of risk concerns.

In establishing an effective management of operational risk, the bank has undertaken different activities related to increasing risk awareness mainly through trainings, which are provided for all bank staff on an annual basis. These trainings aim to enhance the knowledge regarding operational risk management through discussion of different scenarios on previous operational risk events. Furthermore, the trainings address the channels through which operational risk events are to be monitored and reported.

In addition, the bank has implemented a process for ensuring that changes in products, services or processes (existing or new) go through risk review and approval. This will ensure that the operational risk that comes from processes, products or new services in the bank is monitored and dealt with promptly.

The bank calculates the capital charge for operational risk using the Basic Indicator Approach (BIA) as defined by the Central Bank regulation on Operational risk management.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.6 Capital risk management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance.

The equity structure of the Bank comprises share capital, reserves and retained earnings. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets, off balance-sheet items and other risks, expressed as a percentage. The minimum required Capital Adequacy Ratio is 8% for Tier 1 capital and 12% for total own funds.

Risk-Weighted Assets (RWAs)

Assets are weighted according to broad categories of national risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Six categories of risk weights (0%, 20%, 50%, 75%, 100%, and 150%) are applied; for example, cash and money market instruments have a zero-risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital (Tier 1) equal to 8% of the carrying amount. Off-balance-sheet credit related commitments are taken into account. The amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

	2018	**2017**
Total risk weighted assets	154,558	126,575
Total risk weighted off balance exposures	628	713
Total risk weighted assets for operational risk	14,910	12,747
Total	**170,096**	**140,035**
Regulatory capital (Total Capital)	26,655	21,617
Capital adequacy ratio (Total Capital)	**15.67%**	**15.44%**

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28. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of them has the ability to control the other or exercise significant influence over the one making financial and operating decisions. Ultimate controlling parties are shareholders listed in the Note 25 shareholders equity and reserves.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely to the legal form.

A summary of related party balances at the end of year are as follows:

	31 December 2018		31 December 2017	
Assets: *Loans outstanding at end of year with shareholders and key management*	CBK Rating*		CBK Rating*	
ENRAD-Ex Newco Jugo Term	A	1,716	A	1,542
ENG Office	A	501	A	501
Ismet Sylejmani (VATANI SH.P.K)	A	96	A	100
Uniprojekt	A	269	A	113
Naser Aliu(Uniprojekt)	A	15	A	17
Besnik Vrella (Uniprojekt)	A	6	A	9
Agim Bilalli (Uniprojekt)	A	10	A	12
Ahmet Arifi	-	-	A	1
Sokol Krasniqi	A	3	A	-
Brymako	A	3	A	12
Hyda Krasniqi	A	26		-
Naim Abazi (MEDIANAM SH.P.K)	C	134	A	205
MALESIA REISEN (Rrustem Aliaj)	A	660		-
Other shareholders and management	A	181	A	110
Total		**3,620**		**2,622**
Guarantees and letters of credit with shareholders	A	11	A	11

* A: Standard category; B: Watch category; C: Substandard category

Loans to related parties are given at commercial terms.

	2018	2017
Loans to shareholders, gross	3,439	2,512
Allowance for impairment	(47)	(4)
Total Loans to shareholders, net	**3,392**	**2,508**
Cash collateral	(2,686)	(2,026)
Net exposure to shareholders	**706**	**482**

	2018	2017
Loans to management and BoD members, gross	181	110
Loans to management, net	**181**	**110**
Cash collateral	(33)	(48)
Net exposure to management	**148**	**62**

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28. RELATED PARTY TRANSACTIONS (CONTINUED)

Liabilities:	**31 December 2018**	**31 December 2017**
Customer accounts with shareholders		
NTPSH caffe group	38	26
Mjedi Rexhepi	405	307
Enrad	814	3
Malesia Reisen	829	42
Rrustem Aliaj	90	72
Frutex	539	202
Shaqir Palushi	73	132
Ismet Sylejmani (VATANI SH.P.K)	1	1
Naser Aliu (Uniprojekt	14	4
Besnik Vrella (Uniprojekt	3	5
Besnik Vrella (Shtepiaku)	3	-
Sokol Krasniqi	7	2
Ahmet Arifi	-	1
Naim Abazi (MEDIANAM SH.P.K)	1	37
Moneta sh.p.k	2	1
Nazmi Viça	49	20
ENG Office	160	8
Other shareholders and management	46	157
Total	**3,074**	**1,020**
Borrowing from EBRD	3,373	1,000
Total Liabilities	**6,447**	**2,020**

Following are the transactions made with related parties during the year:

	2018	2017
Income		
Interest income from loans and advances	100	56
Total interest income	**100**	**56**
Expenses		
Interest expenses for subordinated debt from EBRD	36	69
Key management compensation	372	350
Board of director's compensation	42	42
Total expenses	**450**	**461**

29. SUBSEQUENT EVENTS

There are no significant events after the reporting date that may require adjustment or disclosure in the financial statements.

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