

BANKA PËR BIZNES SH.A.

**Independent Auditors' Report and
Financial Statements for the year
ended December 31, 2019**

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Banka për Biznes Sh.a.

Opinion

We have audited the financial statements of Banka për Biznes Sh.a. (the Bank), which comprise: the statement of financial position as at December 31, 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), 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 matter

The financial statements of Bank for Business for the year ended December 31, 2018, were audited by Ernst & Young Certified Auditors Ltd - Kosovo who expressed an unmodified opinion on those statements on April 29, 2019.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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



BDO Kosova L.L.C.
Amir Dermala
Engagement Partner
March 20, 2020
Rr. Ukshin Hoti, C 4/3, H A, Kati II
Pristina, Kosovo



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Banka për Biznes Sh.a.
Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	2019	2018 Restated
<i>In thousands of EUR</i>			
Continuing operations			
Interest income at effective interest rate	7	14,821	13,473
Interest expense	7	(2,399)	(1,847)
Net interest income		12,422	11,626
Fee and commission income	8	3,037	2,367
Fee and commission expense	8	(1,047)	(759)
Net fee and commission income		1,990	1,608
Recoveries of loans previously written off		502	993
Net foreign exchange gain		63	10
Net gain on financial assets at FV through Profit or Loss	15	1,003	7
Total operating income		15,980	14,244
Other income	9	224	516
Credit loss expense on loans and advances to customers	16	(692)	(438)
Credit loss expense on financial assets	12-15	(15)	(22)
Repossessed assets write-downs	20	(61)	(62)
Other provisions		(25)	(101)
Other operating expenses	10	(8,379)	(7,737)
Profit before income tax		7,032	6,400
Income tax expense	11	(693)	(659)
Net profit for the year		6,339	5,741
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net change in fair value of financial assets through other comprehensive income		(15)	(22)
Total comprehensive income for the year		6,324	5,719
Earnings per share (in thousands of EUR)	25	0.22	0.20

The notes on pages 7 to 94 are an integral part of these financial statements

Banka për Biznes Sh.a.
Statement of Financial Position
As at 31 December 2019

<i>In thousands of EUR</i>	Note	2019	31 December 2018 Restated	1 January 2018 Restated
Assets				
Cash on hand and at banks	12	21,600	18,679	17,819
Balances with Central Bank of Kosovo	13	42,031	39,146	33,968
Loans and advances to banks	14	6,053	4,788	1,446
Financial assets at fair value through OCI	15	38,646	30,138	17,138
Loans and advances to customers	16	182,164	158,106	131,967
Other financial assets	17	206	378	143
Intangible assets	18	515	402	338
Property and equipment	19	2,850	2,830	1,725
Right of use Assets	24	2,843	-	-
Other assets	20	203	503	970
Total assets		297,111	254,970	205,514
Liabilities				
Due to customers	21	253,955	221,593	177,780
Subordinated debt	22	502	1,342	840
Borrowings	22	6,334	4,285	4,143
Provisions	23	539	482	506
Deferred tax liability	11	74	90	84
Lease liability	24	2,825	-	-
Other liabilities	23	1,778	1,399	1,673
Total liabilities		266,007	229,191	185,026
Equity				
Share capital	25	11,247	11,247	11,247
Other capital reserve	25	857	857	857
Revaluation reserve	25	96	96	96
Fair value reserve		(67)	(52)	(30)
Retained earnings		18,971	13,631	8,318
Total equity		31,104	25,779	20,488
Total liabilities and equity		297,111	254,970	205,514

These financial statements were approved by the management of the Bank on 20 March 2020 and signed on its behalf by:



Arton Celina
Chief Executive Officer



Avni Berisha
Head of Finance Department

The notes on pages 7 to 94 are an integral part of these financial statements

Banka për Biznes Sh.a.**Statement of Changes in Equity**

For the year ended 31 December 2019

	Share capital	Other capital reserve	Revaluation reserve	Retained earnings	Fair value reserve	Total
<i>In thousands of EUR</i>						
Balance at 31 December 2017	11,247	857	96	8,924	(30)	21,094
<i>Restated of provision according to IFRS 9</i>	-	-	-	(606)	-	(606)
At 1 January 2018	11,247	857	96	8,318	(30)	20,488
Contributions and distributions	-	-	-	(428)	-	(428)
Profit for the year	-	-	-	5,741	-	5,741
Other comprehensive income	-	-	-	-	(22)	(22)
Total comprehensive income	11,247	857	96	13,631	(52)	25,779
At 1 January 2019	11,247	857	96	13,631	(52)	25,779
Contributions and distributions	-	-	-	(999)	-	(999)
Profit for the year	-	-	-	6,339	-	6,339
Other comprehensive income (loss)	-	-	-	-	(15)	(15)
Total comprehensive income	-	-	-	5,340	(15)	5,325
Balance at 31 December 2019	11,247	857	96	18,971	(67)	31,104

The notes on pages 7 to 94 are an integral part of these financial statements

Banka për Biznes Sh.a.**Statement of Cash Flows**

For the year ended 31 December 2019

<i>In thousands of EUR</i>	Note	2019	2018 Restated
Cash flows from operating activities			
Profit for the year before tax		7,032	6,400
Adjustment for:			
Amortization	18	237	217
Depreciation	19	755	595
Gain from disposal of property, equipment and repossessed assets		(7)	(5)
Gain from repossession of collateral		(188)	(428)
ECL/Impairment losses from loans	16	692	438
ECL/Impairment losses from financial assets		(15)	21
Provision for repossessed assets	20.1	61	62
Other provisions		25	1
Gain from sale of AFS		(1,003)	(7)
Interest expense	7	2,399	1,847
Interest income	7	(14,821)	(13,473)
		(4,833)	(4,332)
Changes in:			
Loans and advances to banks	14	(1,270)	(3,345)
Loans and advances to customers	16	(24,162)	(26,457)
Restricted balances with the CBK	13	(2,937)	(2,770)
Other assets	20	239	405
Other financial assets	17	172	(235)
Due to customers	21	32,449	43,869
Other liabilities and provisions		436	(309)
		94	6,826
Cash generated from operating activities			
Interest received		14,697	13,179
Interest paid		(1,946)	(1,834)
Income tax paid	11	(754)	(611)
		12,091	17,560
Net cash generated from operating activities			
Cash flows from investing activities			
Investments in financial assets at fair value through OCI, net		(8,514)	(12,967)
Purchase of intangible assets	18	(350)	(281)
Purchase of property and equipment	19	(828)	(1,754)
Proceeds from sale of repossessed assets		188	428
Proceeds from sale of property and equipment		77	61
		(9,427)	(14,513)
Net cash used in investing activities			
Cash flows from financing activities			
Repayment of borrowings	22	(2,873)	(2,343)
Receipts from borrowings	22	4,080	3,000
Dividend distributed		(999)	(428)
		208	229
Net cash generated from financing activities			
Net increase in cash and cash equivalents			
		2,872	3,276
Cash and cash equivalents at beginning of the year	12	40,140	36,864
Cash and cash equivalents at the end of the year	12	43,012	40,140

The notes on pages 7 to 94 are an integral part of these financial statements

Banka për Biznes Sh.a.

Notes to the financial statements

For the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

1. INTRODUCTION

The Bank for Private Business Sh.a. as previously known 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 për Biznes (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 7 branches and 19 sub branches located throughout Kosovo (2018: 9 branches and 17 sub branches).

Financial statements for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the directors on 20 March 2020.

2. BASIS OF PREPARATION

2.1 Basis of accounting

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

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.

This is the first set of the financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in Note 4.

2.2 Basis of measurement

These financial statements are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and investment property. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

2.3 New and amended standards and interpretations

In these financial statements, the Bank has applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements.

2.3.1 IFRS 16 Leases

The Bank applied IFRS 16 using the modified retrospective approach with no effect of initial application in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

2. BASIS OF PREPARATION (CONTINUED)

2.3 New and amended standards and interpretations (continued)

2.3.1 Leases (continued)

Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4 (s). On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

As a lessee

As a lessee, the Bank leases branches and office premises. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for leases of branches and office premises the Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognize right-of-use assets and liabilities for leases of low-value assets;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

As a lessor

The Bank does not lease any assets.

2. BASIS OF PREPARATION (CONTINUED)

2.3 New and amended standards and interpretations (continued)

2.3.1 Leases (continued)

Impact on financial statements

Impact on transition

On transition to IFRS 16, the Bank recognized additional right-of-use assets in the amount of EUR 2,843 thousand and additional lease liabilities in the amount of EUR 2,825.

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019.

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 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 recognized prospectively.

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

2.6 Restatement of Financial Statements

The Bank has issued its financial statements as of and for the year ended 31 December 2018 on 26 April 2019. Further to the bank's management decision dated 20 January 2020, it has been decided that the bank will restate its financial statements due to certain errors that have become known to the bank subsequent to the date of issue of Financial Statement.

The Bank has identified and adjusted these errors in calculating the expected credit loss (ECL). These errors are related to the measurement of ECL, as a result of limitations in calculations on the ECL components occurring in the reporting and selection of the transition option. As a result, credit loss expense on loans and advances to customers are understated, and profit for the reporting period 1 January 2018 and 31 December 2018 is overstated. After recalculations of ECL, the Bank decided to correct the errors by restating its reported amounts of credit loss expense for loans and advances to customers, income tax expense, loans and advances to customers, deferred tax liability and retained earnings. The errors have been corrected by restating each of the affected financial statement line items for prior periods.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***2. BASIS OF PREPARATION (CONTINUED)****2.6 Restatement of Financial Statements (continued)**

The following tables summarize the impacts on the Bank's financial statements for 2018:

	As restated	Adjustments	As previously reported
Total assets	205,514	(646)	206,160
Loans and advances to customers	131,967	(584)	132,551
Other financial assets	70,371	(62)	70,433
Total liabilities	185,026	(40)	185,066
Deferred tax liability	84	(40)	124
Total equity	20,488	(586)	21,094
Accumulated profit	8,318	(606)	8,924

At 31 December 2018

Total assets	254,970	257	254,713
Loans and advances to customers	158,106	257	157,849
Total liabilities	229,191	(31)	229,160
Deferred tax liability	90	31	59
Total equity	25,779	226	25,553
Accumulated profit	13,631	226	13,405

Statement of Comprehensive Income

	As restated	Adjustments	As previously reported
Loan loss provision	(438)	(944)	506
Income tax expense	(659)	93	(752)
Net profit	5,741	851	6,592
Total comprehensive income	5,719	851	6,570

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 Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts 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 amortized 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.

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 amortized 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 amortized 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 amortized 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 amortized 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 recognized 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,

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Fees and commissions (continued)

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 recognized 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 recognized 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

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early 2020.

d) Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized 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 recognized 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 recognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Tax expense (continued)

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

A deferred tax asset is recognized 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 utilized. 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 realized.

(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.

e) 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 recognized in profit or loss.

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

(i) Recognition

The Bank initially recognizes 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 recognized 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: amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 amortized 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 realizing 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 realized.

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.

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:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

***Assessment whether contractual cash flows are solely payments of principal and interest
(continued)***

- 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.

(iii) Derecognition

Financial assets

The Bank derecognizes 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 recognized as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized 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 derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(iii) Derecognition (continued)

Financial assets (continued)

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 recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Bank derecognizes 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 derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized 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 recognizes 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 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 realize 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) Amortized cost measurement

The 'amortized 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 amortization 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 amortized cost of a financial asset before adjusting for any expected credit loss allowance.

(vii) Fair value measurement (policy applicable 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize 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 recognized 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 recognizes 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 recognizes 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 recognize loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized 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.

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;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(viii) Identification and measurement of impairment (continued)

- 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 considers 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 realizing 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 f *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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

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 also considers that the risk has increased if the client requests a restructuring with easing terms 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)

f) 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 derecognized and the renegotiated loan recognized 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 recognized based on a credit-adjusted EIR. ECLs are only recognized 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 analyzing quantitative and qualitative factors affecting risk of default.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(viii) Identification and measurement of impairment (continued)

Modified financial assets (continued)

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.

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 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 analyze 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 amortization, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) 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)

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.

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 recognized 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 organizations such as the Organization for Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(viii) Identification and measurement of impairment (continued)

Forward-looking information (continued)

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 analyzing historical data over the past 5 years.

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 amortized 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 recognized 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.

g) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognizes 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 recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are recognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (continued)

(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

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 amortized cost using the effective interest method.

Available-for-sale financial assets

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

Other fair value changes, other than impairment losses (see (g) and (v)), are recognized 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 amortized cost.

(iii) Derecognition

Financial assets

The Bank derecognizes 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 recognized as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (continued)

Financial liabilities

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

(iv) Amortized cost measurement

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

(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 amortized 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 derecognized. 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 derecognized and the new financial asset is recognized at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (continued)

(v) Identification and measurement of impairment (continued)

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

Losses are recognized 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.

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.

h) 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 amortized cost in the statement of financial position.

i) Deposits, borrowings and subordinated debt

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 amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) 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 fair value 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.

k) 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 capitalized as part of that equipment.

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

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 recognized within other income in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalized 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 recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Property and equipment (continued)

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

	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.

l) Intangible assets

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

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

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

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

m) 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 recognized 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 recognized 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 Amortization, if no impairment loss had been recognized.

n) Provisions

A provision is recognized 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 recognized as finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized 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 recognized 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.

p) Financial guarantees and loan commitments

The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative Amortization recognized 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 recognized within Provisions.

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 recognized 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.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early. The most significant of these is as follows, which are all effective for the period beginning 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

Amendments were made to IAS 28 clarifying that IFRS 9, including its impairment requirements, applies to long-term interests. The expected credit loss impairment requirements in IFRS 9 are applied first to long-term interests, followed by the adjustments to their carrying amount required by IAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee) followed by the determination of whether there are indicators of impairment which require an impairment test to be applied to the entire remaining carrying amount of the investment in the associate or joint venture. The amendments are accompanied by an example illustrating how the requirements of IAS 28 and IFRS 9 interact.

There were four amendments as part of the 2015-2018 Annual Improvements Cycle. These were made to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

- IFRS 3: A Bank re-measures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11: A Bank does not re-measure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12: A Bank accounts for all income tax consequences of dividend payments in the same way.
- IAS 23: A Bank treats as part of general borrowings any borrowing originally made to develop a specific asset when that asset is ready for its intended use or sale.

IAS 19 was amended to clarify that it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement for a plan amendment, curtailment or settlement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The Bank does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Bank's Financial Statements.

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

4.2 Standards issued and effective for the annual period

IFRS 16 Leases

The Bank decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. 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 recognize 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). Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17.

Lease liabilities under IFRS 16 maybe be significant depending on the value of the lease and on expected duration of lease contracts, consequently it may impact the way how capital adequacy and other regulatory limits are calculated.

Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Bank has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Bank relied on its assessment made applying IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

The weighted average incremental borrowing rate applied by the Bank to the leased liabilities on 1 January 2019 was 2.97%.

As at 31 December 2018 the Bank had non-cancellable lease commitments of EUR 1,417 thousands.

* Non-cancellable leases include those cancellable only: (a) upon the occurrence of some remote contingency, (b) with the permission of the lessor, (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)**4.2 Standards issued and effective for the annual period (continued)**

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

<i>In thousands of EUR</i>	Note	Impact of adopting IFRS 16
Decrease in property, plant and equipment		-
Increase in right-of-use assets		1,417
Increase in lease liabilities		1,415
Increase / (decrease) equity - retained earnings, net of deferred tax		-

Interest expense included in finance costs of 2019 was EUR 68 thousand. Total cash outflow for leases in 2019 was EUR 746 thousand.

Extension and termination options are included in a number of property and equipment leases across the Bank. These are used to maximize operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor.

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 recognized 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 amortized 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.

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

b) Net realizable value of repossessed assets (continued)

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.)

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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)****d) Disclosure and estimation of fair value (continued)**

	2019			2018 Restated		
	Carrying value	Fair value Level 2	Level 3	Carrying value	Fair value Level 2	Level 3
Financial assets measured at fair value						
Financial investments at fair value through OCI	38,713	38,646	-	30,138	30,138	-
Financial assets not measured at fair value						
Cash on hand and at banks	63,631	-	63,631	57,825	-	57,825
Loans and advances to banks	6,053	-	6,053	4,788	-	4,788
Loans and advances to customers	182,164	-	180,144	158,106	-	156,351
Other financial assets	206	-	206	378	-	378
Financial liabilities not measured at fair value						
Due to customers	253,955	-	254,863	221,593	-	222,385
Subordinated debt	502	-	499	1,342	-	1,338
Borrowings	6,333	-	5,397	4,285	-	3,652
Other financial liabilities	1,778	-	1,778	1,399	-	1,399

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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)****d) Disclosure and estimation of fair value (continued)**

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.

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	Amortized cost (Loans and receivables)	17,833	Amortized cost	17,819
Balances with Central Bank of Kosovo	Amortized cost (Loans and receivables)	33,998	Amortized cost	33,968
Loans and advances to banks	Amortized cost (Loans and receivables)	1,450	Amortized cost	1,446
Investment securities	FVOCI (Available for sale)	17,152	FVOCI	17,138
Loans and advances to customers	Amortized cost (Loans and receivables)	132,551	Amortized cost	131,967
Non-financial assets				
Non-financial liabilities				
Provisions (financial guarantees)	Amortized cost (Loans and receivables)	(19)	Amortized cost	(13)
Deferred tax liability	Amortized cost	(124)	Amortized cost	(84)

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***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 Restated
Amortized 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	-	-	(584)	(584)
Closing balance under IFRS 9	132,551	-	(584)	131,967
Total financial assets measured at amortized cost	-	-	(632)	185,200

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***6. TRANSITION DISCLOSURES (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 Restated
<i>Investment securities - Available for sale financial assets</i>				
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 liabilities				
Provisions (financial guarantees)				
Opening balance	(19)		-	(19)
Remeasurement: ECL allowance	-		6	6
Closing balance under IFRS 9	(19)		6	(13)
Deferred tax liability				
Opening balance under IAS 39	(124)	-	-	(124)
Remeasurement: ECL allowance	-	-	40	40
Closing balance under IFRS 9	-	-	-	(84)
Total non - financial liabilities	-	-	46	(97)

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***6. TRANSITION DISCLOSURES (CONTINUED)****c) Reconciliation of impairment loss**

Measurement category	Loan loss allowance under IAS 39	Reclassification	Remeasurement	Loan loss allowance under IFRS 9 1 January 2018 Restated
Loans and receivables (IAS 39)/Financial assets at amortized 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)	-	(584)	(4,578)
Total	(3,994)	-	(632)	(4,626)
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)	-	-	(34)	(34)
Provisions (loan commitments)	-	-	-	-
Provisions (financial guarantees)	(19)	-	6	(13)
Total	(4,013)	-	(674)	(4,687)

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	(674)
Deferred tax in relation to the above	67
Opening balance under IFRS 9 (1 January 2018)	8,318
Total change in equity due to adopting IFRS 9	(606)

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***7. INTEREST INCOME AND EXPENSES**

Net interest income is composed as follows:

	2019	2018
Interest income at effective interest rate		
Loans and advances to customers	14,296	12,940
Loans and advances to banks	125	38
Financial investments	400	495
	14,821	13,473
Interest expense		
Due to customers	(1,946)	(1,659)
Subordinated debt	(275)	(83)
Borrowings	(178)	(105)
	(2,399)	(1,847)
Net interest income	12,422	11,626

8. COMMISSION INCOME AND EXPENSES

	2019	2018
Fee and commission income		
Payment transfers and transactions	1,799	1,532
Account maintenance fees	944	627
Other fees and commissions	294	208
Total fee and commission income	3,037	2,367
Fee and commission expense		
Fees and commissions on bank accounts	(956)	(670)
Fees and commissions on social aid distribution	(40)	(43)
Other fees and commissions	(51)	(46)
Total fee and commission expense	(1,047)	(759)
Net fee and commission income	1,990	1,608

9. OTHER INCOME

	2019	2018
Gain from sale of repossessed assets	188	428
Net reversal of provisions for guarantees	2	12
Other income	34	76
Total	224	516

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***10. OTHER OPERATING EXPENSES**

	2019	2018
Personnel expenses (see below)	3,909	3,760
Lease expenses	773	674
Depreciation and Amortization	992	812
Insurance and security	679	651
Utilities and fuel	185	167
Repairs and maintenance	82	69
Communications	195	195
Consultancy	92	126
Legal expense	145	148
Card issuance costs	381	270
Advertising and marketing expenses	225	253
Cleaning expenses	61	51
Office materials	45	45
Board member remuneration	46	42
Travel	31	25
Other expenses	538	449
Total	8,379	7,737

The number of employees as at 31 December 2019 is 366 (31 December 2018: 339).

Personnel expenses are details as follows:

	2019	2018
Wages and salaries	3,143	3,064
Pension contribution	160	157
Accrued bonuses	600	522
Other compensations	6	17
Total	3,909	3,760

11. INCOME TAX EXPENSE

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	2019	Effective tax rate	2018 Restated
Profit before tax		7,032		6,400
Tax calculated at 10%	10%	703	10%	640
Adjustment due to difference on provision for loans based on IFRS 9	0.54%	(38)	-	-
Written off loans tax effect	0.05%	4	0.05%	4
Tax effect of non-deductible expenses	0.14%	10	0.29%	21
Tax effect of the accrued interest on term deposits	0.77%	54	0.59%	43
Interest income from FVOCI investment taxed at source	0.57%	(40)	0.66%	(49)
Utilization of tax loss carried forward	-	-	-	-
Income tax	9.9%	693	10.3%	659

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***11. INCOME TAX EXPENSE (CONTINUED)**

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

	2019	2018 Restated
Liability at the beginning	370	268
Effect of adoption of IFRS 9	(75)	54
Liability after adoption	295	322
Additions during the year	693	659
Payments during the year	(754)	(611)
Liability at the end	235	370

The carry forward period for any tax losses in accordance with the Kosovo Tax Law is four years. Income tax is assessed at the rate of 10% (2018: 10%) of taxable income.

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

	Movements in Deferred tax Restated
Deferred tax asset as at 31 December 2017	124
Effect of adoption of IFRS 9 (Restated)	(40)
Deferred tax asset as at 1 January 2018	84
Movement of deferred tax	(174)
Deferred tax liability as at 31 December 2018	(90)
Effect of adoption of IFRS 9	(74)
Deferred tax liability as at 1 January 2019	(164)
Movement of deferred tax	90
Deferred tax liability as at 31 December 2019	(74)

12. CASH ON HAND AND AT BANKS

	2019	2018
Cash on hand	12,655	11,017
Cash at banks	8,962	7,679
Total	21,617	18,696
Allowance for ECL/Impairment losses	(17)	(17)
Cash on hand and at banks after provisions	21,600	18,679

Cash and cash equivalents consist of the following:

	2019	2018
Cash on hand and at banks	21,617	18,696
Unrestricted balances with CBK (note 13)	21,395	21,444
Total	43,012	40,140

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

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

Internal rating grade	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Excellent	-	-	-	-	-	-	-	-
Strong	712	-	-	712	699	-	-	699
Good	20,905	-	-	20,905	17,997	-	-	17,997
Satisfactory	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Credit impaired	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total	21,617	-	-	21,617	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
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	2,921	-	-	-	2,921
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in profit and loss	-	-	-	-	2,921
As at 31 December 2019	21,617	-	(17)	-	21,600

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***13. BALANCES WITH CENTRAL BANK OF KOSOVO**

	2019	2018
Statutory reserves	20,674	17,737
Current accounts	21,395	21,444
Total	42,069	39,181
Allowance for ECL/Impairment losses	(38)	(35)
Balances with Central Bank of Kosovo after provisions	42,031	39,146

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.

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.

Internal rating grade	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Excellent	-	-	-	-	-	-	-	-
Strong	-	-	-	-	-	-	-	-
Good	42,069	-	-	42,069	39,181	-	-	39,181
Satisfactory	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Credit impaired	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total	42,069	-	-	42,069	39,181	-	-	39,181

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***13. BALANCES WITH CENTRAL BANK OF KOSOVO (CONTINUED)**

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	
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
All transfers:					
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	2,888	-	(3)	-	2,885
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in profit and loss	-	-	(3)	-	(3)
As at 31 December 2019	42,069	-	(38)	-	42,031

14. LOANS AND ADVANCES TO BANKS

	2019	2018
Term deposits		
Ziraat Bankasi	2,204	2,000
BKT	1,843	1,775
IS Bankasi	2,008	1,000
	6,055	4,775
Blocked accounts:		
Raiffeisen Bank International	-	10
Ziraat Bankasi	10	10
	10	20
Total	6,065	4,795
Allowance for ECL/Impairment losses	(12)	(7)
Loans and advances to banks after provisions	6,053	4,788

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

Banka për Biznes Sh.a.**Notes to the financial statements**

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

Internal rating grade	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Excellent	-	-	-	-	-	-	-	-
Strong	-	-	-	-	-	-	-	-
Good	6,065	-	-	6,065	4,795	-	-	4,795
Satisfactory	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Credit impaired	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total	6,065	-	-	6,065	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
All transfers:	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	1,270	-	(5)	-	1,265
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in profit and loss	-	-	(5)	-	(5)
As at 31 December 2019	6,065	-	(12)	-	6,053

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI**

	2019	2018
Treasury Bills	2,996	100
Government Bonds	35,681	30,063
Total	38,677	30,163
Allowance for ECL/Impairment losses	(31)	(25)
Net of provisions	38,646	30,138

During the year 2019 Bank has sold 7 financial instruments. Financial instruments were all sold with higher price compared to purchase price. The buyers of financial instruments were Central Bank of Kosovo and Kosovo Pension Savings Fund (KPSF). Gain was recognized through profit and loss in amount of EUR 1,003 thousand (2018: 7 thousand).

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.

Internal rating grade	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Excellent	-	-	-	-	-	-	-	-
Strong	-	-	-	-	-	-	-	-
Good	38,677	-	-	38,677	30,163	-	-	30,163
Satisfactory	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Credit impaired	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total	38,677	-	-	38,677	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)
New financial assets originated or purchased	22,443	-	(11)	-	22,432
Write-offs	-	-	-	-	-
Net change in profit and loss	-	-	(11)	-	(11)
As at 31 December 2018	30,163	-	(25)	-	30,138
All transfers					
Derecognitions other than write-offs	(17,445)	-	15	-	(17,430)
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	25,959	-	(21)	-	25,938
Write-offs	-	-	-	-	-
Net change in profit and loss	-	-	(6)	-	(6)
As at 31 December 2019	38,677	-	(31)	-	38,646

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***16. LOANS AND ADVANCES TO CUSTOMERS**

	2019	2018 Restated
Loans and advances to customers	187,407	163,245
Accrued interest	960	836
Deferred disbursement fees	(902)	(1,048)
Total	187,465	163,033
Allowance for ECL/impairment losses on loans and advances to customers	(5,301)	(4,927)
Loans and advances to customers, net	182,164	158,106

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

	2019	2018 Restated
Gross carrying amount		
Non - retail loans	111,051	95,484
Retail loans	76,414	67,549
	187,465	163,033
ECL/impairment losses		
Allowance for ECL/impairment losses – Non – Retail loans	(4,931)	(4,548)
Allowance for ECL/impairment losses – Retail loans	(370)	(379)
Allowance for ECL/impairment losses on loans and advances to customers	(5,301)	(4,927)
Loans and advances to customers, net	182,164	158,106

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

	2019	2018 Restated
At 1 January	4,927	3,994
Additional reserve adjustment for opening figures according to IFRS 9	-	603
ECL/Loan loss provision	692	438
Loans written off	(318)	(108)
At 31 December	5,301	4,927

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 29,720 thousand).

As at 31 December 2019 and 2018 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 11,897 thousand or 6.3% of the loan portfolio (2018: EUR 9,754 thousand or 5.9%).

Gross carrying amount for total loans are, as follows:

Internal rating	2019				Total	2018 Restated
	Stage 1	Stage 2	Stage 3	POCI		Total
A0	173,535	-	-	-	173,535	147,730
A1	4,937	-	-	-	4,937	6,541
B	-	1,718	-	-	1,718	1,917
C	-	1,717	-	-	1,717	2,083
Default	-	-	5,558	-	5,558	4,762
Total	178,472	3,435	5,558	-	187,465	163,033

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

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

Total loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 1 January 2019	154,271	4,000	4,762	163,033
Transfers:				
Transfer from Stage 1 to Stage 2	(1,871)	1,443	-	(428)
Transfer from Stage 1 to Stage 3	(619)	-	554	(65)
Transfer from Stage 2 to Stage 1	563	(776)	-	(213)
Transfer from Stage 2 to Stage 3	-	(1,256)	1,013	(243)
Transfer from Stage 3 to Stage 2	-	116	(186)	(70)
Transfer from Stage 3 to Stage 1	7	-	(17)	(10)
Derecognitions other than write-offs	(45,460)	(694)	(276)	(46,430)
Repayments and change in cash flow	(26,253)	(221)	(250)	(26,724)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	97,834	823	277	98,934
Write-offs	-	-	(319)	(319)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2019	178,472	3,435	5,558	187,465
Total loans	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 1 January 2018 Restated	127,015	5,427	4,103	136,545
Transfers:				
Transfer from Stage 1 to Stage 2	(1,639)	1,185	-	(454)
Transfer from Stage 1 to Stage 3	(720)	-	601	(119)
Transfer from Stage 2 to Stage 1	1076	(1,361)	-	(285)
Transfer from Stage 2 to Stage 3	-	(1,300)	987	(313)
Transfer from Stage 2 to Stage 3	-	168	(209)	(41)
Transfer from Stage 3 to Stage 1	202	-	(605)	(403)
Payments and assets derecognized other than write-offs	(35,302)	(1,066)	(199)	(36,567)
Repayment and change in cash flow	(21,510)	(310)	(226)	(22,046)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	85,149	1,257	417	86,823
Write-offs	-	-	(107)	(107)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	154,271	4,000	4,762	163,033

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Total loans	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
ECL amount as at 1 January 2019	373	598	3,956	4,927
Transfers:				
Transfer from Stage 1 to Stage 2	(18)	177	-	159
Transfer from Stage 1 to Stage 3	(3)	-	237	234
Transfer from Stage 2 to Stage 1	4	(114)	-	(110)
Transfer from Stage 2 to Stage 3	-	(198)	584	386
Transfer from Stage 3 to Stage 2	-	19	(86)	(67)
Transfer from Stage 3 to Stage 1	-	-	(9)	(9)
Changes in PDs/LGDs/EADs	(116)	(44)	(32)	(192)
Derecognitions other than write-offs	(84)	(63)	(77)	(224)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	192	122	202	516
Write-offs	-	-	(319)	(319)
FX and other movements	-	-	-	-
Net change in profit and loss	(25)	(101)	500	374
ECL amount as at 31 December 2019	348	497	4,456	5,301

Total loans	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
ECL amount as at 1 January 2018 Restated	492	716	3,370	4,578
Transfers:				
Transfer from Stage 1 to Stage 2	(14)	109	-	95
Transfer from Stage 1 to Stage 3	(7)	-	321	314
Transfer from Stage 2 to Stage 1	10	(180)	-	(170)
Transfer from Stage 2 to Stage 3	-	(147)	828	681
Transfer from Stage 3 to Stage 2	-	30	(140)	(110)
Transfer from Stage 3 to Stage 1	-	-	(594)	(594)
Changes in PDs/LGDs/EADs	(173)	(36)	(24)	(233)
Derecognitions other than write-offs	(122)	(107)	(84)	(313)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	187	213	386	786
Write-offs	-	-	(107)	(107)
FX and other movements	-	-	-	-
Net change in profit and loss	(119)	(118)	586	349
ECL amount as at 31 December 2018	373	598	3,956	4,927

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For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

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

Internal rating	2019				Total	2018
	Stage 1	Stage 2	Stage 3	POCI		Restated
A0	99,086	-	-	-	99,086	81,631
A1	3,795	-	-	-	3,795	5,749
B	-	1,388	-	-	1,388	1,733
C	-	1,604	-	-	1,604	2,005
Default	-	-	5,178	-	5,178	4,366
Total	102,881	2,992	5,178	-	111,051	95,484

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	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 1 January 2019	87,380	3,738	4,366	95,484
Transfers:				
Transfer from Stage 1 to Stage 2	(1,551)	1,179	-	(372)
Transfer from Stage 1 to Stage 3	(451)	-	405	(46)
Transfer from Stage 2 to Stage 1	508	(696)	-	(188)
Transfer from Stage 2 to Stage 3	-	(1,190)	959	(231)
Transfer from Stage 3 to Stage 2	-	65	(123)	(58)
Transfer from Stage 3 to Stage 1	2	-	(8)	(6)
Derecognitions other than write-offs	(33,009)	(663)	(246)	(33,918)
Repayments and change in cash flow	(16,017)	(199)	(232)	(16,448)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	66,019	758	264	67,041
Write-offs	-	-	(207)	(207)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2019	102,881	2,992	5,178	111,051

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*(Amounts in thousands of EUR, unless otherwise stated)***16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Non – retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 1 January 2018				
Restated	72,038	5,144	3,810	80,992
Transfers:				
Transfer from Stage 1 to Stage 2	(1,419)	1,003	-	(416)
Transfer from Stage 1 to Stage 3	(536)	-	445	(91)
Transfer from Stage 2 to Stage 1	996	(1,255)	-	(259)
Transfer from Stage 2 to Stage 3	-	(1,213)	915	(298)
Transfer from Stage 3 to Stage 2	-	163	(202)	(39)
Transfer from Stage 3 to Stage 1	187	-	(582)	(395)
Payments and assets derecognized other than write-offs	(26,173)	(1,037)	(166)	(27,376)
Repayments and change in cash flow	(12,940)	(287)	(199)	(13,426)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	55,227	1,220	401	56,848
Write-offs	-	-	(56)	(56)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	87,380	3,738	4,366	95,484
Non – retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
ECL amount as at 1 January 2019	271	566	3,712	4,549
Transfers:				-
Transfer from Stage 1 to Stage 2	(17)	154	-	137
Transfer from Stage 1 to Stage 3	(2)	-	159	157
Transfer from Stage 2 to Stage 1	4	(104)	-	(100)
Transfer from Stage 2 to Stage 3	-	(189)	554	365
Transfer from Stage 3 to Stage 2	-	8	(60)	(52)
Transfer from Stage 3 to Stage 1	-	-	(5)	(5)
Changes in PDs/LGDs/EADs	(82)	(39)	(31)	(152)
Derecognitions other than write-offs	(63)	(59)	(107)	(229)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	156	115	197	468
Write-offs	-	-	(207)	(207)
FX and other movements	-	-	-	-
Net change in profit and loss	(4)	(114)	500	382
ECL amount as at 31 December 2019	267	452	4,212	4,931

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*(Amounts in thousands of EUR, unless otherwise stated)***16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Non – retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
ECL amount as at 1 January 2018 Restated	383	673	3,175	4,231
Transfers:				
Transfer from Stage 1 to Stage 2	(13)	87	-	74
Transfer from Stage 1 to Stage 3	(6)	-	243	237
Transfer from Stage 2 to Stage 1	10	(168)	-	(158)
Transfer from Stage 2 to Stage 3	-	(130)	786	656
Transfer from Stage 3 to Stage 2	-	30	(135)	(105)
Transfer from Stage 3 to Stage 1	-	-	(581)	(581)
Changes in PDs/LGDs/EADs	(138)	(31)	(20)	(189)
Derecognitions other than write-offs	(103)	(103)	(78)	(284)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	138	208	377	723
Write-offs	-	-	(56)	(56)
FX and other movements	-	-	-	-
Net change in profit and loss	(112)	(107)	536	317
ECL amount as at 31 December 2018	271	566	3,711	4,548

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

Internal rating	2019				Total	2018
	Stage 1	Stage 2	Stage 3	POCI		Restated
A0	74,449	-	-	-	74,449	66,099
A1	1,142	-	-	-	1,142	792
B	-	330	-	-	330	184
C	-	113	-	-	113	78
Default	-	-	380	-	380	396
Total	75,591	443	380	-	76,414	67,549

Banka për Biznes Sh.a.**Notes to the financial statements**

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

	Stage 1	Stage 2	Stage 3	
Retail loans	12-	Lifetime	Lifetime	
	month	ECL	ECL	Total
	ECL	ECL	ECL	
Gross carrying amount as at 1 January 2019	66,891	262	396	67,549
Transfers:				
Transfer from Stage 1 to Stage 2	(320)	264	-	(56)
Transfer from Stage 1 to Stage 3	(168)	-	149	(19)
Transfer from Stage 2 to Stage 1	55	(79)	-	(24)
Transfer from Stage 2 to Stage 3	-	(67)	54	(13)
Transfer from Stage 3 to Stage 2	-	51	(62)	(11)
Transfer from Stage 3 to Stage 1	5	-	(9)	(4)
Derecognitions other than write-offs	(12,451)	(31)	(29)	(12,511)
Repayments and change in cash flow	(10,236)	(22)	(18)	(10,276)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	31,815	65	12	31,892
Write-offs	-	-	(113)	(113)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2019	75,591	443	380	76,414
Retail loans	12-	Lifetime	Lifetime	
	month	ECL	ECL	Total
	ECL	ECL	ECL	
Gross carrying amount as at 1 January 2018 Restated	54,977	283	293	55,553
Transfers:				
Transfer from Stage 1 to Stage 2	(220)	182	-	(38)
Transfer from Stage 1 to Stage 3	(184)	-	156	(28)
Transfer from Stage 2 to Stage 1	80	(106)	-	(26)
Transfer from Stage 2 to Stage 3	-	(86)	72	(14)
Transfer from Stage 3 to Stage 2	-	4	(7)	(3)
Transfer from Stage 3 to Stage 1	15	-	(23)	(8)
Derecognitions other than write-offs	(9,129)	(29)	(33)	(9,191)
Repayments and change in cash flow	(8,570)	(22)	(27)	(8,619)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	29,922	36	16	29,974
Write-offs	-	-	(51)	(51)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	66,891	262	396	67,549

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
ECL amount as at 1 January 2019	102	33	244	379
Transfers:				
Transfer from Stage 1 to Stage 2	(2)	25	-	23
Transfer from Stage 1 to Stage 3	(1)	-	78	77
Transfer from Stage 2 to Stage 1	-	(10)	-	(10)
Transfer from Stage 2 to Stage 3	-	(8)	29	21
Transfer from Stage 3 to Stage 2	-	10	(26)	(16)
Transfer from Stage 3 to Stage 1	-	-	(5)	(5)
Changes in PDs/LGDs/EADs	(34)	(5)	(1)	(40)
Derecognitions other than write-offs	(21)	(6)	30	3
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	36	6	7	49
Write-offs	-	-	(111)	(111)
FX and other movements	-	-	-	-
Net change in profit and loss	(22)	12	1	(9)
ECL amount as at 31 December 2019	80	45	245	370

Retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
ECL amount as at 1 January 2018 Restated	109	44	195	348
Transfers:				
Transfer from Stage 1 to Stage 2	(2)	22	-	20
Transfer from Stage 1 to Stage 3	(1)	-	78	77
Transfer from Stage 2 to Stage 1	-	(12)	-	(12)
Transfer from Stage 2 to Stage 3	-	(17)	42	25
Transfer from Stage 3 to Stage 2	-	-	(4)	(4)
Transfer from Stage 3 to Stage 1	-	-	(13)	(13)
Changes in PDs/LGDs/EADs	(34)	(6)	(4)	(44)
Derecognitions other than write-offs	(19)	(3)	(7)	(29)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New loans originated or purchased	49	5	8	62
Write-offs	-	-	(51)	(51)
FX and other movements	-	-	-	-
Net change in profit and loss	(7)	(11)	49	31
ECL amount as at 31 December 2018	102	33	244	379

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***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 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
Restated balance under IFRS 9 at 1 January 2019	88	(345)	(257)
At 1 January 2019	4,548	379	4,927
Charge for the year	494	198	692
Amounts written off	(111)	(207)	(318)
At 31 December 2019	4,931	370	5,301

17. OTHER FINANCIAL ASSETS

	2019	2018
Receivables from customers	60	14
Accrued income from banking services	86	88
Accrued fees and commissions	34	20
Other receivables	26	256
Total	206	378

18. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2018	1,295
Additions	281
At 31 December 2018	1,576
Additions	350
At 31 December 2019	1,926
Accumulated Amortization	
At 1 January 2018	957
Charge for the year	217
At 31 December 2018	1,174
Charge for the year	237
At 31 December 2019	1,411
Carrying amount	
At 31 December 2018	402
At 31 December 2019	515

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***19. PROPERTY AND EQUIPMENT**

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Vehicles	Total
Cost						
At 1 January 2018	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
Additions during the year	-	318	193	288	29	828
Disposals during the year	-	(418)	(197)	(113)	(15)	(743)
At 31 December 2019	683	1,008	657	2,635	779	5,762
Accumulated depreciation						
At 1 January 2018	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
Charge for the year	32	173	84	384	82	755
Disposals for the year	-	(370)	(196)	(109)	(15)	(690)
At 31 December 2019	64	470	401	1,474	503	2,912
Carrying amounts						
At 31 December 2018	651	441	148	1,261	329	2,830
At 31 December 2019	619	538	256	1,161	276	2,850

As at 31 December 2019 and 2018, the Bank does not have any property pledged as collateral.

Included in property and equipment as of 31 December 2019 are buildings with a carrying amount of EUR 619 thousand (2018: EUR 651 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 2019:

Category	Cost	Accumulated	Net book value
Buildings	9	9	-
Leasehold improvements	115	115	-
Furniture, fixtures and equipment	43	43	-
Computers and related equipment	917	917	-
Vehicles	161	161	-
Software	1,061	1,061	-
Total	2,306	2,306	-

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***20. OTHER ASSETS**

	2019	2018
Prepaid expenses	171	410
Reposessed assets (see note 20.1)	32	93
Total	203	503

20.1 REPOSSESSED ASSETS

Reposessed 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.

	2019	2018
Residential real estate	558	558
Commercial real estate	108	108
Total	666	666
Less: Provision	(634)	(573)
Net carrying value	32	93

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.

Movements in the values written down are as follows:

	2019	2018
At 1 January	573	1,411
Charge for the year	61	62
Reversal on disposal	-	(900)
At 31 December	634	573

21. DUE TO CUSTOMERS

	2019	2018
Current accounts	110,689	98,374
In EUR	107,858	95,050
In foreign currencies	2,831	3,324
Term deposits	143,266	123,219
In EUR	142,444	122,422
In foreign currencies	822	797
Total	253,955	221,593

22. SUBORDINATED DEBT AND BORROWINGS

	2019	2018
Subordinated debt		
Blue Orchard	502	502
<i>Individuals:</i>		
Valon Budima	-	420
Armend Skeja	-	420
Total	502	1,342

With the approval of CBK, during the year 2019 the Bank has fully prepaid total amount of EUR 840 thousand towards Valon Budima and Armend Skeja, and subsequently closed the subordinated loan agreements with them.

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 2019, the Bank is in compliance with financial covenants attached to the agreement with Blue Orchard.

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

	2019	2018
Borrowings		
Borrowings from EFSE	1,566	913
Borrowings from KOSEP-EBRD	580	870
Borrowings from EBRD	4,188	2,502
Total	6,334	4,285

During the year 2019, the Bank entered into a borrowing agreement with EFSE (European Fund for South-Eastern Europe) for a total amount of EUR 1,500 thousand. The purpose is to support the private individuals and the SME loans portfolios, and it aims to foster economic development and prosperity through the sustainable provision of additional development finance. The borrowing bears an interest rate of 2.8% annually and is repayable within three years. The interest is payable on a semi-annual basis.

During the year 2019, the Bank entered into a credit revolving agreement with EBRD (European Bank for Reconstruction and Development) for an amount of up to EUR 1,000 thousand. The purpose of this fund is to support the development of trade finance. Out of total loan amount of EUR 1,000 thousand, the amount of EUR 80 thousand was received as at 31 December 2019. The borrowing bears an interest rate of 1.7% and is repayable within six months.

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 31 December 2018. The remaining portion of EUR 2,500 was received during 2019.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***22. SUBORDINATED DEBT AND BORROWINGS (CONTINUED)**

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 2017, the Bank entered into a borrowing agreement with EFSE (European Fund for South-Eastern Europe) for a total of EUR 1,500 thousand. The objective of the Green for Growth Fund, Southeast Europe is to provide development finance for energy efficiency (EE) and renewable energy (RE) investments. The borrowing bears an interest rate of 3.1% annually and is repayable within three years. The interest is payable on a semi-annual basis. As of 31 December 2019 and 2018 the Bank is in compliance with financial covenants attached to the agreement with EFSE, KOSEP and EBRD.

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

	1 January 2019	Cash inflows	Cash outflows	Accruals of Interest	Declaration of Dividends	31 December 2019
Subordinated debt	1,342	-	(800)	(40)	-	502
Borrowings	4,286	4,080	(2,073)	41	-	6,334
Dividends paid	-	-	(999)	-	999	-
Total liabilities from financing activities	5,628	4,080	3,872	1	999	6,836

	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

23. OTHER LIABILITIES AND PROVISIONS

	2019	2018 Restated
Payables on behalf of third parties	801	788
Provisions for letters of guarantee issued by the Bank	16	12
Payable related to clearing transactions with CBK	643	364
Payable on behalf of Ministry of Economy and Finance	51	61
Due to suppliers	267	174
Total Other Liabilities	1,778	1,399
Provisions (see note 23.1)	539	482
Total	2,317	1,881

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***23.1 PROVISIONS**

The Bank acts as an agent for the transactions performed on behalf of government institutions with third parties. These include payments on behalf of the Ministry of Labor and Social Welfare and Ministry of Economy and Finance.

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:

	2019	2018
At the beginning	482	506
Additions during the year	61	1
Utilized during the year	(4)	(25)
At the end	539	482

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

Internal rating	2019					2018
	Stage 1	Stage 2	Stage 3	POCI	Total	Restated
A0	1,844	-	-	-	1,844	1,920
A1	30	-	-	-	30	35
B	-	-	-	-	-	5
C	-	5	-	-	5	7
Default	-	-	13	-	13	5
Total	1,874	5	13	-	1,892	1,972

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	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 1 January 2019	1,955	12	5	1,972
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	7	(7)	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Derecognitions other than write-offs	(389)	-	-	(389)
Repayments and change in cash flow	1	-	1	2
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New guarantess originated or purchased	301	-	7	308
Write-offs	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2019	1,875	5	13	1,893

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***23. OTHER LIABILITIES AND PROVISIONS (CONTINUED)**

	Stage 1	Stage 2	Stage 3	
Letters of guarantees	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 1 January 2018 Restated	1,263	26	15	1,304
Transfers:				
Transfer from Stage 1 to Stage 2	(5)	5	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(5)	5	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Derecognitions other than write-offs	(630)	(21)	(15)	(666)
Repayments and change in cash flow	(1)	-	-	(1)
New guarantees originated or purchased	1,328	7	-	1,335
Write-offs	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	1,955	12	5	1,972

	Stage 1	Stage 2	Stage 3	
Letters of guarantees	12-month ECL	Lifetime ECL	Lifetime ECL	Total
ECL amount as at 1 January 2019	3	2	6	11
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	(2)	-	(2)
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Changes in PDs/LGDs/EADs	(1)	-	1	-
Derecognitions other than write-offs	(1)	-	-	(1)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New guarantees originated or purchased	1	-	7	8
Write-offs	-	-	-	-
FX and other movements	-	-	-	-
Net change in profit and loss	(1)	(2)	8	5
ECL amount as at 31 December 2019	2	-	14	16

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***23. OTHER LIABILITIES AND PROVISIONS (CONTINUED)**

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2018 Restated	2	2	9	13
Transfers:				
Transfer from Stage 1 to Stage 2	-	1	0	1
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(1)	5	4
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)	(1)	(9)	(11)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
New guarantees originated or purchased	3	1	-	4
Write-offs	-	-	-	-
FX and other movements	-	-	-	-
Net change in profit and loss	2	0	(4)	(2)
ECL amount as at 31 December 2018	4	2	5	11

24. LEASES UNDER IFRS 16**Right-of-use assets and lease liabilities**

The Bank leases various offices. Rental contracts are typically made for fixed periods of 1 year to 10 years, but may have extension options as described below.

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Bank.

The Bank recognized right of use assets as follows:

<i>In thousands of EUR</i>	Buildings	Total
Carrying amount at 1 January 2019	1,417	1,417
Additions	2,103	2,103
Disposals	(17)	(17)
Depreciation charge	(660)	(660)
Carrying amount at 31 December 2019	2,843	2,843

The Bank recognized lease liabilities as follows:

<i>In thousands of EUR</i>	1 January 2019	31 December 2019
Short-term lease liabilities	513	613
Long-term lease liabilities	902	2,212
Total lease liabilities	1,415	2,825

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***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 2019, the subscribed capital was divided into 28,530 ordinary shares (2018: 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:

No.	Name of shareholder	2019		2018	
		%	EUR	%	EUR
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	7.77	874	7.39	833
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	Luani Limited	0.44	49	0.44	49
13	Sokol Krasniqi	0.38	42	0.38	42
14	Besnik Vrella	0.31	36	0.46	52
15	Naser Aliu	0.31	35	0.40	45
16	Agim Bilalli	0.31	35	0.40	45
17	Flamur Bryma	0.09	10	0.09	10
18	Naim Abazi	0.04	4	0.09	9
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.

Earnings per share

For the purpose of calculating earnings per share, earnings represent the net profit after tax. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares used for basic earnings per share was 28,530 (2018: 28,530). There is no potential dilution effect from any instruments and hence the basic earnings per share are the same as diluted earnings per share.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***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 favor of customers are secured by cash collateral, and non-cash collateral (real estate and movable collateral).

	2019	2018 Restated
Guarantees extended to customers		
Secured by cash deposits	1,202	1,344
Secured by collateral (real estate and movable collateral)	690	628
Less: Provision recognized as liabilities	(16)	(12)
Total	1,876	1,960

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

	2019	2018 Restated
Credit commitments		
Approved but not disbursed loans	-	249
Unused overdraft limits approved	7,000	5,822
Unused credit card facilities	508	703
Total	7,508	6,774

Legal

The Bank is involved in routine legal proceedings in the ordinary course of business at 31 December 2019 and 2018. 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

For the lease commitments please refer to the Note 4.

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.

The Bank's risk management policies are established to identify and analyze 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).

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

Management of credit risk

At BPB currently credit risk assessment is done entirely by "human factor" and as an authority, it is separated in two approval lines. Most of these credit assessments and approvals are done by credit risk assessment experts positioned in the Credit Risk Department and the rest by other experts in the front line of the business who are Branch Managers, having the right to approve small limits to a maximum of 30 thousand euros.

Credit exposures larger than EUR 100 thousand and less than 10% of the Bank's Tier I Capital are approved by the Central 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.

Risk Department is divided into two separated departments, the Risk Management Department, and the Credit Risk Department.

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. 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 classification and weighting of risk capital under the Capital Adequacy Regulation and identification of credit risk arising from new products / processes involving lending.

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, credit monitoring process as well as identification of credit risk arising from new products / processes involving lending. Credit Risk Department includes the lending sector, monitoring 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 and Corporate loans segment. During 2019, 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 has continued investing in technology and infrastructure, reviewing and improving processes to increase efficiency, and ensuring sustainable and controllable growth.

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 500 thousand are considered as Micro clients. All business clients that have annual turnover from 501 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.

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 in cooperation with external consultants has been able to finalize the project by 2019 by implementing the technical part as well. From now on all reserve calculations are automatically made through the dedicated application for this purpose, in full compliance with the requirements of IFRS 9.

In line with the bank's strategy and business model to increase its portfolio and its business in Micro, Agro and SME segments, the Bank continued and increased the cooperation with the Kosovo Credit Guarantee Fund ("KCGF") for the partial coverage of loans to MSME customers disbursed. Actually the total the amount of contracts with KCGF are EUR 8.5 million.

During 2019, the bank continued to maintain its relations with different International Financial Institutions (EBRD, EFSE, and Blue ORCHARD Finance Ltd).

In line with the business model and strategy, the Bank has continued to improve the credit risk process. In this regard, it has continued with the process of upgrading and developing new applications for credit portfolio management. During 2019, two more modules were developed and operationalized: the credit monitoring module and the arrears management module.

The monitoring 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.

Whereas arrears management module is developed to support the process of arrears management and collection by providing structured management of data, correspondences, alerts and notifications. These developments have enabled 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, regarding the loan quality indicator - Non-performing loans (NPL), while in 2018 it was 2.87%, in 2019 this indicator is 2.95%.

Regarding the improvement of loan quality, the bank has advanced the processes of managing the arrears and has increased the activities and commitments in debt collection, which have resulted that the net provision for this year to be negative. In this regard, during 2019, the bank has increased the number of 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. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

Management of credit risk (continued)

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 recognize 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, 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.

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 recognized 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 in 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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*(Amounts in thousands of EUR, unless otherwise stated)***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	Rating IFRS 9	Outstanding 31 December 2019	ECL 31 December 2019	Average of 12-month PD	Average of LGD
Standard grade	A0	173,535	295	0.6%	35.8%
Standard grade	A1	4,937	53	3.0%	30.4%
Watch grade	B	1,718	155	22.7%	39.8%
Substandard grade	C	1,717	342	58.0%	41.4%
Default	Default	5,558	4,456	100.0%	65.3%
Grand Total		187,465	5,301	2.7%	36.2%

Rating	Rating IFRS 9	Outstanding 31 December 2018 Restated	ECL 31 December 2018 Restated	Average of 12-month PD	Average of LGD
Standard grade	A0	147,730	286	0.7%	36.9%
Standard grade	A1	6,541	87	4.3%	40.4%
Watch grade	B	1,917	190	24.3%	42.9%
Substandard grade	C	2,083	408	55.8%	43.4%
Default	Default	4,762	3,956	100%	67.1%
Grand Total		163,033	4,927	2.8%	37.5%

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 derecognized, 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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*(Amounts in thousands of EUR, unless otherwise stated)***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			Forbearance ratio
	Gross carrying amount	Permanent modification to T&Cs	Total performing forborne loans	Permanent modification to T&Cs	Total nonperforming forborne loans	Total forborne loans	
31 December 2019							
Due from banks	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
Non retail loans	111,051	188	188	189	189	377	0.34%
Retail loans	76,414	37	37	12	12	50	0.06%
Total loans and advances to customers	187,465	225	225	201	201	427	0.23%

31 December 2019	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	188	189	377	36	164	200
Retail loans	37	13	50	4	7	11
Total loans and advances to customers	225	202	427	40	171	211

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For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***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 2018

	Stage 2			Stage 3			Forbearance ratio
	Gross carrying amount	Permanent modification to T&Cs	Total performing forborne loans	Permanent modification to T&Cs	Total non performing forborne loans	Total forborne loans	
31 December 2018 Restated							
Due from banks	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
Non retail loans	95,484	909	909	32	32	941	0.99%
Retail loans	67,549	2	2	8	8	10	0.02%
Total loans and advances to customers	163,033	911	911	40	40	951	0.58%

31 December 2018 Restated	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	178	12	190
Retail loans	2	8	10	-	4	4
Total loans and advances to customers	911	40	951	178	16	194

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*(Amounts in thousands of EUR, unless otherwise stated)***27. FINANCIAL RISK MANAGEMENT (CONTINUED)****27.2 Credit risk (continued)****27.2.1 Impairment assessment (Policy applicable after 1 January 2018) (continued)**

Set out below is an analysis of assets measured at amortized cost during the year ended 31 December 2019:

Assets to be measured at amortized cost	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>Gross carrying value per asset type</i>				
Agro	15,764	155	278	16,197
Corporate	52,349	2,239	4,003	58,591
Credit cards	86	12	27	125
Consumer	26,572	242	238	27,052
Micro	34,769	598	897	36,264
Mortgage	37,765	172	103	38,040
Veterans & Invalids	11,167	17	12	11,196
Total gross carrying value	178,472	3,435	5,558	187,465
<i>Loss allowance under IFRS 9 per asset type</i>				
Agro	(35)	(14)	(61)	(110)
Corporate	(139)	(355)	(3,574)	(4,068)
Credit cards	(2)	(1)	(23)	(26)
Consumer	(47)	(30)	(139)	(216)
Micro	(93)	(83)	(577)	(753)
Mortgage	(31)	(14)	(81)	(126)
Veterans & Invalids	(1)	(0)	(1)	(2)
Total loss allowance under IFRS 9	(348)	(497)	(4,456)	(5,301)

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*(Amounts in thousands of EUR, unless otherwise stated)***27. FINANCIAL RISK MANAGEMENT (CONTINUED)****27.2 Credit risk (continued)****27.2.1 Impairment assessment (Policy applicable after 1 January 2018) (continued)**

Set out below is an analysis of assets measured at amortized cost during the year ended 31 December 2018 Restated:

Assets to be measured at amortized cost	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying value per asset type				
Agro	13,472	192	44	13,708
Corporate	46,409	2,837	3,463	52,709
Credit cards	99	1	25	125
Consumer	25,156	175	276	25,607
Micro	27,499	709	859	29,067
Mortgage	28,840	72	73	28,985
Veterans & Invalids	12,796	14	22	12,832
Total gross carrying value	154,271	4,000	4,762	163,033
Loss allowance under IFRS 9 per asset type				
Agro	(24)	(9)	(15)	(48)
Corporate	(156)	(471)	(3,101)	(3,728)
Credit cards	(2)	-	(22)	(24)
Consumer	(64)	(24)	(160)	(248)
Micro	(91)	(86)	(595)	(772)
Mortgage	(35)	(9)	(60)	(104)
Veterans & Invalids	(1)	-	(2)	(3)
Total loss allowance under IFRS 9	(373)	(599)	(3,955)	(4,927)

Set out below is an analysis of collateral and credit enhancement obtained during the year ended 31 December 2019:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Retail loans:				
Credit cards	126	(26)	100	-
Consumer	27,052	(216)	26,836	10,634
Mortgage	38,040	(126)	37,914	22,118
Veterans & Invalids	11,196	(2)	11,194	177
Total retail loans	76,414	(370)	76,044	32,929
Non - retail loans				
Agro	16,197	(110)	16,087	37,454
Corporate	58,589	(4,068)	54,521	214,619
Micro	36,265	(753)	35,512	101,520
Total Non - retail loans	111,051	(4,931)	106,120	353,593
Total credit - impaired assets	187,465	(5,301)	182,164	386,522

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*(Amounts in thousands of EUR, unless otherwise stated)***27. FINANCIAL RISK MANAGEMENT (CONTINUED)****27.2 Credit risk (continued)****27.2.1 Impairment assessment (Policy applicable after 1 January 2018) (continued)**

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

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Retail Loans:				
Credit cards	125	(24)	101	-
Consumer	25,607	(248)	25,359	13,111
Mortgage	28,985	(104)	28,882	23,532
Veterans & Invalids	12,832	(3)	12,828	208
Total retail loans	67,549	(379)	67,170	36,851
Non - retail loans				
Agro	13,708	(48)	13,660	30,383
Corporate	52,709	(3,728)	48,981	206,564
Micro	29,067	(772)	28,295	83,600
Total Non - retail loans	95,484	(4,548)	90,936	320,547
Total credit - impaired assets	163,033	(4,927)	158,106	357,398

	Financial Institutions	Central Government	Central Bank of Kosova	Total
Financial assets as of 31 December 2019				
Cash on hand and at banks	21,600	-	-	21,600
Balances with Central Bank of Kosova	-	-	42,031	42,031
Loans and advance to banks	6,053	-	-	6,053
Financial assets at fair value through other comprehensive income	-	38,646	-	38,646
Total	27,653	38,646	42,031	108,330

	Financial Institutions	Central Government	Central Bank of Kosova	Total
Financial assets as of 31 December 2018 Restated				
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)

27.2.2 Analysis of credit quality

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2019 and 2018, 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	
	2019	2018	2019	2018	2019	2018 Restated	2019	2018	2019	2018 Restated
Maximum exposure to credit risk										
Carrying amount	63,631	57,825	38,646	30,138	182,164	158,106	206	378	-	-
Amount committed/guaranteed	-	-	-	-	-	-	-	-	9,401	8,748
	63,631	57,825	38,646	30,138	182,164	158,106	206	378	9,401	8,748
At amortized cost										
Stage 1	63,686	57,877	38,677	30,163	178,472	154,271	206	378	-	-
Stage 2	-	-	-	-	3,435	4,000	-	-	-	-
Stage 3	-	-	-	-	5,558	4,762	-	-	-	-
POCI	-	-	-	-	-	-	-	-	-	-
Total	63,686	57,877	38,677	30,163	187,465	163,033	206	378	-	-
Allowance for impairment (individual and collective)	(55)	(52)	(31)	(25)	(5,301)	(4,927)	-	-	-	-
Net carrying amount	63,631	57,825	38,646	30,138	182,164	158,106	206	378	-	-
<i>Off balance: maximum exposure</i>										
Credit commitments: Low - fair risk	-	-	-	-	-	-	-	-	7,508	6,774
Financial guarantees: Low - fair risk	-	-	-	-	-	-	-	-	1,893	1,974
Total committed/guaranteed	-	-	-	-	-	-	-	-	9,401	8,748
Provisions recognized as liabilities	-	-	-	-	-	-	-	-	(16)	(35)
Total exposure	-	-	-	-	-	-	-	-	9,385	8,713

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.2 Analysis of credit quality (continued)

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2019 and 2018, 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.

	2019			2018 Restated		
	Retail	Corporate	Total loans	Retail	Corporate	Total loans
Loans and advances to customers						
Total gross amount	76,414	111,051	187,465	67,549	95,484	163,033
Allowance for impairment (individual and collective)	(370)	(4,931)	(5,301)	(379)	(4,548)	(4,927)
Net carrying amount	76,044	106,120	182,164	67,170	90,936	158,106
At amortized cost						
Stage 1	75,591	102,881	178,472	66,891	87,380	154,271
Stage 2	443	2,992	3,435	262	3,738	4,000
Stage 3	380	5,178	5,558	396	4,366	4,762
POCI	-	-	-	-	-	-
Total gross	76,414	111,051	187,465	67,549	95,484	163,033
Stage 1	(80)	(267)	(347)	(102)	(270)	(372)
Stage 2	(45)	(452)	(497)	(33)	(566)	(599)
Stage 3	(245)	(4,212)	(4,457)	(244)	(3,712)	(3,956)
POCI	-	-	-	-	-	-
Total allowance for impairment	(370)	(4,931)	(5,301)	(379)	(4,548)	(4,927)
Loans with renegotiated terms						
Carrying amount	105	4,647	4,752	95	5,455	5,550
From which: Impaired	26	2,562	2,588	22	2,206	2,227
Allowance for impairment	(20)	(2,390)	(2,410)	(15)	(2,272)	(2,287)
Net carrying amount	85	2,257	2,342	80	3,183	3,263

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For the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.2 Analysis of credit quality (continued)

Impaired loans

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 Stage 3 and with exposure above EUR 100 thousand. All other loans are analyzed 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 at least quarterly when individual circumstances demand it.

Past due but not impaired loans

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), in accordance with the regulations of Central Bank of Kosovo for write off. The total amount written off during 2019 is EUR 319 thousand (2018: EUR 107 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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*(Amounts in thousands of EUR, unless otherwise stated)***27. FINANCIAL RISK MANAGEMENT (CONTINUED)****27.2 Credit risk (continued)****27.2.2 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:

	2019	2018
A+ to A-	801	699
BBB+ to B-	3,505	2,329
Not rated	10,721	9,445
At 31 December	15,027	12,473

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 recognized 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. 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	Cash			Total collateral used	Surplus collateral	Net uncollateralized exposure
		Property	Collateral	Equipment			
31 December 2019	187,465	285,252	4,564	96,705	134,008	(199,056)	53,457
31 December 2018 Restated	163,033	273,147	5,180	79,071	109,771	(194,365)	53,262

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.3 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	
	2019	2018	2019	2018	2019	2018	2019	2018 Restated	2019	2018	2019	2018 Restated
Concentration by sector												
Corporate	-	-	-	-	-	-	106,120	90,936	-	-	9,401	8,748
Banks	63,631	57,825	6,053	4,788	38,646	30,138	-	-	-	-	-	-
Retail	-	-	-	-	-	-	76,044	67,170	206	378	-	-
Total	63,631	57,825	6,053	4,788	38,646	30,138	182,164	158,106	206	378	9,401	8,748
Concentration by location												
EU countries	4,299	3,038	10	10	-	-	-	-	-	-	-	-
Republic of Kosovo	58,822	54,571	6,043	4,778	38,646	30,138	182,164	158,106	206	378	9,401	8,748
Other countries	510	216	-	-	-	-	-	-	-	-	-	-
Total	63,631	57,825	6,053	4,788	38,646	30,138	182,164	158,106	206	378	9,401	8,748

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For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***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 as a result 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 2019 and 2018 are as follows:

	USD		EUR	
	2019	2018	2019	2018
Assets				
Cash at banks	-	-	-	-
Loans and advances to banks	1.65%	2.40%	1.29%	0.94%
Loans to customers	-	-	7.60%	8.03%
Financial assets at fair value through OCI	-	-	1.37%	2.13%
Liabilities				
Due to customers	-	-	1.48%	1.41%
Subordinated debt	-	-	6.50%	8.65%
Borrowings	-	-	2.76%	2.97%

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

2019	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	(682)	682	869	(869)
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	(605)	605	734	(734)

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*(Amounts in thousands of EUR, unless otherwise stated)***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 2019		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		18,369	-	-	-	-	18,369
Interest bearing	<i>Fixed</i>	3,231	-	-	-	-	3,231
Balances with CBK							
Non-interest bearing		42,031	-	-	-	-	42,031
Loans and advances to banks							
Interest bearing	<i>Fixed</i>	-	-	-	6,043	10	6,053
Investment securities							
Interest bearing	<i>Fixed</i>	12,280	2,988	-	101	23,277	38,646
Loans to customers							
Interest bearing	<i>Fixed</i>	7,233	10,638	14,603	34,994	113,594	181,062
Other financial assets							
Non-interest bearing		206	-	-	-	-	206
Total		83,350	13,626	14,603	41,138	136,881	289,598
Liabilities							
Deposits from customers							
Interest bearing	<i>Fixed</i>	20,724	8,769	11,623	56,059	46,091	143,266
Non-interest bearing		110,689	-	-	-	-	110,689
Subordinated debt							
Interest bearing	<i>Fixed</i>	-	-	2	-	500	502
Borrowings							
Interest bearing	<i>Variable</i>	823	566	80	1,017	3,848	6,334
Other liabilities							
Non-interest bearing		1,778	-	-	-	-	1,778
Total		134,014	9,335	11,705	57,076	50,439	262,569
Gap		(50,664)	4,291	2,898	(15,938)	86,442	27,029
Cumulative gap		(50,664)	(46,373)	(43,475)	(59,413)	27,029	

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(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

31 December 2018 Restated		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	<i>Fixed</i>	697	1,997	-	-	-	2,694
Balances with CBK							
Non-interest bearing		39,146	-	-	-	-	39,146
Loans and advances to banks							
Interest bearing	<i>Fixed</i>	-	-	998	3,780	10	4,788
Investment securities							
Interest bearing	<i>Fixed</i>	50	100	250	-	29,738	30,138
Loans to customers-restated							
Interest bearing	<i>Fixed</i>	4,792	10,539	14,970	29,318	97,680	157,299
Other financial assets							
Non-interest bearing		378	-	-	-	-	378
Total		61,048	12,636	16,218	33,098	127,428	250,428
Liabilities							
Deposits from customers							
Interest bearing	<i>Fixed</i>	20,632	6,288	6,997	42,315	46,137	122,369
Non-interest bearing		99,224	-	-	-	-	99,224
Subordinated debt							
Interest bearing	<i>Fixed</i>	-	-	42	-	1,300	1,342
Borrowings							
Interest bearing	<i>Variable</i>	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		(60,365)	6,035	8,724	(9,830)	77,245	21,809
Cumulative gap		(60,365)	(54,330)	(45,606)	(55,436)	21,809	

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*(Amounts in thousands of EUR, unless otherwise stated)***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 rates used for translation as at 31 December 2019 and 2018 are as follows:

Currency	2019	2018
	EUR	EUR
1 USD	0.8902	0.8734
1 CHF	0.9213	0.8874
1 GBP	1.1754	1.1179

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	
	2019	2018	2019	2018	2019	2018
Sensitivity rates	5%	5%	5%	5%	5%	5%
Profit or loss						
+5% of Euro	(16.83)	12.23	(18.57)	12.89	1.04	0.90
- 5% of Euro	16.83	(12.23)	18.57	(12.89)	(1.04)	(0.90)

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

31 December 2019	EUR	USD	CHF	GBP	Total
Financial assets					
Cash on hand and at banks	20,473	721	385	21	21,600
Balances with CBK	42,031	-	-	-	42,031
Financial assets at fair value through OCI	38,646	-	-	-	38,646
Loans and advances to banks	4,214	-	1,839	-	6,053
Loans and advances to customers	182,164	-	-	-	182,164
Other financial assets	206	-	-	-	206
Total financial assets	287,734	721	2,224	21	290,700
Financial Liabilities					
Due to customers	250,302	1,058	2,595	-	253,955
Subordinated debt	502	-	-	-	502
Borrowings	6,334	-	-	-	6,334
Other liabilities	1,778	-	-	-	1,778
Total financial liabilities	258,916	1,058	2,595	-	262,569
Net foreign currency position	28,818	(337)	(371)	21	28,131

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(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.2 Exposure to currency risk (continued)

31 December 2018 Restated	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
Available-for-sale investments	30,138	-	-	-	30,138
Loans and advances to banks	3,013	-	1,775	-	4,788
Loans and advances to customers-restated	158,106	-	-	-	158,106
Other financial assets	378	-	-	-	378
Total financial assets	246,593	1,359	3,265	18	251,235
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	22,095	245	258	18	22,616

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.

Banka për Biznes Sh.a.**Notes to the financial statements**

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*(Amounts in thousands of EUR, unless otherwise stated)***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 undiscounted 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 2019	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	21,600	-	-	-	-	21,600
Balances with CBK	42,031	-	-	-	-	42,031
Loans and advances to banks	-	-	-	6,043	10	6,053
Loans and advances to customers	7,631	10,695	14,661	35,126	114,051	182,164
Financial assets at fair value through OCI	12,280	2,988	-	101	23,277	38,646
Other financial assets	206	-	-	-	-	206
Total	83,748	13,683	14,661	41,270	137,338	290,700
Financial liabilities						
Due to customers	131,413	8,769	11,623	56,059	46,091	253,955
Subordinated debt	-	-	2	-	500	502
Borrowings	822	566	80	1,018	3,848	6,334
Other liabilities	1,778	-	-	-	-	1,778
Guarantees issued	1,892	-	-	-	-	1,892
Unused credit commitments	7,508	-	-	-	-	7,508
Total	143,413	9,335	11,705	57,077	50,439	271,969
Liquidity gap	(59,665)	4,348	2,956	(15,807)	86,899	18,731

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*(Amounts in thousands of EUR, unless otherwise stated)***27. FINANCIAL RISK MANAGEMENT (CONTINUED)****27.4 Liquidity risk (continued)****27.4.1 Management of liquidity risk (continued)**

31 December 2018 Restated	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- restated	4,880	10,581	15,105	29,432	98,108	158,106
Available-for-sale financial assets	50	100	250	-	29,738	30,138
Other financial assets	378	-	-	-	-	378
Total	61,137	12,677	16,353	33,212	127,856	251,235
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-restated	331	12	44	64	1523	1,974
Unused credit commitments- restated	6,774	-	-	-	-	6,774
Total	128,519	6,613	7,537	42,992	51,706	237,367
Liquidity gap	(67,382)	6,064	8,816	(9,780)	76,150	13,868

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.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.5 Operational risk (continued)

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.

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 optimization 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 recognized and the Bank recognizes 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.

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*(Amounts in thousands of EUR, unless otherwise stated)***27. FINANCIAL RISK MANAGEMENT (CONTINUED)****27.6 Capital risk management (continued)***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.

	2019	2018
Total risk weighted assets	175,493	154,558
Total risk weighted off balance exposures	673	628
Total risk weighted assets for operational risk	17,065	14,910
Total	193,231	170,096
Regulatory capital (Total capital)	30,391	26,655
Capital adequacy ratio (Total capital)	15.73%	15.67%

In order to ensure capital adequacy, the bank has started building models that determine the additional capital required under Pillar II to cover the risks to which the bank is exposed as required by the CBK Regulation for the Internal Capital Adequacy Assessment Process (ICAAP).

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*(Amounts in thousands of EUR, unless otherwise stated)***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 2019		31 December 2018	
Assets:				
<i>Loans outstanding at end of year with shareholders and key management</i>	CBK Rating*		CBK Rating*	
ENRAD-Ex Newco Jugo Term	Stage 1	191	Stage 1	1,716
ENG Office	Stage 1	501	Stage 1	501
Ismet Sylejmani (VATANI SH.P.K)	Stage 1	96	Stage 1	96
Uniprojekt	Stage 1	145	Stage 1	269
Naser Aliu(Uniprojekt)	Stage 1	12	Stage 1	15
Besnik Vrella (Uniprojekt)	Stage 1	2	Stage 1	6
Agim Bilalli (Uniprojekt)	Stage 1	9	Stage 1	10
Ahmet Arifi	Stage 1	146	Stage 1	0
Sokol Krasniqi	-	-	-	3
Brymako	-	-	-	3
Hyda Krasniqi	Stage 1	9	Stage 1	26
Naim Abazi (MEDIANAM SH.P.K)	Stage 3	129	Stage 2	134
MALESIA REISEN (Rrustem Aliaj)	Stage 1	50	Stage 1	30
Other shareholders and management	Stage 1	158	Stage 1	181
Total		1,448		2,990
Guarantees and letters of credit with shareholders	Stage 1	661	Stage 1	661

Loans to related parties are given at commercial terms.

	2019	2018
Loans to shareholders, gross	1,290	2,809
Allowance for impairment	(87)	(41)
Total Loans to shareholders, net	1,203	2,768
Cash collateral	(647)	(2,686)
Net exposure to shareholders	556	82
	2019	2018
Loans to management and BoD members, gross	142	160
Loans to management, net	142	160
Cash collateral	(35)	(33)
Net exposure to management	107	127

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2019

*(Amounts in thousands of EUR, unless otherwise stated)***28. RELATED PARTY TRANSACTIONS (CONTINUED)**

Liabilities:	31 December 2019	31 December 2018
<i>Customer accounts with shareholders</i>		
NTPSH caffè group	112	38
Mjedi Rexhepi	487	405
Enrad	156	814
Malesia Reisen	82	829
Rrustem Aliaj	22	90
Frutex	534	539
Shaqir Palushi	37	73
Ismet Sylejmani (VATANI SH.P.K)	-	1
Naser Aliu (Uniprojekt	4	14
Besnik Vrella (Uniprojekt	14	3
Besnik Vrella (Shtepiaku)	-	3
Sokol Krasniqi	-	7
Ahmet Arifi	10	-
Naim Abazi (MEDIANAM SH.P.K)	-	1
Moneta sh.p.k	33	2
Nazmi Viça	66	49
ENG Office	597	160
Other shareholders and management	71	46
Total	2,225	3,074
Borrowing from EBRD	4,634	3,373
Total Liabilities	6,859	6,447

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

	2019	2018
Income		
Interest income from loans and advances	55	100
Total interest income	55	100
Expenses		
Interest expenses for subordinated debt from EBRD	132	36
Key management compensation	403	372
Board of director's compensation	56	42
Total expenses	591	450

29. SUBSEQUENT EVENTS

Except as noted below, no other events or transactions have occurred since 31 December 2019 or are pending that would have a material effect on the financial statements of the Bank at that date or for the period then ended, or that are of such significance in relation to the Bank's affairs as to require mention in a note to the financial statements.

The impact of COVID-19 to the Bank

Since the outbreak of the COVID-19 epidemic the Bank closely monitors the development of the situation on the global, European and local level.

Furthermore, the Bank monitors and implements measures proposed by the Government of the Republic of Kosovo and its relevant institutions, as well as additional preventive measures in order to protect its employees, suppliers and ongoing business processes.

Despite the Bank's elaborated crisis scenarios and continuity plans, the pandemic spread of the COVID-19 might have negative repercussions on the business of the Bank, primarily in terms of quarantined municipalities where the Bank's operations are at minimal level, closure of certain business activities, employees which are effected by this closure of business, free movement of people and supplies, the government measures will have an effect in the economy as a whole including financial sector.

Given the dynamics of the spread of this pandemic and the dynamic measures being taken to prevent and manage it, we expect to have an impact on our business results, but it is currently impossible to estimate the financial impact.