# BANKA PËR BIZNES SH.A.

# Independent Auditors' Report and Financial Statements prepared in accordance with Central Bank of Republic of Kosovo for the year ended December 31, 2019

**TABLE OF CONTENTS**

Tel: +381 38 600 031
Fax: +381 38 600 032
www.bdokosovo.com

BDO Kosova L.L.C.
Rr. Ukshin Hoti C4/3, Hy. A, Kati II
10000 Prishtina Kosova

# INDEPENDENT AUDITORS' REPORT

**To the Shareholders of Banka për Biznes Sh.a.**

## The report on the audit of the annual financial statements

### Opinion

We have audited the financial statements of Banka për Biznes Sh.a. (the Bank), which comprise: the statement of financial position as at 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 Rules and Regulations of the Central Bank of Republic of Kosovo ("CBK").

### 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.

### Emphasis of matter - Basis of accounting and restriction on use

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Bank in complying with the financial reporting requirements of the "Rules and Regulations of CBK" as referred above. As result, the financial statements may not be suitable for other purposes.
Our auditor's report is intended solely for the reporting to Central Bank of the Republic of Kosovo. Our opinion is not modified in respect to this matter.

### 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 18, 2019.

- The Bank prepares a separate set of financial statements for the year ended December 31, 2019 in accordance with International Financial Reporting Standards, which are its general purpose financial statements.

**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 Rules and Regulations of Central Bank of Kosovo, 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
BDO Kosova L.L.C.
audit, acounting and financial advisory
Prishtina, Kosova

**Amir Dërmala, Engagement Partner**
**BDO Kosova L.L.C.**
March 24, 2020
Pristina, Kosovo

| *In thousands of EUR* | Note | 2019 | 2018 |
|---|---|---|---|
| Interest income | 6 | 14,760 | 13,473 |
| Interest expense | 6 | (2,399) | (1,847) |
| **Net interest income** | | **12,361** | **11,626** |
| Fee and commission income | 7 | 3,037 | 2,367 |
| Fee and commission expense | 7 | (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 | | 1,003 | 7 |
| **Total operating income** | | **15,919** | **14,244** |
| Other income | 8 | 222 | 504 |
| Net reversal of provisions for guarantees | | 1 | (6) |
| Impairment losses | 15 | (622) | (716) |
| Repossessed assets write-downs | 18 | (61) | (62) |
| Other provisions | | (25) | (101) |
| Other operating expenses | 9 | (8,379) | (7,736) |
| **Profit before income tax** | | **7,055** | **6,127** |
| Income tax expense | 10 | (733) | (631) |
| **Net profit for the year** | | **6,322** | **5,496** |
| **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** | | **6,307** | **5,474** |

| *In thousands of EUR* | Note | 2019 | 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash on hand and at banks | 11 | 21,617 | 18,696 |
| Balances with Central Bank of Kosovo | 12 | 42,069 | 39,181 |
| Loans and advances to banks | 13 | 6,065 | 4,795 |
| Available-for-sale financial assets | 14 | 38,677 | 30,163 |
| Loans and advances to customers | 15 | 181,257 | 157,193 |
| Other financial assets | 16 | 206 | 378 |
| Repossessed assets | 18 | 32 | 93 |
| Intangible assets | 19 | 515 | 402 |
| Property and equipment | 20 | 2,850 | 2,830 |
| Right of use Asset | 24 | 2,843 | - |
| Other assets | 17 | 171 | 410 |
| **Total assets** | | **296,302** | **254,141** |
| **Liabilities** | | | |
| Due to customers | 21 | 253,955 | 221,593 |
| Subordinated debt | 22 | 502 | 1,342 |
| Borrowings | 22 | 6,334 | 4,285 |
| Other provisions | 23 | 539 | 482 |
| Lease Liability | 24 | 2,825 | - |
| Other liabilities | 23 | 1,812 | 1,412 |
| **Total liabilities** | | **265,967** | **229,114** |
| **Equity** | | | |
| Share capital | 25 | 11,247 | 11,247 |
| Fair value reserve | | (67) | (52) |
| Accumulated profit | | 19,155 | 13,832 |
| **Total equity** | | **30,335** | **25,027** |
| **Total liabilities and equity** | | **296,302** | **254,141** |

These financial statements were approved by the management of the Bank on 24 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 53 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

| *In thousands of EUR* | **Share capital** | **Accumulated (losses)/profit** | **Fair value reserve** | **Total** |
|---|---|---|---|---|
| **Balance at 1 January 2018** | **11,247** | **8,764** | **(30)** | **19,981** |
| **Transactions with owners of the Bank** | | | | |
| Dividends to equity holders | - | (428) | - | **(428)** |
| *Total comprehensive income for the year* | | | | |
| Profit for the year | - | 5,496 | - | **5,496** |
| Other comprehensive income | - | - | (22) | **(22)** |
| **Total comprehensive income / (loss)** | - | **5,068** | **(22)** | **5,046** |
| **Balance at 31 December 2018** | **11,247** | **13,832** | **(52)** | **25,027** |
| | | | | |
| **Transactions with owners of the Bank** | | | | |
| Dividends to equity holders | - | (999) | - | **(999)** |
| *Total comprehensive income for the year* | | | | |
| Profit for the year | - | 6,322 | - | **6,322** |
| Other comprehensive income | - | - | (15) | **(15)** |
| **Total comprehensive income / (loss)** | - | **5,323** | **(15)** | **5,308** |
| **Balance at 31 December 2019** | **11,247** | **19,155** | **(67)** | **30,335** |

*The notes on pages 7 to 53 are an integral part of these financial statements.*

| *In thousands of EUR* | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year before tax | | 7,055 | 6,127 |
| *Non-cash items in the financial statements:* | | | |
| Amortization | 19 | 237 | 217 |
| Depreciation | 20 | 755 | 595 |
| Gain from disposal of property and equipment | | (7) | (5) |
| Gain from repossession of collateral | | (188) | (428) |
| Impairment losses from loans | 15 | 622 | 716 |
| Write down of repossessed assets | 18 | 61 | 62 |
| Other provisions | | 25 | 1 |
| Gain from sale of AFS | | (1,003) | (7) |
| Interest expense | 6 | 2,399 | 1,847 |
| Interest income | 6 | (14,760) | (13,473) |
| | | **(4,804)** | **(4,348)** |
| **Changes in:** | | | |
| Loans and advances to banks | 13 | (1,270) | (3,345) |
| Loans and advances to customers | 15 | (24,162) | (26,457) |
| Restricted balances with the CBK | 12 | (2,937) | (2,770) |
| Other assets | 17 | 239 | 405 |
| Other financial assets | 16 | 172 | (235) |
| Due to customers | 21 | 32,449 | 43,869 |
| Other liabilities and provisions | 23 | 406 | (293) |
| Interest received | | 14,697 | 13,179 |
| Interest paid | | (1,946) | (1,834) |
| Income tax paid | | (753) | (611) |
| **Net cash flow from operating activities** | | **12,091** | **17,560** |
| **Cash flows from investing activities** | | | |
| Investments in available-for-sale assets, net | 14 | (8,514) | (12,967) |
| Purchase of property and equipment | 20 | (828) | (1,754) |
| Purchase of intangible assets | 19 | (350) | (281) |
| Proceeds from sale of repossessed assets | | 188 | 428 |
| Proceeds from sale of property and equipment | | 77 | 61 |
| **Net cash from investing activities** | | **(9,427)** | **(14,513)** |
| **Cash flows from financing activities** | | | |
| Repayments of borrowings | | (2,873) | (2,343) |
| Receipts from borrowings | 22 | 4,080 | 3,000 |
| Dividend distributed | | (999) | (428) |
| **Net cash flow from financing activities** | | **208** | **229** |
| **Net increase in cash and cash equivalents** | | **2,872** | **3,276** |
| Cash and cash equivalents at beginning of the year | 11 | 40,140 | 36,864 |
| **Cash and cash equivalents at the end of the year** | 11 | **43,012** | **40,140** |

*The notes on pages 7 to 53 are an integral part of these financial statements.*

| *In thousands of EUR* | **Note** | **2019** | **2018** |
|---|---|---|---|
| Interest income | 6 | 14,760 | 13,473 |
| Interest expense | 6 | (2,399) | (1,847) |
| **Net interest income** | | **12,361** | **11,626** |
| Fee and commission income | 7 | 3,037 | 2,367 |
| Fee and commission expense | 7 | (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 | | 1,003 | 7 |
| **Total operating income** | | **15,919** | **14,244** |
| Other income | 8 | 222 | 504 |
| Net reversal of provisions for guarantees | | 1 | (6) |
| Impairment losses | 15 | (622) | (716) |
| Repossessed assets write-downs | 18 | (61) | (62) |
| Other provisions | | (25) | (101) |
| Other operating expenses | 9 | (8,379) | (7,736) |
| **Profit before income tax** | | **7,055** | **6,127** |
| Income tax expense | 10 | (733) | (631) |
| **Net profit for the year** | | **6,322** | **5,496** |
| **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** | | **6,307** | **5,474** |

*The notes on pages 7 to 53 are an integral part of these financial statements.*

| *In thousands of EUR* | Note | 2019 | 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash on hand and at banks | 11 | 21,617 | 18,696 |
| Balances with Central Bank of Kosovo | 12 | 42,069 | 39,181 |
| Loans and advances to banks | 13 | 6,065 | 4,795 |
| Available-for-sale financial assets | 14 | 38,677 | 30,163 |
| Loans and advances to customers | 15 | 181,257 | 157,193 |
| Other financial assets | 16 | 206 | 378 |
| Repossessed assets | 18 | 32 | 93 |
| Intangible assets | 19 | 515 | 402 |
| Property and equipment | 20 | 2,850 | 2,830 |
| Right of use Asset | 24 | 2,843 | - |
| Other assets | 17 | 171 | 410 |
| **Total assets** | | **296,302** | **254,141** |
| **Liabilities** | | | |
| Due to customers | 21 | 253,955 | 221,593 |
| Subordinated debt | 22 | 502 | 1,342 |
| Borrowings | 22 | 6,334 | 4,285 |
| Other provisions | 23 | 539 | 482 |
| Lease Liability | 24 | 2,825 | - |
| Other liabilities | 23 | 1,812 | 1,412 |
| **Total liabilities** | | **265,967** | **229,114** |
| **Equity** | | | |
| Share capital | 25 | 11,247 | 11,247 |
| Fair value reserve | | (67) | (52) |
| Accumulated profit | | 19,155 | 13,832 |
| **Total equity** | | **30,335** | **25,027** |
| **Total liabilities and equity** | | **296,302** | **254,141** |

These financial statements were approved by the management of the Bank on 24 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 53 are an integral part of these financial statements.*

| *In thousands of EUR* | Share capital | Accumulated (losses)/profit | Fair value reserve | Total |
|---|---|---|---|---|
| **Balance at 1 January 2018** | **11,247** | **8,764** | **(30)** | **19,981** |
| **Transactions with owners of the Bank** | | | | |
| Dividends to equity holders | - | (428) | - | **(428)** |
| *Total comprehensive income for the year* | | | | |
| Profit for the year | - | 5,496 | - | **5,496** |
| Other comprehensive income | - | - | (22) | **(22)** |
| **Total comprehensive income / (loss)** | - | **5,068** | **(22)** | **5,046** |
| **Balance at 31 December 2018** | **11,247** | **13,832** | **(52)** | **25,027** |
| | | | | |
| **Transactions with owners of the Bank** | | | | |
| Dividends to equity holders | - | (999) | - | **(999)** |
| *Total comprehensive income for the year* | | | | |
| Profit for the year | - | 6,322 | - | **6,322** |
| Other comprehensive income | - | - | (15) | **(15)** |
| **Total comprehensive income / (loss)** | - | **5,323** | **(15)** | **5,308** |
| **Balance at 31 December 2019** | **11,247** | **19,155** | **(67)** | **30,335** |

| *In thousands of EUR* | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year before tax | | 7,055 | 6,127 |
| *Non-cash items in the financial statements:* | | | |
| Amortization | 19 | 237 | 217 |
| Depreciation | 20 | 755 | 595 |
| Gain from disposal of property and equipment | | (7) | (5) |
| Gain from repossession of collateral | | (188) | (428) |
| Impairment losses from loans | 15 | 622 | 716 |
| Write down of repossessed assets | 18 | 61 | 62 |
| Other provisions | | 25 | 1 |
| Gain from sale of AFS | | (1,003) | (7) |
| Interest expense | 6 | 2,399 | 1,847 |
| Interest income | 6 | (14,760) | (13,473) |
| | | **(4,804)** | **(4,348)** |
| **Changes in:** | | | |
| Loans and advances to banks | 13 | (1,270) | (3,345) |
| Loans and advances to customers | 15 | (24,162) | (26,457) |
| Restricted balances with the CBK | 12 | (2,937) | (2,770) |
| Other assets | 17 | 239 | 405 |
| Other financial assets | 16 | 172 | (235) |
| Due to customers | 21 | 32,449 | 43,869 |
| Other liabilities and provisions | 23 | 406 | (293) |
| Interest received | | 14,697 | 13,179 |
| Interest paid | | (1,946) | (1,834) |
| Income tax paid | | (753) | (611) |
| **Net cash flow from operating activities** | | **12,091** | **17,560** |
| **Cash flows from investing activities** | | | |
| Investments in available-for-sale assets, net | 14 | (8,514) | (12,967) |
| Purchase of property and equipment | 20 | (828) | (1,754) |
| Purchase of intangible assets | 19 | (350) | (281) |
| Proceeds from sale of repossessed assets | | 188 | 428 |
| Proceeds from sale of property and equipment | | 77 | 61 |
| **Net cash from investing activities** | | **(9,427)** | **(14,513)** |
| **Cash flows from financing activities** | | | |
| Repayments of borrowings | | (2,873) | (2,343) |
| Receipts from borrowings | 22 | 4,080 | 3,000 |
| Dividend distributed | | (999) | (428) |
| **Net cash flow from financing activities** | | **208** | **229** |
| **Net increase in cash and cash equivalents** | | **2,872** | **3,276** |
| Cash and cash equivalents at beginning of the year | 11 | 40,140 | 36,864 |
| **Cash and cash equivalents at the end of the year** | 11 | **43,012** | **40,140** |

*The notes on pages 7 to 53 are an integral part of these financial statements.*

## 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).

## 2. BASIS OF PREPARATION

### a) Statement of compliance

These financial statements are prepared in accordance with Article 53 of the Law No. 04/L-093, dated 11 May 2012, "Law on banks, microfinance institutions, and non-bank financial institutions".

These financial statements are prepared for regulatory purposes and reflect the accounting rules, and regulations of the Central Bank of the Republic of Kosovo ("CBK Rules"). The CBK Rules are based on the relevant legal decision defining the mandatory application of International Financial Reporting Standards ("IFRS") in Kosovo, but CBK rules also specifically require the application of certain accounting treatments which are not in accordance with the specific requirements of IFRS, and the financial statement should not be read as prepared in accordance with IFRS.

In addition, CBK Guidelines have not adopted principles of the new and amended IFRS standards effective for the reporting period 31 December 2019, most significantly IFRS 9: Financial Instruments.

### b) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets which are measured at fair value.

### c) Functional and presentation currency

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

### d) 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 3, 5, and 27.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### a) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or 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. 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.

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 available-for-sale investment securities 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. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### d) Tax expense (continued)

*(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.

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.

The foreign currency gain or loss on monetary items is the difference between amortized costs in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### f) 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.

*(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. (See Notes 3. (h) and (i)).

**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.

**Financial liabilities**

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

*(iv) Offsetting*

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### f) Financial assets and financial liabilities (continued)

*(v) 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.

*(vi) Fair value measurement*

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

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.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### f) Financial assets and financial liabilities (continued)

*(vii) 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.

Provisions for loan losses are created pursuant to the Regulation "Credit Risk Management", which was approved by CBK on 26 April 2013. The regulation requires the Bank to classify exposures into five risk categories. The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. Loans and advances that are specifically impaired include significant exposures of more than EUR 50,000. Loans and advances that are not specifically impaired are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.Provisions created for possible losses on loans classified as standard and watch are classified as general provisions. In accordance with the internal provisioning policies of the Bank the rate that is applied for the standard category is 0.60 % (2018: 0.98 %) and watch category is 2.78 % (2018: 3.06 %).

For each risk category, the following minimum rates of specific provision are applied:

| **Category** | **Minimum provision rate** |
|---|---|
| Substandard | 20% |
| Doubtful | 50% |
| Loss | 100% |

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### g) Cash and cash equivalents

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

### h) 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 (f) (vii)).

Other fair value changes, other than impairment losses (see (f) (vii)), 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.

### i) 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.

### j) 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.

### k) Repossessed assets

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### k) Repossessed assets (continued)

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.

### l) 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### m) 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.

### n) 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.

### o) 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.

### p) 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### q) Financial guarantees and loan commitments

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.

### r) 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.

## 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 are 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 be 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:

| *In thousands of EUR* | **Note** | **Impact of adopting IFRS 16** |
|---|---|---|
| Decrease in property, plant and equipment | | - |
| Increase in right-of-use assets | 24 | 1,417 |
| Increase in lease liabilities | 24 | 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 (ECL) (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. (f). (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.

### a) Impairment

Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 3. (f). (vii).

The Bank reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## 5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

### a) Impairment (continued)

The Bank determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

### b) 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.(f).(vi). 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 below in Note 5. (d).

### c) 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.

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

## 5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

### c) Disclosure and estimation of fair value (continued)

***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.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | | Carrying value | Fair value | |
| | | Level 2 | Level 3 | | Level 2 | Level 3 |
| **Financial assets measured at fair value** | | | | | | |
| Available-for-sale | 38,745 | 38,677 | - | 30,215 | 30,163 | - |
| **Financial assets not measured at fair value** | | | | | | |
| Cash on hand and at banks | 63,686 | - | 63,686 | 57,877 | - | 57,877 |
| Loans and advances to banks | 6,065 | - | 6,065 | 4,795 | - | 4,795 |
| Loans and advances to customers | 181,260 | - | 179,250 | 157,193 | - | 155,449 |
| Other financial asset | 206 | - | 206 | 378 | - | 378 |
| **Financial liabilities not measured at fair value** | | | | | | |
| Due to customers | 253,955 | - | 254,863 | 221,593 | - | 222,384 |
| Subordinated debt | 502 | - | 500 | 1,342 | - | 1,338 |
| Borrowings | 6,334 | - | 5,397 | 4,285 | - | 3,652 |
| Other financial liabilities | 1,787 | - | 1,787 | 1,412 | - | 1,412 |

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 items in the course of collection. 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.

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

## 5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

### c) Disclosure and estimation of fair value (continued)

***Financial instruments – fair value hierarchy (continued)***

*Loans and advances to customers*

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

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

*Due to customers, borrowings and subordinated debt*

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

## 6. NET INTEREST INCOME

Net interest income is composed as follows:

| | 2019 | 2018 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers | 14,235 | 12,940 |
| Loans and advances to banks | 125 | 38 |
| Available-for-sale investments | 400 | 495 |
| **Total Interest income** | **14,760** | **13,473** |
| **Interest expenses** | | |
| Due to customers | (1,946) | (1,659) |
| Subordinated debt | (275) | (83) |
| Borrowings | (178) | (105) |
| **Total Interest expenses** | **(2,399)** | **(1,847)** |
| **Net interest income** | **12,361** | **11,626** |

Out of the total amount of EUR 275 thousand within interest expense from subordinated debt, the amount of EUR 180 thousand is penalty charge for prepayment of subordinated debts towards Valon Budima and Armend Skeja.

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

## 7. NET FEE AND COMMISSION INCOME

| | 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** |

## 8. OTHER INCOME

| | 2019 | 2018 |
|---|---|---|
| Gain from sale of repossessed assets | 188 | 428 |
| Other income | 34 | 76 |
| **Total** | **222** | **504** |

## 9. OTHER OPERATING EXPENSES

| | 2019 | 2018 |
|---|---|---|
| Personnel expenses (see below) | 3,909 | 3,760 |
| Depreciation and amortization | 992 | 811 |
| Lease expenses | 773 | 674 |
| Insurance and security | 678 | 651 |
| Card issuance costs | 381 | 270 |
| Advertising and marketing expenses | 225 | 253 |
| Communications | 196 | 195 |
| Utilities and fuel | 185 | 167 |
| Legal expense | 145 | 148 |
| Consultancy | 92 | 126 |
| Repairs and maintenance | 82 | 69 |
| Cleaning expenses | 61 | 51 |
| Board member remuneration | 46 | 42 |
| Office materials | 45 | 45 |
| Travel | 31 | 25 |
| Other expenses | 538 | 449 |
| **Total** | **8,379** | **7,736** |

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

Personnel expenses are detailed as follows:

| | 2019 | 2018 |
|---|---|---|
| Wages and salaries | 3,143 | 3,064 |
| Pension contribution | 160 | 157 |
| Fringe benefits | 600 | 522 |
| Other compensations | 6 | 17 |
| **Total** | **3,909** | **3,760** |

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

## 10. INCOME TAXES

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

| | Effective tax rate | 2019 | Effective tax rate | 2018 |
|---|---|---|---|---|
| **Profit before tax** | | **7,055** | | **6,127** |
| Tax calculated at 10% | 10% | 705 | 10% | 613 |
| Adjustment due to difference on provision for loans based on Central Bank of Kosovo rules | - | - | - | - |
| Written off loans tax effect | 0.24% | 4 | 0.07% | 4 |
| Tax effect of non-deductible expenses | 0.04% | 10 | 0.35% | 21 |
| Tax effect of the accrued interest on term deposits | 0.20% | 54 | 0.70% | 43 |
| Adjustments to other income | 0.07% | (40) | 0.81% | (50) |
| Utilization of tax loss carried forward | - | - | - | - |
| **Income tax** | **10.41%** | **733** | **10.31%** | **631** |

Movement of current tax liability are as follows:

| | 2019 | 2018 |
|---|---|---|
| Liability at the beginning | 164 | 144 |
| Additions during the year | 733 | 631 |
| Payments during the year | (753) | (611) |
| **Liability at the end** | **144** | **164** |

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:

## 11. 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** |

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 12) | 21,395 | 21,444 |
| **Total** | **43,012** | **40,140** |

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

## 12. 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** |

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

## 13. LOANS AND ADVANCES TO BANKS

| | 2019 | 2018 |
|---|---|---|
| *Term deposits* | | |
| Ziraat Bankasi | 2,008 | 2,000 |
| BKT | 1,843 | 1,775 |
| IS Bankasi | 2,204 | 1,000 |
| | **6,055** | **4,775** |
| *Blocked accounts:* | | |
| Raiffeisen Bank International | - | 10 |
| Ziraat Bankasi | 10 | 10 |
| | **10** | **20** |
| **Total** | **6,065** | **4,795** |

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

## 14. AVAILABLE-FOR-SALE ASSETS

| | 2019 | 2018 |
|---|---|---|
| Treasury Bills | 2,991 | 100 |
| Government Bonds | 35,686 | 30,063 |
| **Total** | **38,677** | **30,163** |

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).

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

## 15. LOANS AND ADVANCES TO CUSTOMERS

| | 2019 | 2018 |
|---|---|---|
| Loans and advances to customers | 187,407 | 163,245 |
| Accrued interest | 896 | 836 |
| Deferred disbursement fees | (902) | (1,048) |
| **Total** | **187,401** | **163,033** |
| Allowance for impairment losses on loans and advances to customers | (6,144) | (5,840) |
| **Loans and advances to customers, net** | **181,257** | **157,193** |

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

| | 2019 | 2018 |
|---|---|---|
| At January 1 | 5,840 | 5,231 |
| Loan loss provision | 622 | 716 |
| Loans written off | (318) | (107) |
| **At December 31** | **6,144** | **5,840** |

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 in amount of EUR 11,897 thousand or 6.3% of the loan portfolio (2018: EUR 9,754 thousand or 5.9%).

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Non-Retail | Retail | Total | Non-retail | Retail | Total |
| **At 1 January** | **5,436** | **404** | **5,840** | **4,901** | **330** | **5,231** |
| Charge for the year, net | 492 | 130 | 622 | 590 | 126 | 716 |
| Amounts written off | (206) | (112) | (318) | (55) | (52) | (107) |
| **At 31 December** | **5,722** | **422** | **6,144** | **5,436** | **404** | **5,840** |

## 16. 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** |

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

## 17. OTHER ASSETS

| | 2019 | 2018 |
|---|---|---|
| Prepaid expenses | 171 | 410 |
| **Total** | **171** | **410** |

## 18. REPOSSESSED ASSETS

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

| | 2019 | 2018 |
|---|---|---|
| Residential real estate | 558 | 558 |
| Commercial real estate | 108 | 108 |
| **Total** | **666** | **666** |
| Less: provision for impairment | (634) | (573) |
| **Net carrying value** | **32** | **93** |

Repossessed assets consist of a residential buildings, lands repossessed during the years. Provision for impairment of 20% is created in accordance with CBK guidelines.

Movements in the values provision for impairment are as follows:

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

## 19. 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** |

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

## 20. 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 depreciation** | **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** | **-** |

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

## 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 |
| **Time 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 |
| *Individuals:* | | |
| Valon Budima | - | 420 |
| Armend Skeja | - | 420 |
| **Total** | **502** | **1,342** |

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 12 December 2026. As of 31 December 2019 the Bank is in compliance with financial covenants attached to the agreement with Blue Orchard.

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

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

With 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.

| **Borrowings** | 2019 | 2018 |
|---|---|---|
| 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 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.

*(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.

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.

### 22.1 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 | 4,285 | 2,293 | (285) | 41 | - | 6,334 |
| Dividends paid | - | - | (999) | - | 999 | - |
| **Total liabilities from financing activities** | **5,627** | **2,293** | **(2,084)** | **1** | **999** | **6,836** |

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

## 23. OTHER LIABILITIES AND PROVISIONS

| | 2019 | 2018 |
|---|---|---|
| Payables on behalf of third parties | 801 | 788 |
| Provisions for letters of guarantee issued by the Bank | 25 | 26 |
| Payable on behalf of Ministry of Labor and Social Welfare | 644 | 363 |
| Payable on behalf of Ministry of Economy and Finance | 76 | 61 |
| Due to suppliers | 266 | 174 |
| **Total other liabilities** | **1,812** | **1,412** |
| Other provisions (see Note below) | 539 | 482 |
| **Total** | **2,351** | **1,894** |

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** |

## 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:**

| | 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:**

| | 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** |

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

## 25. SHAREHOLDERS' 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 394.20 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:

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| **No.** | **Name of shareholder** | **%** | **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** |

*(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).

| **Guarantees extended to customers** | **2019** | **2018** |
|---|---|---|
| Secured by cash deposits | 1,202 | 1,344 |
| Secured by collateral (real estate and movable collateral) | 690 | 628 |
| Less: Provision recognized as liabilities | (25) | (26) |
| **Total** | **1,867** | **1,946** |

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

| **Credit commitments** | **2019** | **2018** |
|---|---|---|
| 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 23.

For the lease commitments please refer to note 4

## 27. FINANCIAL RISK MANAGEMENT

### a) 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 analyses 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.

### b) 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). 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.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### Management of credit risk

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.

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.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

**Management of credit risk (continued)**

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, in line with the trend of loans improvement at the level of the banking industry. Regarding the loan quality indicator – Non-performing loans (NPL), while in 2018 it was 2.87%, in 2019 this indicator was improved to 2.78% and was close with the average of the banking industry. There were also improvements in other categories of loans, problematic loans (C, D, E) and overdue loans (B, C, D, E).

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.

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

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### 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** | | **Available-for-sale financial assets** | | **Loans and advances to customers** | | **Other financial assets** | | **Financial guarantees** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Maximum exposure to credit risk | | | | | | | | | | |
| Carrying amount | 63,686 | 57,877 | 38,677 | 30,163 | 181,260 | 157,193 | 206 | 378 | - | - |
| Amount committed/guaranteed | - | - | - | - | - | - | - | - | 9,400 | 8,746 |
| | **63,686** | **57,877** | **38,677** | **30,163** | **181,260** | **157,193** | **206** | **378** | **9,400** | **8,746** |
| At amortized cost | | | | | | | | | | |
| Standard | 63,686 | 57,877 | 38,677 | 30,163 | 179,033 | 154,352 | 206 | 378 | - | - |
| Watch | - | - | - | - | 1,692 | 1,918 | - | - | - | - |
| Substandard | - | - | - | - | 1,474 | 2,072 | - | - | - | - |
| Doubtful | - | - | - | - | 1,123 | 881 | - | - | - | - |
| Loss | - | - | - | - | 4,082 | 3,810 | - | - | - | - |
| **Total** | **63,686** | **57,877** | **38,677** | **30,163** | **187,404** | **163,033** | **206** | **378** | **-** | **-** |
| Allowance for impairment (individual and collective) | **-** | **-** | **-** | **-** | (6,144) | (5,840) | **-** | **-** | **-** | **-** |
| **Net carrying amount** | **63,686** | **57,877** | **38,677** | **30,163** | **181,260** | **157,193** | **206** | **378** | **-** | **-** |
| Off balance: maximum exposure | | | | | | | | | | |
| Credit commitments: Low - fair risk | - | - | - | - | - | - | - | - | 7,508 | 6,774 |
| Financial guarantees: Low - fair risk | - | - | - | - | - | - | - | - | 1,892 | 1,972 |
| **Total committed/guaranteed** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **9,400** | **8,746** |
| Provisions recognized as liabilities | - | - | - | - | - | - | - | - | (25) | (26) |
| **Total exposure** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **9,375** | **8,720** |

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

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### Analysis of credit quality (continued)

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Loans and advances to customers** | **Retail** | **Corporate** | **Total loans** | **Retail** | **Corporate** | **Total loans** |
| Total gross amount | 76,383 | 111,021 | 187,404 | 67,598 | 95,435 | 163,033 |
| Allowance for impairment (individual and collective) | (422) | (5,722) | (6,144) | (404) | (5,436) | (5,840) |
| **Net carrying amount** | **75,961** | **105,299** | **181,260** | **67,194** | **89,999** | **157,193** |
| ***At amortized cost*** | | | | | | |
| Standard | 75,590 | 103,443 | 179,033 | 66,946 | 87,406 | 154,352 |
| Watch | 305 | 1,387 | 1,692 | 182 | 1,736 | 1,918 |
| Substandard | 113 | 1,361 | 1,474 | 77 | 1,995 | 2,072 |
| Doubtful | 158 | 965 | 1,123 | 184 | 697 | 881 |
| Loss | 217 | 3,865 | 4,082 | 209 | 3,601 | 3,810 |
| **Total gross** | **76,383** | **111,021** | **187,404** | **67,598** | **95,435** | **163,033** |
| Standard | (100) | (978) | (1,078) | (86) | (922) | (1,008) |
| Watch | (4) | (43) | (47) | (3) | (57) | (60) |
| Substandard | (21) | (392) | (413) | (15) | (507) | (522) |
| Doubtful | (79) | (484) | (563) | (92) | (348) | (440) |
| Loss | (218) | (3,825) | (4,043) | (208) | (3,602) | (3,810) |
| **Total provisions** | **(422)** | **(5,722)** | **(6,144)** | **(404)** | **(5,436)** | **(5,840)** |
| ***Loans with renegotiated terms*** | | | | | | |
| Carrying amount | 105 | 4,610 | 4,715 | 94 | 5,256 | 5,350 |
| *From which: Impaired* | 76 | 3,633 | 3,709 | 30 | 3,875 | 3,905 |
| Allowance for impairment | (86) | (125) | (211) | (19) | (2,277) | (2,296) |
| **Net carrying amount** | **19** | **4,485** | **4,504** | **75** | **2,979** | **3,054** |

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

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### Analysis of credit quality (continued)

*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 318 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.

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.

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

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### 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 | Property | Cash Collateral | Equipment | Total collateral used | Surplus collateral | Net uncollaterized exposure |
|---|---|---|---|---|---|---|---|
| **31 December 2019** | 181,255 | 285,252 | 4,564 | 96,705 | 127,798 | - | 53,457 |
| **31 December 2018** | 163,033 | 273,147 | 5,180 | 79,071 | 109,771 | (194,365) | 53,262 |

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

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### Concentration of credit risk

The pursuit of the bank's strategy on the growth of the loan portfolio in the targeted loan segments has made it possible to further diversify the credit portfolio and further reduced the large exposures. In this respect, during 2019 there has been a noticeable improvement of the large exposure diversification, respectively TOP 30 borrowers. While TOP 30 borrowers in 2018 were 12.56% of the total loan portfolio, in 2019 they dropped to 12.416%. Although diversification has greatly increased, TOP 10 borrowers in 2018 were 5.90%, in 2019 it is slightly increased but not significantly to 6.29%. Whereas, in terms of the largest borrower in relation to Tier I capital, the largest borrower was 5.87%, in 2019 (2018, 4.64%).

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 | | Available-for-sale financial assets | | Loans and advances to customers | | Other financial assets | | Financial guarantees | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Concentration by sector** | | | | | | | | | | | | |
| Corporate | - | - | - | - | - | - | 105,299 | 89,999 | - | - | 9,400 | 8,746 |
| Banks | 63,686 | 57,877 | 6,065 | 4,795 | 38,677 | 30,163 | - | - | - | - | - | - |
| Retail | - | - | - | - | - | - | 75,961 | 67,194 | 206 | 378 | - | - |
| **Total** | **63,686** | **57,877** | **6,065** | **4,795** | **38,677** | **30,163** | **181,260** | **157,193** | **206** | **378** | **9,400** | **8,746** |
| **Concentration by location** | | | | | | | | | | | | |
| EU countries | 4,306 | 3,039 | - | 10 | - | - | - | - | - | - | - | - |
| Republic of Kosovo | 58,869 | 54,622 | 6,065 | 4,785 | 38,677 | 30,163 | 181,260 | 157,193 | 206 | 378 | 9,400 | 8,746 |
| Other countries | 511 | 216 | - | - | - | - | - | - | - | - | - | - |
| **Total** | **63,686** | **57,877** | **6,065** | **4,795** | **38,677** | **30,163** | **181,260** | **157,193** | **206** | **378** | **9,400** | **8,746** |

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

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### c) 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 risk are managed in accordance with their respective policies.

**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 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* | |
|---|---|---|---|---|
| **Assets** | **2019** | **2018** | **2019** | **2018** |
| Cash at banks | - | - | - | - |
| Loans and advances to banks | 1.65% | 2.40% | 1,29% | 0.94% |
| Loans to customers | - | - | 7.60% | 8.03% |
| Available-for-sale financial assets | - | - | 1.37% | 2.13% |
| **Liabilities** | | | | |
| Due to customers | - | - | 1,48% | 1.41% |
| Subordinated debt | - | - | 6.50% | 8.65% |
| Borrowings | - | - | 2.76% | 2.97% |

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

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### c) Market risk (continued)

**Interest rate risk (continued)**

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming a parallel shift in yield curve and a constant statement of financial position) is as follows:

| 2019 | up to 1 Year scenarios | | over 1 Year scenarios | |
|---|---|---|---|---|
| | Increase | Decrease | Increase | Decrease |
| Estimated profit (loss) effect | (692) | 692 | 871 | (871) |

| 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) |

The effect of interest rate risk on equity is similar to that on Profit and Loss.

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** | | 18,379 | - | - | - | - | **18,379** |
| Non-interest bearing | | 3,238 | - | - | - | - | **3,238** |
| Interest bearing | *Fixed* | | | | | | |
| **Balances with CBK** | | 42,069 | - | - | - | - | **42,069** |
| Non-interest bearing | | | | | | | |
| **Loans and advances to banks** | | | | | | | |
| Interest bearing | *Fixed* | - | - | - | 6,065 | - | **6,065** |
| **Investment securities** | | | | | | | |
| Interest bearing | *Fixed* | 12,291 | 3,045 | 22 | 100 | 23,219 | **38,677** |
| **Loans to customers** | | | | | | | |
| Interest bearing | *Fixed* | 6,678 | 10,620 | 14,595 | 35,050 | 114,317 | **181,260** |
| **Other financial assets** | | | | | | | |
| Non-interest bearing | | 206 | - | - | - | - | **206** |
| **Total** | | **82,861** | **13,665** | **14,617** | **41,215** | **137,536** | **289,894** |
| **Liabilities** | | | | | | | |
| **Deposits from customers** | | | | | | | |
| Interest bearing | *Fixed* | 20,724 | 8,769 | 11,623 | 56,059 | 46,091 | **143,266** |
| Non-interest bearing | | 110,689 | - | - | - | - | **110,689** |
| **Subordinated debt** | | | | | | | |
| Interest bearing | *Fixed* | - | - | 2 | - | 500 | **502** |
| **Borrowings** | | | | | | | |
| Interest bearing | *Variable* | 822 | 566 | 80 | 1,018 | 3,848 | **6,334** |
| **Other liabilities** | | | | | | | |
| Non-interest bearing | | 1,812 | - | - | - | - | **1,812** |
| **Total** | | **134,047** | **9,335** | **11,705** | **57,077** | **50,439** | **262,603** |
| **Gap** | | **(51,186)** | **4,330** | **2,912** | **(15,862)** | **87,097** | **27,291** |
| **Cumulative gap** | | **(51,186)** | **(46,856)** | **(43,944)** | **(59,806)** | **27,291** | |

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

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### c) Market risk (continued)

**Interest rate risk (continued)**

| 31 December 2018 | | Up to 1 month | 1-3 Month | 3-6 Month | 6-12 Month | Over 1 year | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| **Cash on hand and at banks** | | | | | | | |
| Non-interest bearing | | 15,997 | - | - | - | - | **15,997** |
| Interest bearing | | 699 | 2,000 | | | | **2,699** |
| **Balances with CBK** | | | | | | | |
| Non-interest bearing | | 39,181 | - | - | - | - | **39,181** |
| **Loans and advances to banks** | | | | | | | |
| Interest bearing | *Fixed* | - | - | 1,000 | 3,785 | 10 | **4,795** |
| **Investment securities** | | | | | | | |
| Interest bearing | *Fixed* | 50 | 100 | 250 | - | 29,763 | **30,163** |
| **Loans to customers** | | | | | | | |
| Interest bearing | *Fixed* | 6,378 | 11,074 | 15,349 | 29,855 | 94,537 | **157,193** |
| **Other financial assets** | | | | | | | |
| Non-interest bearing | | 378 | - | - | - | - | **378** |
| **Total** | | **62,683** | **13,174** | **16,599** | **33,640** | **124,310** | **250,406** |
| **Liabilities** | | | | | | | |
| **Deposits from customers** | | | | | | | |
| Interest bearing | *Fixed* | 20,632 | 6,288 | 6,997 | 42,315 | 46,137 | **122,369** |
| Non-interest bearing | | 99,224 | - | - | - | - | **99,224** |
| **Subordinated debt** | | | | | | | |
| Interest bearing | *Fixed* | - | - | 42 | - | 1,300 | **1,342** |
| **Borrowings** | | | | | | | |
| Interest bearing | *Variable* | 158 | 313 | 455 | 613 | 2,746 | **4,285** |
| **Other liabilities** | | | | | | | |
| Non-interest bearing | | 1,412 | - | - | - | - | **1,412** |
| **Total** | | **121,426** | **6,601** | **7,494** | **42,928** | **50,183** | **228,632** |
| **Gap** | | **(58,743)** | **6,573** | **9,105** | **(9,288)** | **74,127** | **21,774** |
| **Cumulative gap** | | **(58,743)** | **(52,170)** | **(43,065)** | **(52,353)** | **21,774** | |

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### c) Market risk (continued)

**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:

| | **2019** | **2018** |
|---|---|---|
| **Currency** | **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 | (16.67) | 12.40 | (18.36) | 13.00 | 1.04 | 0.90 |
| - 5% of Euro | 16,67 | (12.40) | 18.36 | (13.00) | (1.04) | (0.90) |

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

*All amounts are translated in thousands of EUR*

| **31 December 2019** | **EUR** | **USD** | **CHF** | **GBP** | **Total** |
|---|---|---|---|---|---|
| ***Financial assets*** | | | | | |
| Cash on hand and at banks | 20,488 | 723 | 385 | 21 | **21,617** |
| Balances with CBK | 42,069 | - | - | - | **42,069** |
| Available-for-sale investments | 38,677 | - | - | - | **38,677** |
| Loans and advances to banks | 4,222 | - | 1,843 | - | **6,065** |
| Loans and advances to customers | 181,260 | - | - | - | **181,260** |
| Other financial assets | 206 | - | - | - | **206** |
| **Total financial assets** | **286,922** | **723** | **2,228** | **21** | **289,894** |
| ***Financial liabilities*** | | | | | |
| Due to customers | 250,302 | 1,058 | 2,595 | - | **253,955** |
| Subordinated debt | 502 | - | - | - | **502** |
| Borrowings | 6,334 | - | - | - | **6,334** |
| Other liabilities | 1,812 | - | - | - | **1,812** |
| **Total financial liabilities** | **258,950** | **1,058** | **2,595** | **-** | **262,603** |
| **Net foreign currency position** | **27,972** | **(335)** | **(367)** | **21** | **27,291** |

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### c) Market risk (continued)

**Exposure to currency risk (continued)**

*All amounts are translated in thousands of EUR*

| **31 December 2018** | **EUR** | **USD** | **CHF** | **GBP** | **Total** |
|---|---|---|---|---|---|
| ***Financial assets*** | | | | | |
| Cash on hand and at banks | 15,828 | 1,360 | 1,490 | 18 | **18,696** |
| Balances with CBK | 39,181 | - | - | - | **39,181** |
| Loans and advances to banks | 30,163 | - | - | - | **30,163** |
| Available for sale investments | 3,020 | - | 1,775 | - | **4,795** |
| Loans and advances to customers | 157,193 | - | - | - | **157,193** |
| Other financial assets | 378 | - | - | - | **378** |
| **Total financial assets** | **245,763** | **1,360** | **3,265** | **18** | **250,406** |
| ***Financial liabilities*** | | | | | |
| Due to customers | 217,472 | 1,114 | 3,007 | - | **221,593** |
| Subordinated debt | 1,342 | - | - | - | **1,342** |
| Other liabilities | 4,285 | - | - | - | **4,285** |
| Total financial liabilities | 1,412 | - | - | - | **1,412** |
| **Net foreign currency position** | **224,511** | **1,114** | **3,007** | **-** | **228,632** |
| **Net foreign currency position** | **21,252** | **246** | **258** | **18** | **21,774** |

### d) 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.

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.

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

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### d) Liquidity risk (continued)

**Management of liquidity risk**

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 | 21,617 | - | - | - | - | **21,617** |
| Balances with CBK | 42,069 | - | - | - | - | **42,069** |
| Available-for-sale financial assets | - | - | - | 6,065 | - | **6,065** |
| Loans and advances to customers | 6,679 | 10,620 | 14,594 | 35,050 | 114,317 | **181,260** |
| Loans and advances to banks | 12,290 | 3,045 | 23 | 100 | 23,219 | **38,677** |
| Other financial assets | 206 | - | - | - | - | **206** |
| **Total** | **82,861** | **13,665** | **14,617** | **41,215** | **137,536** | **289,894** |
| ***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 | 1,812 | - | - | - | - | **1,812** |
| Guarantees issued | 1,892 | - | - | - | - | **1,892** |
| Unused credit commitments | 7,508 | - | - | - | - | **7,508** |
| **Total** | **143,447** | **9,335** | **11,705** | **57,077** | **50,439** | **272,003** |
| **Liquidity gap** | **(60,586)** | **4,330** | **2,912** | **(15,862)** | **87,097** | **17,891** |

| 31 December 2018 | Up to 1 Month | 1 to 3 Months | 3 to 6 Months | 6 to 12 Months | Over 12 Months | Total |
|---|---|---|---|---|---|---|
| ***Financial assets*** | | | | | | |
| Cash on hand and at banks | 16,696 | 2000 | - | - | - | **18,696** |
| Balances with CBK | 39,181 | - | - | - | - | **39,181** |
| Loans and advances to banks | - | - | 1,000 | 3,785 | 10 | **4,795** |
| Available-for-sale financial assets | 50 | 100 | 250 | - | 29,763 | **30,163** |
| Loans and advances to customers | 6,355 | 11,074 | 15,349 | 29,855 | 94,560 | **157,193** |
| Other financial assets | 378 | - | - | - | - | **378** |
| **Total** | **62,660** | **13,174** | **16,599** | **33,640** | **124,333** | **250,406** |
| ***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 financial liabilities | 1,412 | - | - | - | - | **1,412** |
| Guarantees issued | 1,972 | - | - | - | - | **1,972** |
| Unused credit commitments | 6,774 | - | - | - | - | **6,774** |
| **Total** | **130,173** | **6,601** | **7,493** | **42,928** | **50,183** | **237,378** |
| **Liquidity gap** | **(67,513)** | **6,573** | **9,106** | **(9,288)** | **74,150** | **13,028** |

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### e) 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 for these losses are determined in operational risk management policy. Furthermore, operational risk procedure describes in details the steps that the bank undertakes with collected information on operational risk loss event database.

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

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

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

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### f) 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.

*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%, 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 | 179,839 | 154,558 |
| Total risk weighted off balance exposures | 690 | 628 |
| Total risk weighted assets for operational risk | 17,065 | 14,910 |
| **Total** | **197,594** | **170,096** |
| | | |
| Regulatory capital (Total capital) | 31,342 | 26,655 |
| **Capital adequacy ratio (Total capital)** | **15.86%** | **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).

*(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 24 shareholders' equity and reserves.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not the 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:**<br>*Loans outstanding at end of year with shareholders and key management* | | CBK Rating* | | CBK Rating* |
| ENRAD-Ex Newco Jugo Term | A | 191 | A | 1,716 |
| ENG Office | A | 501 | A | 501 |
| Ismet Sylejmani (VATANI SH.P.K) | A | 96 | A | 96 |
| Uniprojekt | A | 145 | A | 269 |
| Naser Aliu-Uniprojekt | A | 12 | A | 15 |
| Besnik Vrella- Uniprojekt | A | 2 | A | 6 |
| Agim Bilalli- Uniprojekt | A | 9 | A | 10 |
| Ahmet Arifi | - | 146 | - | - |
| Sokol Krasniqi | A | - | A | 3 |
| Brymako | A | - | A | 3 |
| Hyda Krasniqi | A | - | A | 26 |
| Naim Abazi (MEDIANAM SH.P.K) | D | 126 | C | 134 |
| MALESIA REISEN (Rrustem Aliaj) | A | 50 | A | 660 |
| Other shareholders and management | A | 158 | A | 181 |
| **Total** | | **1,436** | | **3,620** |
| Guarantees and letters of credit with shareholders | A | 661 | A | 11 |

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

Loans to related parties are given at commercial terms.

| | **2019** | **2018** |
|---|---|---|
| Loans to shareholders, gross | 1,287 | 3,439 |
| Allowance for impairment | (66) | (31) |
| **Total Loans to shareholders, net** | **1,221** | **3,408** |
| Cash collateral | (647) | (2,686) |
| **Net exposure to shareholders** | **574** | **722** |

| | **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** |

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

## 28. RELATED PARTY TRANSACTIONS (CONTINUED)

| **Liabilities:** | **31 December 2019** | **31 December 2018** |
|---|---|---|
| *Customer accounts with shareholders* | | |
| NTPSH caffe 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 long term loan from EBRD | 132 | 36 |
| Key management compensation | 403 | 372 |
| Board of directors 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.