ANNUAL REPORT

BPB

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2019

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LETTER OF THE CHAIRMAN OF THE BOARD

Albert Matoshi
CHAIRMAN OF THE BOARD OF DIRECTORS

Dear readers,

I have the honour of reporting another excellent performance in 2019 for the Banka për Biznes, preceded by a positive financial year and a relatively stable market environment in the country. Total assets in the banking sector amounted to EUR 4.75 billion, with a significant increase of 10% in customer loans and 16.2% in deposits, while the level of non-performing loans (2%) remained the best in the region. Banka për Biznes has achieved significant growth in all major segments.

In 2019, the Bank generated a net profit of EUR 6.3 million, an increase of 15.21% compared to the previous year, attributable to the further increase of the loan portfolio in the amount of EUR 187.4 million, compared to EUR 163 million from the same period a year ago, and the increase of revenues from interest in the amount of EUR 12.3 million, compared to EUR 11.6 million in 2018. At the same time, we have managed keep costs under control by reducing the cost-to-income ratio (CIR) to 52.2%, compared to 56.5% a year earlier. On the other hand, the level of deposits, as our main source of lending to our customers, amounted to EUR 253.9 million, compared to EUR 221.5 million a year ago. All of these resulted in the Bank's total capital increase to EUR 30.3 million, compared to EUR 25 million in the previous year.

Another important achievement in 2019 is the relocation of the Bank to a new building that has a surface area of 2,102 m2, modern infrastructure and is suitable to provide the best possible working conditions for all Bank staff. Even this year, improvements in customer service and Bank products continued to be the key focus of our strategy. Loan portfolio quality improved from 2.87% in 2018 to 2.78% in 2019, being in line with the credit growth trend at the level of the banking industry. Moreover, BPB is the first bank in Kosovo to implement the fast international payment system - SWIFT's GPI. Also, in an effort to follow global trends in the field of digitalization, even this year the BPB has made some key investments in the field of technology and projects in order to advance systems and processes as part of the digital transformation strategy. As a result, we have increased the number of e-banking users to over 6,800.

Based on these achievements, this year and for the second time in a row, BPB was recognized as the best bank in Kosovo by the well-known financial magazine "The Banker". The results achieved by the Bank this year also confirmed that the strategic decisions taken over the past few years have played a key role by helping the Bank succeed through a challenging period of transformation, with increased strength. As our business efficiently continues to generate reliable revenue in leading sectors, I am convinced that the Bank will have another stable performance in 2020. This is supported by the solid capital strength and cautious risk management which was built during the recent years.

Before I conclude, I would like to thank all the BPB staff together with the management and my colleagues from the Board for their tireless work and dedication. I would also like to thank our loyal customers and our business partners for their loyalty and close cooperation. Finally, I would like to thank you, the shareholders, for your trust in BPB and for your support in implementing the next steps in our strategy, with a special focus on ensuring that BPB continues to advance in the years to come.

On behalf of the Board of Directors,

Albert Matoshi

Chairman of the Board of Directors

LETTER OF THE CHIEF EXECUTIVE OFFICER

Arton Celina
CHIEF EXECUTIVE OFFICER

Dear readers,

The year 2019 marked a good year for the financial industry, which was also reflected in Kosovo's stable economic development. Looking back to the previous year, it is notable how much we have accomplished, not only in terms of financial performance but in our continuous dedication to aid a specific segment of clients as per our core business strategy. Similar to the previous year, Kosovo's economy marked a growth of 4%, which was spurred to no small margin by the remittances coming from our diaspora and overall economic development.

In 2019, we continued to expedite some investments in services and technology. We have pioneered the contactless transactions in our ATMs, and in parallel applied the GPI payment platform which significantly improves the transfers experience for our clients. Additionally, we continued to progress in our branch outlook and customer service, while also paving the path for several online services that will notably increase efficiency in the bank and towards our clients. On the other hand, BPB continued its partnership with universities, whereby we have made possible the graduation of students in the 3rd group of BPB Juniors program, who have shown high potential of being employed by our bank.
With regard to financial results, the BPB has shown consistency by continuing to show positive parameters in all aspects.

By increasing profits, which by default results in increased assets and return on equity, the bank has ensured that the three parties of the triangle – shareholders, clients and staff – remain content. It also demonstrates that BPB is clearly on the right path in terms implementing our strategy. Low NPL is another parameter that demonstrates our well diversified portfolio and our proper lending processes.

The year 2019 for BPB indicated for a clear advancement towards achieving major objectives, where we proved to be a trustworthy partner of our client profile, which is Micro Businesses and retail clients, by increasing both the number of clients and portfolio volume. Hence, improvements in processes, infrastructure and services, enabled BPB to be awarded for the 2nd time running as the best bank in Kosovo by the prestigious magazine “The Banker”, published by the “Financial Times”. We assure our clientele that we will continue to further develop together in our business ecosystem by bringing new innovative banking services.

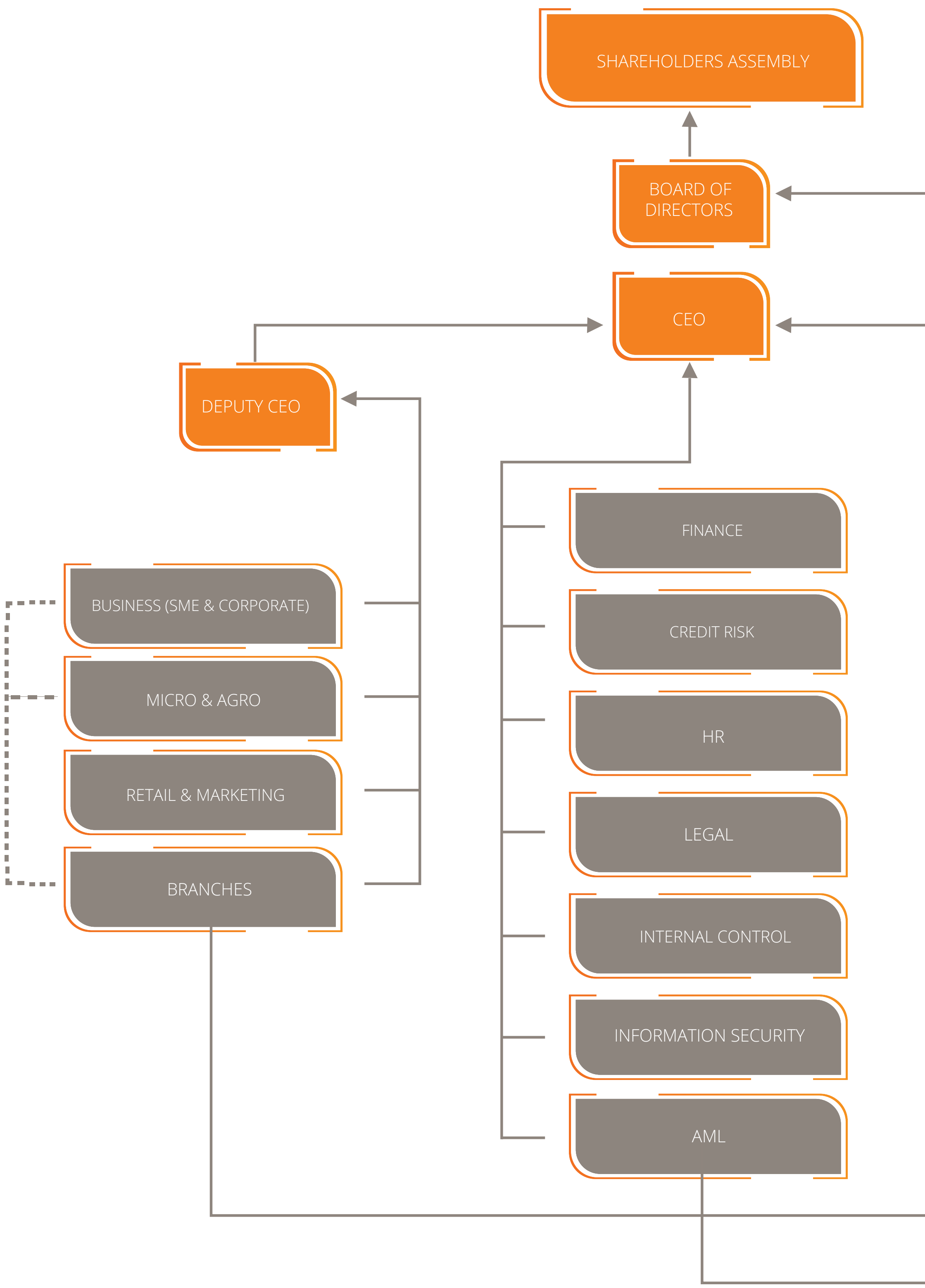
In an ever changing environment, the BPB is determined to further improve and expand its services, and reach a broader client base of our client profile (micro businesses and salary receivers) as we are convinced that these two sectors represent the backbone of the country’s economic development. A special appreciation to all of our clients partnering with us and our staffs for their hard work, dedication and innovative ideas that have enabled the success attained in 2019.

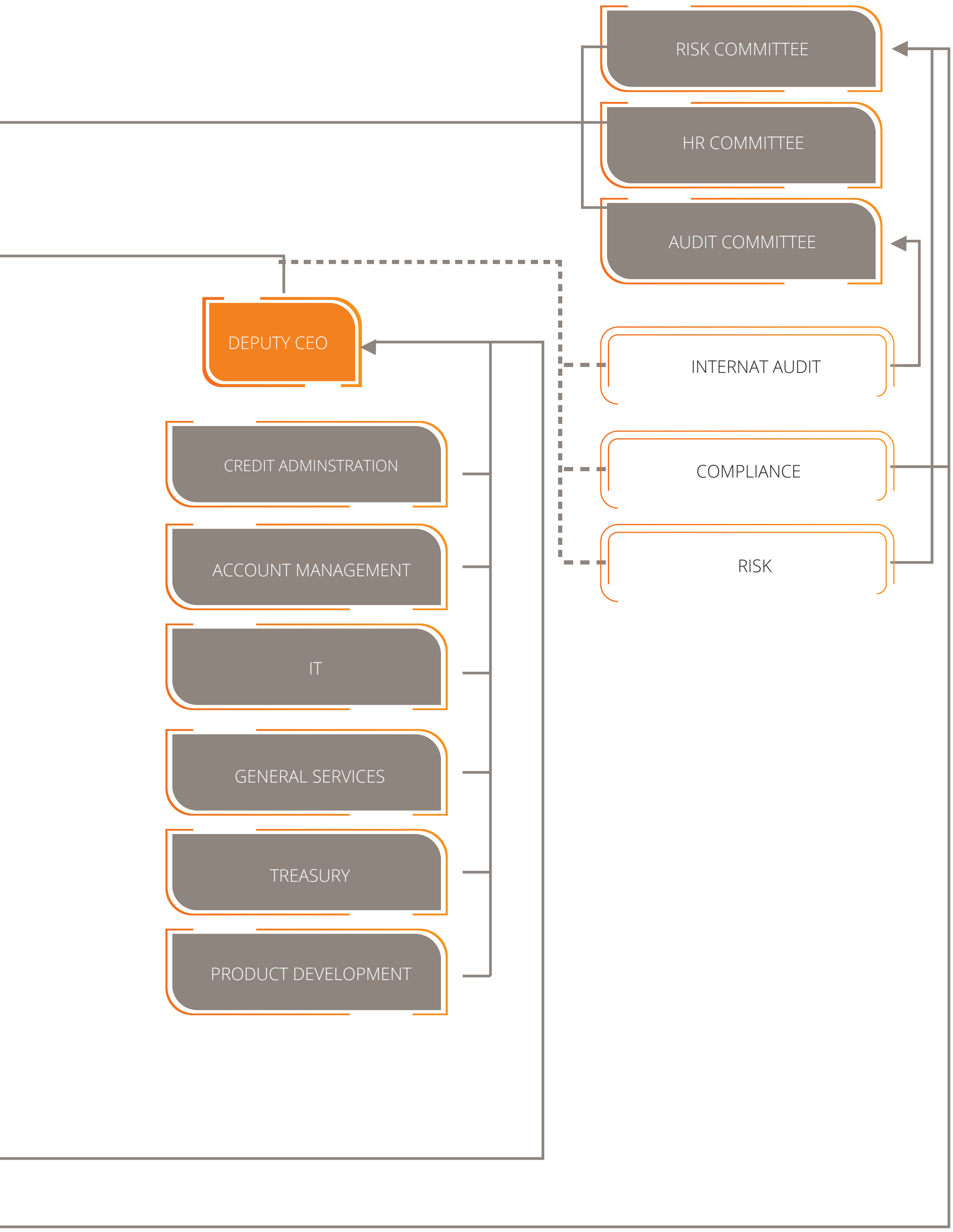
Sincerely,

Arton Celina

Chief Executive Officer

ORGANIZATION STRUCTURE




RISK COMMITTEE
HR COMMITTEE
AUDIT COMMITTEE
DEPUTY CEO
INTERNAT AUDIT
COMPLIANCE
RISK
CREDIT ADMINSTRATION
ACCOUNT MANAGEMENT
IT
GENERAL SERVICES
TREASURY
PRODUCT DEVELOPMENT

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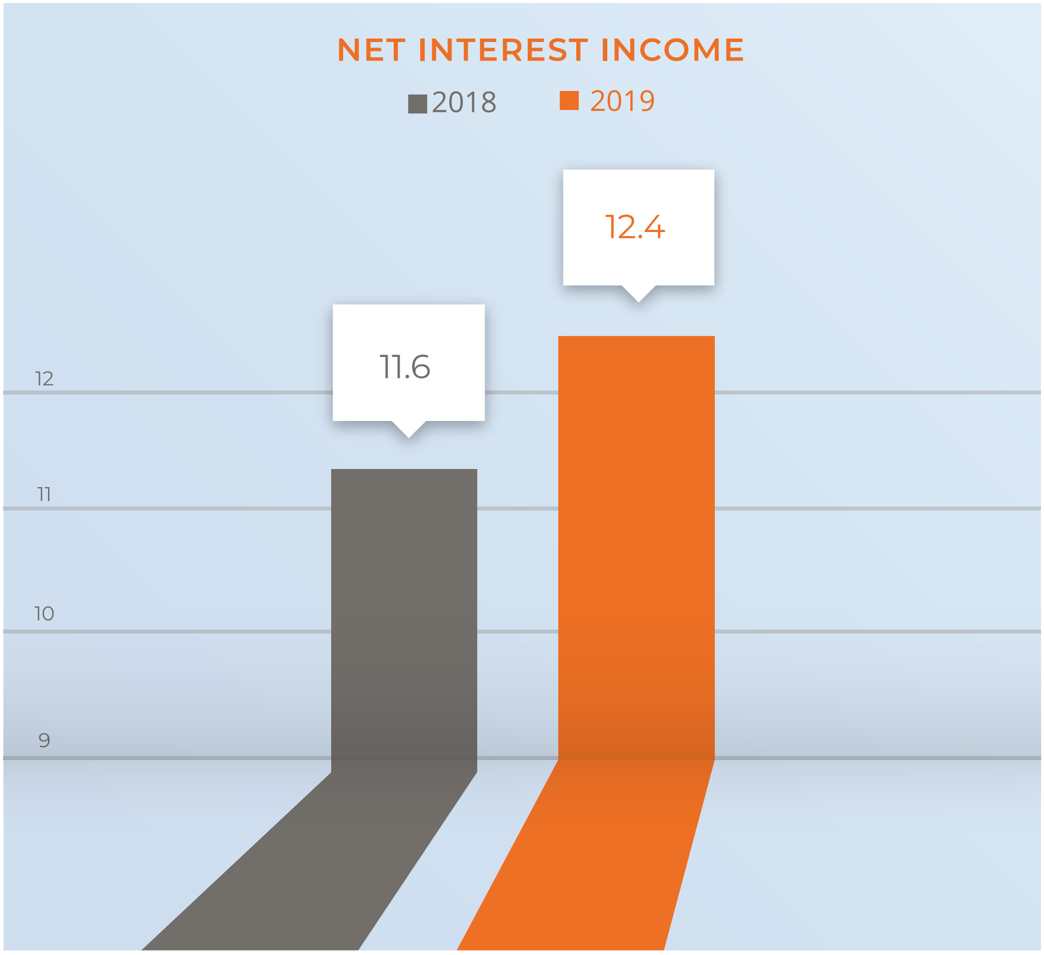
FINANCIAL RESULTS ACCORDING TO IFRS

In 2019, BPB achieved net interest revenue in the amount of EUR 12.4 million, thus marking an increase of EUR 0.8 million or a 6.9% increase compared to EUR 11.6 million in 2018. Net interest revenue represents about 76.7% of the bank's total operating revenue.
Interest expenses for 2019 were about EUR 2.4 million (2018: EUR 1.8 million). This increase comes as a result of the increase in the volume of customer deposits by EUR 32.4 million or 14.6% compared to the previous year, while the average interest rate on deposits was quite stable throughout 2019.



The net interest rate margin was 6.6%, compared to 7.0% last yea,r as a result of falling interest rates on loans.
The second category of revenue in terms of size are net revenue from fees and commissions which reached the level of EUR 2.0 million. Although gross revenue from fees and commissions increased by 28.3%, it was the expenditures of fees and commissions that also had a fairly high increase, by close to 37.9%, and as a result net revenue from fees and commissions increased by 23.8% compared to 2018.

The bank's operating expenses during 2019 increased by 8.3% compared to 2018. The ratio of operating costs to operating revenue marked a significant improvement from 56.5% in 2018 to 52.3% in 2019.

A net profit of EUR 6.3 million was achieved in 2019, thus significantly increasing the shareholder equity from EUR 25.8 million in 2018 to EUR 31.1 million at the end of 2019. The indicator of return to the average equity was 28.3% this year compared to 24.8% last year.

The indicators of capital adequacy were kept stable, where the total capital on risk-weighted assets was 15.7%, just like in 2018.
Investment in government securities and bonds issued by the Government of the Republic of Kosovo during 2019 increased by EUR 8.5 million, resulting in EUR 38.6 million at the end of 2019, compared to EUR 30.1 million at the end of 2018.

Even during 2019, BPB continued to increase the stability of funds by focusing on more stable and long-term deposits, as well as diversifying their structure by switching from higher value deposits from various institutions to smaller value deposits from private individuals and SMEs which are considered to be more sustainable and stable.

The bank's cooperation with international financial institutions such as the European Fund for Southeast Europe (EFSE) and the European Bank for Reconstruction and Development (EBRD) continued during 2019, when a new loan agreement was signed with EFSE in the amount of EUR 1.5 million, to support the individual loans and loans for small and medium-sized enterprises, as well as a loan agreement with the EBRD in the amount of EUR 1 million to support trade financing.

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BUSINESS CUSTOMERS AND PRIVATE INDIVIDUALS

During 2019, BPB has continued to develop and offer quality banking services to micro businesses, small and medium-sized enterprises (SMEs) and private individuals (PI) in order to support and further their development.

BPB pioneered the Financial Inclusion approach for businesses that do not receive services from banks such as: start-up businesses, including women in business, youth with innovative ideas, various projects in efficient and renewable energy, and marginalized groups of society. Apart from the financial inclusion of these groups, BPB has supported the financial education for these clients for credit and non-credit services. In this regard, BPB has demonstrated that it is the first bank and leading bank in support of customers who do not receive services from banks in Kosovo, giving added value to businesses and the local economy. The bank has financed customers with various projects and this portfolio has already exceeded the value of over EUR 100,000 with about 20 businesses financed. The Financial Inclusion approach will continue to develop and expand so as to support as many business in both financial and nonfinancial services.

Given our focus on expanding the range of products for business customers and meeting their needs, the bank has launched a new product, i.e. the Suppliers' Club, which is specifically designed to ease payments for businesses. Through this product, we have managed to, in addition to financing working capital, be also intermediaries for business customers by making them part of the suppliers' club in order to increase their supply network. We have managed to attract dozens of supplier customers in this ecosystem, which we strongly believe will have an impact on small businesses, knowing that with this product we have opened new opportunities for them to do business, an opportunity which is very easily accessible with very competitive conditions.

Consequently, the bank has signed an agreement with the European Bank for Reconstruction and Development (EBRD) in the amount of EUR 1 million, to launch in the market the newest product, the Cash Advance, which also aims to finance working capital with very favourable conditions to our customers. In this agreement, we have introduced for the first time in the market a new way of accessing finance, which was very much welcomed by business customers. This agreement is one of the many collaborations that BPB has with EBRD, and we are determined to continue expanding the range of services for our customers in the future. Specifically, this product will enable our customers to communicate with suppliers with the same facilities through the Trade Financing Program instead of communicating through Bank Guarantees, thus enabling them to send cash payments to sup-

pliers instead of documentary business, therefore benefiting from discounts on supply prices.
Also, during 2019, BPB Bank has managed to fully implement the SMEs Competitiveness Support Program, a further agreement signed with the EBRD. This EUR 5 million program aimed to increase the competitiveness of small and medium-sized enterprises in terms of environmental protection, occupational safety and product quality improvement. In addition to accessing finance under this program, our SME customers have benefited 15% of the loan amount in the form of a grant, which has been supported by the EU IPA (Instrument for Pre-Accession Assistance), managed by EUO/EUSR Kosovo, under the Kosovo SMEs Competitiveness Support Program of the EBRD. This fund was distributed to our customers who are engaged in various activities such as production, trade, services, health and who have benefited financially in the form of grants, but also professionally from EBRD consultants.

The bank will continue to support MSMEs and Agribusinesses, which have serious projects in expanding their capacity but do not have sufficient collateral coverage. As a result of this commitment, our Bank has continued to cooperate with the Kosovo Credit Guarantee Fund by increasing the limit for businesses and agribusinesses. Through this fund we have managed to finance a significant number of SMEs and agribusiness customers, who have had financing barriers due to lack of collateral. This financing within the KCGF has helped the businesses in question to expand their capacities and increase the number of employees, thus influencing the economic development of the country.

As far as the agribusiness sector is concerned, BPB has a special strategy given that it represents one of the main pillars of economic development which affects the increase of employment in the country. This sector accounts for over 10% of the country's GDP. During 2019, the Bank has expanded its staff capacity and has specifically provided banking services and products based on the needs of agribusinesses. In order to support agribusinesses, during 2019, the bank has continued to cooperate with key stakeholders such as MAFRD, various municipalities and other local and international organizations. We have reached a cooperation agreement with prestigious companies in Kosovo to provide farmers with financing opportunities with preferential interest rates for the purchase of new machinery and agricultural inputs in order to expand their business. Agribusiness credit portfolio has increased by 18.2% in 2019. The bank will continue to provide credit services and products based on the requests of agribusinesses in order to support development capacities.

As a result of this commitment to product diversification to meet the needs of our small and medium-sized business customers, in 2019, the bank has managed to continue with genuine growth in credit portfolio in the amount of 24.40 million EUR, where 63.70% of this increase comes from business customers, while 36.30% from private individuals.

In addition to expanding products and services for business customers, BPB has continued to focus on improving banking services and expanding the range of products for private individuals. One of the forms of support for private individuals is provided through the Green For Growth Fund which has helped our customers in financial education and efficient investments, thus affecting the reduction of costs of the customers and environmental protection on the other hand. Through this line only, the bank has managed to distribute over EUR 1 million of loans for home investments.

At the same time, BPB continues to bring innovations in terms of bank packages for private individuals. Our packages for private individuals are designed in such a way that they enable the customers to choose only those services that meet their needs. The bank has analysed in detail the needs of private individuals, and in order to meet these needs as much as possible, we have designed and implemented two types of packages that suit our entire customers' base.

Given our focus on raising the quality of new services and products which add value to our customers' daily business, we are in the process of finalizing credit scoring. This will enable private individuals to access individual loans quickly, enabling them to apply through alternative channels, which significantly contributes to

apply through alternative channels, which significantly contributes to improving the time of service to our private individuals. This process will be made possible both through the website and through our ATMs.
As a result of these achievements of BPB and our position in the market, the customers have increased their confidence in us. This has led to a steady increase by 32.4 million, respectively 14.6%, in the bank's deposits. This increase has been more than enough to track the increase of the credit portfolio while maintaining the deposit credit ratio at 73.82%. The increase in deposits is well diversified, where the increase in deposits in current accounts participate with 35.04% in total increase, long-term deposits participate with 57.2% in total increase while deposits in savings accounts participate with 7.4% in total increase. It should also be noted that this increase comes mainly from private individuals, which account for 76.47 % of total increase in deposits, while the rest comes from institutional customers with a participation of 22.85% in total increase and 0.68% from business customers.

Our bank continues to focus on setting up e-services by increasing efficiency and saving the time of our customers. In this regard, we have continued to add services to our e-banking and m-banking electronic platforms, which are very uder-friendly. The number of customers using the m-banking and e-banking platforms has increased by 65.04%. Furthemore, BPB is the first bank to launch the contactless card service in ATM, a service that makes it even easier for customers to execute daily transactions.
To improve the quality of staff, the bank has invested in various trainings, both in terms of customer care and sales, as well as in the field of risk and credit. Also, in order to increase the quality of services provided through the Call Centre, the responsible staff has been trained in order to provide in real time technical support and advice on the use and information on all banking services.
As a result of all the investments and achievements, BPB has been selected for the second time in a row the "Best Bank in the country" by the prestigious magazine "The Banker" published by the "Financial Times". The award won for the second time in a row reconfirms that our position in the market is stable and long-term.

The Banker

Bank of the Year 2019

KOSOVO

Banka për Biznes (BPB) fiton çmimin “The Banker” të ndarë nga prestigjiozja “Financial Times”, synojnë të jetë banka kryesore për ndërmarrjet e vogla

Banka për Biznes (BPB), edhe këtë vit sikundër edhe më herët, e ka fituar çmimin “The Banker”, të cilën e jep prestigjiozja “Financial Times”, vlerësim që i bëhet bankës më të mirë në treg, e kjo bazuar në disa parametra.

Zëvendësdrejtori i BPB-së, Artan Sadiku në një intervistë për Telegrafin ka thënë se çmimi “The Banker”, i ndarë për BPB-në këtë vit, është bazuar në parametra siç janë: orientimi (iniciativa) strategjik i bankës, gama e shërbimeve dhe produkteve, investimi në teknologji, si dhe përqindjet e rritjeve në krahasim me vitin paraprak.

“BPB banka më e mirë e vitit 2019 në Kosovë, fiton çmimin prestigjioz “The Banker” të Financial Times” / Kosovapress

BPB, banka më e mirë e vitit 2019 në Kosovë, fiton çmimin prestigjioz “The Banker” të Financial Times

Banka për Biznes sot ka njoftuar se për të dytën herë me radhë ka arritur të shpërblehet me çmimin e “The Banker” si Banka më e mirë e vitit në Kosovë për 2019, nga gazeta prestigjioze Financial Times, e cila e bën vlerësimin e sektorit global financiar që nga viti 1926. Arton Celina, drejtor ekzekutiv i Bankës për Biznes ka marrë çmimin e vlefshëm dhënë BPB-së për Kosovë në ceremoninë e madhe të ndarjes së çmimeve në Londër nga The Banker.

“BPB, banka më e mirë e vitit 2019 në Kosovë, fiton çmimin prestigjioz “The Banker” të Financial Times” / time.al

BPB-ja për herë të dytë shpallet banka më e mirë në Kosovë nga “The Banker”

Banka për Biznes (BPB) për të dytën herë ka fituar çmimin “The Banker” të ndarë nga prestigjiozja “Financial Times”, çmim ky që çdo vit i ndahet bankës më të mirë në treg.Zëvendësdrejtori i BPB-së, Artan Sadiku në një intervistë për Ekonomia Online ka përmendur disa nga parametrat kryesorë që e bënë këtë bankë të marrë këtë çmim.Orientimi (iniciativa) strategjik i bankës, gama e shërbimeve dhe produkteve, investimi në teknologji, si dhe përqindjet e rritjeve në krahasim me vitin paraprak, janë disa nga parametrat që e ia sollën BPB-së çmimin “The Banker”.

“The Banker” shpall BPB-në bankën më të mirë në Kosovë për vitin 2019”” / ekonomiaonline

BPB-ja mbështetës i fuqishëm për zhvillimin ekonomik dhe rritjen bizneseve

Zhvillimi i Bankës për Biznes (BPB) ka ndodhur për shkak të mbështetjes që banka i bën bizneseve të vogla dhe të mesme, si dhe lehtësisë dhe fleksibilitetit që ajo ua mundëson klientëve të saj në përgjithësi.

Andaj çmimi “The Banker” për Bankën për Biznes (BPB) është si rezultat i sukseseve të bankës në lehtësimin e kredive për ndërmarrjet e vogla dhe të mesme, që njihen si katalizatori kryesor i zhvillimit të ekonomisë së një shteti.

“BPB banka për herë të dytë fiton çmimin “The Banker” nga Financial Times” - KOHA

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RISK MANAGEMENT

The Risk Management Department has continued its commitment to risk management and the advancement of processes related to risk areas to ensure full compliance with CBK laws and regulatory requirements.

In 2019, the bank has fully implemented the IFRS 9 project, including the technical part, namely the application for calculating provisions automatically. The bank has developed and started the implementation of the application for managing the loan monitoring process automatically, as well as the monitoring of many lending activities and processes.

BPB has built models and methodology of the Internal Capital Adequacy Assessment Process (ICAAP) based on the new CBK regulation. In addition to the methodology, the level of additional capital has been determined and allocated for other risks which are not covered by the specific regulations of the CBK.

As a result of the improvement and automation of many processes, we have continued to maintain the quality of loans at satisfactory levels. This has also been influenced by the bank's business strategy and model for further credit diversification, where the bank's focus continues to be on financing and increasing individual loans and small businesses (Micro businesses and Agribusinesses), while not expanding to financing of large credit exposures.

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

Regarding liquidity risk management, the bank has continued to increase steady deposits, providing sufficient funds to support business growth and maintaining high levels of liquidity. In addition to increasing customer deposits, it has also continued its cooperation with the International Financial Institutions, providing additional funds through various credit lines.
Regarding the operational risk management, steps and measures have been undertaken to improve existing processes and increase controls, resulting in minimum operational financial losses.

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HUMAN RESOURCES

The implementation of the strategy and the growth of our bank in recent years has been made possible thanks to the commitment and productivity of the bank's employees who, by raising the quality of banking services and customer care, have made possible the implementation of the strategy and give us the opportunity to aspire for further growth and development.

The development of the bank in terms of Human Resources are supported by the dedicated team of Human Resources in cooperation with the Heads of Departments/Branch Managers ensuring the effective and successful development of the staff.
BPB closed 2019 with 366 employees, compared to 339 it had in 2018. Out of this number, 49% are female and 51% are male. The average age of staff for 2019 is 35, an indicator that shows that we have relatively young human capital.

In 2019, BPB undertook new initiatives and projects aimed at further advancing Human Resource practices and achieving the goal of always being the chosen Bank to work and develop.

BPB Juniors Program

Employment and youth development are on-going challenges in our country, especially in the banking sector. The cooperation of banks with universities and the identification of development needs in the banking sector are very important factors to help young people start their careers in this sector.
In this regard, we have contributed to the identification of students as well as their training and employment in the profiles that

are estimated to have potential. During the process of integration of young people, special attention was paid to their training on the ethics of work in the bank and the encouragement to bring innovative ideas for change, to then continue with specific training in various areas of the banking industry. Among other things, through the BPB Juniors Program, we have developed a genuine program on corporate social responsibility with a focus on students and their development, strengthening professional cooperation with universities.

BPB remains committed to the strategy of recruiting and preparing young people for the banking market, who contribute to change, building culture, reflect our future customers and diversify our Bank. During 2019, 16 students from the BPB Juniors 2 program have graduated and the BPB Junior 3 program has started with 21 students. The goal of the Program is to employ them in open junior-level positions. Through this program, the bank is committed to giving students the opportunity to be trained by professional staff with many years of experience in the banking system and to develop themselves in becoming successful bankers in the future.

Given that the main goal of the BPB Juniors Program is to prepare young people for the banking sector and engage them in various positions within the bank, the curriculum of this program is focused on imparting knowledge on the banking system but also in advancing the skills needed to be successful.

As a very important part of the BPB Juniors Program curriculum, students also have the chance to visit the most successful companies in the country to gain knowledge on the best practices of their operation, which serves them in their careers. As a very important part of regular visits is the visit to the Central Bank of Kosovo, where students gain knowledge about the role and responsibilities of the Central Bank in regulating the banking system in Kosovo.

Talent Management

BPB focuses on retaining talented employees and providing career and development opportunities. In 2019, we have taken the steps for identifying employees with potential and ambition for development, thus designing development and training programs. We have paid special attention to improving leadership skills, so that our employees are ready for advancement in managerial positions and management of staff towards change and the implementation of the bank's strategy. Moreover, our orientation towards talent retention and development contributes to operational stability by maintaining expertise, ensuring the continuous performance of the bank, as well as increasing the quality of delivered services through continuous investment in enhancing the skills and competencies of employees in various positions. So, during 2019, we have followed an active strategy of promoting and advancing staff within the bank, an approach which ensures that our employees have the opportunity to develop themselves within our bank and take more responsibility. Training and investment in specific areas of knowledge building are done continuously so that our employees follow the latest trends in innovation and the banking system.

Survey on staff job satisfaction

We try to improve the experience of our employees at work and support an open culture of communication and, in this regard, in 2019, various surveys have been conducted in order to obtain the opinion of our employees regarding their job satisfaction. The data from the surveys were analysed and, in cooperation with the direct supervisors, we continuously address the comments of the employees in order to have a better working environment for all employees.

BPB Career Platform

The BPB Career social network platform was created, whereby we will share with others the achievements and developments of our employees as well as various activities with them, in order for this platform to be a way of announcing on opportunities for development and inclusion that employees have within our bank.

New Head Office

BPB has moved to its state of the art the Head Office, providing employees with a better working environment with opportunities for teamwork, use of innovative spaces and training rooms. Moving to new spaces has influenced the motivation and engagement of employees, giving them more space for recreation and bringing new ideas to the bank.

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AML AND COMPLIANCE

AML (Anti-Money Laundering)

With regard to anti-money laundering, BPB applies best banking practices in order to be protected from the use of bank services and products for money laundering or terrorist financing activities. BPB supports the fight against money laundering and terrorist financing by applying the basic principle “Know Your Customer”, whereby the bank establishes banking relationships with those customers that it has managed to identify and verify, and therefore through the established relationships, the bank ensures that the activity of the customers is in accordance with the requirements and standards of the bank.

The bank’s objective and goal in anti-money laundering continues to be the increase of the efficiency of monitoring processes, services and reporting to relevant authorities, thus implementing the independence and responsibility of the bank’s Compliance Department. The Compliance Department for anti-money laundering and fighting terrorism monitors the implementation of legal and regulatory requirements in this area. BPB implements FATF’s risk assessment recommendations by analysing the risks arising from money laundering and the actions to be taken to prevent the use of the bank for these purposes. The bank also uses software that is constantly advancing to identify potentially suspicious risks. Another focus was to update all existing customer information to meet legal obligations.

Compliance

The Bank is committed to ensuring compliance with applicable laws and regulations and makes continuous efforts to apply best local and international compliance practices. Its business activities take place ethically, prioritizing the customer, establishing the business relationship under the unconditional application of the regulatory framework.

In BPB, compliance is organized as a separate function and is established at the top management level. This function helps the executive management in overseeing the overall compliance of the bank and keeps them informed and up to date on developments and/or best practices of compliance as well as reviews these developments and/practices for applicability in the bank. The Compliance Officer makes recommendations to the Managing Board on how to (further) develop and generally improve compliance with the CBK regulatory framework.

The entire framework of the BPB's internal documents has been created in the spirit of local and international applicable laws and rules, focusing on the requirements and responding to the various risks of compliance to which the Bank may be exposed.

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PRODUCT DEVELOPMENT AND INFORMATION TECHNOLOGY

Continuing the digital transformation of the bank and meeting the requests of customers following technological developments, during 2019, BPB has been focused on advancing electronic services, expanding the range of products and improving internal processes towards better fulfilment of customer needs.

In this regard, investments in the field of technology with direct impact on improving the quality of services, raising the level of security and advancing the performance of electronic channels have been further deepened, thus providing customers with additional opportunities for execution of transactions electronically, easily, securely, at any time and from any place.

The electronic banking platforms, e-banking and m-banking, set up on the most modern infrastructure, have been updated and further advanced in order to better translate the needs of customers into attractive and efficient services. The expansion of the range of services, the high quality of service and the increase of security of these platforms have directly influenced the increase of the level of usability, the independence of the customers in the management of financial transactions and the rational use of their time.

The extended ATM network has continued to provide customers with easy access to their funds, marking a tremendous increase in the number of withdrawals and deposits in their accounts. At the same time, BPB has been certified for issuing "contactless" cards and providing relevant services in ATMs, thus becoming the first bank in the market to offer "contactless" card services in the ATM fleet.

In the spirit of continuous service advancement and bringing innovation in the market, BPB is also the first bank in Kosovo to successfully implement the new SWIFT GPI standard, which enables the very fast execution of international transfers, brings full transparency in spending as well as enables full transfer tracking to the beneficiary bank. Through this standard, international transfers are carried out almost in real time, making the funds reach the beneficiary's account within just a few minutes.

The high performance of electronic channels, which allows customers to access their accounts and banking services 24 hours a day, 7 days a week, remains the primary focus during the bank's journey towards digital transformation.

In addition to these developments, the bank is strongly engaged in advancing internal processes, both in increasing the stability of key infrastructure and services as well as in automating and increasing operational efficiency. These developments create the preconditions for better and more professional support to internal users and customers and create space of bringing services at the highest level.

The creative and innovative use of technology towards meeting the customer needs in the most qualitative way and increasing efficiency will remain at the centre of investment and strategic initiatives of the bank in the coming period.

BPB

Banka e vendit tënd

SOCIAL RESPONSIBILITY

BPB is very invested in its role towards social responsibility. In line with our slogan, loosely translated to 'The bank of your country', BPB strives to increase the quality of living in the society within which it operates. Accordingly, each year, the bank dedicates an amount of both, time and money, to tackling topics that are of interest to society as a whole.

In 2019, BPB kept its CSR strategy focused on health of mothers and children, sports and education. Whilst we further developed our relationship with the leading NGO's in the country that tend the aforementioned groups, BPB also made direct investments in improving academic facilities around the country encapsulating all levels of academia. There were donations made to a kinder garden to develop their new, state of the art, facility, a school received a donation to build its laboratories and we've also helped the University of Pristina, the country's state university, to celebrate its 50th anniversary.

Sporting community also benefited from our CSR initiatives in the form of a partnership with Tennis Federation of Kosovo and the champions elect of the professional basketball league, KB Prishtina. BPB has helped organize a tournament held in the capital Pristina to help promote and attract young players to the sport of tennis. Furthermore, a local tennis team now has improved facilities that allow the sport to be played during the night hours, due to a modern lighting system made possible by our donation.

KB Prishtina was another major undertaking by BPB to further enhance the quality of basketball in Kosovo. We teamed up with the best team in the league after finding that we share common goals and values, and that is to be the best through hard work and dedication in our distinct field of operations.

BPB dhuron 30 drunjë në Ditën Ndërkombëtare të Tokës

Banka e vendit, mbështet kampionët e vendit.
BPB është sponzor krenar i KB Prishtina

BPB është sponsor krenar i eventit "Let's Dance"

BPB përkrahë shënimin e Ditës Ndërkombëare të Tenisit në Kosovë

BPB është përkrahës krenar i filmit 'Në mes/In between'.

'Autizmi flet' organizoj një aktivitet simbolik me moton 'Natyrënë autizëm'. Mes shumë miqve të organizatës dhe fëmijëve, ishte edhe BPB.

BPB pëkrahë eventin "Rising Stars".

BPB me donacion për çerdhen Yllkat

BPB

Banka e vendit tënd

BANKA PËR BIZNES SH.A.

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Banka për Biznes Sh.a.

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the ***Auditor's Responsibilities*** *for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

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

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

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

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

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

BDO

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, accounting and financial advisory
Prishtina, Kosovo

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

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

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

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

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

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

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

Arton Celina
Chief Executive Officer

Avni Berisha
Head of Finance Department

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

Banka për Biznes Sh.a.
Statement of Changes in Equity
For the year ended 31 December 2019

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

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

Banka për Biznes Sh.a.
Statement of Cash Flows
For the year ended 31 December 2019

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

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

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 per Biznes (the "Bank"). In 2006, the Bank was registered as a joint stock company ("Sh.a."). The Bank operates as a commercial and savings bank to all categories of customers within Kosovo through its network of 7 branches and 19 sub branches located throughout Kosovo (2018: 9 branches and 17 sub branches).

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

2. BASIS OF PREPARATION

2.1 Basis of accounting

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

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

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

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

2.2 Basis of measurement

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

2.3 New and amended standards and interpretations

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

2.3.1 IFRS 16 Leases

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

2. BASIS OF PREPARATION (CONTINUED)

2.3 New and amended standards and interpretations (continued)

2.3.1 Leases (continued)

Definition of a lease

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

As a lessee

As a lessee, the Bank leases branches and office premises. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.
At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.
However, for leases of branches and office premises the Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

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

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

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

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

As a lessor

The Bank does not lease any assets.

2. BASIS OF PREPARATION (CONTINUED)

2.3 New and amended standards and interpretations (continued)

2.3.1 Leases (continued)

Impact on financial statements

Impact on transition

On transition to IFRS 16, the Bank recognized additional right-of-use assets in the amount of EUR 2,843 thousand and additional lease liabilities in the amount of EUR 2,825.
When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019.

2.4 Functional and presentation currency

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

2.5 Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

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

2.6 Restatement of Financial Statements

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

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

(Amounts in thousands of EUR, unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

2.6 Restatement of Financial Statements (continued)

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

	As restated	Adjustments	As previously reported
Total assets	**205,514**	**(646)**	**206,160**
Loans and advances to customers	131,967	(584)	132,551
Other financial assets	70,371	(62)	70,433
Total liabilities	**185,026**	**(40)**	**185,066**
Deferred tax liability	84	(40)	**124**
Total equity	**20,488**	**(586)**	**21,094**
Accumulated profit	8,318	(606)	8,924
At 31 December 2018			
Total assets	**254,970**	**257**	**254,713**
Loans and advances to customers	158,106	257	157,849
Total liabilities	**229,191**	**(31)**	**229,160**
Deferred tax liability	90	31	59
Total equity	**25,779**	**226**	**25,553**
Accumulated profit	13,631	226	13,405

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Interest income and expense

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

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

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

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

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

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

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

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

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

b) Fees and commissions

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Fees and commissions (continued)

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

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

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

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

c) Lease payments

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

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

d) Tax expense

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Tax expense (continued)

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

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

(iii) Tax exposures

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

e) Foreign currency transactions

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

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

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

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

(i) Recognition

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

(ii) Classification

Financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Business model assessment

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Reclassifications

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

(iii) Derecognition

Financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(iii) Derecognition (continued)

Financial assets (continued)

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

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

(iv) Modifications of financial assets and financial liabilities

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

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

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

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

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

(vi) Amortized cost measurement

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

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

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

(viii) Identification and measurement of impairment

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

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

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

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

Measurement of ECLs

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

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(viii) Identification and measurement of impairment (continued)

- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Definition of default

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

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

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

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

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

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

Credit risk grades

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

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

Significant increase in credit risk

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

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

When performing this assessment, the Bank considers reasonable and supportable forward-looking and historical information for individual loans, or group of loans when reasonable and supportable information is not available on an individual basis. Measurement of the ECLs pattern reflects the general pattern of deterioration or improvement in the credit quality of financial instruments, expressed in terms of significant increase in credit risk.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

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

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

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

Determining whether credit risk has increased significantly

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

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

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

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

Grouping of loans

Collective assessment of PD

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(viii) Identification and measurement of impairment (continued)

Grouping of loans (continued)

Collective assessment of PD (continued)

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

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

Collective assessment of LGD

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

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

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

Modified financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(viii) Identification and measurement of impairment (continued)

Modified financial assets (continued)

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

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

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

Inputs into measurement of ECLs

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(viii) Identification and measurement of impairment (continued)

Inputs into measurement of ECLs (continued)

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

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

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

- instrument type; and
- credit risk grading.

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

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

Forward-looking information

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(viii) Identification and measurement of impairment (continued)

Forward-looking information (continued)

The base case represents a most-likely outcome and be aligned with information used by the Bank for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. The Bank also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.
The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include interest rates, unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years.

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

g) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognizes loans and advances, held-to-maturity and available-for-sale investments, deposits, borrowings and subordinated debt on the date that they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are recognized initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.
A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (continued)

(ii) Classification

Financial assets

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

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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

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

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

Financial liabilities

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

(iii) Derecognition

Financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (continued)

Financial liabilities

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

(iv) Amortized cost measurement

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

(v) Identification and measurement of impairment

Impairment of loans and advances

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (continued)

(v) Identification and measurement of impairment (continued)

The impairment loss is measured as follows:

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

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

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

Impairment of available-for-sale financial assets

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

h) Cash and cash equivalents

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

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

i) Deposits, borrowings and subordinated debt

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Repossessed assets

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

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

k) Property and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Property and equipment (continued)

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

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

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

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

l) Intangible assets

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

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

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

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

m) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or Amortization, if no impairment loss had been recognized.

n) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

p) Financial guarantees and loan commitments

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

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

q) Dividends

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

r) Equity reserves

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

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

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early. The most significant of these is 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		1,417
Increase in lease liabilities		1,415
Increase / (decrease) equity - retained earnings, net of deferred tax		-

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

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

5. USE OF ESTIMATES AND JUDGMENTS

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

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

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

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

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

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

(ii) the time value of money; and

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

b) Net realizable value of repossessed assets

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

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

b) Net realizable value of repossessed assets (continued)

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

Valuation techniques and significant unobservable inputs

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

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

c) Determining fair values

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

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

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

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

d) Disclosure and estimation of fair value

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

Financial instruments – fair value hierarchy

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

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5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value (continued)

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

Financial instruments – fair value hierarchy

Fair value for financial assets and liabilities above have been determined using Level 2 and Level 3 input described above.
Fair value estimates are based on existing financial instruments on the Bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Balances with banks

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

Treasury Bills

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

Bonds

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

Loans and advances to customers

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

(Amounts in thousands of EUR, unless otherwise stated)

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value (continued)

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

Due to customers, borrowings and subordinated debt

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

6. TRANSITION DISCLOSURES

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

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

	IAS 39		IFRS 9	
	Measurement category	**Carrying amount as of 31 December 2017**	**Measurement category**	**Carrying amount as of 1 January 2018**
Financial assets				
Cash on hand and at banks	Amortized cost (Loans and receivables)	17,833	Amortized cost	17,819
Balances with Central Bank of Kosovo	Amortized cost (Loans and receivables)	33,998	Amortized cost	33,968
Loans and advances to banks	Amortized cost (Loans and receivables)	1,450	Amortized cost	1,446
Investment securities	FVOCI (Available for sale)	17,152	FVOCI	17,138
Loans and advances to customers	Amortized cost (Loans and receivables)	132,551	Amortized cost	131,967
Non-financial assets				
Non-financial liabilities				
Provisions (financial guarantees)	Amortized cost (Loans and receivables)	(19)	Amortized cost	(13)
Deferred tax liability	Amortized cost	(124)	Amortized cost	(84)

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6. TRANSITION DISCLOSURES (CONTINUED)

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

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018 Restated
Amortized cost				
Cash on hand and at banks				
Opening balances under IAS 39 and closing balance under IFRS 9	17,833	-	-	17,833
Remeasurement: ECL allowance			(14)	(14)
Closing balance under IFRS 9	**17,833**	**-**	**(14)**	**17,819**
Balances with Central Bank of Kosovo				
Opening balances under IAS 39	33,998	-	-	33,998
Remeasurement: ECL allowance	-	-	(30)	(30)
Closing balance under IFRS 9	**33,998**	**-**	**(30)**	**33,968**
Loans and advances to banks				
Opening balances under IAS 39	1,450	-	-	1,450
Remeasurement: ECL allowance	-	-	(4)	(4)
Closing balance under IFRS 9	**1,450**	**-**	**(4)**	**1,446**
Loans and advances to customers				
Opening balance under IAS 39	132,551	-	-	132,551
Remeasurement: ECL allowance	-	-	(584)	(584)
Closing balance under IFRS 9	**132,551**	**-**	**(584)**	**131,967**
Total financial assets measured at amortized cost	-	-	(632)	185,200

(Amounts in thousands of EUR, unless otherwise stated)

6. TRANSITION DISCLOSURES (CONTINUED)

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

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018 Restated
Investment securities - Available for sale financial assets				
Investment securities - FVOCI (debt instruments)				
Opening balance under IAS 39	(17,152)	-	-	-
Subtraction: to FVOCI-debt instruments	-	17,152	(14)	17,138
Closing balance under IFRS 9	-	17,152	(14)	17,138
Total financial assets measured at FVOCI			**(14)**	**17,138**
Non-financial liabilities				
Provisions (financial guarantees)				
Opening balance	(19)		-	(19)
Remeasurement: ECL allowance	-		6	6
Closing balance under IFRS 9	(19)		6	**(13)**
Deferred tax liability				
Opening balance under IAS 39	(124)	-	**-**	(124)
Remeasurement: ECL allowance	-	-	40	40
Closing balance under IFRS 9	-	-	-	**(84)**
Total non - financial liabilities	-	-	**46**	**(97)**

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(Amounts in thousands of EUR, unless otherwise stated)

6. TRANSITION DISCLOSURES (CONTINUED)

c) Reconciliation of impairment loss

Measurement category	Loan loss allowance under IAS 39	Reclassification	Remeasurement	Loan loss allowance under IFRS 9 1 January 2018 Restated
Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9)				
Cash on hand and at banks	-	-	(14)	(14)
Balances with Central Bank of Kosovo	-	-	(30)	(30)
Loans and advances to banks	-	-	(4)	(4)
Loans and advances to customers	(3,994)	-	(584)	(4,578)
Total	**(3,994)**	**-**	**(632)**	**(4,626)**
Available for sale financial instruments (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Investment securities	**-**	**-**	(14)	**(14)**
Loan commitments and financial guarantee contracts				
Loans and advances to customers (loan commitments)	-	-	(34)	(34)
Provisions (loan commitments)	-	-	-	-
Provisions (financial guarantees)	(19)	-	6	(13)
Total	**(4,013)**		**(674)**	**(4,687)**

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

	Reserves and retained earnings
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	8,924
Reclassification adjustments in relation to adopting IFRS 9	-
Recognition of IFRS 9 ECLs including those measured at FVOCI	(674)
Deferred tax in relation to the above	67
Opening balance under IFRS 9 (1 January 2018)	**8,318**
Total change in equity due to adopting IFRS 9	**(606)**

(Amounts in thousands of EUR, unless otherwise stated)

7. INTEREST INCOME AND EXPENSES

Net interest income is composed as follows:

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

8. COMMISSION INCOME AND EXPENSES

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

9. OTHER INCOME

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

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10. OTHER OPERATING EXPENSES

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

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

Personnel expenses are details as follows:

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

11. INCOME TAX EXPENSE

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

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

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11. INCOME TAX EXPENSE (CONTINUED)

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

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

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

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

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

12. CASH ON HAND AND AT BANKS

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

Cash and cash equivalents consist of the following:

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

(Amounts in thousands of EUR, unless otherwise stated)

12. CASH ON HAND AND AT BANKS (CONTINUED)

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

	2019				2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	712	-	-	**712**	699	-	-	**699**
Good	20,905	-	-	**20,905**	17,997	-	-	**17,997**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**21,617**	**-**	**-**	**21,617**	**18,696**	**-**	**-**	**18,696**

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

	Gross carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2018	**17,833**	**-**	**(14)**	**-**	**17,819**
All transfers	-	-	-	-	**-**
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	863	-	(3)	-	**860**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change in profit and loss	**-**	**-**	**(3)**	**-**	**(3)**
As at 31 December 2018	**18,696**	**-**	**(17)**	**-**	**18,679**
All transfers	-	-	-	-	
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	2,921	-	-	-	**2,921**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change in profit and loss	**-**	**-**	**-**	**-**	**2,921**
As at 31 December 2019	**21,617**	**-**	**(17)**	**-**	**21,600**

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13. BALANCES WITH CENTRAL BANK OF KOSOVO

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

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

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

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

(Amounts in thousands of EUR, unless otherwise stated)

13. BALANCES WITH CENTRAL BANK OF KOSOVO (CONTINUED)

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

	Gross carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2018	**33,998**	**-**	**(30)**	**-**	**33,968**
All transfers:					
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	5,183	-	(5)	-	**5,178**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change in profit and loss	**-**	**-**	(5)	**-**	**(5)**
As at 31 December 2018	**39,181**	**-**	**(35)**	**-**	**39,146**
All transfers:					
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	2,888	-	(3)	-	**2,885**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change in profit and loss	**-**	**-**	(3)	**-**	**(3)**
As at 31 December 2019	**42,069**	**-**	**(38)**	**-**	**42,031**

14. LOANS AND ADVANCES TO BANKS

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

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

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO BANKS (CONTINUED)

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

	2019				2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	6,065	-	-	**6,065**	4,795	-	-	**4,795**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**6,065**	**-**	**-**	**6,065**	**4,795**	**-**	**-**	**4,795**

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

	Gross carrying amount		ECL		Total
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2018	**1,450**	-	**(4)**	-	**1,446**
All transfers:	-	-	-	-	**-**
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	3,345	-	(3)	-	3,342
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change in profit and loss	-	-	**(3)**	-	**(3)**
As at 31 December 2018	**4,795**	-	**(7)**	-	**4,788**
All transfers:	-	-	-	-	**-**
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	1,270	-	(5)	-	1,265
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change in profit and loss	-	-	**(5)**	-	**(5)**
As at 31 December 2019	**6,065**	-	**(12)**	-	**6,053**

(Amounts in thousands of EUR, unless otherwise stated)

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

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

During the year 2019 Bank has sold 7 financial instruments. Financial instruments were all sold with higher price compared to purchase price. The buyers of financial instruments were Central Bank of Kosovo and Kosovo Pension Savings Fund (KPSF). Gain was recognized through profit and loss in amount of EUR 1,003 thousand (2018: 7 thousand).
The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all are performing.

	2019				2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	38,677	-	-	**38,677**	30,163	-	-	**30,163**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**38,677**	-	-	**38,677**	**30,163**	-	-	**30,163**

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

	Gross carrying amount		ECL		Total
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2018	**17,152**	-	**(14)**	-	**17,138**
All transfers					
Derecognitions other than write-offs	(9,432)	-	-	-	**(9,432)**
New financial assets originated or purchased	22,443	-	(11)	-	**22,432**
Write-offs	-	-	-	-	**-**
Net change in profit and loss	-	-	**(11)**	-	**(11)**
As at 31 December 2018	**30,163**	-	**(25)**	-	**30,138**
All transfers					
Derecognitions other than write-offs	(17,445)	**-**	15	**-**	**(17,430)**
Repayments and change in cash flow	**-**	**-**	**-**	**-**	**-**
New financial assets originated or purchased	25,959	**-**	(21)	**-**	**25,938**
Write-offs	**-**	**-**	**-**	**-**	**-**
Net change in profit and loss	-	-	**(6)**	-	**(6)**
As at 31 December 2019	**38,677**	-	**(31)**	-	**38,646**

(Amounts in thousands of EUR, unless otherwise stated)

16. LOANS AND ADVANCES TO CUSTOMERS

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

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

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

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

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

The Bank manages individual counterparty exposures in order to be compliant with the rules of the Central Bank that require individual counterparty exposures not to exceed 15% of Tier I Capital (or EUR 29,720 thousand).

As at 31 December 2019 and 2018 there are no counterparty exposures above 15% of the limit. In addition, the cumulative exposure of the top 10 clients of the bank is EUR 11,897 thousenad or 6.3% of the loan portfolio (2018: EUR 9,754 thousand or 5.9%).

Gross carrying amount for total loans are, as follows:

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

(Amounts in thousands of EUR, unless otherwise stated)

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Total loans	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2019	**154,271**	**4,000**	**4,762**	**163,033**
Transfers:				
Transfer from Stage 1 to Stage 2	(1,871)	1,443	-	**(428)**
Transfer from Stage 1 to Stage 3	(619)	-	554	**(65)**
Transfer from Stage 2 to Stage 1	563	(776)	-	**(213)**
Transfer from Stage 2 to Stage 3	-	(1,256)	1,013	**(243)**
Transfer from Stage 3 to Stage 2	-	116	(186)	**(70)**
Transfer from Stage 3 to Stage 1	7	-	(17)	**(10)**
Derecognitions other than write-offs	(45,460)	(694)	(276)	**(46,430)**
Repayments and change in cash flow	(26,253)	(221)	(250)	**(26,724)**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	**-**
New loans originated or purchased	97,834	823	277	**98,934**
Write-offs	-	-	(319)	**(319)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2019	**178,472**	**3,435**	**5,558**	**187,465**

Total loans	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2018 Restated	**127,015**	**5,427**	**4,103**	**136,545**
Transfers:				
Transfer from Stage 1 to Stage 2	(1,639)	1,185	-	**(454)**
Transfer from Stage 1 to Stage 3	(720)	-	601	**(119)**
Transfer from Stage 2 to Stage 1	1076	(1,361)	-	**(285)**
Transfer from Stage 2 to Stage 3	-	(1,300)	987	**(313)**
Transfer from Stage 2 to Stage 3	-	168	(209)	**(41)**
Transfer from Stage 3 to Stage 1	202	-	(605)	**(403)**
Payments and assets derecognized other than write-offs	(35,302)	(1,066)	(199)	**(36,567)**
Repayment and change in cash flow	(21,510)	(310)	(226)	**(22,046)**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	**-**
New loans originated or purchased	85,149	1,257	417	**86,823**
Write-offs	-	-	(107)	**(107)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2018	**154,271**	**4,000**	**4,762**	**163,033**

(Amounts in thousands of EUR, unless otherwise stated)

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

(Amounts in thousands of EUR, unless otherwise stated)

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

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

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

(Amounts in thousands of EUR, unless otherwise stated)

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Non – retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2018 Restated	**72,038**	**5,144**	**3,810**	**80,992**
Transfers:				
Transfer from Stage 1 to Stage 2	(1,419)	1,003	-	**(416)**
Transfer from Stage 1 to Stage 3	(536)	-	445	**(91)**
Transfer from Stage 2 to Stage 1	996	(1,255)	-	**(259)**
Transfer from Stage 2 to Stage 3	-	(1,213)	915	**(298)**
Transfer from Stage 3 to Stage 2	-	163	(202)	**(39)**
Transfer from Stage 3 to Stage 1	187	-	(582)	**(395)**
Payments and assets derecognized other than write-offs	(26,173)	(1,037)	(166)	**(27,376)**
Repayments and change in cash flow	(12,940)	(287)	(199)	**(13,426)**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	**-**
New loans originated or purchased	55,227	1,220	401	**56,848**
Write-offs	-	-	(56)	**(56)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2018	**87,380**	**3,738**	**4,366**	**95,484**

Non – retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2019	271	566	3,712	**4,549**
Transfers:				**-**
Transfer from Stage 1 to Stage 2	(17)	154	-	**137**
Transfer from Stage 1 to Stage 3	(2)	-	159	**157**
Transfer from Stage 2 to Stage 1	4	(104)	-	**(100)**
Transfer from Stage 2 to Stage 3	-	(189)	554	**365**
Transfer from Stage 3 to Stage 2	-	8	(60)	**(52)**
Transfer from Stage 3 to Stage 1	-	-	(5)	**(5)**
Changes in PDs/LGDs/EADs	(82)	(39)	(31)	**(152)**
Derecognitions other than write-offs	(63)	(59)	(107)	**(229)**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	**-**
New loans originated or purchased	156	115	197	**468**
Write-offs	-	-	(207)	**(207)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**(4)**	**(114)**	**500**	**382**
ECL amount as at 31 December 2019	**267**	**452**	**4,212**	**4,931**

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16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

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

(Amounts in thousands of EUR, unless otherwise stated)

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2019	**66,891**	**262**	**396**	**67,549**
Transfers:				
Transfer from Stage 1 to Stage 2	(320)	264	-	**(56)**
Transfer from Stage 1 to Stage 3	(168)	-	149	**(19)**
Transfer from Stage 2 to Stage 1	55	(79)	-	**(24)**
Transfer from Stage 2 to Stage 3	-	(67)	54	**(13)**
Transfer from Stage 3 to Stage 2	-	51	(62)	**(11)**
Transfer from Stage 3 to Stage 1	5	-	(9)	**(4)**
Derecognitions other than write-offs	(12,451)	(31)	(29)	**(12,511)**
Repayments and change in cash flow	(10,236)	(22)	(18)	**(10,276)**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	**-**
New loans originated or purchased	31,815	65	12	**31,892**
Write-offs	-	-	(113)	**(113)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2019	**75,591**	**443**	**380**	**76,414**

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2018 Restated	**54,977**	**283**	**293**	**55,553**
Transfers:				
Transfer from Stage 1 to Stage 2	(220)	182	-	**(38)**
Transfer from Stage 1 to Stage 3	(184)	-	156	**(28)**
Transfer from Stage 2 to Stage 1	80	(106)	-	**(26)**
Transfer from Stage 2 to Stage 3	-	(86)	72	**(14)**
Transfer from Stage 3 to Stage 2	-	4	(7)	**(3)**
Transfer from Stage 3 to Stage 1	15	-	(23)	**(8)**
Derecognitions other than write-offs	(9,129)	(29)	(33)	**(9,191)**
Repayments and change in cash flow	(8,570)	(22)	(27)	**(8,619)**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	**-**
New loans originated or purchased	29,922	36	16	**29,974**
Write-offs	-	-	(51)	**(51)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2018	**66,891**	**262**	**396**	**67,549**

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16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

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16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Non-retail	Retail	Total
At 1 January 2018	**4,977**	**820**	**5,797**
Charge for the year	(461)	(45)	(506)
Amounts written off	(56)	(51)	(107)
At 31 December 2018	**4,460**	**724**	**5,184**
Restated balance under IFRS 9 at 1 January 2019	88	(345)	(257)
At 1 January 2019	**4,548**	**379**	**4,927**
Charge for the year	494	198	692
Amounts written off	(111)	(207)	(318)
At 31 December 2019	**4,931**	**370**	**5,301**

17. OTHER FINANCIAL ASSETS

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

18. INTANGIBLE ASSETS

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

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19. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Vehicles	Total
Cost						
At 1 January 2018	**683**	**947**	**517**	**1,440**	**750**	**4,337**
Additions during the year	-	255	181	1,142	176	1,754
Disposals during the year	-	(94)	(37)	(122)	(161)	(414)
At 31 December 2018	**683**	**1,108**	**661**	**2,460**	**765**	**5,677**
Additions during the year	-	318	193	288	29	828
Disposals during the year	-	(418)	(197)	(113)	(15)	(743)
At 31 December 2019	**683**	**1,008**	**657**	**2,635**	**779**	**5,762**
Accumulated depreciation						
At 1 January 2018	**7**	**608**	**484**	**1,040**	**473**	**2,612**
Charge for the year	25	152	66	280	72	595
Disposals for the year	-	(93)	(37)	(121)	(109)	(360)
At 31 December 2018	**32**	**667**	**513**	**1,199**	**436**	**2,847**
Charge for the year	32	173	84	384	82	755
Disposals for the year	-	(370)	(196)	(109)	(15)	(690)
At 31 December 2019	**64**	**470**	**401**	**1,474**	**503**	**2,912**
Carrying amounts						
At 31 December 2018	**651**	**441**	**148**	**1,261**	**329**	**2,830**
At 31 December 2019	**619**	**538**	**256**	**1,161**	**276**	**2,850**

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

Included in property and equipment as of 31 December 2019 are buildings with a carrying amount of EUR 619 thousand (2018: EUR 651 thousand) which represent repossessed collaterals and which management is using in its day to day activities.

Below are items of Property and Equipment that are fully depreciated but still in use as at 31 December 2019:

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

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20. OTHER ASSETS

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

20.1 REPOSSESED ASSETS

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

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

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

Movements in the values written down are as follows:

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

21. DUE TO CUSTOMERS

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

(Amounts in thousands of EUR, unless otherwise stated)

22. SUBORDINATED DEBT AND BORROWINGS

	2019	2018
Subordinated debt		
Blue Orchard	502	502
Individuals:		
Valon Budima	-	420
Armend Skeja	-	420
Total	**502**	**1,342**

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

During the year 2018, the Bank entered into a new subordinated loan agreement with Blue Orchard in amount of EUR 500 thousand. The loan bears interest rate of 6.5% per annum, payable on a semiannual basis, and the principal is payable in one single installment on December 12, 2026. As of 31 December 2019, the Bank is in compliance with financial covenants attached to the agreement with Blue Orchard.

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

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 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 31December 2019. The borrowing bears an interest rate of 1.7% and is repayable within six months.

During the year 2018, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total loan amount of EUR 5,000 thousand. The purpose is to help finance investments in micro, small and medium sized enterprises. The borrowing bears an interest rate of 2.6% annually and is repayable within four years. The interest is payable on semi-annual basis. Out of total loan amount of EUR 5,000 thousand, the amount of EUR 2,500 thousand remains unreceived as at 31 December 2018. The remaining portion of EUR 2,500 was received during 2019.

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22. SUBORDINATED DEBT AND BORROWINGS (CONTINUED)

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

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

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

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

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

23. OTHER LIABILITIES AND PROVISIONS

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

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23.1 PROVISIONS

The Bank acts as an agent for the transactions performed on behalf of government institutions with third parties. These include payments on behalf of the Ministry of Labor and Social Welfare and Ministry of Economy and Finance.
Other provisions include reserve for third-party active claims. Based on its policies and procedures, the bank determines in each quarter the current reserve through the reassessment of each claim individually.
Following is presented the movement of provision as of 31 December:

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

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

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

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

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

(Amounts in thousands of EUR, unless otherwise stated)

23. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

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

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

23. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

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

24. LEASES UNDER IFRS 16

Right-of-use assets and lease liabilities

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

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

The Bank recognized right of use assets as follows:

In thousands of EUR	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:

In thousands of EUR	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. SHAREHOLDER'S EQUITY AND RESERVES

Share capital

In accordance with Law no. 04/L-093 on "Banks, Microfinance Institutions and Non-Bank Financial Institutions", the minimum paid-in capital for domestic banks operating in Kosovo is EUR 7 million. At 31 December 2019, the subscribed capital was divided into 28,530 ordinary shares (2018: 28,530 ordinary shares) with a nominal value of EUR 394.2 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets. The structure of subscribed capital is as follows:

No.	Name of shareholder	2019		2018	
		%	EUR	%	EUR
1	Afrim Govori	21.27	2,392	21.27	2,392
2	Rrustem Aliaj	17.27	1,942	17.27	1,942
3	Shaqir Palushi	11.81	1,328	11.81	1,328
4	EBRD	10.00	1,125	10.00	1,125
5	Mejdi Rexhepi	9.35	1,052	9.35	1,052
6	Moneta sh.p.k	7.77	874	7.39	833
7	Nazmi Viça	6.89	775	6.89	775
8	Kareman Limani	4.85	545	4.85	545
9	Banka di Cividale	4.62	520	4.62	520
10	Ahmet Arifi	2.39	269	2.39	269
11	Ismet Sylejmani	1.90	214	1.90	214
12	Luani Limited	0.44	49	0.44	49
13	Sokol Krasniqi	0.38	42	0.38	42
14	Besnik Vrella	0.31	36	0.46	52
15	Naser Aliu	0.31	35	0.40	45
16	Agim Bilalli	0.31	35	0.40	45
17	Flamur Bryma	0.09	10	0.09	10
18	Naim Abazi	0.04	4	0.09	9
Total		**100.00**	**11,247**	**100.00**	**11,247**

Other capital reserve

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

Revaluation reserve

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

Earnings per share

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

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

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

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

Legal

The Bank is involved in routine legal proceedings in the ordinary course of business at 31 December 2019 and 2018. The Bank's management is of the opinion that no material losses will be incurred in relation to legal claims, except for those already provided for and recognized in profit or loss as disclosed in Note 24.

Lease commitments

For the lease commitments please refer to the Note 4.

27. FINANCIAL RISK MANAGEMENT

27.1 Introduction and overview

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

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

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

Risk management framework

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

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

The Bank, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations. The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by the Internal Audit Department. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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

27.2 Credit risk

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

***27.2* Credit risk (continued)**

Management of credit risk

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

Credit exposures larger than EUR 100 thousand and less than 10% of the Bank's Tier I Capital are approved by the Central Credit Committee, while exposures over 10% of the Bank's Tier I Capital are approved by the Board of Directors according to the Credit Risk Policy.

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

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

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

The Bank has followed the strategy of further diversification and growth in loan portfolio according to the defined segments of the loans, particularly in the individual loans segment - PI, the Micro and Agro segment and SME and Corporate loans segment. During 2019, the bank has made a significant increase in the credit portfolio both by volume and by number, and the increase was mainly due to the targeted loan segments, respectively the PI, Micro and Agro loans segment. To support the growth strategy in small loans, the bank has continued investing in technology and infrastructure, reviewing and improving processes to increase efficiency, and ensuring sustainable and controllable growth.

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

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

Business clients are segregated in three main segments; Micro, SME and Corporate. There is also a subcategory of agribusiness clients who are grouped as Agro clients, which are allocated according to the procedures of segregation between main sectors in Micro Agro and SME Agro.
Business clients are considered all types of customers who have their main source of income from business activity. Segregation between the business segments is based on the annual turnover. All business clients that have annual turnover up to EUR 500 thousand are considered as Micro clients. All business clients that have annual turnover from 501 thousand up to EUR 2 million are considered SME clients, while all business clients that have annual turnover above EUR 2 million are considered as corporate clients.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

Management of credit risk (continued)

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

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

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

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

The monitoring module covers the monitoring of financial exposures and will serve as an early warning system not only to manage and retain credited clients but also to prevent and foresee deteriorations of financial conditions of the clients.

Whereas arrears management module is developed to support the process of arrears management and collection by providing structured management of data, correspondences, alerts and notifications. These developments have enabled a holistic approach in credit risk management, monitoring and control.

In addition to the growth of the loan portfolio and the reduction of large exposures, the bank has continued with the further improvement of credit quality, regarding the loan quality indicator – Non-performing loans (NPL), while in 2018 it was 2.87%, in 2019 this indicator is 2.95%.

Regarding the improvement of loan quality, the bank has advanced the processes of managing the arrears and has increased the activities and commitments in debt collection, which have resulted that the net provision for this year to be negative. In this regard, during 2019, the bank has increased the number of outsource debt management companies, especially for old loans in Loss and Write off categories, mainly for the amounts up to EUR 10 thousand.

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

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

Management of credit risk (continued)

27.2.1 Impairment assessment (Policy applicable after 1 January 2018)

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

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

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

Main principles

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

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

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

The three stage model

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

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

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

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

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

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

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

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

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

Expected Credit Loss model

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

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

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

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

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

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

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

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

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

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

The Bank's internal rating and PD Estimation process

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

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

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

Rating	Rating IFRS 9	Outstanding 31 December 2018 Restated	ECL 31 December 2018 Restated	Average of 12-month PD	Average of LGD
Standard grade	A0	147,730	286	0.7%	36.9%
Standard grade	A1	6,541	87	4,3%	40.4%
Watch grade	B	1,917	190	24,3%	42.9%
Substandard grade	C	2,083	408	55.8%	43.4%
Default	Default	4,762	3,956	100%	67.1%
Grand Total		**163,033**	**4,927**	**2.8%**	**37.5%**

Forborne and modified loans

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

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

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

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

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

Forborne and modified loans (continued)

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

31 December 2019	Gross carrying amount	Stage 2 Permanent modification to T&Cs	Stage 2 Total performing forborne loans	Stage 3 Permanent modification to T&Cs	Stage 3 Total nonperforming forborne loans	Total forborne loans	Forbearance ratio
Due from banks	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
Non retail loans	111,051	188	188	189	189	377	0.34%
Retail loans	76,414	37	37	12	12	50	0.06%
Total loans and advances to customers	**187,465**	**225**	**225**	**201**	**201**	**427**	**0.23%**

31 December 2019	Gross amount of forborne loans			ECLs of forborne loans		
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
Due from banks	-	-	-	-	-	-
Loans and advances to customers						
Non retail loans	188	189	**377**	36	164	**200**
Retail loans	37	13	**50**	4	7	**11**
Total loans and advances to customers	**225**	**202**	**427**	**40**	**171**	**211**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

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

Forborne and modified loans (continued)

The following tables provide a summary of the Bank's forborne assets as of 31 December 2018

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

31 December 2018 Restated	**Gross amount of forborne loans**			**ECLs of forborne loans**		
	Stage 2	**Stage 3**	**Total**	**Stage 2**	**Stage 3**	**Total**
Due from banks	-	-	-	-	-	-
Loans and advances to customers						
Non Retail loans	909	32	**941**	178	12	**190**
Retail loans	2	8	**10**	-	4	**4**
Total loans and advances to customers	**911**	**40**	**951**	**178**	**16**	**194**

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

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

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

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

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

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

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

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

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

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

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

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

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

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.2 Analysis of credit quality

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2019 and 2018, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	Cash and balances with banks and CBK		Financial assets at fair value through OCI		Loans and advances to customers		Other financial assets		Financial guarantees	
	2019	**2018**	**2019**	**2018**	**2019**	**2018 Restated**	**2019**	**2018**	**2019**	**2018 Restated**
Maximum exposure to credit risk										
Carrying amount	63,631	57,825	38,646	30,138	182,164	158,106	206	378	-	-
Amount committed/guaranteed	-	-	-	-	-	-	-	-	9,401	8,748
	63,631	**57,825**	**38,646**	**30,138**	**182,164**	**158,106**	**206**	**378**	**9,401**	**8,748**
At amortized cost										
Stage 1	63,686	57,877	38,677	30,163	178,472	154,271	206	378	-	-
Stage 2	-	-	-	-	3,435	4,000	-	-	-	-
Stage 3	-	-	-	-	5,558	4,762	-	-	-	-
POCI	-	-	-	-	-	-	-	-	-	-
Total	**63,686**	**57,877**	**38,677**	**30,163**	**187,465**	**163,033**	**206**	**378**	-	-
Allowance for impairment (individual and collective)	(55)	(52)	(31)	(25)	(5,301)	(4,927)	-	-	-	-
Net carrying amount	**63,631**	**57,825**	**38,646**	**30,138**	**182,164**	**158,106**	**206**	**378**	**-**	**-**
Off balance: maximum exposure										
Credit commitments: Low - fair risk	-	-	-	-	-	-	-	-	7,508	6,774
Financial guarantees: Low - fair risk	-	-	-	-	-	-	-	-	1,893	1,974
Total committed/guaranteed	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,401**	**8,748**
Provisions recognized as liabilities	-	-	-	-	-	-	-	-	(16)	(35)
Total exposure	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,385**	**8,713**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.2 Analysis of credit quality (continued)

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2019 and 2018, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	2019			2018 Restated		
Loans and advances to customers	**Retail**	**Corporate**	**Total loans**	**Retail**	**Corporate**	**Total loans**
Total gross amount	76,414	111,051	187,465	67,549	95,484	163,033
Allowance for impairment (individual and collective)	(370)	(4,931)	(5,301)	(379)	(4,548)	(4,927)
Net carrying amount	**76,044**	**106,120**	**182,164**	**67,170**	**90,936**	**158,106**
At amortized cost						
Stage 1	75,591	102,881	178,472	66,891	87,380	154,271
Stage 2	443	2,992	3,435	262	3,738	4,000
Stage 3	380	5,178	5,558	396	4,366	4,762
POCI	-	-	-	-	-	-
Total gross	**76,414**	**111,051**	**187,465**	**67,549**	**95,484**	**163,033**
Stage 1	(80)	(267)	(347)	(102)	(270)	(372)
Stage 2	(45)	(452)	(497)	(33)	(566)	(599)
Stage 3	(245)	(4,212)	(4,457)	(244)	(3,712)	(3,956)
POCI	-	-	-	-	-	-
Total allowance for impairment	**(370)**	**(4,931)**	**(5,301)**	**(379)**	**(4,548)**	**(4,927)**
Loans with renegotiated terms						
Carrying amount	105	4,647	4,752	95	5,455	5550
From which: Impaired	26	2,562	2,588	22	2,206	2,227
Allowance for impairment	(20)	(2,390)	(2,410)	(15)	(2,272)	(2,287)
Net carrying amount	**85**	**2,257**	**2,342**	**80**	**3,183**	**3,263**

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.2 Analysis of credit quality (continued)

Impaired loans

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

Individual and collective assessment of loan portfolio

For internal management purpose, the Bank segregates the loans into loans that are assessed individually for impairment: these are loans that are classified as Stage 3 and with exposure above EUR 100 thousand. All other loans are analyzed collectively for impairment assessment purposes.

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

Write-off policy

The Bank writes off a loan (and any related allowances for impairment), in accordance with the regulations of Central Bank of Kosovo for write off. The total amount written off during 2019 is EUR 319 thousand (2018: EUR 107 thousand).

Due from banks

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

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.2 Analysis of credit quality (continued)

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

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

Lending commitments and financial guarantees

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

Risk limit control and mitigation policies

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

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

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

Collateral held and other credit enhancements, and their financial effect

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

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

Loans and advances to customers	Maximum exposure to credit risk	Property	Cash Collateral	Equipment	Total collateral used	Surplus collateral	Net uncollaterized exposure
31 December 2019	187,465	285,252	4,564	96,705	134,008	(199,056)	53,457
31 December 2018 Restated	163,033	273,147	5,180	79,071	109,771	(194,365)	53,262

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.3 Concentration of credit risk

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

	Cash and balances with Banks and CBK		Loans and advances to banks		Financial assets at fair value through OCI		Loans and advances to customers		Other financial assets		Financial guarantees	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018 Restated**	**2019**	**2018**	**2019**	**2018 Restated**
Concentration by sector												
Corporate	-	-	-	-	-	-	106,120	90,936	-	-	9,401	8,748
Banks	63,631	57,825	6,053	4,788	38,646	30,138		-	-	-	-	-
Retail	-	-	-	-	-	-	76,044	67,170	206	378	-	-
Total	**63,631**	**57,825**	**6,053**	**4,788**	**38,646**	**30,138**	**182,164**	**158,106**	**206**	**378**	**9,401**	**8,748**
Concentration by location												
EU countries	4,299	3,038	10	10	-	-	-	-	-	-	-	-
Republic of Kosovo	58,822	54,571	6,043	4,778	38,646	30,138	182,164	158,106	206	378	9,401	8,748
Other countries	510	216	-	-	-	-	-	-	-	-	-	-
Total	**63,631**	**57,825**	**6,053**	**4,788**	**38,646**	**30,138**	**182,164**	**158,106**	**206**	**378**	**9,401**	**8,748**

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk

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

27.3.1 Interest rate risk

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

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

The results from these scenarios are reported on a monthly basis to bank's Liquidity Risk Management Committee ("LRMC") and on quarterly basis to Risk Committee on board level. As a result, bank's exposure to interest rate risk remains in line with bank's risk profile and within internal and regulatory limits as set by the CBK.
The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2019 and 2018 are as follows:

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

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

2019	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(682)	682	869	(869)
2018	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(605)	605	734	(734)

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

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

31 December 2019		Up to 1 month	1-3 Month	3-6 Month	6-12 Month	Over 1 year	Total
Assets							
Cash on hand and at banks							
Non-interest bearing		18,369	-	-	-	-	**18,369**
Interest bearing	*Fixed*	3,231	-	-	-	-	**3,231**
Balances with CBK							
Non-interest bearing		42,031	-	-	-	-	**42,031**
Loans and advances to banks							
Interest bearing	*Fixed*	-	-	-	6,043	10	**6,053**
Investment securities							
Interest bearing	*Fixed*	12,280	2,988	-	101	23,277	**38,646**
Loans to customers							
Interest bearing	*Fixed*	7,233	10,638	14,603	34,994	113,594	**181,062**
Other financial assets							
Non-interest bearing		206	-	-	-	-	**206**
Total		**83,350**	**13,626**	**14,603**	**41,138**	**136,881**	**289,598**
Liabilities							
Deposits from customers							
Interest bearing	*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*	823	566	80	1,017	3,848	**6,334**
Other liabilities							
Non-interest bearing		1,778	-	-	-	-	**1,778**
Total		**134,014**	**9,335**	**11,705**	**57,076**	**50,439**	**262,569**
Gap		**(50,664)**	**4,291**	**2,898**	**(15,938)**	**86,442**	**27,029**
Cumulative gap		**(50,664)**	**(46,373)**	**(43,475)**	**(59,413)**	**27,029**	

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

31 December 2018 Restated		Up to 1 month	1-3 Month	3-6 Month	6-12 Month	Over 1 year	Total
Assets							
Cash on hand and at banks							
Non-interest bearing		15,985	-	-	-	-	**15,985**
Interest bearing	*Fixed*	697	1,997	-	-	-	**2,694**
Balances with CBK							
Non-interest bearing		39,146	-	-	-	-	**39,146**
Loans and advances to banks							
Interest bearing	*Fixed*	-	-	998	3,780	10	**4,788**
Investment securities							
Interest bearing	*Fixed*	50	100	250	-	29,738	**30,138**
Loans to customers-restated							
Interest bearing	*Fixed*	4,792	10,539	14,970	29,318	97,680	**157,299**
Other financial assets							
Non-interest bearing		378	-	-	-	-	**378**
Total		**61,048**	**12,636**	**16,218**	**33,098**	**127,428**	**250,428**
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	20,632	6,288	6,997	42,315	46,137	**122,369**
Non-interest bearing		99,224	-	-	-	-	**99,224**
Subordinated debt							
Interest bearing	*Fixed*	-	-	42	-	1,300	**1,342**
Borrowings							
Interest bearing	*Variable*	158	313	455	613	2,746	**4,285**
Other liabilities							
Non-interest bearing		1,399	-	-	-	-	**1,399**
Total		**121,413**	**6,601**	**7,494**	**42,928**	**50,183**	**228,619**
Gap		**(60,365)**	**6,035**	**8,724**	**(9,830)**	**77,245**	**21,809**
Cumulative gap		**(60,365)**	**(54,330)**	**(45,606)**	**(55,436)**	**21,809**	

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.2 Exposure to currency risk

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

Exposure to currency risk is discussed and reported on monthly basis to liquidity and market risk committee. The foreign currencies the Bank deals with, are predominantly United States Dollars (USD), Swiss Franc (CHF) and Great Britain Pounds (GBP). The rates used for translation as at 31 December 2019 and 2018 are as follows:

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

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

in thousands of EUR	USD		CHF		GBP	
	2019	2018	2019	2018	2019	2018
Sensitivity rates	5%	5%	5%	5%	5%	5%
Profit or loss						
+5% of Euro	(16.83)	12.23	(18.57)	12.89	1.04	0.90
- 5% of Euro	16.83	(12.23)	18.57	(12.89)	(1.04)	(0.90)

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

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.2 Exposure to currency risk (continued)

31 December 2018 Restated	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Financial assets					
Cash on hand and at banks	15,812	1,359	1,490	18	**18,679**
Balances with CBK	39,146	-	-	-	**39,146**
Available-for-sale investments	30,138	-	-	-	**30,138**
Loans and advances to banks	3,013	-	1,775	-	**4,788**
Loans and advances to customers-restated	158,106	-	-	-	**158,106**
Other financial assets	378	-	-	-	**378**
Total financial assets	**246,593**	**1,359**	**3,265**	**18**	**251,235**
Financial Liabilities					
Due to customers	217,472	1,114	3,007	-	**221,593**
Subordinated debt	1,342	-	-	-	**1,342**
Borrowings	4,285	-	-	-	**4,285**
Other liabilities	1,399	-	-	-	**1,399**
Total financial liabilities	**224,498**	**1,114**	**3,007**	-	**228,619**
Net foreign currency position	**22,095**	**245**	**258**	**18**	**22,616**

27.4 Liquidity risk

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

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. For this purpose, on daily basis the bank monitors its liquidity position and market conditions. Moreover, continuously assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

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

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

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.4 Liquidity risk (continued)

27.4.1 Management of liquidity risk

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

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

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.4 Liquidity risk (continued)

27.4.1 Management of liquidity risk (continued)

31 December 2018 Restated	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 12 Months**	**Total**
Financial assets						
Cash on hand and at banks	16,683	1,996	-	-	-	**18,679**
Balances with CBK	39,146	-	-	-	-	**39,146**
Loans and advances to banks	-	-	998	3,780	10	**4,788**
Loans and advances to customers-restated	4,880	10,581	15,105	29,432	98,108	**158,106**
Available-for-sale financial assets	50	100	250	-	29,738	**30,138**
Other financial assets	378	-	-	-	-	**378**
Total	**61,137**	**12,677**	**16,353**	**33,212**	**127,856**	**251,235**
Financial liabilities						
Due to customers	119,857	6,288	6,996	42,315	46,137	**221,593**
Subordinated debt	-	-	42	-	1,300	**1,342**
Borrowings	158	313	455	613	2,746	**4,285**
Other liabilities	1,399	-	-	-	-	**1,399**
Guarantees issued-restated	331	12	44	64	1523	**1,974**
Unused credit commitments-restated	6,774	-	-	-	-	**6,774**
Total	**128,519**	**6,613**	**7,537**	**42,992**	**51,706**	**237,367**
Liquidity gap	**(67,382)**	**6,064**	**8,816**	**(9,780)**	**76,150**	**13,868**

27.5 Operational risk

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

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

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.5 Operational risk (continued)

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

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

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

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

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

27.6 Capital risk management

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

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

Regulatory capital

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

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.6 Capital risk management (continued)

Risk-Weighted Assets (RWAs)

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

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

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

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28. RELATED PARTY TRANSACTIONS

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

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

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

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

Loans to related parties are given at commercial terms.

	2019	2018
Loans to shareholders, gross	1,290	2,809
Allowance for impairment	(87)	(41)
Total Loans to shareholders, net	**1,203**	**2,768**
Cash collateral	(647)	(2,686)
Net exposure to shareholders	**556**	**82**

	2019	2018
Loans to management and BoD members, gross	142	160
Loans to management, net	**142**	**160**
Cash collateral	(35)	(33)
Net exposure to management	**107**	**127**

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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 subordinated debt from EBRD	132	36
Key management compensation	403	372
Board of director's compensation	56	42
Total expenses	**591**	**450**

29. SUBSEQUENT EVENTS

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

The impact of COVID-19 to the Bank

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

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

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

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