



2019
ANNUAL REPORT

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Message from the Board of Directors

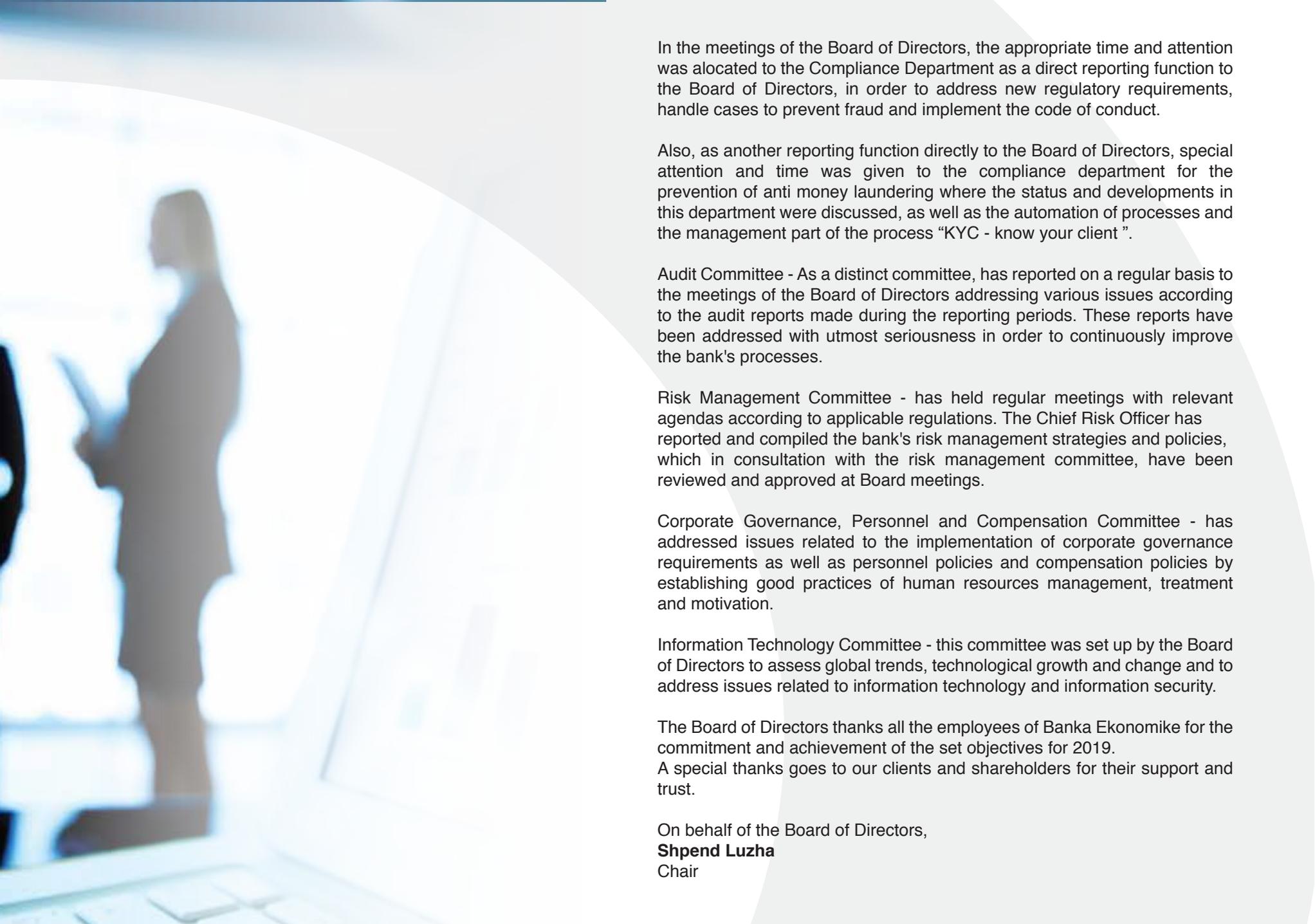
Dear Ladies and Gentlemen,

Year 2019 has been transformative for Banka Ekonomike in adapting and setting of long term strategic objectives. Based on the approved strategy, the Bank has focused and invested the necessary resources in the development of new services and products in accordance with the needs of our customers. Significant investments have also been made in the digitalization and modernization of the infrastructure to enable the transformation of Bank's operating model and performance improvement.

In terms of results and financial indicators, the Board of Directors is pleased to present the positive results achieved by the Banka Ekonomike for 2019. The results show the increase in the Bank's performance and the ability of our employees to implement the strategy efficiently in a highly competitive and challenging market.

The Board of Directors performs duties set forth by the Law on Banks, Microfinance Institutions and Non-Bank Financial Institutions, as well as other legal and regulatory requirements.

During 2019, the Board of Directors held scheduled and extraordinary meetings as needed, in order to monitor policy monitoring and implementation of the bank's strategy. Also, in the meetings of the Board of Directors, other topics related to management in general, corporate culture in the bank, coordination and control, compensation practises system were discussed and decided. On the Board of Directors meetings on regular bases reports on: financial development, financial statements, bank risk, liquidity and capital management, appropriate technical and organizational resources were discussed and reported on. As the Board of Directors in cooperation with the Executive and Senior management we have implemented policies and decisions of essential importance for the bank.



In the meetings of the Board of Directors, the appropriate time and attention was allocated to the Compliance Department as a direct reporting function to the Board of Directors, in order to address new regulatory requirements, handle cases to prevent fraud and implement the code of conduct.

Also, as another reporting function directly to the Board of Directors, special attention and time was given to the compliance department for the prevention of anti money laundering where the status and developments in this department were discussed, as well as the automation of processes and the management part of the process “KYC - know your client ”.

Audit Committee - As a distinct committee, has reported on a regular basis to the meetings of the Board of Directors addressing various issues according to the audit reports made during the reporting periods. These reports have been addressed with utmost seriousness in order to continuously improve the bank's processes.

Risk Management Committee - has held regular meetings with relevant agendas according to applicable regulations. The Chief Risk Officer has reported and compiled the bank's risk management strategies and policies, which in consultation with the risk management committee, have been reviewed and approved at Board meetings.

Corporate Governance, Personnel and Compensation Committee - has addressed issues related to the implementation of corporate governance requirements as well as personnel policies and compensation policies by establishing good practices of human resources management, treatment and motivation.

Information Technology Committee - this committee was set up by the Board of Directors to assess global trends, technological growth and change and to address issues related to information technology and information security.

The Board of Directors thanks all the employees of Banka Ekonomike for the commitment and achievement of the set objectives for 2019. A special thanks goes to our clients and shareholders for their support and trust.

On behalf of the Board of Directors,
Shpend Luzha
Chair



Message from the Chief Executive Officer

Dear Colleagues, Clients and Shareholders of Banka Ekonomike,

As the Chief Executive Officer of Banka Ekonomike, I have the special pleasure to share with you the most successful year of Banka Ekonomike, since its establishment.

A success like this, of course, could not be achieved without a team of wonderful professionals, whom we have built together, without our loyal customers and without the unreserved support of shareholders and the board of directors of Banka Ekonomike, therefore I want to express my highest gratitude and thanks to all of you.

The objectives we had set were quite challenging and required an extraordinary dynamic and commitment from each of us, but, with the extraordinary commitment of all of us, we succeeded.

The macroeconomic environment in Kosovo continues to be better than in many Southeast European countries, with an increase in Gross Domestic Product of about 4.2 percent, thus contributing to economic growth and financial stability.

5.95 million euros is the pre-tax profit of Banka Ekonomike for 2019, the highest figures to date. With a measured and reasonable approach, we have increased the number of loans in all segments, increasing our loan portfolio by 37.6 million euros, an increase of 21.1 percent. As a result of our careful approach and the

highest level of customer service, we have achieved significant results in the quality of our portfolio, reducing the level of non-performing loans to the lowest over the years, 2.31 percent.

Another direction in which we have worked carefully are the deposits, which reached the highest level ever, at 284.8 million euros, marking an increase of 13.8 percent. This increase in deposits is a clear example of the trust that customers have in Banka Ekonomike and their satisfaction with our products and services. Liquidity risk has been treated with added caution, with the ratio between credit exposures and deposits at 75.75 percent.

2019 has been a year of multidimensional development and advancement for Banka Ekonomike. In addition to financial performance, we have achieved many other achievements, such as further improving the service process to our customers - in this regard we have established the service for VIP customers, where customers of this category will have special service packages with all banking products and services.

In terms of improving the network infrastructure of branches and self-service spaces, we have redesigned the branch in Pristina, the sub-branch in Kaçanik, we have relocated the branch in Ferizaj and the business center in Prishtina which already offers one of the most modern facilities in the banking industry for all customers: Individual, VIP, micro, agro, leasing and corporation. We have also opened a new sub-branch in Obiliq.

Numerous projects and initiatives have been undertaken and implemented during this year. Here are just a few of them: IT outsourcing, successful implementation of office 365, successful delivery of contactless cards, initiative and documentation of processes towards changing the basic banking system and many other projects and initiatives.

Fatos Krasniqi
Chief Executive Officer

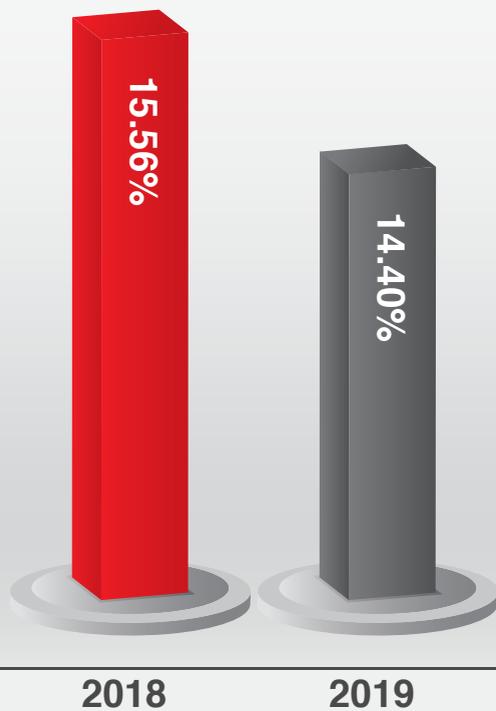


Hamide Pacolli Gashi
Deputy Chief Executive Officer

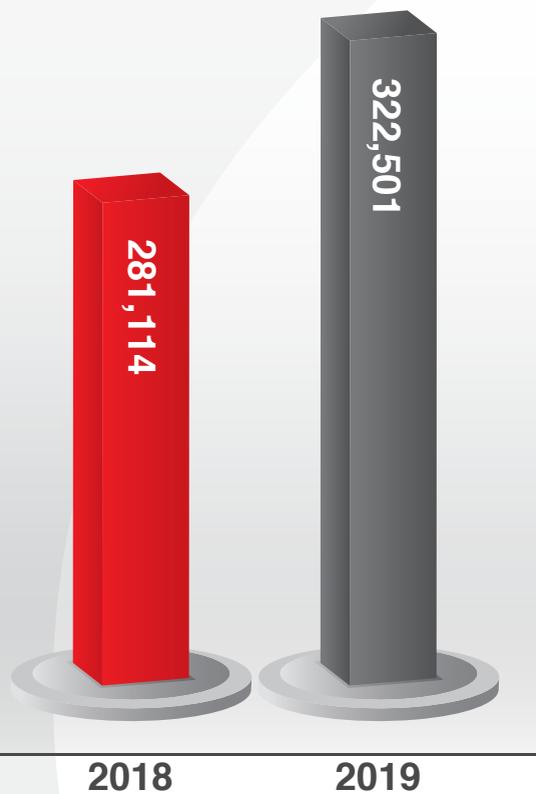


Arijan Haxhibeqiri
Deputy Chief Executive Officer

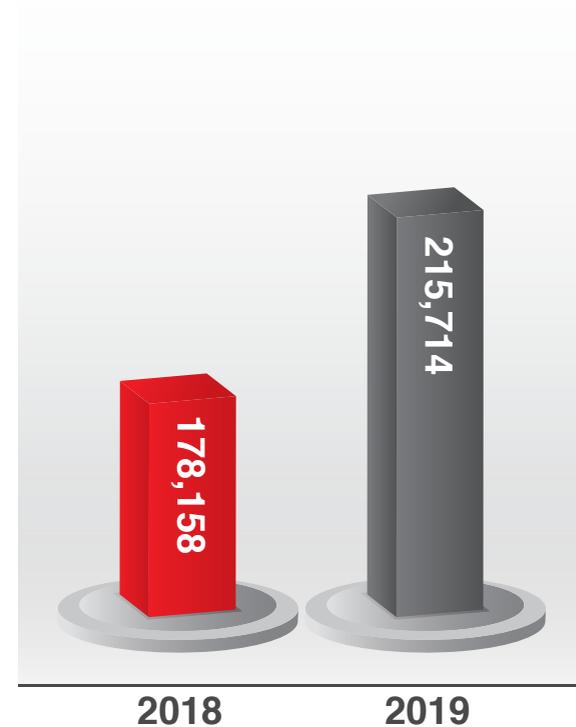
The capital adequacy ratio



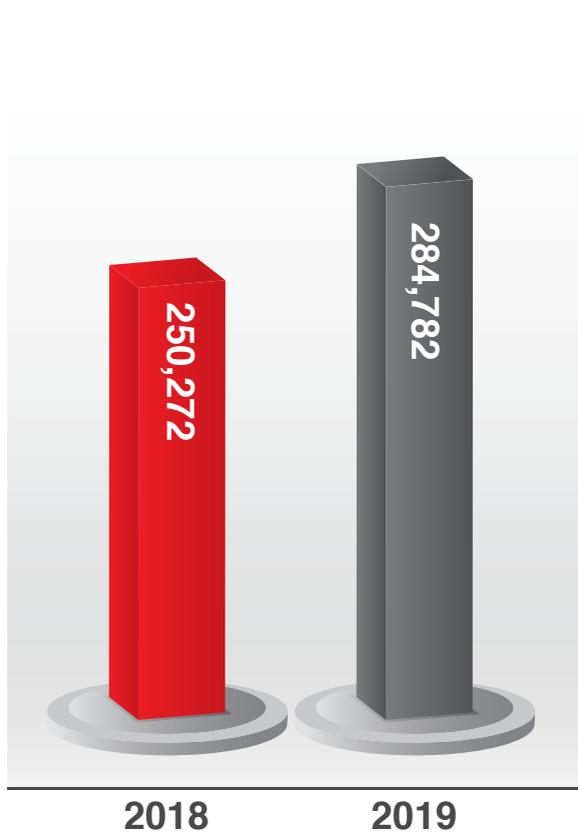
Assets (in million EURO)



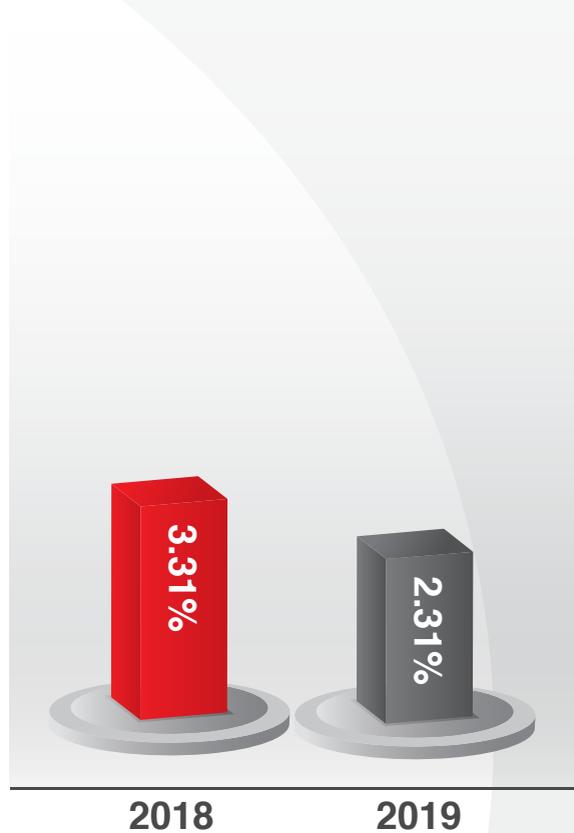
Loans (in EURO million)



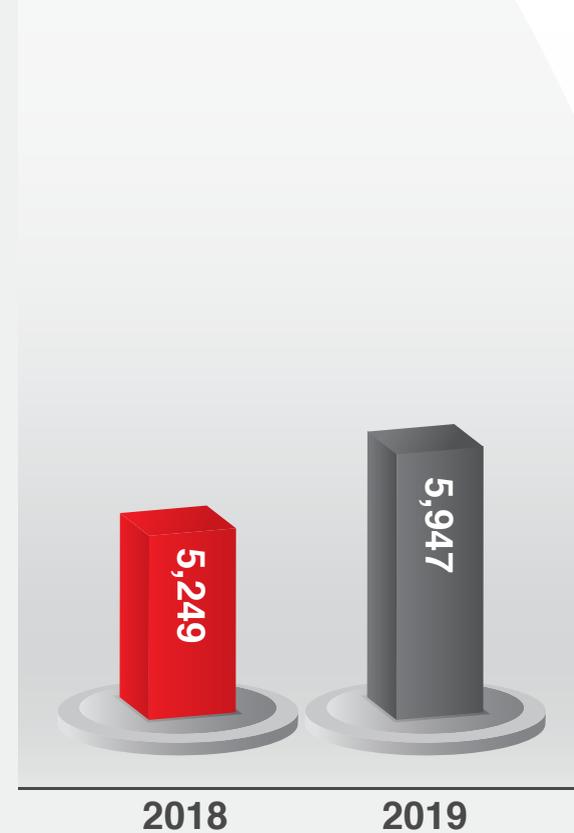
Deposits (in EURO million)

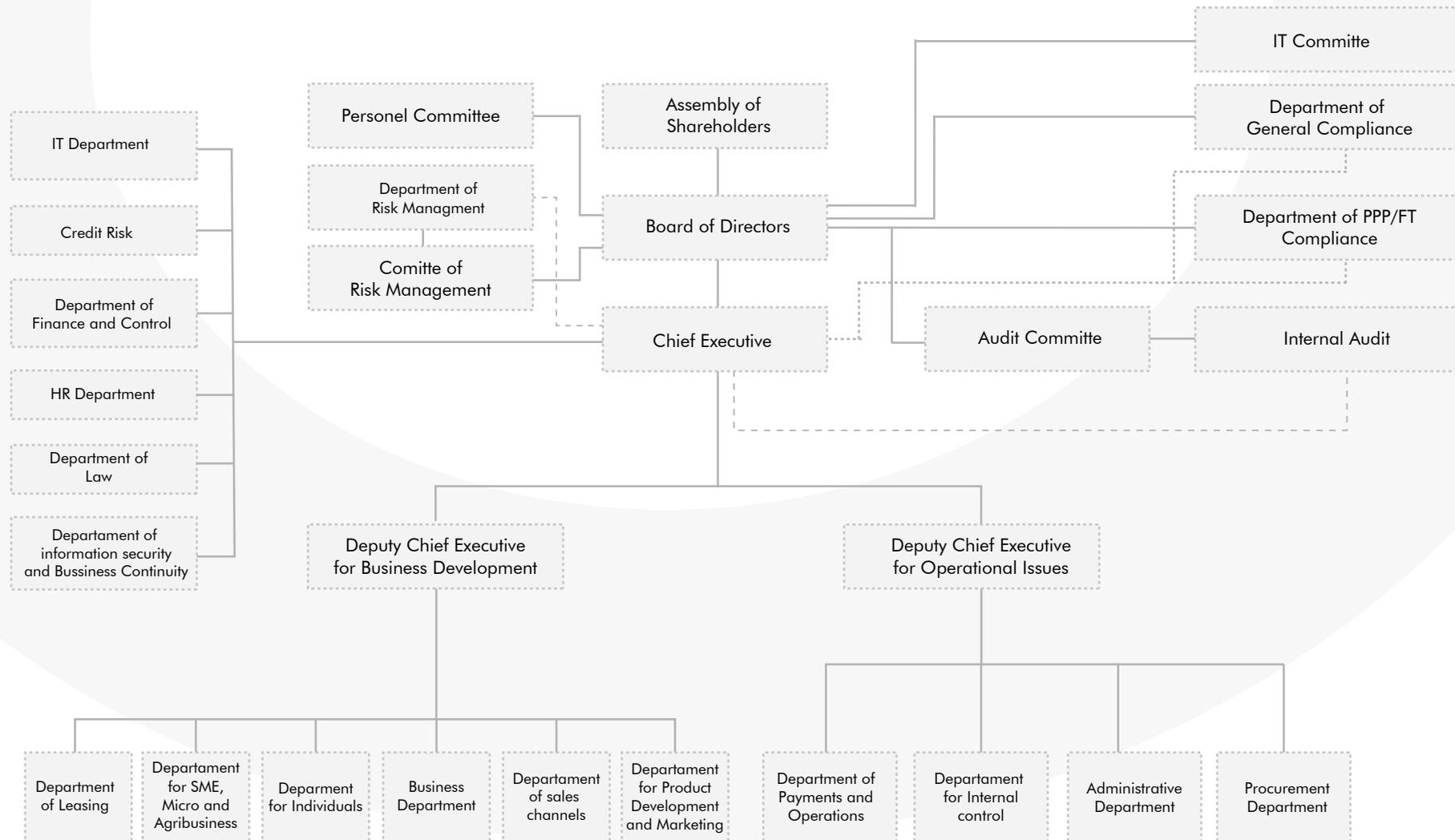


Non-performing loans (PPP)



Profit before tax (in million EURO)





Vision

Sustainable and quality growth-oriented bank, quality services and high professional standards.

Mission

- Profiling as a bank of individual and SME customers through the business model, range of products and services and marketing strategy
- Providing services with specific design for the client through concepts such as VIP, Leasing and Agro Business
- Bank for professional staff development through training, planning and career guidance programs
- Providing 24/7 services through alternative channels in a sophisticated environment and design
- Digitalization of financial services and processes through technological advancement

Our values

We are characterized by **TEAMWORK**, through which we meet the needs of our customers. Teamwork brings us mutual respect, better interpersonal relationships and empowerment towards achieving our common goals.

We are characterized by **RESPECT** for each other and **RESPECT** for customers.

We are characterized and committed to high **ETHICAL** and professional standards, demonstrating honest, professional and ethical behavior in our relationships with colleagues, clients and society.

A hand in a blue suit sleeve points towards a document displaying various charts and graphs, including a line graph and pie charts. The background is slightly blurred, showing more documents and a bright, indoor setting.

Banka Ekonomike - A success story

Banka Ekonomike was licensed in 2001 when it started operating as the only bank with 100 percent local capital. Being the only bank with entirely local capital, our mission took on an even more important dimension because by providing a higher level service, we wanted to set an example that a financial institution established in Kosovo could achieve this. Today, almost two decades later, we can proudly say that we have not only achieved this goal, but in many areas we have surpassed it. One of the main assets of the bank are our 339 employees who are distinguished in terms of their qualification and continuous professional training in order to improve their performance as best as possible to customers and the bank. The excellent results push us to pay even more attention to the training and continuous advancement of the staff. In order to be as accessible as possible to the customers and following the market demands, Banka Ekonomike during this year also paid special attention to the improvement of the distribution channels; namely the branch network, call center, ATMs, Cards, points of sale (POS) and customer care. In order to create a strong image and presence in the market, Banka Ekonomike has achieved an extension of branches throughout the territory of Kosovo.

During 2019, Banka Ekonomike has operated a total of 31 branches which are divided into 7 main regions within which 24 sub-branches operate, thus being as close as possible to the client. While the number of employees during 2019 was 339.

Further improvement of the service process for our customers each year is treated with special focus, in this regard during 2019 the Bank has redesigned the branch in Pristina, sub-branch in Kaçanik, we have relocated the branch in Ferizaj and the business center in Prishtina, which already offers one of the most modern facilities in the banking industry for customer service. Also, in order to be as close as possible to customers, in 2019 we have opened a new sub-branch in Obiliq.

The Economic strongly believes that by supporting the activities and causes of different groups as needed, it contributes to social welfare and that the positive results reflect positively on the Bank as well.



Macroeconomic environment

The Eurozone economy has seen a slowdown in economic activity throughout 2019. In 2014 alone, according to preliminary Eurostat data, economic activity increased by 1.0 percent. Along with the slowing economic activity, the inflation trend has also moved (1.0 percent). Whereas, in the Western Balkans, the increase of economic activity by 4.3 percent in Q3 2019 was similar to Q3 2018. According to estimates of the Kosovo Agency of Statistics (KAS), real GDP until September 2019 marked an average annual increase of 4.3 percent, an increase supported mainly by improvements in net exports.

Consumer prices by December 2019 increased by 2.7 percent, mainly due to rising food prices. Basic inflation increased by only 0.3 percent or 2.3 percentage points lower compared to general inflation.

The fiscal sector in 2019 was characterized by an increase in budget revenues of 7.5 percent and an increase in budget expenditures of 7.2 percent. Kosovo budget registers primary budget deficit of 168.4 million euros (162.7 million euros deficit in 2018). As a percentage of GDP, the primary budget deficit was 2.3 percent (2.4 percent in 2018). Public debt at the end of 2019 reached 1.2 billion euros, which is 9.9 percent higher compared to 2018. As a percentage of GDP, public debt has reached 17.5 percent from 17.1 percent in 2018.

The external sector is characterized by a decrease in the current account deficit by 23.0 percent. The decrease in the current account deficit is attributed to the increase in the positive balance of services, primary income and secondary income, while the shortage of goods marked a slower growth.

The financial system during Q4 2019 marked an increase of 243.2 million euros in assets, an increase that is mainly attributed to the banking and pension sectors.

Source: Central Bank of the Republic of Kosovo – Quarterly Assessment of Macroeconomic Developments

Banking sector

The expansion of the financial system's activity in 2019 was made possible mainly by the banking and pension sectors, which at the same time have the largest share in the total assets of the system. The banking sector in 2019 expanded largely based on the high level of deposits collected, which are the main source of financing for lending activity. During 2019, lending to non-financial corporations increased significantly compared to lending to households. Even during 2019, the performance of the banking sector was satisfactory, generating a net profit of 89.7 million euros. However, compared to the same period last year, the banking sector has seen a decline in profits as a result of declining revenues (mainly out of non-interest), while the level of spending has remained almost the same. The quality indicators of the loan portfolio at the end of 2019 were at satisfactory levels, with a low level of non-performing loans and an increase in their coverage with provisions. Moreover, solvency and liquidity indicators are above the minimum levels recommended by regulations, which are an indication of a well-capitalized and liquid market.

Assets of the banking sector during 2019 reached the value of 4.75 billion euros at the end of the period. This increase was mainly made possible by the expansion of credit activity, which accounts for about 64 percent of the banking sector's assets. On an annual basis, the credit category expanded by 253 million euros, a slightly higher value compared to the same period last year.

The activity of the banking sector is supported by deposits at the level of 79.6 percent. Total deposits increased by 16.2 percent, reaching 3.91 billion euros, mainly affected by transferable household deposits. Deposits of households, which make up the external sector, are about 90 percent with foreign banks. Deposits of households reached 2.60 billion euros at the end of the period, while non-financial corporate deposits increased by 747.6 million euros at the end of the period.

Non-performing loans at the end of December 2019 decreased by 16.0 percent compared to the same period of the previous year, reaching 2.0 percent. This level of PPCs is the lowest so far, and is followed by a satisfactory coverage of them with provisions.

Source:

Central Bank of the Republic of Kosovo - Financial Stability Report and Quarterly Assessment of the Financial System, as well as the Market Report by the Kosovo Banking Association.

Position of Banka Ekonomike in the Kosovo banking market

In 2019, Banka Ekonomike managed to maintain its position in the market, following the trend of the banking market, which continues to grow. The growth of the banking market in all assets of 14.32 percent was closely followed by Banka Ekonomike, which recorded an increase in all assets of 13.78 percent.

In real terms, at the end of 2019, the total assets / assets of Banka Ekonomike increased to 322.5 million euros compared to 281.1 million euros at the end of 2018.

Market Share - Loan Portfolio

The participation of Banka Ekonomike in Total Loan Portfolio in the market, on December 31, 2019, was at 7.16 percent of the total banking sector.

% on net loan volumes

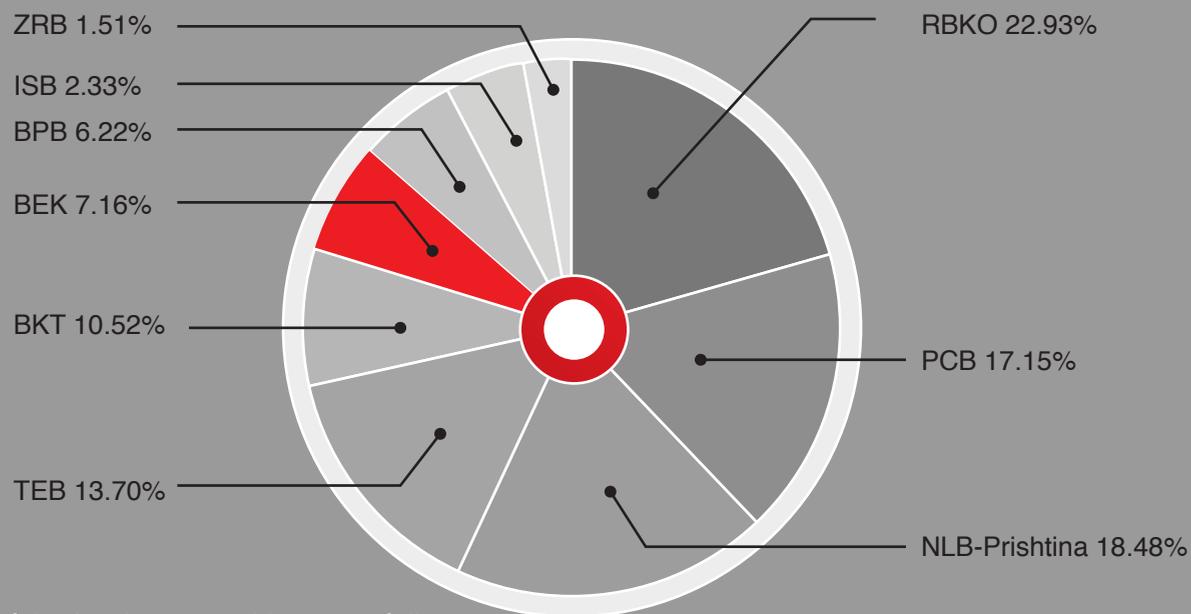


Figure 1: Market share of the banks on total loan portfolio, 31 December 2019

Market share - Deposits

The participation of Banka Ekonomike in the total market deposits, as of December 31, 2019, was 7.36 percent of the total banking sector in Kosovo.

% on deposit volumes

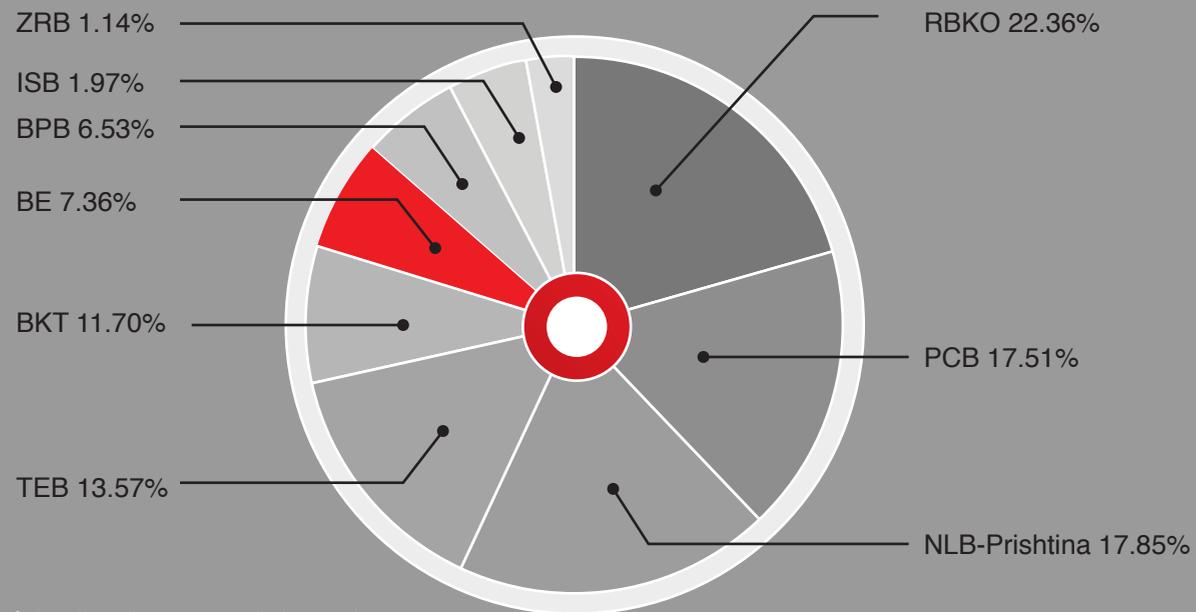


Figure 2: Market share of the banks on total deposits, 31 December 2019

Statement of Financial Position

Balance sheet on: 31.12.2019	Euro '000
Assets	The following quarter 31/12/2019
Cash and Deposits at Central Bank	51,990
Claims to banks	14,163
Treasury bonds	5,218
Investments in securities	29,883
Loans and advances to customers	208,570
Real estate and equipment	9,925
Intangible assets	565
Tax assets, deferred	0
Other assets	2,187
Total assets	322,501
Liabilities	
Customer deposits	282,682
Liabilities to banks	2,100
Other borrowed funds	1,050
Tax liabilities, deferred	151
Other liabilities	3,071
Total liabilities	289,054

Shareholder's Equity

Share capital	27,761
Capital reserves	324
Retained Earnings	0
Profit / loss of the current year	5,361
Other components of equity	0
Total Shareholder's Equity	33,466
Total liabilities and Shareholder's Equity	322,501

Income statement on: 31.12.2019

Euro '000

	The following quarter 31/12/2019
Interest Income	15,847
Interest expenses	(2,415)
Net interest income	13,432
Fee and commission income	3,100
Fee and commission expense	(938)
Net fee and commission income	2,162
Net trading revenue	218
Net revenues from other financial instruments	13
Net operating income (expenses)	(8,559)
Total revenue	7,308
Provisions on losses with loans	(1,318)
Profit / loss before tax	5,947
Profit tax expenses	(587)
Net profit (loss)	5,361
Other comprehensive income	222
Total comprehensive income	5,583

Performance of Banka Ekonomike

Continuing the tradition of increasing and maintaining customer satisfaction, working continuously to achieve financial performance targets, Banka Ekonomike also in 2019, has made progress in most financial indicators, closing the year with a profit before tax of 5.95 million euros.

Net interest income has increased compared to last year by 10 percent, net income from commissions has increased by 11.6 percent.

Banka Ekonomike remains committed to implement its long-term strategic plans in order to continue to carry out successful operations always on the rise.

Bank Assets

Commitment to values, performance targets, and continued commitment to expanding the bank's network and infrastructure has resulted in increased bank assets for the fifth year in a row. This year, loan portfolio growth has also played an important role in the outcome of asset growth. Banka Ekonomike closed 2019 with 323 million euros, comparing to 2018, when it had 281 million euros in assets.

Assets - Banka Ekonomike

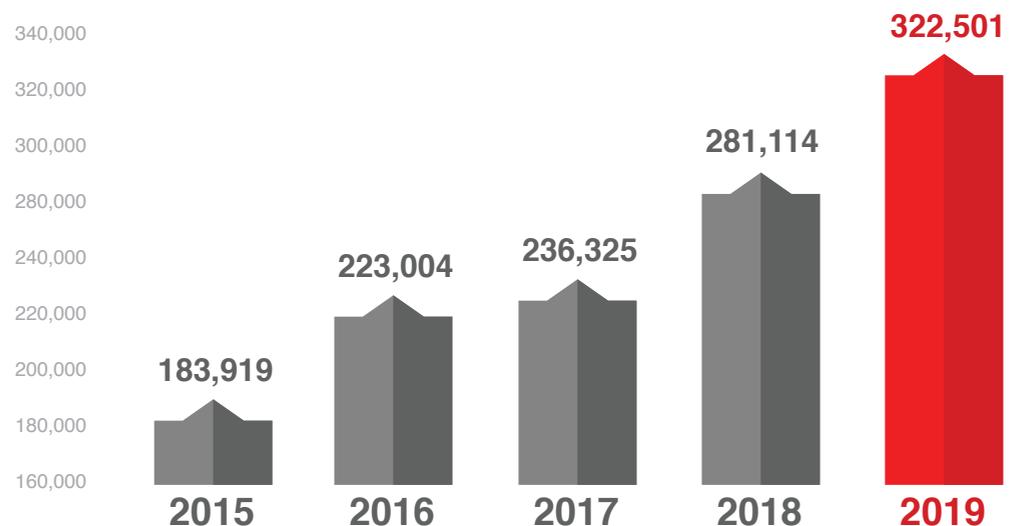


Figure 3: Assets of Banka Ekonomike, 2015-2019
All figures are in '000 Euros.



Loan portfolio

Proper portfolio management and balanced risk management have influenced the growth trend to continue this year and Banka Ekonomike to have significant growth in the loan portfolio, including the private and business sectors. During 2019, the loan portfolio increased from 178 million euros to 216 million euros.

It is worth noting that the weighted average market rate has decreased from 6.3 percent in 2018 to 6.1 percent in 2019. The

same downward trend was followed by Banka Ekonomike where it decreased from 7.2 percent in 2018, at 6.5 percent in 2019. Banka Ekonomike has continuously promoted its best lending products with marketing campaigns.

Loans - Banka Ekonomike

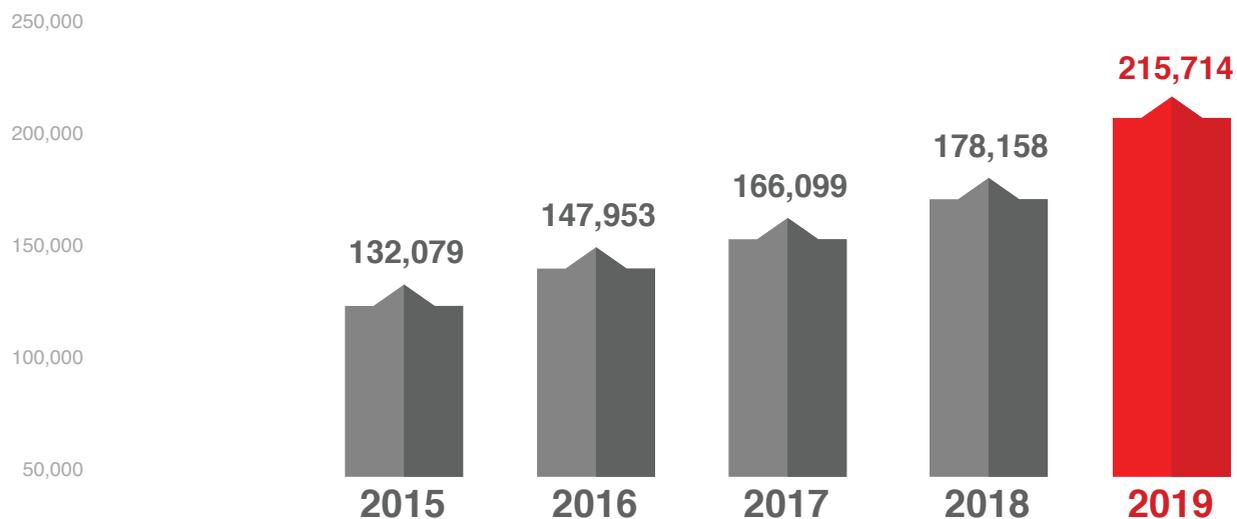


Figure 4: Loan portfolio, 2015-2019;
All figures are in '000 Euros.

Deposits

The annual increase in deposits is one more indicator in the continuous increase of customers' trust in the services of Banka Ekonomike. The year 2019 marked an increase in deposits to 285 million euros from 250 million euros in the previous year.

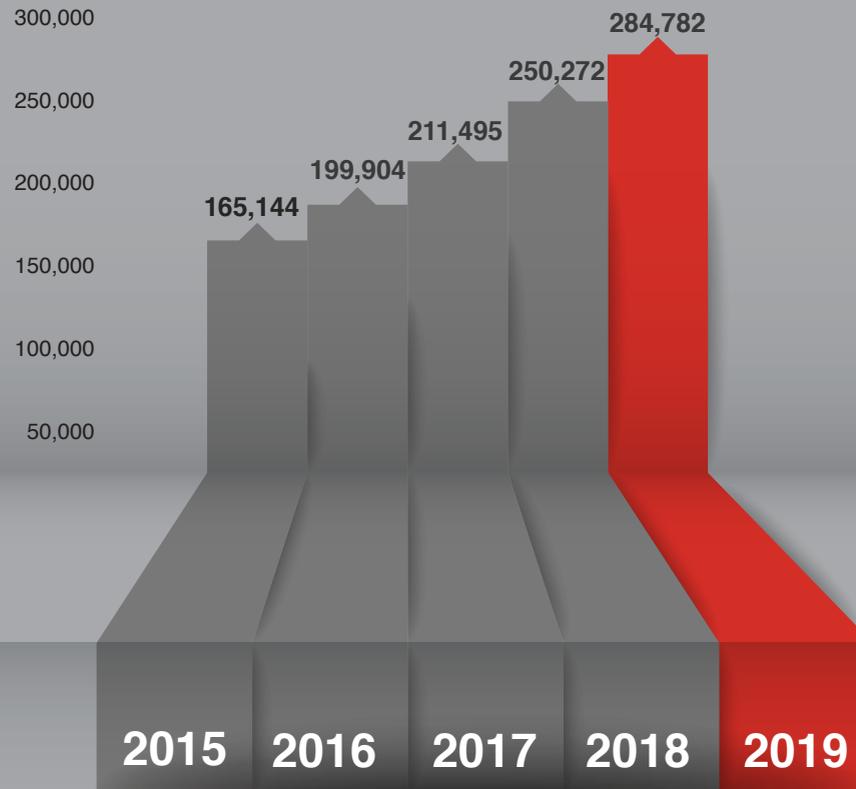


Figure 5: Customer deposits, 2015-2019:
All figures are in '000 Euros.

Interest and non-interest income

Euro '000	2015	2016	2017	2018	2019
Interest Income	13,571	13,450	13,835	14,503	15,847
Interest Expenses	2,896	2,273	2,192	2,296	2,415
Net Interest Income	10,675	11,177	11,643	12,208	13,432
Net revenues from commissions and fees	1,496	1,673	1,876	1,420	1,374

All figures are in '000 Euros!

Interest Income

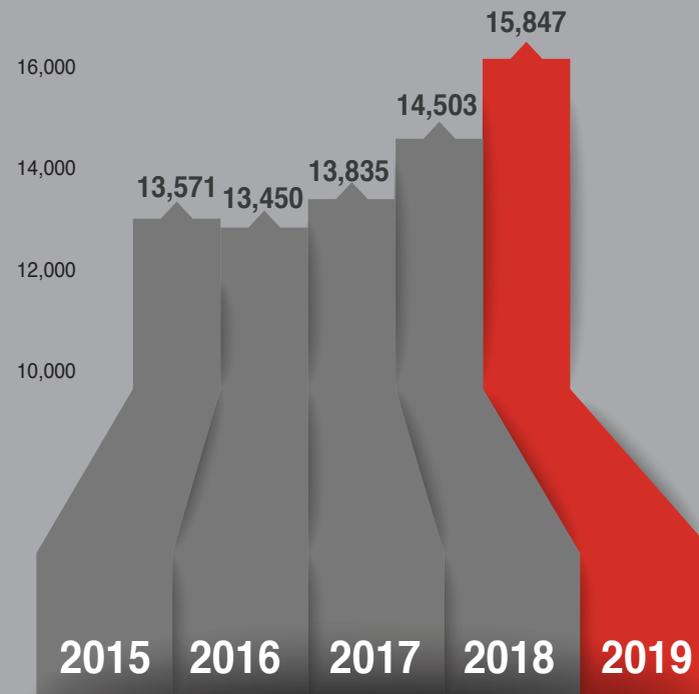


Figure 6: Net interest income, 2015-2019;
All figures are in '000 Euros

Operating costs

Euro '000	2015	2016	2017	2018	2019
Administrative costs	3,718	4,081	4,730	4,406	3,767
Staff costs	2,787	2,793	3,109	3,198	3,274
Depreciation costs	845	859	834	863	1,827
Total operating costs	7,350	7,733	8,673	8,467	8,868

All figures are in '000 Euros!

Operating costs

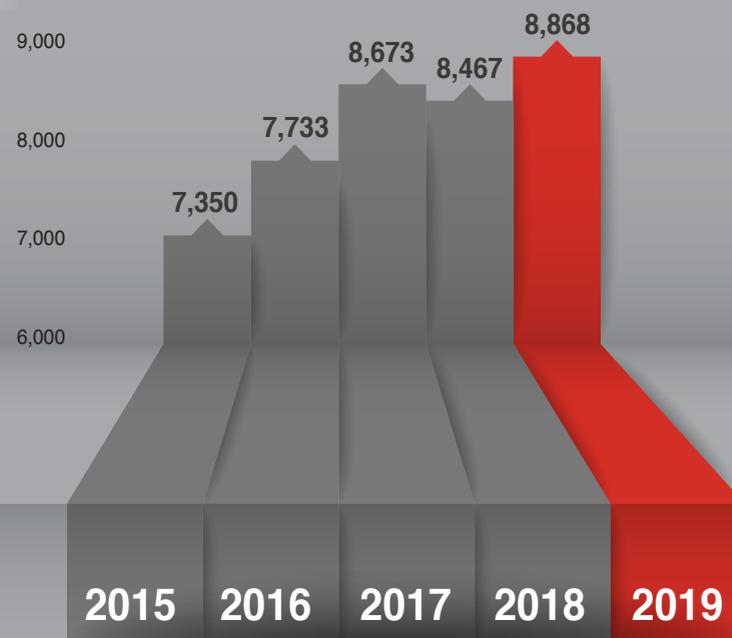


Figure 7: Operating costs, 2015 - 2019;
All figures are in '000 Euros.

During 2019, Banka Ekonomike paid special attention to investments in branches and infrastructure, but at the same time in the development and training of staff that has resulted in increased overall operating costs of the bank and increased asset depreciation costs, compared to the previous year, also the increase of asset depreciation expenses during the year comes as a result of the implementation of the IFRS 16 standard.

However, reviewing operating expenses this year has been a priority and has included reviewing all categories of expenditures and planning such management so that the bank can carry out its activity at the highest professional level, but at the same time ensure that costs and expenses increase at a slower pace than revenue.

Business development

During 2019, Banka Ekonomike has paid extra attention to the proper consolidation of the departments that are responsible for business development. In this regard, the focus has been in the organizational aspect, in which case new departments and segments have been clearly defined within the lines that would create a better service to the needs of consumers. As a result, the business was divided into a corporate department and a micro and SME enterprise, based on a 250,000 euros exposure per client. Within the department for Individuals, the unit for VIP has been established which aims to provide a more sophisticated service for a certain category of clients based on assets and revenues. In this regard, in addition to the department for Individuals, the department of small and medium businesses, the centralization and consolidation of the corporate department and the leasing department has been implemented, in which case more favorable conditions have been created to serve our customers, thus responding to their requirements with products and services designed according to the needs of our customers.

During 2019, within the segment for Individuals, we are committed to efficiently and qualitatively meet the requirements of customers tailored to their needs. The year 2019 has been characterized by a series of initiatives towards the successful implementation of quality products and services in line with the bank's strategy and market developments.

Throughout 2019, business segments have been divided, offering corporate not only classic financial services, but a wide range of services, according to the requirements and specifications needed. Seeing the importance of this segment of customers, the bank will continue to develop and adapt its

products and services in support of these businesses.

While, in terms of small and medium businesses, in line with market developments and intentions to increase market share of these businesses, Banka Ekonomike, during 2019, applied some changes in access by increasing the focus through new segmentation and branch orientation from this market. This was followed by the necessary adjustments in the way the work is organized, the content of the campaigns and the training of the staff in generating and managing the requirements of this target group. This approach at the end of the year was very successful, marking an increase in all key performance categories led by loan growth of 8.5 million Euros or 19.58 percent. Another successful area in which we have developed is leasing, through which we aim to finance the needs and requirements of our customers. During 2019, based on targeted campaigns and expertise in market recognition, the bank managed to finance 219 products (cars) in the allowed value of 4.24 million Euros. In the framework of product development and risk mitigation of interest rates, the product has been launched with a variable interest rate for long-term loan products. This product aims to protect the bank and customers from sudden interest rate movements.

Banka Ekonomike, during 2019, has launched in various communication channels several campaigns for individual loans, loans for micro businesses, agro loans, leasing and also for other products and services of the bank.

The continuous operation of the Banka Ekonomike has resulted in informing the public about the bank and banking services and has also resulted in successful sales, achievement of the bank's objectives and the creation of a positive image.

Total Loan Portfolio

Based on the implementation of several strategic initiatives aimed at advancing and increasing efficiency in processes, Banka Ekonomike, during 2019, had the best year in its history in terms of business. The success achieved is exacerbated by the fact that growth was widespread in all segments of small and medium-sized businesses, the individual segment, leasing and corporations. Through this, the bank has managed to have an increase and diversification of risk in accordance with business strategy and objectives. In this way, the credit exposure reached from 178 million euros to 216 million euros, exceeding the objectives set at the beginning of the year. This portfolio base as well as its quality, give signals that the bank has the right business model and in the future should increase its resources in this regard.

Segmenti	Credit Exposure 2018 në '000	%	Credit Exposure 2019 në '000	%
Individuals	68,951	38.70%	79,949	37.06%
NVM	43,850	24.61%	52,440	24.31%
Business	65,050	36.51%	79,170	36.70%
Leasing	307	0.17%	4,155	1.93%
Total	178,158	100%	215,714	100%

Small and Medium enterprises

Based on the importance of the segment of small and medium enterprises for the economy of Kosovo, in terms of generating employment and creating new values, Banka Ekonomike, during 2019, for the best services of this target group was engaged in a business re-segmentation process. In this way, loan exposure was defined as a segmentation criterion, in which case customers with limits up to 250,000 euros were defined as clients of small and medium enterprises.

In this context and through this action, the bank aims to have a greater focus of resources in this segment and through this to increase the customer base in number and volume. Despite this redefinition, this segment remains very wide and diverse in number and especially of businesses in which different groups such as: micro-businesses, businesses related to agriculture, small and medium businesses, businesses led by it are presented youth and women etc.

This focused initiative turned out to be very successful as the effects were positive in some areas. Thus, the segment recorded an increase of 8.5 million euros or 19.58 percent, thus reaching 52.4 million euros. In this regard, the annual permits also increased, with 42.7 million euros in total permits, or 31.7 percent more than last year. This increase was particularly pronounced in cases over 50,000 euros where permits reached 17.2 million euros or an increase of 52.21 percent compared to the previous year.

The Kosovo Loan Guarantee Fund has also played a special role in achieving these successes, in which case 3.7 million euros of loans or an increase of 208 percent have been allowed through this mechanism compared to the previous year. Seeing the advantage that this fund offers in overcoming collateral barriers, Banka Ekonomike aims to continue at this pace of exploitation.

In addition to lending activity, the segment has been focused on indirect sales by offering an integrated approach to customer needs for products and services. In this way, through various campaigns, service packages and various incentives for bank staff, it has managed to provide a large part of its customers with E-Banking and cards, demonstrating once again its orientation in digitalization and efficiency in operation. In this regard, the number of credit cards increased by 14.75 percent, reaching 1,991 customers with credit cards.

Corporate

During 2019, the Bank has continued to be a reliable partner for customers of all segments, but seeing the ever-increasing demands of corporate and their requirements for better quality and professional products and services, has reorganized business divisions to respond to the needs of this segment with simple and flexible solutions.

In this regard, during 2019 the establishment, centralization and full consolidation of the Department for Corporate has been done, which proves that the bank continues to be a close partner for all segments of enterprises, with a special focus on increasing and supporting corporate.

In 2019, after the full consolidation of the corporate department, the business of this segment has recorded a large increase in loan portfolio, increasing net loans by 14 million euros or 21.6 percent compared to the previous year. Consequently, during 2019 there was also an improvement in the quality of assets resulting in non-performing loans, which accounted for only 1.92 percent of the loan portfolio, down 11.9 percent (or 0.26 percentage points) compared to the previous year, which has been achieved by close monitoring of the loan portfolio, especially by maintaining the quality of loans.

Last but not least, additional attention has been paid to ensuring full compliance with regulatory requirements.

Individuals

Banka Ekonomike, in the framework of strengthening the role of customers, remains a bank that supports all categories of individuals. Attractive offers, personalized options and fast processing of customer requirements in line with their needs remain some of the main features that have influenced the growth of the portfolio and expanding the base of individuals. As part of the bank's strategy in the context of operational developments, it continued to optimize processes in order to improve the efficiency of customer service delivery. In the segment of the segment for Individuals, during 2019 the service model for VIP clients was established. The VIP customer concept is the newest model of service provision that Banka Ekonomike offers to the group of customers, which includes customers with income or even higher savings, customers who are offered treatment in special spaces of the latest models of modern banking.

One of the other strategic objectives has been the strengthening of quality customer service where sales staff, positioned in all branches in Kosovo, has been continuously trained and oriented in providing quality services which have generated added value for customers and as a result have positioned the Banka Ekonomike at the superlative level of customer service delivery.

In the context of increasing the level of Deposits of Individuals, Banka Ekonomike has promoted various packages of deposit products with terms tailored to the needs of customers with attractive interest rate schemes in different time periods.

All activities of 2019 within Individual clients have contributed to a significant increase in the percentage of loan portfolio, the highest over the years so far, by 15.90 percent, a percentage of 5.40 percent higher than the level of the market, respectively 10.50 percent.



Leasing

In order to meet the needs of customers and increase the competitiveness of the bank in the market, over the past year the bank established the leasing unit and increased its range of supply in the market. In this regard, it was ensured that the necessary processes are implemented as well as the new way of lending, which in addition to financial data is based on lending on the basis of assets. With this approach, the bank aimed to give another impetus to economic activities by increasing funding opportunities.

All these efforts throughout the year proved to be appropriate and successful. Through leasing, the bank managed to generate new customers and new and growing credit exposure limits. In this way, a total of 47 customers were financed with 220 credit products in the allowed value of 4.2 million euros. For the bank, this is a very promising start and, making sure that it has the right support and resources, we expect that in the coming years there will be a high growth trend. Also, we are confident that as a unit and in the future as a department, leasing complements other sales departments and contributes to the right synergy to increase our market presence.

Corporate social responsibility

Banka Ekonomike commitment to corporate social responsibility is a strategic part of doing business. Corporate social responsibility is embedded in our values and influences how we develop business, develop products and services and realize our goals and commitments.

The commitment to continuously support social, cultural and educational activities in support of the community, has been the spirit that has permeated the social responsibility of the corporation during 2019.

The responsibility of Banka Ekonomike to communities in need makes the bank contribute through donations to several different institutions. Some of the initiatives that can be mentioned were donations investing in social, cultural, sports and art promotion activities across the country.

Support for sports

Sport is a source of recreation, which offers fun, physical activity and encourages the strengthening of team spirit. It can also create a sense of unity and a part of being something more than yourself. Therefore, given these considerations, Banka Ekonomike has consistently supported local sports. Thus, seeing the enthusiasm and high physical and technical preparation of small skiers, Banka Ekonomike supported the Ski Club Prishtina, to enable them at least a little in the training of young players, as well as in order to spread special sport types in our country as wide as possible. The club has a very long history in the sport of skiing and has served as an excellent example of teamwork. In this way, it has managed to train a large number of excellent skiers and during 2018/2019 they have managed to win 84 medals in national / regional competitions.

Another activity that the bank supported was the organization of Streetball 3x3 Prishtina, which were licensed by FIBA this year as well. This activity was held on the occasion of the day of the liberation of Prishtina, as one of the 20 main activities in honor of this day, where there were participants from all over the world with renowned teams such as the one from Chicago, America, and other well-known teams from European.

The Bank has also supported the Prishtina Handball Club, which is one of the oldest and most successful clubs in Kosovo. Prishtina Handball Club is the only club that represents Prishtina in the Kosovo Handball Super League. The main activity is the establishment and massification of the sport of Handball in Prishtina.

Sport remains one of the most preferred areas of corporate social responsibility of Banka Ekonomike.



Social Activity

Banka Ekonomike, as the only bank with 100% local capital, for the second year in a row, has joined the blood transfusion initiative in the awareness campaign on the occasion of the 11th anniversary of Kosovo's Independence.

On this occasion, we have turned our offices into a suitable environment for blood donation and the employees of Banka Ekonomike have been ready to donate their blood to help all people in need, with the motto "Donate blood, save lives" ! In the framework of social responsibility, in the future we will continue with such activities, aiming to encourage the whole society, especially young people, towards this humane act.

The main goal of Banka Ekonomike remains to improve the well-being of Kosovar society, so we never stop the commitment to contribute to this issue.

Following the continuous commitment to support organizations that raise the level of awareness and social responsibility, with special emphasis on sectors that directly affect the well-being of our society, Banka Ekonomike supported the organization of the "16th Congress of The Ophthalmological Association of Southeast Europe" and "the 3rd Congress of the Association of Ophthalmologists of Kosovo", which was held from 31 May to 02 June 2019 at the Swiss Diamond Hotel in Prishtina.

This congress aimed at continuing education and continuous professional advancement through the exchange of experiences with well-known international lecturers who will share their experiences in the modern diagnosis and treatment of many diseases that we encounter every day in our practice, which will result in increased personal care and maintaining visual health.



Support for women entrepreneurs

For the second year in a row, in the framework of social responsibility, Banka Ekonomike has supported the global mentoring process with the motto 'balance for good' by joining the global initiative of Vital Voices which this year is organized in 62 countries with purpose of empowering the woman. This event is held every year around the world to celebrate International Women's Day, where thousands of women and men, girls and boys from all over the world gather in their communities to take part in the walk.

Moreover, since one of the Bank's priorities is social responsibility towards society, on the occasion of the inauguration of the sub-branch in Drenas, Banka Ekonomike has decided to donate a donation to the "Center for the Promotion of Women's Rights in Drenas". Continued commitment and contribution to improve welfare in Kosovo society remains one of the main goals of Banka Ekonomike.

Distribution Channels

Branch network

Technology and the digitalization of business operations are a requirement of the time, which everyone is trying to implement, but the closeness with the client should not be left out, because technology will never be able to replace human contact. Therefore, with the aim of always being closer to customers, Banka Ekonomike has a total of 31 branches, which are divided into 7 main branches and 24 sub-branches. According to statistics from the overall ratio of banks, Banka Ekonomike ranks 3rd in terms of presence in the banking market of Kosovo.

This proves once again that the purpose of Banka Ekonomike is to be present in every corner of the country widower. In order to

keep pace with the latest developments in the provision of the highest quality services in the banking market in the country, Banka Ekonomike has paid special attention to the network of bank branches. During 2019, the branches have been renovated in accordance with the new standard in order to provide the fastest and easiest services for customers. In terms of improving the network infrastructure of branches and self-service spaces, we have redesigned the branch in Prishtina, the sub-branch in Kaçanik, we have relocated the branch in Ferizaj and the business center in Prishtina which already offers one of the most modern facilities in the banking industry for customers: Individuals, VIP, micro, agro, leasing and corporation. We have also opened a new sub-branch in Obiliq.

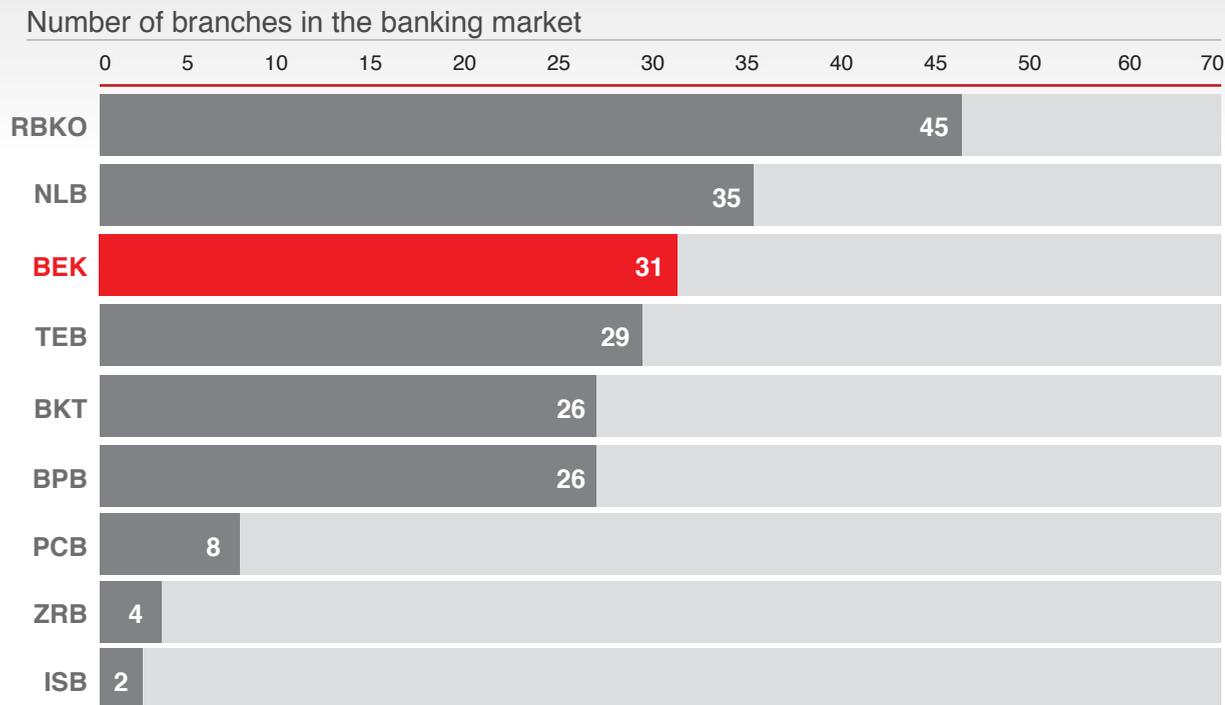


Figure 8. The participation of Banka Ekonomike in the number of branches in the banking market.

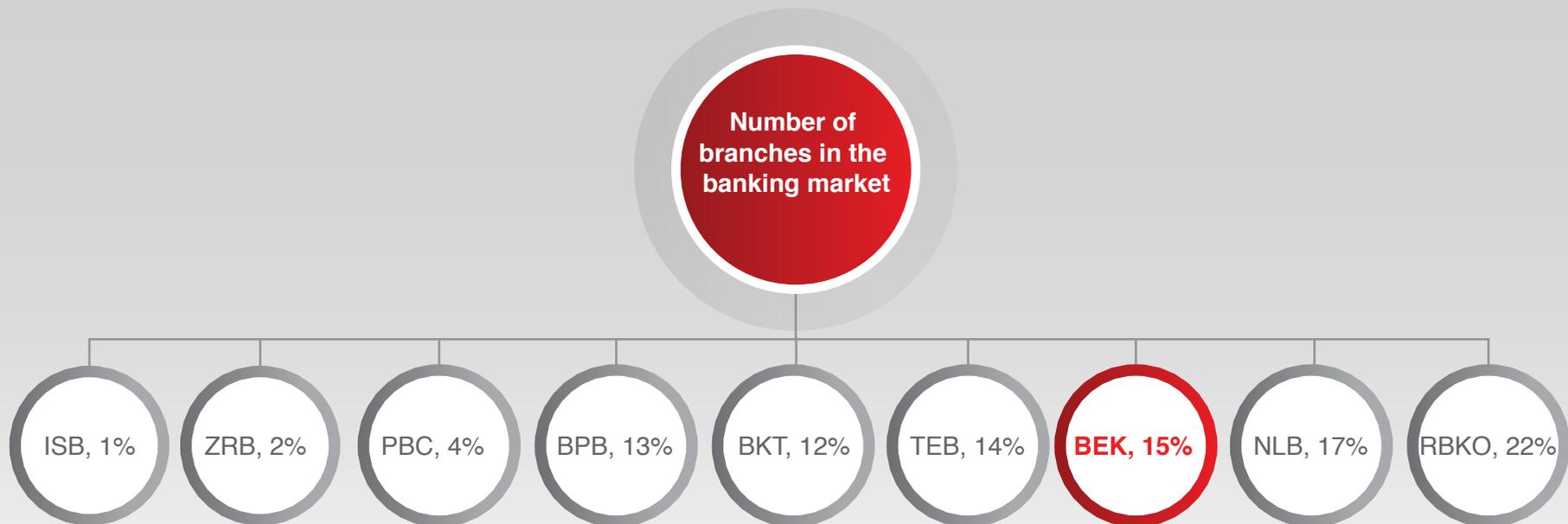


Figure 9. The participation of Banka Ekonomike in the branches in the banking market in percentage.

Alternative distribution channels

The Call Center, as an alternative and important customer service channel, also during the last year, has played an important role in increasing the provision of services. Through the call center, Banka Ekonomike has received requests from customers and provided clarifications and advisory instructions about the bank's products and offers.

The focus during 2019 was to provide professional services, support business activity and increase customer confidence, developing long-term relationships with customers. In addition to the call center, Banka Ekonomike has provided customers with support and care through social networks, a very important and practical channel.

In the framework of improving the service for our customers and better coverage of the entire territory of our country, to be as close as possible to our customers, we have invested in the network of ATMs, where through 50 ATMs throughout the country we offer a satisfactory service infrastructure, at all times.

During 2019, we replaced about 80 percent of our old ATMs with the new version of ATMs which have had a direct impact on improving the quality of transactions and services and enhancing the security aspect. ATM certification has been among the most advanced in Kosovo according to the highest standards providing maximum security during operation.

Regarding the participation in the banking market, in terms of the number of ATMs we have participated with 10 percent of the market. Given the development of technology and the dynamic life and focus on service delivery at all times, through ATMs for Banka Ekonomike has been one of the main priorities. This is evidenced by the level of availability (up time) in the service of customers, which during 2019 was 97 percent, while the total number of transactions in ATMs (deposits and withdrawals) was 845,059 or 13.90 percent more compared to the previous year.

In 2019, the deposit of funds in ATMs is higher compared to the previous year. The year 2019 has an increase of 33.77 percent in the number of deposits, while 25.05 percent increase in value compared to the previous year.

VALUE AND TOTAL NUMBER OF ALL TYPES OF CARD TRANSACTIONS

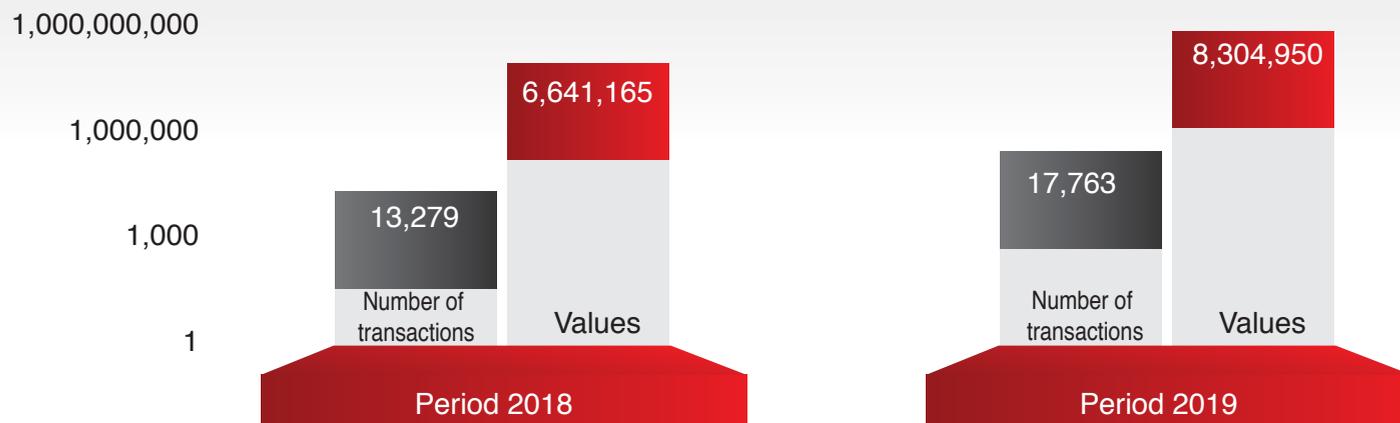


Figure 10. Value and number of transactions deposited in ATMs.

During 2019, in general, all types of card transactions (deposit, withdrawal and purchase) in ATMs and POS terminals have increased both in number and value.

In 2019, the number of withdrawals increased by 13.54 percent, while the value by 22.21 percent compared to the previous year.

VALUE AND NUMBER OF DEPOSITED TRANSACTIONS IN ATM

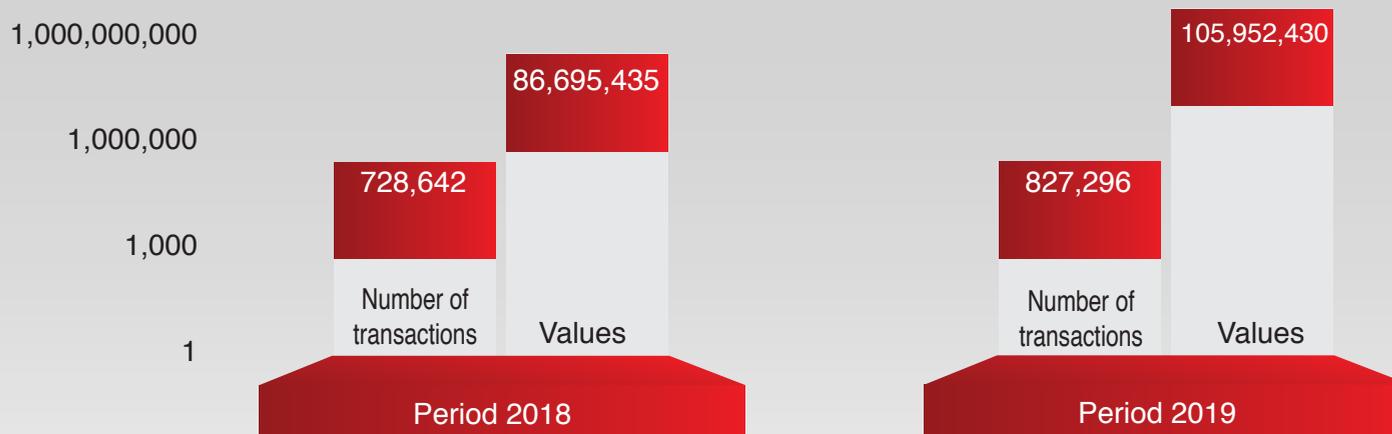


Figure 11. Value and number of deposited transactions in ATM.

In step with the development of the banking market towards the digitalization of service delivery, Banka Ekonomike, during 2019, has continued with the expansion of the network of self-service spaces, in order to access as easily as possible in performing services for customers, at any time over 24 hours.

In order to complete the provision of quality services to customers, Banka Ekonomike has a dedicated team in every branch that ensures that every service is provided properly and that every customer request is addressed carefully.

Customer care

Customers are the most important part of Banka Ekonomike, so taking care of them is an indisputable obligation. Customer care is ongoing and growing. Customer feedback and suggestions play a very important role in making the bank aware of customer expectations and developing products that suit them. Banka Ekonomike has continued to pay special attention to each client, aiming for their experience in the Bank to be unique, professional and satisfying.

The Complaints Unit has taken care to serve as an important support center, where any request or suggestion has been treated with great dedication, as a guide to improve the services provided.

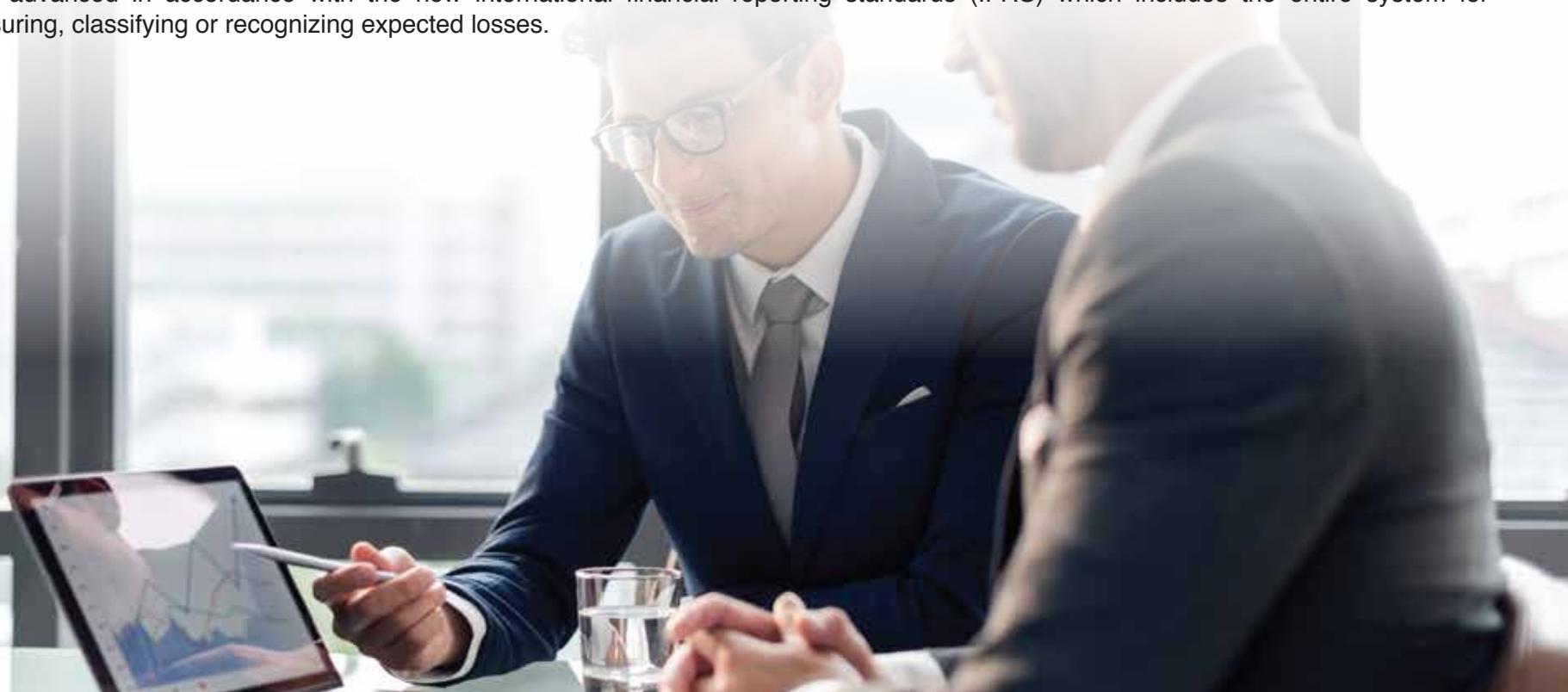
We will continue to increase the care of our customers, and we are already developing this every year.

Risk Management

This function includes credit, operational, market, liquidity, investment or other risk management. In order to achieve strategic goals, annual documents are drafted - individual strategies or policies in order to maintain key risk indicators. The bank's performance and financial stability are stable, based on key risk indicators:

- Total capital in relation to impaired assets (14.6 percent).
- The lowest level of non-performing loans (2.31 percent).
- Maintenance of the ratio between credit exposures and deposits (75.75 percent).
- Lending reserves in relation to non-performing loans (143.3 percent).

During this year, compliance with regulatory and legal infrastructure has been implemented, adapting all requirements arising from either the requirements of the regulator or the well-known standards of governance of financial institutions. The calculation of losses (provisions) has been advanced in accordance with the new international financial reporting standards (IFRS) which includes the entire system for measuring, classifying or recognizing expected losses.



Credit risk

Like any other financial institution, the Bank is exposed to credit risk which is among the main risks with the greatest impact on overall bank performance.

To ensure business continuity, the risks from credit exposures must first be identified, then their impact assessed, and finally mechanisms must be established to manage them, or at least to reduce their impact to an acceptable level.

Components with a positive effect on the capitalization indicator were the decline in large exposures over 10% compared to first-class capital, along with the continuous improvement of loan portfolio quality, higher diversification of total loan portfolio or declining concentration of enterprise loan portfolio and redistribution with households, or piloting of financial leasing product, which characterized this period. Also, the credit risk reduction window was the use of the financing opportunity through the Kosovo Credit Guarantee Fund.

Non-performing loan management at the end of the year declined from the end of last year and was at its lowest level in years at Banka Ekonomike. This trend was downward and positively affected the growth of regulatory capital, including preventive activities for non-performing loans, as well as better management for delays and collection for products in loss or off-balance sheet items. As a measure to mitigate credit risk in repaying bank-financed loans, documents have been drafted in line with the standards and prudent banking policies, so that collateral is adequate and acceptable. In particular, the collateral unit has been functionalized, which deals with the treatment of movable and immovable properties, the process of evaluation and re-evaluation, as well as their monitoring.

One of the important components of corporate governance is the principle of control, which is carried out with due professional care, integrity and independence.



Operational Risk

Operational risk is otherwise known as the risk of losses caused by inadequate or failed internal processes of people, systems and external events. The bank in terms of operational risk management is focused on how potential risks may affect the processes taking place in the bank.

The bank continues to be exposed to various operational risks, as a result of technological advances in the field of financial services, among other things, have made this risk more significant caused by inadequate or failed internal processes of people, external systems and events.

Creating a more effective control over operational risk requires the ability to assess the bank's existing risk profile by categorizing these incidents into the database, including events leading to operational risk. Furthermore, the bank has installed strict operational risk monitoring standards versus reporting. Through standardized approaches to operational risk management we have achieved significant improvement in the quality of data as a key point in decision making in relation to incidents presented in operational risk committees in higher management frameworks.

During the year, the bank has been willing to articulate its general willingness to accept risk. In cases where the risk is deemed to be outside the established framework of the appetite, then the bank takes further steps to mitigate the risk as effectively as possible during the controls implemented. One of the most effective measures taken is the training held for staff at all levels in order to predict what could go wrong, as well as the automation of processes and the knowledge presented in the implementation of new products.

Therefore, despite the continued increase in exposure to operational risk, the management of this risk was adequate, isolating its consequences as a result of activities divided according to Basel. The bank has managed to take steps against the most effective controls on operational risk management, fully implementing the assessment of the existing bank risk profile.



Liquidity and market risk

The main source of financing of activity and business continues to be represented by deposits which increased, mainly by households in relation to deposits of legal entities. There is a structural mismatch of tenures between loans and deposits, more noticeable at tenures over one year. Maturity deposits 'up to 1 year' dominated the structure of time deposits. For the same purpose, the model of depositing stresses for long-term stability in the bank has been built. Relationships between deposits and credit exposures continue to be disproportionate and risky, especially in the area of interest on long-term credit exposures, so the variable interest rate product has been implemented in order to manage gaps and competition in terms of interest rate movements.

The main investments during this period were characterized by investments in securities and treasury bills of the Republic of Kosovo. When the value of an investment or liability increases (decreases) due to movements in market factors, then market risk arises. Factors may be changes in market prices, interest rate risk, exchange rates, or other prices that affect market changes.

Liquidity reserves continue to be at high levels, exceeding the mandatory reserve held in the CBK by 42 percent, compared to the legal requirement of 25 percent. The bank is liquid because it easily and on time fulfills current and future liabilities. Throughout the period, the limits set by the regulator have been maintained, and key liquidity indicators have been monitored on a regular basis. Leading liquidity indicators provide positive signals for overall bank stability.

Internal capital adequacy assessment process

A document has been drafted which, as a concept, aims to identify, assess and manage all risks according Basel's tier two capital. This standardized internal valuation process is important for planning the amount, type, or minimum capital requirements to which the bank is exposed or may be exposed in order to proceed with regular business operations. Individual risks arising from the model or strategy during the duration of the business plan, concentration of loan portfolio, collateral, operational, liquidity, interest rate, etc, determine the need for capital planning for these risks.

Operations and Payments

Banka Ekonomike, being oriented towards further improving the infrastructure of services to our customers, in order to make our services easier and safer, in 2019 we have developed and implemented a number of development projects related to improve bank processes and meeting legal requirements.

We have implemented the platform of "webservice" of the Kosovo Police, through which it is possible to make online payments.

During 2019 Banka Ekonomike has started the process of personalization of customer cards within Kosovo. We have also increased the security aspect of the cards by making some improvements in this regard, especially in the transfer of cards to the client.

Another innovation that we have implemented during 2019 is the project of "contactless" cards where all new cards issued by Banka Ekonomike from now on will have an additional function. Each new card will be equipped with new contactless technology. Contactless payments are made through antenna technology (NFC-Near field communication). For the realization of the transaction, it is necessary that the POS terminal where the payment is made is also activated with this technology.

In 2019, we have implemented the project "3D secure", which is aimed at increasing the security aspect of online shopping, and now we are only subscribing to customers.

National transfers

National transfers in 2019, compared to the previous year, have increased, both in value and number of transfers.

The total number of incoming and outgoing transfers from 2.9 million in 2018 increased to 3.2 million in 2019, an increase of about 10 percent.

While the total value of these inbound and outbound transfers from 894 million in 2018 has increased to 1,026 billion in 2019, an increase of nearly 15 percent in value, presented in the table below:

National transfers **incoming** and **outcoming**

■ Incoming ■ Outcoming

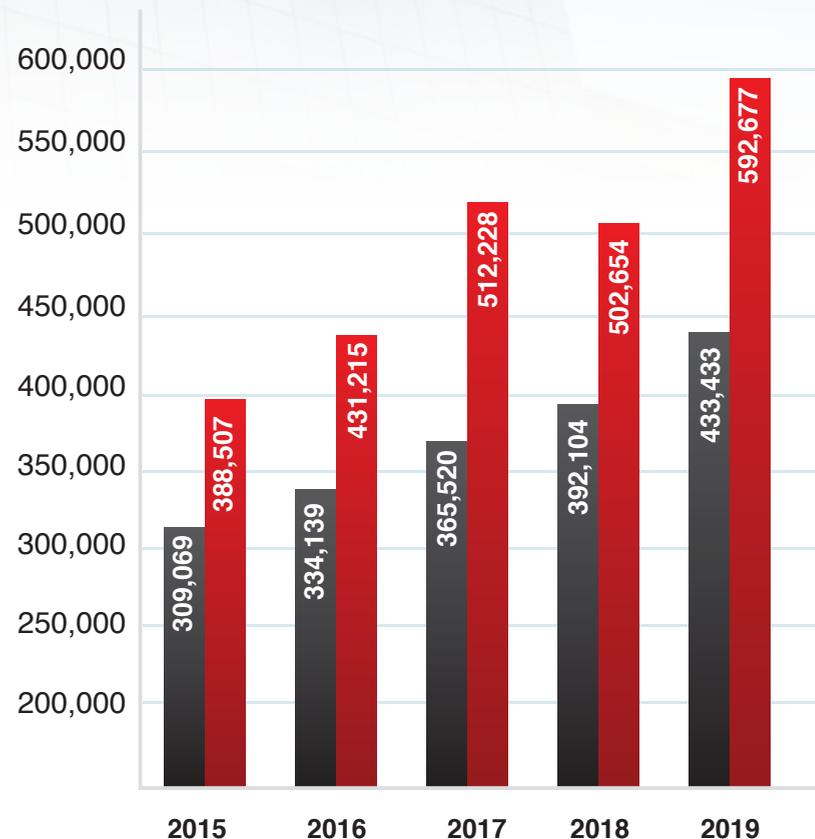


Figure 12. National, inbound and outbound transfers;
All figures are in '000 Euros.

International transfers

The international transfers in 2019 have increased compared to the previous year.

The total number of incoming and outgoing transfers have increased from 16 thousand in 2018 to 18 thousand in 2019, an increase of about 15 percent.

While the total value of these transactions for 2019, compared to the previous year, has increased by 14 percent, where in total the value of incoming and outgoing transfers from 241 million in 2018 has increased to 275 million in 2019, presented in the table below.

International Transfers **Incoming** and **Outcoming**

■ Incoming ■ Outcoming



Figure 13. International, inbound and outbound transfers; All figures are in '000 Euros.

International Guarantees and Letters

International Guarantees and Letters in 2019, compared to the previous year, have increased. If we take the total amount of guarantees this year we have an increase of about 90 percent in the Euro and 100 percent in the Dollar.

International Guarantees and Letters



Figure 14. International Guarantees and Letters over the years.
All figures are in '000 Euros

Cards

Banka Ekonomike, in cooperation with its partners Master Card and Visa, offers customers debit and credit cards for performing services inside and outside the country, such as ATMs, POS terminals and online payments. Compared to last year, the number of debit cards has reached 54 thousand and has increased by 11 percent or 5489 debit cards more than the previous year, while the number of credit cards 5 thousand by 2 percent or 118 credit cards more.

Debit and Credit cards

■ Debit ■ Credit

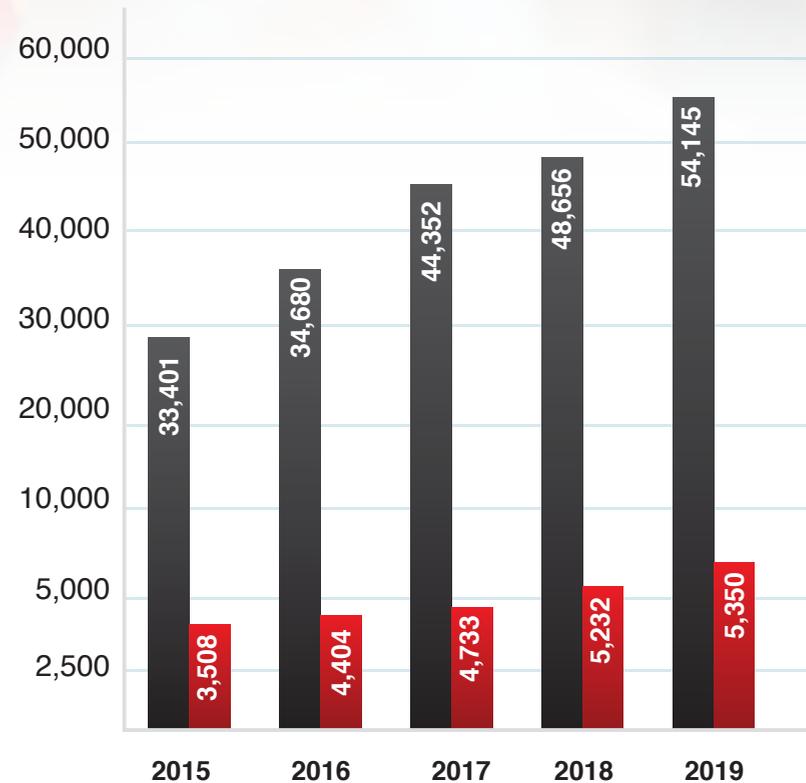


Figure 15. Debit and credit card numbers over the years. All figures are in '000 Euros.

Information Technology

During 2019, numerous works have been carried out that have made it possible to move forward as an institution and fulfill the technology strategy in particular. At the beginning of the year, the team was consolidated and the initial tasks for the project of changing the basic banking system were managed. In the following, the plan of this giant project has been compiled by ITD in accordance with the bank's strategy. The GAP analysis project for the basic banking system has been successfully completed.

E-Mail and other chat applications have been successfully transferred to Office 365 as a 'cloud' solution. The contract with the telephone operators has been arranged and the SMS management system has been reorganized, in which case the process for login to e-banking has been improved.

During 2019, a total of 61 projects have been completed that have contributed to the fulfillment of legal requirements, technical improvements, as well as business requirements. Some of them can be distinguished: SNRF successful mapping, centralization of disbursements and automatic agreements, reports to the state authority, technological process of concluding the successful year, successful piloting of the project for supervision of procurement requirements, improvement of communication and infrastructure through the 'cloud' platform Office 365, fulfillment of points dictated by SWIFT, integration with the police system for automatic payment of fines, customer packages, etc. The Information Technology Department has completed an average of 600 electronic applications each month in operational support of branches and departments. During the year, more than 265 technological assets were also configured and distributed to departments and branches. We have carried out the necessary installations and configurations for the opening of new branches: Business Center, branches in Ferizaj, Obiliq and Kaçanik.

HR and training

The Human Resources Department has an important role to play in our Bank as a key success factor in achieving the bank's strategic goals and objectives. Professional skills, team spirit, trust and dedication are the main virtues of our employees.

At the end of 2019, the number of employees was 339, of which 186 were women and 153 were men.

The Bank constantly invests in improving and training its employees, creating an environment of development and learning, thus achieving the full potential of its employees.

2019 is the most successful year for Banka Ekonomike in terms of investment and staff development, thus continuing with a large number of trainings in the country and abroad. During 2018, the bank has held 4.29 training days for staff, while in 2019 this number increased to 5.96 training days for staff. Training continues to be a priority, such as training to prevent funding terrorism, information security, operational risk, customer care and other training that prepares groups of potential employees for managerial positions (department leaders, regional managers, and branch coordinators and

business) as those for leadership thus offering their most modern training and professional experiences and practices in this field and training on leadership skills, training for training new managers.

As in previous years, Banka Ekonomike has paid attention to the part of socialization of workers where events have been organized which have included all bank employees, such as socialization in Albania, team building for the management of the bank.

Also during 2019, gratitude was distributed to workers with over 10 years of work experience at Banka Ekonomike and their number reaches 10 employees, which confirms once again that Banka Ekonomike continues to be the desired employer that offers conditions, work culture and good indoor environment.

During 2019, Banka Ekonomike continued to organize practical work - interns during the three months of internship had the opportunity to gain direct experience from working in the real business world. Students were given the opportunity to see how and where they can put into practice the theoretical knowledge they have learned at University. This opportunity for students is provided by the bank in order to support the new generation of students to prepare them for a challenging and dynamic market.

Compliance Department

Banka Ekonomike is committed and determined to carry out its activities in accordance with the laws, regulations, local and international standards as well as good practices in order to increase the bank on a sound basis. This is the priority of the Board of Directors and the Executive Management of Banka Ekonomike.

To ensure regulatory and legal compliance, the Board of Directors ensures the independence of the bank's compliance function.

The Department of Compliance as an independent function has established internal compatibility monitoring frameworks and reports to the Board of Directors on a regular basis and notifies the Executive Manager of the requirements of the corporate governance regulation of banks.

All internal bank documents have been developed and reviewed on an ongoing basis, following the new regulatory framework, both domestic and international.

The Department of Compliance, among other things, has reviewed the code of conduct of Banka Ekonomike and in agreement with the Board of Directors and has determined the requirements that bank employees, regardless of position, must follow.

Frameworks have also been set up to report possible violations of the requirements of the Code of Conduct and other requirements, as well as possible fraud. This reporting enables employees to do so either anonymously or in an identifiable form while the compliance function together with the Board of Directors address them further.

The Department of Compliance on a continuous basis keeps the Board of Directors, the Executive Management and the departments and branches for news from the CBK informed and updated with information, shows the impact and gives recommendations for their implementation.

An aerial photograph of a winding asphalt road that curves through a dense, green forest on a hillside. The road starts from the bottom left and winds upwards and to the right, disappearing into the trees. The background shows a misty or hazy atmosphere over the forested landscape.

The journey continues

The mission and values of Banka Ekonomike are observed in each of its branches. These values will always be maintained so that customers are always offered only the highest quality products in the banking market. Being the only bank with 100 percent local capital, Banka Ekonomike will continue to contribute and work tirelessly for a better society and country. Our work will continue to be carried out on the development of diversified banking products, raising the value for customers, employees and shareholders. With its approach, Banka Ekonomike aims not only to offer quality banking products to customers, but also to build common social values and to be a model Bank for doing business in Kosovo. We can proudly say that Banka Ekonomike will continue its successful journey, always thinking about You.

BANKA EKONOMIKE SH.A.

**Financial Statements prepared in accordance with
the accounting rules and regulations of
the Central Bank of the Republic of Kosovo**

for the year ended 31 December 2019

(with Independent Auditor's report thereon)

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Independent Auditor's Report

To the Shareholders of Banka Ekonomike Sh.a..

Opinion

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

In our opinion, the accompanying financial statements of Bank as at 31 December 2019 are prepared, in all material respects, in accordance with the Rules and Regulations of the Central Bank of the Republic of Kosovo ("CBK").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 scepticism throughout the audit. We also:

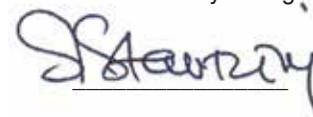
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Grant Thornton LLC

Prishtinë,
April 21, 2020



Suzana Stavrikj
Statutory auditor

Statement of Financial Position

(Amounts in thousands of EUR, unless otherwise stated)

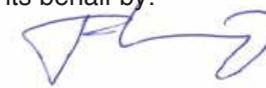
	Note	As at 31 December 2019	As at 31 December 2018
Assets			
Cash on hand and at banks	6	24,309	20,759
Balances with the Central Bank of Kosovo	7	41,844	55,869
Loans to customers	8	208,570	170,721
Investments in securities	9	35,101	25,496
Property and equipment and right-of-use assets	10	9,925	6,210
Intangible assets	11	565	568
Other assets	12	2,187	1,490
Total assets		322,501	281,113
Liabilities			
Due to customers	13	282,683	248,181
Due to banks	14	2,100	2,091
Subordinated debt	15	1,050	1,050
Current tax liability		151	76
Other liabilities	16	3,073	354
Total liabilities		289,057	251,752
Equity and reserves			
Share capital	17	27,761	24,543
Revaluation reserve	17	324	102
Retained earnings		5,361	4,718
Total equity and reserves		33,446	29,361
Total liabilities, equity and reserves		322,501	281,113

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 60 to 124.

These financial statements have been approved by the Board of Directors of the Bank and signed on 21 April 2020, on its behalf by:



Mr. Fatos Krasniqi
Chief Executive Officer



Mr. Fitim Rexhepaj
Chief Finance Officer

Statement of Profit or Loss and Other Comprehensive Income

(Amounts in thousands of EUR, unless otherwise stated)

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
Interest income	18	16,020	14,738
Interest expense	18	(2,371)	(2,296)
Net interest income		13,649	12,442
Fee and commission income	19	2,928	2,642
Fee and commission expense	19	(905)	(755)
Net fee and commission income		2,023	1,887
Other operating income	20	177	39
Net foreign exchange gains / (losses)		44	31
Revenue		15,893	14,399
Personnel expenses	21	(3,275)	(3,199)
Depreciation of property and equipment and ROU	10	(1,615)	(719)
Amortisation of intangible assets	11	(211)	(144)
Other operating expenses	22	(4,310)	(5,058)
Net impairment losses on loans	8	(534)	(29)
Total operating expenses		(9,945)	(9,149)
Profit before tax		5,948	5,250
Income tax	23	(587)	(532)
Net profit for the year		5,361	4,718
Other comprehensive income			
Revaluation of securities (Note 17)		222	(18)
Total comprehensive income for the year		5,583	4,700

The Statement of Profit or Loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 60 to 124

Statement of Changes in Equity

(Amounts in thousands of EUR, unless otherwise stated)

	Share capital	Revaluation reserve	Retained earnings	Total equity and reserves
At 1 January 2018	21,337	120	4,706	26,163
Transactions with owners recorded directly in equity				
Contributions by owners	3,206	-	(3,206)	-
Dividend distribution (Note 17)	-	-	(1,500)	(1,500)
Total transactions with owners recorded in equity	3,206	-	(4,706)	(1,500)
Profit for the year	-	-	4,718	4,718
<i>Other comprehensive income for the year</i>				
Revaluation of securities	-	(18)	-	(18)
Total comprehensive income for the year	-	(18)	4,718	4,700
At 31 December 2018	24,543	102	4,718	29,363
Transactions with owners recorded directly in equity				
Contributions by owners (Note 17)	3,218	-	(3,218)	-
Dividend distribution (Note 17)	-	-	(1,500)	(1,500)
Total transactions with owners recorded in equity	3,218	-	(4,718)	(1,500)
Profit for the year	-	-	5,361	5,361
<i>Other comprehensive income for the year</i>				
Revaluation of securities, net (Note 17)	-	222	-	222
Total comprehensive income for the year	-	222	5,361	5,583
At 31 December 2019	27,761	324	5,361	33,446

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 60 to 124

Statement of Cash Flows

(Amounts in thousands of EUR, unless otherwise stated)

	Note	For the year ended December 31, 2019	For the year ended December 31, 2018
Operating activities			
Profit before taxation	23	5,948	5,250
Adjustment for:			
Amortization and depreciation	10,11	1,826	863
Net impairment loss on loans to customers	8	534	29
Charge/(release) of provision for guarantees and litigations	16	16	5
Loss on assets written off	10	-	39
Interest income	18	(16,020)	(14,738)
Interest expense	18	2,371	2,296
Loss before changes in operating assets and liabilities		(5,325)	(6,256)
Changes in operating assets and liabilities			
Statutory reserves with CBK	6	(2,871)	(529)
Loans to customers	8	(38,419)	(13,331)
Other assets	12	(697)	(787)
Due to customers	13	34,510	38,734
Due to banks	14	9	43
Other liabilities	16	2,718	(114)
		(10,075)	17,760
Interests paid		(2,266)	(1,883)
Interests received		15,871	14,757
Income tax paid		(512)	(612)
Net cash generated from/(used in) operating activities		3,018	30,022

Statement of Cash Flows

(Amounts in thousands of EUR, unless otherwise stated)

Investment activities			
Purchase of property and equipment and intangible assets	10,11	(5,537)	(806)
Purchases of investment securities	9	(33,907)	(32,095)
Redemptions of securities	9	24,581	33,037
Net cash generated from / (used in) investing activities		(14,864)	136
Financial activities			
Dividends paid		(1,500)	(1,500)
Net cash (used in) financial activities		(1,500)	(1,500)
Net increase/(decrease) in cash and cash equivalents		(13,346)	28,658
Cash and cash equivalents, beginning of the year		59,926	31,268
Cash and cash equivalents, end of the year	6	46,580	59,926

The Statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 60 to 124.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

1. Introduction

Banka Ekonomike Sh.a (“the Bank”) is a Shareholding Company incorporated in the Republic of Kosovo. The address of its registered Head Office is Mother Teresa Square, 10000 Prishtina, Republic of Kosovo.

In accordance with the Central Bank of Kosovo (“CBK”) regulations, the Bank obtained a license for banking activities on 28 May 2001 and commenced operations on 5 June 2001. The Bank operates as a commercial and savings bank for all categories of customers within Kosovo, through its network of 7 main branches in Prishtina, Gjakova, Peja, Prizren, Ferizaj, Mitrovica and Gjilan.

2. Basis of preparation

(a) Statement of compliance

These financial statements are prepared in accordance with Article 53 of the Law No. 04/L-093, dated 11 May 2012, “Law on banks, microfinance institutions and non-bank financial institutions” (the “Banking Law”). These financial statements are prepared for regulatory purposes and reflect the accounting rules and regulations of the Central Bank of the Republic of Kosovo (“CBK Rules”). CBK Rules are based on the relevant legal decision defining the mandatory application of International Financial Reporting Standards (“IFRS”) in Kosovo, but CBK rules also specifically require the application of certain accounting treatments, which are not in accordance with the specific requirements of IFRS. IFRS 9 has not been adopted by CBK for reporting in current year, therefore any classification and impairment requirements of IFRS 9 applicable as of 01 January 2018 have not been adopted for the purpose of reporting to Central Bank.

Consequently, these financial statements should be read as being prepared in accordance with the accounting standards and regulations prevailing in Kosovo as disclosed in the significant accounting policies set out in Note 3 below.

(b) New and amended standards and interpretations adopted by the Bank

IFRS 16 effective for reporting period beginning 01 January 2019

In these financial statements, the Bank has applied IFRS 16, effective for annual periods beginning on or after 1 January 2019, for the first time. Details are provided in Notes 3 (m) and 10.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

2. Basis of preparation (continued)

Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of Good Bank and the subsidiaries in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Bank.

Other Standards and amendments that are effective for the first time in 2019 are:

- IAS 28 Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Annual Improvements to IFRS 2015-2017 Cycle
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

These amendments do not have impact on these financial statements and therefore the disclosures have not been made

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

2. Basis of preparation (continued)

(c) Standards and interpretations issued but not yet effective that may impact the CBK's framework of preparation of financial statements

Although these financial statements are not prepared in accordance with IFRS, in accordance with CBK regulations they are required to follow the general format of IFRS requirements. Consequently, any new of IFRS standards or revisions, that become effective, may impact these financial statements.

A number of new IFRS standards, amendments to IFRS standards and interpretations are effective for the year ended 31 December 2019. The CBK has issued an formal guideline concluding that IFRS 9 will be adopted in its reporting periods beginning 01 January 2020. The Bank cannot adopt these standards and amendments in advance of CBK approval.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018 for reporting under IFRS and has significant impact on the banking industry in terms of how they will classify and measure financial assets and liabilities and most importantly on how impairment is measured with the shift from incurred losses to expected losses model.

The impairment requirements of IFRS 9 are presently not applicable for the purpose of reporting under CBK's framework, since CBK has its own impairment rules.

The classification and measurement of financial assets under IFRS 9, except for equity instruments and derivatives, is based on a combination the business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortized cost) which are the guidance in preparation of the financial statements under CBK rules, have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses o profit or loss on derecognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

2. Basis of preparation (continued)

The following new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Bank:

- IFRS 17 Insurance Contracts
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Conceptual Framework for Financial Reporting
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

These amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made.

(d) Basis of preparation

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

(e) 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.

(f) Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

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

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies

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

(a) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income and expense presented in the Statement of Profit or Loss and Other Comprehensive Income (OCI) include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on available-for-sale investment securities calculated on an effective interest basis

(b) Fees and commissions

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

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

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

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(c) Lease payments

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

(d) Tax expense

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

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

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(d) Tax expense (continued)

iii) Tax exposures

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

(e) Foreign currency transactions

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

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

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

(f) Financial assets and financial liabilities

(i) Recognition

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

A financial asset or financial liability is measured initially at fair value corrected by the transaction costs that are directly attributable to its acquisition or issue.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(f) 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;
- held-to-maturity;
- available-for-sale.

See notes 3 (g), (h) (i) and (j).

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost. See note 3(k).

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the

Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

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

(iv) Offsetting

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

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

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities(continued)

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

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

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities(continued)

(vii) Identification and measurement of impairment

Loans and advances to customers are reported net of impairment (or net of provisions for loan losses). At each reporting date the Bank assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset.

In addition, provisions for loan losses include possible future losses estimated by the management in relation to existing loans, which may become uncollectible due to the economic conditions, credit quality, inherent risks in the loan portfolio and other relevant factors.

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

Provisions for loan losses are created pursuant to the Regulation "Credit Risk Management", which was approved by CBK on 26 April 2013. The regulation requires the Bank to classify exposures into five risk categories. The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level.

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

Category	Minimum provision rate
Standard	1.2%
Watch	1.2%
Substandard	20%
Doubtful	50%
Loss	100%

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities(continued)

Provisions created for possible losses on loans classified as standard and watch are classified as general provisions. In accordance with the internal provisioning policies of the Bank, the rate that is applied for the standard and watch categories is 1.2% (2018: 1.2%).

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

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 any such evidence exists for available for - sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(g) Cash and cash equivalents

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

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

(h) Investments held-to-maturity

Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for depending on their classification as held to maturity.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(h) Investments held-to-maturity (continued)

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity which are quoted on active markets, that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see Note 3.(f).(v)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

(i) Available for sale investments

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 equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss (see 3. (f)(vii)).

Other fair value changes, other than impairment losses are recognised in other comprehensive income and presented in the revaluation reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(j) Loans and receivables

Loans and advances 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, loans and advances to customers and other assets are classified as loans and receivables.

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

(k) Deposits, subordinated debt and other liabilities

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

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

(l) Property and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(I) Property and equipment (continued)

(iii) Depreciation

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

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

	Useful life 2019	Useful life 2018
Buildings	40 years	40 years
Computers and related equipment	5 years	5 years
Motor vehicles	5 years	5 years
Furniture, fixtures and equipment	5 years	5 years

Leasehold improvements are depreciated using the straight-line basis over the shorter of the lease term and their useful lives. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(i) Leased property and equipment

IFRS 16 applicable for the reporting periods after 01 January 2019 specifies how an IFRS reporter will recognize, measure, present and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases of low value assets. The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 10.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(j) Leased property and equipment (continued)

Generally, the Bank uses its incremental borrowing rate as the discount rate.

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.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and lease liabilities in "other liabilities" in the statement of financial position (note 10).

On transition to IFRS 16 at initial application date the credit spread of the Bank was 2.77%. The average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 3.16%.

The Bank uses one or more of the following practical expedients according to IFRS 16.C10, applying it on a lease -by-lease basis:

- Using a single discount rate to a portfolio of leases with similar characteristics;
- Adjusting the right-of-use asset for any recognized onerous lease provisions, in-stead of performing an impairment review;
- Applying a recognition exemption for leases for which the lease term ends within 12 months of the date of initial application and leases of low-value assets (For this purpose the bank has chosen a threshold of around € 5,000). The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term;
- Excluding initial direct costs from the measurement of the right-of-use asset;
- Using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(j) Leased property and equipment (continued)

Policy applicable for contracts entered into from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
 - the Bank has the right to operate the asset; or
 - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Policy applicable for contracts entered into before 1 January 2019

For contracts entered into before 1 January 2019, the Bank measured the Right of Use Asset equals to the Lease Liability. In determining whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(j) Leased property and equipment (continued)

- i) the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- ii) the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- iii) facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

k) Intangible assets

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

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

Software is amortised using the straight-line method over the estimated useful life of five years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(l) Impairment of non-financial assets

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

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(m) Provisions

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

(n) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

(o) Financial guarantees and loan commitments

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.

(p) Dividends

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

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

4. Use of estimates and judgments

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

These disclosures supplement the commentary on financial risk management (see Note 26).

(a) Impairment

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

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

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

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

4. Use of estimates and judgments (continued)

(b) Determining fair values

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

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

Level 1: Quoted market price in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments. The estimation of the fair value is disclosed in note 5.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

5. Disclosure and estimation of fair value

(b) Determining fair values

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 measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position. Fair value of investment securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Available for sale financial assets	Carrying amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
31 December 2019	30,319	-	30,319	-
31 December 2018	20,715	-	20,715	-

Treasury Bills available-for-sale

Treasury Bills available-for-sale include treasury bills issued by the Government of Kosovo that are neither held for trading, nor held to maturity.

Treasury Bonds available-for-sale

Treasury Bonds available-for-sale include treasury bonds issued by the Government of Kosovo which are bought either to be sold or will be held till maturity depending on liquidity needs of bank. We as a bank in our financial investment portfolio have Treasury Bonds starting from 2 year up to 5 year maturity denominated in EUR.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

5. Disclosure and estimation of fair value (continued)

Financial instruments not measured at fair value – fair value hierarchy

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

	Carrying value		Fair value	
	2019	2018	Level 2 2019	Level 2 2018
Assets				
Cash on hand and at banks	24,309	20,759	24,309	20,759
Balance with CBK	41,844	55,869	41,844	55,869
Loans to customers	208,570	170,721	208,570	170,721
Investments in held-to-maturity securities	4,783	4,781	4,783	4,781
Liabilities				
Due to customers	282,682	248,181	282,682	248,181
Due to banks	2,100	2,091	2,100	2,091
Subordinated Debt	1,050	1,050	1,050	1,050

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

5. Disclosure and estimation of fair value (continued)

Financial instruments not measured at fair value – fair value hierarchy (continued)

Fair value estimates are based on existing financial instruments on the Bank's statement of financial position 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 balances with banks are short term, their fair value is considered to equate to their carrying amount.

Treasury Bills held to maturity

Treasury Bills held-to-maturity include treasury bills issued the Government of Kosovo which are bought with the intention to hold till maturity. As Treasury Bills are short term, their fair value is considered not significantly different from carrying amount.

Bonds held-to-maturity

Bonds held-to-maturity include treasury 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 and using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

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. There are no cases of loans that are valued based on observable inputs.

Due to customers and subordinated debt

The fair value of subordinated debt and balances 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. The deposits have an estimated fair value which approximates the carrying amount due either to their short term nature or to underlying interest rates which approximate market rates. The majority of deposits is subject to re-pricing within a year.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

6. Cash on hand and at banks

	As at December 31, 2019	As at December 31, 2018
Cash on hand	10,146	8,592
Current accounts with banks	14,163	12,166
	24,309	20,759

Cash and cash equivalents comprise the following:

	As at December 31, 2019	As at December 31, 2018
Cash on hand and at banks	24,309	20,759
Balances with the CBK (Note 7)	41,844	55,869
Statutory reserves with CBK	(19,573)	(16,702)
	46,580	59,926

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 with CBK. 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 deposits in EUR 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.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

7. Balances with the Central Bank of Kosovo

	As at December 31, 2019	As at December 31, 2018
Statutory reserves with the CBK	19,573	16,702
Current accounts	22,271	39,167
	41,844	55,869

8. Loans to customers

	As at December 31, 2019	As at December 31, 2018
Loans	180,884	149,846
Overdraft facilities	34,892	28,338
	215,776	178,184
Accrued interest	901	832
Deferred disbursement fees	(963)	(857)
	215,714	178,159
Allowance for impairment	(7,144)	(7,438)
Loans to customers	208,570	170,721

Loans are presented at nominal value, accrued interest are based on nominal interest rates, while deferred disbursement fees are incremental fees which are part of effective interest rate.

Maturities of long-term loans are in the range of 1 to 30 years (2018: 1 to 30 years). In 2019, the interest rates on loans to customers ranged from 2.70% to 24% p.a (2018: 2.50% to 24% p.a). The Bank has granted few loans covered by cash collaterals with interest rates at the minimum limit shown above.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

8. Loans to customers (continued)

The movements in the allowance for impairment are as follows:

	2019	2018
Allowance for impairment at 1 January	7,438	8,248
Loans written off	(1,594)	(2,434)
Recoveries of loans previously written off	766	1,595
Charge / (Release) for the year, net	534	29
Allowance for impairment at 31 December	7,144	7,438

Category	2019			2018		
	At amortized cost	Allowance for impairment	Net balance	At amortized cost	Allowance for impairment	Net balance
Standard	204,039	2,672	201,368	167,080	2,135	164,945
Watch	5,501	74	5,426	4,325	71	4,254
Sub-standard	1,190	239	951	863	173	690
Doubtful	1,328	503	825	1,674	842	832
Loss	3,656	3,656	-	4,217	4,217	-
Total	215,714	7,144	208,570	178,159	7,438	170,721

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

9. Investments in securities

	As at December 31, 2019	As at December 31, 2018
Held-to-maturity		
Government Bonds	4,743	4,743
Accrued Interest	40	38
Total securities held-to-maturity	4,783	4,781
Available-for-sale (“AFS”)		
Government Treasury bills	5,201	5,477
Government Bonds	25,005	15,180
Accrued Interest	112	58
Total securities available-for-sale	30,318	20,715
Total Investments in Securities	35,101	25,496

Financial Investments represents one month to-five year bonds and treasury bills denominated in EUR, Bank investment portfolio is classified into two parts in Held to maturity and Available for sale, and all of these investments are invested in securities issued by Government of Kosovo. The average interest of the investments registered in Held to Maturity is 3.20% while maturity is up to 5 years.

Treasury bill that is categorized in Available for sale is one year bill and the interest is 0.41%. Largest amount of our financial investments is covered by Treasury Bonds classified in Available for sale, average of maturity for these bonds is around 2 year and average of interest is 1.23%

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

9. Investments in securities (continued)

The following table provides for the movement of AFS investments during 2019 and 2018:

	AFS investments
At 01 January 2019	20,657
Additions	33,908
Disposal/matured	(24,581)
Unrealized gain/(loss)	222
At 31 December 2019	30,206
At 01 January 2018	24,583
Additions	32,095
Disposal/matured	(36,003)
Unrealized gain/(loss)	(18)
At 31 December 2018	20,657

10. Property equipment and Right-of-use assets

The following is a breakdown of property and equipment owned and leased:

	2019	2018
Property and equipment owned	7,275	6,210
Right-of-use assets (ROU) IFRS 16	2,650	-
Property and Equipment and ROU	9,925	6,210

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

10. Property equipment and Right-of-use assets (continued)

Right-of-use assets

The Bank leases many buildings. Information about leases for which the Bank is a lessee is presented below.

	2019
	ROU
Balance at 1 January 2019	-
Correction of opening balances	2,714
Additions in current year	771
Depreciation charge for the year	(835)
Balance at 31 December 2019	2,650

The following table presents the maturity analysis – contractual undiscounted cash flows of the lease liability:

	2019
Less than one year	3,065
One to five years	
More than five years	649
Total undiscounted lease liabilities at 31 December	3,714
Lease liabilities included in Note 16 as at 31 December	2,681

Amounts recognized in the profit or loss of the Bank for the year ended 31 December 2019:

	2019
Interest on lease liabilities IFRS 16	(77)
Depreciation of ROU (Note 22)	(835)
Total expenses from leases	(912)

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

Property and equipment

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Motor vehicles	Total
Cost						
At 1 January 2018	5,634	956	3,542	1,722	601	12,455
Additions	-	72	280	162	94	608
Disposals	-	(242)	(469)	(518)	(123)	(1,352)
At 31 December 2018	5,634	786	3,353	1,366	572	11,711
Additions	-	447	1,090	167	141	1,845
Disposals	-	-	(1)	(1)	(38)	(40)
At 31 December 2019	5,634	1,233	4,442	1,532	675	13,516
Accumulated depreciation						
At 1 January 2018	1,128	570	2,870	1,058	469	6,095
Charge for the year	141	95	210	220	53	719
Disposals	-	(267)	(449)	(474)	(123)	(1,313)
At 31 December 2018	1,269	398	2,631	804	399	5,501
Charge for the year	141	128	235	206	70	780
Disposals	-	-	(1)	(1)	(38)	(40)
At 31 December 2019	1,410	526	2,865	1,009	431	6,241
Carrying amount						
At 1 January 2018	4,506	386	672	664	132	6,360
At 31 December 2018	4,365	388	722	562	173	6,210
At 31 December 2019	4,224	707	1,577	523	244	7,275

During 2019, the Bank did not remove assets from the ledger (2018: EUR 39 thousand) which were recognized in other operating expenses (refer to Note 21).

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

The carrying amount of property and equipment and intangible assets of the Bank at 31 December 2019 was EUR 7,840 thousand representing 25.02% of Tier 1 capital (2018: EUR 6,778 thousand representing 24.52% of Tier 1 capital). The maximum regulatory limit of property and equipment and intangible assets is 50% of Tier 1 capital. No breach of such ratio was reported in 2018, nor in 2019

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

11. Intangible assets

	Software
At 1 January 2018	1,339
Additions during the year	198
Disposals	-
At 31 December 2018	1,537
Additions for the year	208
Disposals	-
At 31 December 2019	1,745
Accumulated amortization	
At 1 January 2018	825
Charge for the year	144
At 31 December 2018	969
Charge for the year	211
At 31 December 2019	1,180
Carrying amount	
At 1 January 2018	514
At 31 December 2018	568
At 31 December 2019	565

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

12. Other assets

	As at December 31, 2019	As at December 31, 2018
Prepayments	1,502	746
Other	685	744
Total	2,187	1,490

13. Due to Customers

	As at December 31, 2019	As at December 31, 2018
Time Deposits	135,727	129,627
Current accounts	117,112	92,844
Savings accounts	17,037	14,724
Flexi deposits	6,133	6,557
Blocked accounts	4,503	2,506
Accrued interest	2,171	1,923
Total	282,683	248,181

Current accounts are non-interest bearing.

The average effective interest rates for time deposits during 2019 and 2018 were as follows:

Year	1 month	3 months	6 months	1 year	18 months	2 -5 years
2019	0.06%	1.76%	1.41%	1.29%	1.91%	2.30%
2018	0.10%	1.24%	1.36%	1.35%	1.86%	2.31%

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

14. Due to banks

Balances due to banks amounting EUR 2,100 thousand (2018: EUR 2,091 thousand) represent current accounts from local banks.

15. Subordinated debt

	2019	2018
Subordinated Debt	1,000	1,000
Accrued Interest	50	50
Total	1,050	1,050

During 2014, the Bank signed an agreement for subordinated debt with Mabetex Properties Sha. The subordinated debt of EUR 1,000 thousand bears an annual interest rate of 7.5% and matures on 30 April 2020.

16. Other liabilities

	As at December 31, 2019	As at December 31, 2018
Accrued expenses	193	195
Other taxes payable	75	65
Pension and social assistance charges	24	23
Lease liabilities (Note 10)	2,681	-
Provisions for litigations	7	-
Other deferred income	65	52
Provision for losses from guarantees	28	19
Total	3,073	354

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

16. Other liabilities (continued)

The movement in the provision for losses from guarantees issued by the Bank is as follows:

	2019	2018
Provisions as at 1 January	19	14
Charge/(release) for the year (Note 22)	9	5
Provisions as at 31 December	28	19

17. Share Capital and reserves

The authorised and paid up share capital of the Bank comprises 108,441 ordinary shares (2018: 95,873 ordinary shares) with par value of EUR 256 each (2018: 256). The shareholding structure of the Bank is as follows:

	As at December 31, 2019		As at December 31, 2018	
	%	Amount	%	Amount
Behgjet Pacolli	35	9,668	35	8,547
Immobiliare Red Llc	29	7,927	29	7,009
Selim Pacolli	18	5,058	18	4,471
Xhabir Kajtazi	12	3,285	12	2,905
Ismet Gjoshi	3	932	3	824
Hasan Hajdari	1	280	1	248
Zyhra Hajdari	1	269	1	238
Others with less than 1%	1	342	1	301
	100	27,761	100	24,543

Distribution of profit and dividend declared

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share. All shares rank equally with regard to the Bank's residual assets.

During the year based on a decision for distribution of profit, the Bank declared a dividend in cash in amount of EUR 1,500 thousand. The rest was allocated to the share capital as dividend in shares in amount of EUR 3,218 thousand with additional increase for 12,568 shares.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

17. Share Capital and reserves (continued)

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.

The movement in revaluation reserve is as follows:

	December 31, 2019	December 31, 2018
Revaluation reserve as at January 1	102	120
Revaluation of AFS	222	(18)
Balance as of December 31	324	102

18. Net Interest income

	Year ended December 31, 2019	Year ended December 31, 2018
Interest income		
Loans to customers	15,315	14,210
Deposits and balances with banks	45	29
Investments in securities	660	499
Total Interest income	16,020	14,738
Interest expense		
Due to customers	(2,296)	(2,221)
Subordinated debt	(75)	(75)
Total Interest expense	(2,371)	(2,296)
Net interest income	13,649	12,442

The bank does not recognise interest income for nonperforming loans with more than 90 days in arrears.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

19. Net fee and commission income

	Year ended December 31, 2019	Year ended December 31, 2018
Banking services	2,829	2,600
Guarantees	99	42
Fee and commission income	2,928	2,642
Swift expenses	(903)	(749)
License and other regulatory fees	(2)	(6)
Fee and commission expenses	(905)	(755)
Net fee and commission income	2,023	1,887

20. Other operating income

	Year ended December 31, 2019	Year ended December 31, 2018
Other income	177	39
Total	177	39

21. Personnel expenses

	Year ended December 31, 2019	Year ended December 31, 2018
Wages and salaries	3,041	2,978
Pension contributions	154	153
Other compensations	80	68
Total	3,275	3,199

The number of employees as at 31 December 2019 is 347 (2018: 332).

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

22. Other operating expenses

	Year ended December 31, 2019	Year ended December 31, 2018
Security	1,070	1,112
Rent	-	806
Master card operational expenses	520	446
Repair and maintenance	482	425
Deposit insurance fees	463	407
IT services	371	466
Utilities and fuel	236	226
Advertising and marketing	220	274
Professional charges and legal fees	183	180
Credit collection services	108	122
Communication	86	91
Interest on lease liabilities IFRS 16	77	-
Other assets written off	-	39
Office materials	28	38
Printing	11	7
Charge/(release) of provisions from guarantees	9	5
Travel	6	6
Other	440	408
Total	4,310	5,058

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

23. Income tax

Income tax in Kosovo is assessed at the rate of 10% (2018: 10%) of taxable income.

	Year ended December 31, 2019	Year ended December 31, 2018
Current tax charge	587	532
Total	587	532

The following represents a reconciliation of the accounting result to the income tax:

	Year ended December 31, 2019	Year ended December 31, 2018
Profit before income tax	5,989	5,250
Tax at the rate of 10%	599	525
<i>Adjusted for:</i>		
Non-deductible expenses	43	14
Additional tax deductible interest expenses	11	43
Exempt Income	(66)	(50)
Income tax expense for the year	587	532

Because there are no significant differences between tax profit and profit as per these financial statements, no deferred tax is recognized by the Bank, hence the note above includes only current tax.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

24. Commitments and Contingencies

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted to customers. Based on management's estimate, no material losses related to guarantees outstanding at 31 December 2019 and 2018 will be incurred.

Guarantees	Year ended December 31, 2019	Year ended December 31, 2018
Secured by cash deposits	350	2,295
Secured by other collateral	1,804	1,462
	2,154	3,757
Credit Commitments		
Approved but not disbursed loans	4,334	4,426
Overdrafts	9,956	6,983
Credit cards	1,521	1,884
	15,811	13,293

Other collaterals pledged for guarantees, include mainly pledge and real estate properties.

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

Operating Lease commitments

The Bank has entered into non-cancelable lease commitments as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Within one year	638	641
	638	641

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

24. Commitments and Contingencies (continued)

Bank's significant lease agreements include the rent commitment in the main branches located in the cities of Prishtina, Gjakova, Peja, Prizren, Mitrovica, Gjilan, Ferizaj and Headquarter, excluding the offsite branches in this location. Contingent rent payables for this significant rents is determined based on the non-cancellable rent commitments according to the contract. The Bank has ensured that the rental contracts have protective clauses, at least 60 days for cases of unexpected termination of leases. No restrictions are imposed from the rent agreements that would have an impact on the rent commitment.

A further disclosure with regard to the rent agreements as at December 31, 2019 and 2018 is given below:

31 December 2019

Branch	Annual Operating lease amount	Base for tax on rent	Tax on rent	Minimum lease payments	Sublease payments	Contingent rents
Branch of Prishtina	395	348	31	395	85	310
Branch of Gjakova	47	41	4	47	2	45
Branch of Peja	96	88	8	96	22	74
Branch of Prizren	41	42	4	41	14	27
Branch of Mitrovica	53	53	5	53	2	51
Branch of Gjilan	87	77	7	87	42	45
Branch of Ferizaj	68	66	6	68	18	50
Headquarters	83	71	6	83	47	36
Total	870	786	71	870	232	638

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

24. Commitments and Contingencies (continued)

31 December 2018

Branch	Annual Operating lease amount	Base for tax on rent	Tax on rent	Minimum lease payments	Sublease payments	Contingent rents
Branch of Prishtina	320	289	26	320	51	269
Branch of Gjakova	49	33	3	49	2	47
Branch of Peja	95	89	8	95	13	82
Branch of Prizren	43	44	4	43	13	30
Branch of Mitrovica	54	56	5	54	3	51
Branch of Gjilan	92	78	7	92	37	55
Branch of Ferizaj	63	56	5	63	10	53
Headquarters	90	78	7	90	36	54
Total	806	723	65	806	165	641

Litigations

As at 31 December 2019, there are certain legal proceedings raised against the Bank. The Bank has paid amount of EUR 90 thousand (31 December 2018: EUR 62 thousand), regarding legal proceedings at the reporting date. Various legal actions and claims may be asserted in the future against the Bank from litigations and claims incident to the ordinary course of business. Related risks have been analyzed by management as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes that no additional material liabilities are likely to result.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

25. Related party transactions

In accordance with IAS 24 “Related Party Disclosures”, a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related party transactions were made on terms equivalent to those that prevail in arm’s length transactions.

In the course of conducting its banking business, the Bank entered into various business transactions with related parties and the balances with the shareholders and affiliated individuals and entities at 31 December 2019 and 2018 are as follows:

	Board of Directors		Key management		Major shareholders and other parties related to them		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
<i>Loans to customers</i>								
Loans to customers, gross	-	-	187	187	3,496	4,014	3,683	4,201
Prepayment - BV	-	-	-	-	1,156	-	1,156	-
Allowance for impairment	-	-	(2)	(2)	(15)	(16)	(17)	(18)
Loans to customers, net	-	-	185	185	4,638	3,998	4,823	4,183
Cash collateral	-	-	(519)	(396)	(12,488)	(13,843)	(13,007)	(14,239)
Net exposure	-	-	(334)	(211)	(7,851)	(9,845)	(8,185)	(10,056)
Guarantees	-	-	-	-	174	112	174	112
Cash collateral	-	-	-	-	(215)	(1,782)	(215)	(1,782)
Net exposure	-	-	-	-	(41)	(1,669)	(41)	(1,670)
Due to customers	16	72	98	108	12,570	16,207	12,683	16,387
Subordinated debt	-	-	-	-	1,050	1,050	1,050	1,050

The total estimated value of collateral obtained from related parties at 31 December 2019 amounted to EUR 19,762,385 (31 December 2018: amounted to EUR 15,817,445).

The unused credit commitments with related parties as at 31 December 2019 are EUR 629,275 (2018: EUR 350,180).

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

25. Related party transactions (continued)

Due to related parties represent 4.5% (2018: 6.6%) of total balances due to customers.

Transactions with related parties during 2019 and 2018 are as follows:

	Board of Directors		Key management		Major shareholders and other parties related to them		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Interest income	-	-	8	7	193	232	201	239
Fee and commission income	-	-	-	-	31	34	32	34
Interest expense	-	-	-	-	(230)	(239)	(230)	(239)
Implementation expense-BV					(356)		(356)	

Total remuneration to the Bank's key management is as follows:

	2019	2018
Short-term employee benefits for Board of Directors	71	73
Short-term employee benefits for key management	205	223
	276	296

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management

(a) Introduction and overview

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

- market risk
- credit risk
- liquidity 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.

The Bank has the following categories of financial instruments:

- financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with IAS 39;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets;
- financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with IAS 39; and
- financial liabilities measured at amortized cost.

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 the Asset and Liability Committee ("ALCO"), Liquidity Committee, Credit Committee, Audit Committee, and Risk Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(a) Introduction and overview (continued)

The Bank 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 by the Internal Audit Department. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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

(b) Credit risk

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

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit Committee. A separate Credit Risk Department is responsible for the management of the Bank's credit risk. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Bank against those assets.

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.

	Loans to customers		Investments in securities		Balances with banks and with CBK		Financial guarantees	
	2019	2018	2019	2018	2019	2018	2019	2018
Maximum exposure to credit risk								
Carrying amount	208,570	170,721	35,101	25,496	56,007	68,035	-	-
Amount committed/guaranteed	15,811	13,293	-	-	-	-	2,154	3,757
	224,381	184,014	35,101	25,496	56,007	68,035	2,154	3,757
At amortized cost								
Standard	204,039	167,080	35,101	25,496	56,007	68,035	-	-
Watch	5,501	4,325	-	-	-	-	-	-
Substandard	1,190	863	-	-	-	-	-	-
Doubtful	1,328	1,674	-	-	-	-	-	-
Loss	3,656	4,217	-	-	-	-	-	-
Total	215,714	178,159	35,101	25,496	56,007	68,035	-	-
Allowance for impairment (individual and collective)	(7,144)	(7,438)	-	-	-	-	-	-
Net carrying amount	208,570	170,721	35,101	25,496	56,007	68,035	-	-
Off balance: maximum exposure								
Financial guarantees: Low - fair risk	15,811	13,293	-	-	-	-	2,154	3,757
Total committed/guaranteed	15,811	13,293	-	-	-	-	2,154	3,757
Provisions recognized as liabilities			-	-	-	-	(27)	(19)

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

Total exposure	15,811	13,293	-	-	-	-	2,127	3,738
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26. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality (continued)

	2019				2018			
	Individuals	Micro	Corporate	Total Loans	Individuals	Micro	Corporate	Total Loans
Loans and advances to customers								
Total gross amount	80,117	55,292	80,306	215,714	68,944	29,383	79,832	178,159
Allowance for impairment (individual and collective)	(1,914)	(2,685)	(2,546)	(7,144)	(1,893)	(1,528)	(4,017)	(7,438)
Net carrying amount	78,203	52,607	77,760	208,570	67,051	27,855	75,815	170,721
At amortised cost								
Standard	77,465	50,811	75,763	204,039	66,793	27,059	73,228	167,080
Watch	1,363	1,794	2,344	5,501	792	720	2,813	4,325
Substandard	189	382	618	1,190	113	325	425	863
Doubtful	352	674	302	1,328	376	308	990	1,674
Loss	747	1,630	1,279	3,656	870	971	2,376	4,217
Total Gross	80,117	55,292	80,306	215,714	68,944	29,383	79,832	178,159
Less: allowance for individually impaired loans	(964)	(2,048)	(1,386)	(4,398)	(1,085)	(1,193)	(2,953)	(5,231)
Less: allowance for collectively impaired loans	(950)	(637)	(1,159)	(2,746)	(808)	(335)	(1,064)	(2,207)
Total Allowance for impairment	(1,914)	(2,685)	(2,546)	(7,144)	(1,893)	(1,528)	(4,017)	(7,438)
Loans with renegotiated terms								
Carrying amount	299	1,296	2,256	3,851	318	456	4,022	4,796
Allowance for impairment	(83)	(763)	(484)	(1,330)	(99)	(208)	(1,877)	(2,184)
Net carrying amount	216	533	1,772	2,521	219	248	2,145	2,612
Loans by past due days								
Not past due	75,715	48,277	72,558	196,550	65,287	25,609	70,919	161,815
Past due 1-30 days	2,115	3,404	5,080	10,599	1,966	1,690	5,120	8,776
Past due 31 - 90 days	1,434	1,762	1,131	4,326	761	889	1,848	3,498
Past due 91 – 365 days	381	672	768	1,822	442	790	1,425	2,657
Past due over 365 days	471	1,177	769	2,417	488	405	520	1,413
	80,116	55,292	80,306	215,714	68,944	29,383	79,832	178,159

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality (continued)

Impairment and provisioning

The total allowances that are required by the CBK Regulation on 'Credit Risk Management' (see 3. (f)(vii), include losses that have been incurred at the reporting date (the 'incurred loss model') and expected losses.

The Bank assesses the probability of default of the counterparties, using internal rating tools tailored to the various categories of counterparties. Such tools combine statistical analysis and judgment and are validated, where appropriate, by comparison with externally available data.

Counterparties are segmented into five rating classes and the Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. Exposures migrate between classes as the assessment of their probability of default changes. The rating tools are continuously reviewed, upgraded and validated by the Bank.

Loans are rated from A to E in the Bank's internal credit risk rating system:

- A Standard
- B Watch
- C Sub-standard
- D Doubtful
- E Loss

The Bank reports the classification of its borrowers to the CBK and the Credit Register of Kosovo.

The provisioning policy for these loans is detailed in Note 3. (f) (vii).

Individual and collective assessment of loan portfolio

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

The Bank's policy requires the review of individual loans and advances to customers that are above materiality thresholds of EUR 50 thousand (2018: EUR 50 thousand) at least quarterly when individual circumstances demand it.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality (continued)

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) with the decision of the Board of Directors, in accordance with the regulations of Central Bank of Kosovo. The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The total amount written off during 2019 is EUR 1,593 thousand (2018: EUR 2,434 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 1 Regulatory Capital.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (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:

At 31 December	2019	2018
AAA+ to BBB-	6,143	4,936
A+ to A-	183	177
BB+ to B-	-	54
BBB+ to B-	613	447
Not Rated	376	192
Local Banks	6,848	6,360
	14,163	12,166

Investments in securities

Investments in debt securities are only with the Kosovo Government. These securities are not rated. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Lending commitments and financial guarantees

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

Risk limit control and mitigation policies

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

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

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

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(b) Credit risk (continued)

Risk limit control and mitigation policies

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 loans is shown below:

	2019		2018	
	Loans and advances to customers	FV of collateral	Loans and advances to customers	FV of collateral
Mortgages	57,982	54,467	48,012	45,128
Cash collateral	2,402	2,401	3,837	3,686
Pledge	98,134	72,757	81,434	60,532
Mixed (mortgages and pledge)	50,731	48,868	39,132	37,037
Not collateralised	6,465	-	5,744	-
Total	215,714	178,493	178,159	146,383

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(b) Credit risk (continued)

Concentration of credit risk

As at 31 December 2019, the Bank has had exposure that exceeds 10% of Tier 1 capital. The highest exposure was at 10.19% (2018: the Bank does not have any exposure that exceeds 10% of Tier 1 capital. The highest exposure was at 8.30%). The exposures to related parties at 31 December 2019, represent 14.38% (2018: 16.87%) of the Tier 1 Capital. The majority of the exposures to related parties are covered by cash collateral representing 7.71% (2018:11.83%) of the Tier 1 Capital.

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:

	Loans to customers		Investments in securities		Balances with banks and CBK		Financial guarantees	
	2019	2018	2019	2018	2019	2018	2019	2018
Concentration by sector								
Corporate	77,760	75,814	-	-	-	-	1,499	3,193
Government	-	-	35,101	25,496	-	-	-	-
Banks	-	-	-	-	56,007	68,035	-	-
Individuals	78,203	67,051	-	-	-	-	-	-
Micro-enterprises	52,607	27,856	-	-	-	-	655	564
Total	208,570	170,721	35,101	25,496	56,007	68,035	2,154	3,757
Concentration by location								
EU countries	-	-	-	-	6,318	5,629	-	-
Republic of Kosovo	208,570	170,721	35,101	25,496	49,689	62,406	2,154	3,757
Total	208,570	170,721	35,101	25,496	56,007	68,035	2,154	3,757

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the 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 optimising the return on risk.

Interest rate risk

Interest rate risk is comprised of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The assets and customer term deposits of the Bank carry fixed interest rates.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-bearing assets and liabilities mature or reprice at different times or in differing amounts. The Bank attempts to mitigate this risk by monitoring the repricing dates of its assets and liabilities. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

Bank's exposures are based on Kosovo marked interest rates and the Bank faces only repricing risk.

On quarterly basis are held the Operational Risk Management Meetings, where are discussed the following issues:

- The report on the Operational Risk- the report is prepared from the Department of Risk
- The report on the Liquidity and Market Risk- the report is prepared from the Department of Risk
- The report on Interest rate risk - the report is prepared from the Department of Risk. The report details the interest rates of the Bank in comparison to the market interest rates and gives details of the changes in the interest rates in the market, any unusual fluctuations etc.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(c) Market risk (continued)

The Department of Treasury on a constant basis monitors the interest rates risk through monitoring the market conditions and taking necessary repricing or reallocation decisions with the approval of the Asset and Liability Committee. A report with regard to this monitoring is prepared and presented in the meeting of Assets and Liabilities Committee. Necessary measures are taken whether interest rates are changing adversely. The report includes analysis on the top depositors, their impact of the rates of deposits, investments on securities analysis, average interest rates on client accounts, GAP analysis on liquidity risk, etc.

Exposure to interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate, LIBOR and different types of interest. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies. Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In decreasing interest rate environments, margins earned will narrow as liabilities interest rates will decrease with a lower percentage compared to assets' interest rates. However, the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(c) Market risk (continued)

Exposure to interest rate risk (continued)

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		CHF	
	2019	2018	2019	2018	2019	2018
Assets						
Cash on hand and at banks	1.17	0.31	(0.2)	(0.16)	(1.78)	0.29
Balances with CBK	-	-	(0.6)	(0.40)	-	-
Loans to customers	-	-	7.41	7.97	-	-
Investment securities held-to-maturity	-	-	3.21	3.21	-	-
Investment securities available for sale	-	-	0.03	1.11	-	-
Liabilities						
Customer deposits	0.28	0.28	0.86	0.93	-	-
Subordinated debt	-	-	7.50	7.50	-	-

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios include a 1% parallel fall or rise in all yield curves.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(c) Market risk (continued)

Exposure to 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:

Estimated Profit (loss) effect	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
2019	(46)	28	190	(200)
2018	(45)	32	169	(173)

The following table shows the interest bearing and non-interest bearing financial instruments by maturity date:

31 December 2019	Up to 1 month	1-3 Month	3-6 Month	6-12 Month	1-5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash on hand and at banks	-	-	-	-	-	-	24,309	24,309
Balances with CBK	41,844	-	-	-	-	-	-	41,844
Investments in securities - fixed rate	-	5,016	2,004	11,052	17,029	-	-	35,101
Loans to customers - fixed rate	2,666	6,700	10,415	18,928	117,389	52,472	-	208,570
Other assets	-	-	-	-	-	-	685	685
Total	44,510	11,716	12,419	29,980	134,418	52,472	24,994	310,509
Liabilities								
Due to Customers – fixed rate	152,011	11,256	6,716	32,153	80,408	138	-	282,682
Due to Banks	2,100	-	-	-	-	-	-	2,100
Subordinated debt – fixed rate	-	-	1,050	-	-	-	-	1,050
Other liabilities	-	-	-	-	-	-	2,978	2,978
Total	154,111	11,256	7,766	32,153	80,408	138	2,978	288,811
Gap	(109,602)	460	4,653	(2,173)	54,010	52,334	22,016	21,698
Cumulative gap	(109,602)	(109,142)	(104,490)	(106,662)	(52,652)	(318)	21,698	

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(c) Market risk (continued)

Exposure to interest rate risk (continued)

31 December 2018	Up to 1 month	1-3 Month	3-6 Month	6-12 Month	1-5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash on hand and at banks	5,754	-	-	-	-	-	15,005	20,759
Balances with CBK	55,869	-	-	-	-	-	-	55,869
Investments in securities - fixed rate	-	5,517	751	501	18,727	-	-	25,496
Loans to customers - fixed rate	2,902	4,085	8,833	16,971	85,543	52,387	-	170,721
Other assets	-	-	-	-	-	-	744	744
Total	64,525	9,602	9,584	17,472	104,270	52,387	15,749	273,589
Liabilities								
Due to Customers – fixed rate	124,962	4,637	8,244	37,262	73,076	-	-	248,181
Due to Banks	2,091	-	-	-	-	-	-	2,091
Subordinated debt – fixed rate	-	-	-	-	1,050	-	-	1,050
Other liabilities	-	-	-	-	-	-	283	283
Total	127,053	4,637	8,244	37,262	74,126	-	283	251,605
Gap	(62,528)	4,965	1,340	(19,790)	30,144	52,387	15,466	21,984
Cumulative gap	(62,528)	(57,563)	(56,223)	(76,013)	(45,869)	(6,518)	21,984	-

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(c) Market risk (continued)

Exposure to currency risk (continued)

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 currency risk is not significant, as the majority of transactions of the Bank are in local currency. The foreign currencies the Bank deals with are predominantly United States Dollars (USD) and Swiss Franc (CHF). The rates used for translation as at 31 December 2019 and 2018 are as follows:

Currency	2019 EUR	2018 EUR
1 USD	1.1234	1.145
1 CHF	1.0854	1.1269
1 GBP	0.8508	0.8945

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

	USD		CHF		GBP	
	2019	2018	2019	2018	2019	2018
Sensitivity rates	5%	5%	5%	5%	5%	5%
Profit or loss						
+5% of Euro	0.35	(0.20)	0.13	0.15	0.12	0.25
- 5% of Euro	(0.35)	0.20	(0.13)	(0.15)	(0.12)	(0.25)

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

The Bank's exposure to foreign currency risk, expressed in EUR equivalents is as follows:

31 December 2019	EUR	USD	CHF	GBP	Totali
Assets					
Cash on hand and at banks	16,895	2,030	5,046	338	24,309
Balances with CBK	41,844	-	-	-	41,844
Investments in securities	35,101	-	-	-	35,101
Loans to customers	208,570	-	-	-	208,570
Other assets	685	-	-	-	685
	303,095	2,030	5,046	338	310,509
Liabilities					
Due to customers	275,280	2,023	5,043	336	282,682
Due to banks	2,100	-	0.40	-	2,100
Subordinated debt	1,050	-	-	-	1,050
Other liabilities	2,978	-	-	-	2,978
	281,408	2,023	5,043	336	288,811
Net foreign currency position	21,687	7	3	2	21,698
31 December 2018	EUR	USD	CHF	GBP	Totali
Assets					
Cash on hand and at banks	13,618	2,622	4,200	319	20,759
Balances with CBK	55,869	-	-	-	55,869
Investments in securities	25,496	-	-	-	25,496
Loans to customers	170,721	-	-	-	170,721
Other assets	744	-	-	-	744
	266,448	2,622	4,200	319	273,589
Liabilities					
Due to customers	241,044	2,626	4,197	314	248,181
Due to banks	2,091	-	-	-	2,091
Subordinated debt	1,050	-	-	-	1,050
Other liabilities	283	-	-	-	283
	244,468	2,626	4,197	314	251,606
Net foreign currency position	21,981	(4)	3	5	21,984

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(d) Liquidity risk

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

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.

The Bank monitors its liquidity on a daily basis in order to manage its obligations as and when they fall due.

Exposure to liquidity risk

Funds are raised using a range of instruments including customers' deposits, subordinated debt and share capital.

Flexibility limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually 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.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(d) Liquidity risk (continued)

Management of liquidity risk

Residual contractual maturities of financial assets and liabilities

The following tables show the discounted cash flows of the Bank's financial liabilities on the basis of their earliest possible remaining contractual maturity. The Bank's expected cash flows of 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	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Assets							
Cash on hand and at banks	24,309	-	-	-	-	-	24,309
Balances with CBK	41,844	-	-	-	-	-	41,844
Investments in securities	-	5,016	2,004	11,052	17,029	-	35,101
Loans to customers	2,666	6,700	10,415	18,928	117,389	52,472	208,570
Other assets	685	-	-	-	-	-	685
Total	69,504	11,716	12,419	29,981	134,418	52,472	310,509
Liabilities							
Due to customers	152,011	11,256	6,716	32,153	80,408	138	282,682
Due to banks	2,100	-	-	-	-	-	2,100
Subordinated debt	-	-	1,050	-	-	-	1,050
Other liabilities	372	150	223	217	2,016	-	2,978
Total	154,484	11,406	7,989	32,370	82,424	138	288,811
Liquidity gap	-84,980	310	4,430	-2,389	51,994	52,334	21,698
Cumulative gap	-84,980	-84,670	-80,241	-82,630	-30,636	21,698	

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(d) Liquidity risk (continued)

31 December 2018	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Undetermined maturity	Total
Assets								
Cash on hand and at banks	20,759	-	-	-	-	-	-	20,759
Balances with CBK	55,869	-	-	-	-	-	-	55,869
Investments in securities	-	5,517	751	501	18,727	-	-	25,496
Loans to customers	2,902	4,085	8,833	16,971	85,543	52,387	-	170,721
Other assets	744	-	-	-	-	-	-	744
Total	80,274	9,602	9,584	17,472	104,270	52,387	-	273,589
Liabilities								
Due to customers	124,962	4,637	8,244	37,262	73,076	-	-	248,181
Due to banks	2,091	-	-	-	-	-	-	2,091
Subordinated debt	-	-	-	-	1,050	-	-	1,050
Other liabilities	283	-	-	-	-	-	-	283
Total	127,336	4,637	8,244	37,262	74,126	-	-	251,605
Liquidity gap	(47,062)	4,964	1,340	(19,790)	30,146	52,387	-	21,985
Cumulative gap	(47,062)	(42,098)	(40,758)	(60,548)	(30,402)	21,985	21,985	-

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(e) Capital risk management

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

The equity structure of the Bank comprises share capital, reserves and retained earnings.

Regulatory capital

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

Risk-Weighted Assets (RWAs)

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

	2019	2018
Total risk weighted assets	216,022	174,797
Total risk weighted assets for operational risk	18,668	17,127
Total	234,690	191,924
Regulatory capital (Total Capital)	33,789	29,860
Capital adequacy ratio (Total Capital)	14.40%	15.56%

There have been no significant changes in the Bank's management of capital during the period.

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

26. Financial risk management (continued)

(e) Capital risk management (continued)

Gearing ratio

The Bank's risk management committee reviews the capital structure on a continuously basis. As part of this review, the committee considers the cost of capital and the risk associated with each class of capital. Based on the CBK regulations, the minimum leverage ratio is 7%.

The leverage ratio at the year ended was as follows:

	2019	2018
Total Assets	322,501	281,113
Total Equity	33,446	29,361
Leverage ratio	10.37%	10.44%

Notes to the financial statements for the year ended 31 December 2019

(Amounts in thousands of EUR, unless otherwise stated)

27. Subsequent events

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors all of which are uncertain and cannot be predicted.

Impact on the bank

At this point, the extent to which COVID-19 may impact our financial position and the results of operations is uncertain as per our current estimation the Bank will face the reduction of net interest income and reduction on fees and commission income. Based on current situation and current development the Bank will maintain its capital legal requirements and liquidity level requirements.

The Bank has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of Government and Central Bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Bank for future period.

The bank is monitoring on daily basis its liquidity position and reporting to Central Bank of Kosovo. Our current liquidity position is favorable to deal with current crisis and we do not expect to have any liquidity difficulties during the crisis.

Based on actual data and current developments on the ground the Bank continues to be above capital requirements and liquidity level requirements. The Bank continues to offer all regular services for its customers and business as usual in all its physical presence throughout Kosovo.

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

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