Banka Ekonomike

2017

ANNUAL REPORT

Content

Message from the Executive Chief

MERITA GJYSHINCA PEJA
Executive Chief

Dear Colleagues, Clients and Shareholders of the Economic Bank,

I have the special pleasure to share with you a successful year of the Economic Bank.

In the course of achievements over the years, with special pleasure, I can say that 2017 can be characterized as the most successful year of the Economic Bank of the past 16 years of operation.

All key business objectives of 2017 have been overcome, and improvements have been made in a number of key performance indicators.

Along with its successful performance, being the only 100 percent local equity bank, this year we have also had a special focus on improving processes, enforcing compliance, in particular full compliance with applicable laws and regulations, and advancing infrastructure, distribution channels and creating a more positive image of the bank.

During this year we have continued to create the most suitable facilities for our clients in order to provide the most modern services in our bank. We have redesigned the branch of Peja, according to the new and modern standards, we have reallocated the branch of Gjilan / Gnjilane, the sub-branch in Lipjan, and also in step with developments in the market we have continued to create 24/7 Self-Improvement Areas, so we can offer customers quick access and at any time.

In order to increase efficiency and continuity, the Bank has built the New Disaster Relief Center (DRC) and Business Continuity Center (BCM), according to contemporary standards. This will not only increase the continued safety of the operation and the quality of the services, but will also increase the trust built on our customers.

Furthermore, taken into consideration that one of the Bank's priorities is CSR, throughout the year we have supported marginalized categories, in particular those that are faced with lack of proper support. In this case, through various forms, we have supported certain health sectors, which aim to provide health services to mothers and children affected by various diseases and who are faced with lack of necessary treatment.

I can confidently say that we have met and exceeded our commitments that 2017 will be even more successful. Profit before tax for 2017 amounted to EUR 5.246 million, with a return on average equity of 20 percent.

Parallel with our strategy and the country's development strategy, in 2017 we continued to support small and medium-sized enterprises. A special focus was also given to natural persons, with the provision of products and services, which have helped to increase overall wellbeing.

Continuing with a sober approach to lending and portfolio diversification, there has been progress in terms of credit quality and non-performing loans, which had a downward trend of 33.33 percent compared to the previous year, respectively from 5.4 percent to 3.6 percent.

As a result of the cautious growth of loans, during 2017, the Economic Bank recorded an increase in the loan portfolio of EUR 18.1 million, an increase of 12.3 percent. Our clients' deposits have reached the highest level ever, reaching EUR 212 million, with an excellent ratio of loan / deposit ratio, respectively 78.5 percent.

Finally, on behalf of the Executive of the Economic Bank, I would like to thank all the bank's employees for the achievement of the results reflected in this report, results which we are all proud of and which would be impossible without the commitment, dedication and loyalty of everyone.

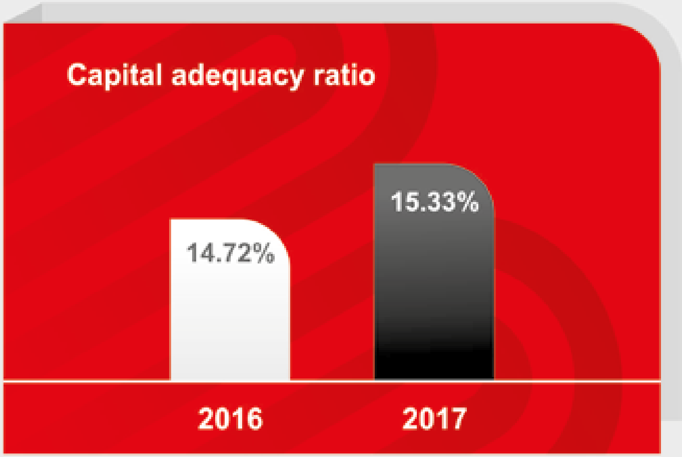
I would like to express my special thanks to our clients and partners who, with the loyalty shown over the years, have made the Economic Bank to one of the most trusted financial institutions in the country.

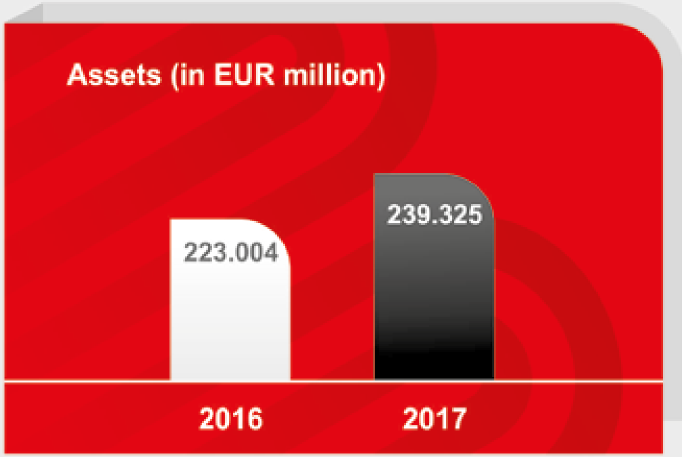
Thanks and I wish us all continued success!

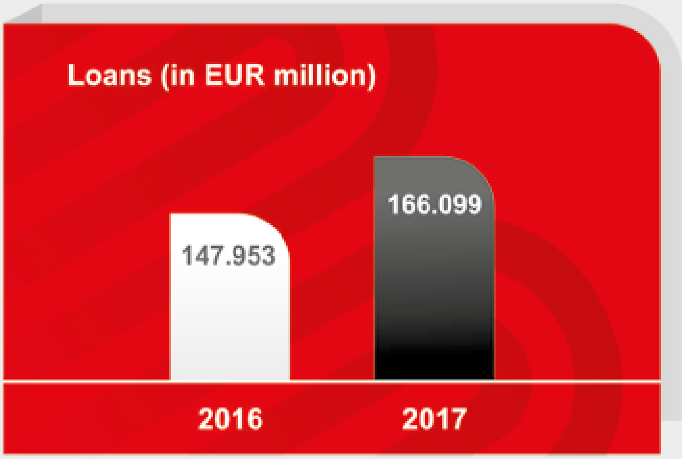
Merita Gjyshinca Peja
Executive Chief

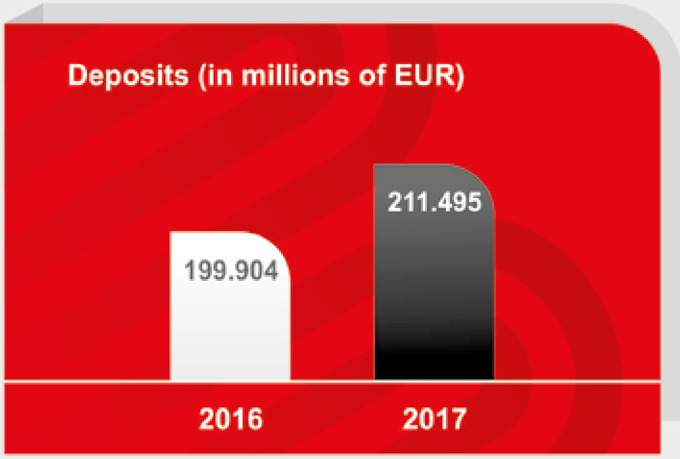
Hamide Pacolli Gashi
Deputy Chief Executive Officer

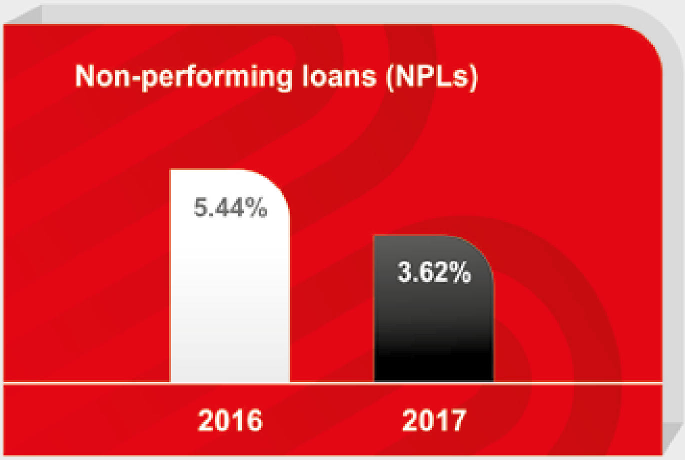
Arben Ferri
Deputy Chief Executive Officer

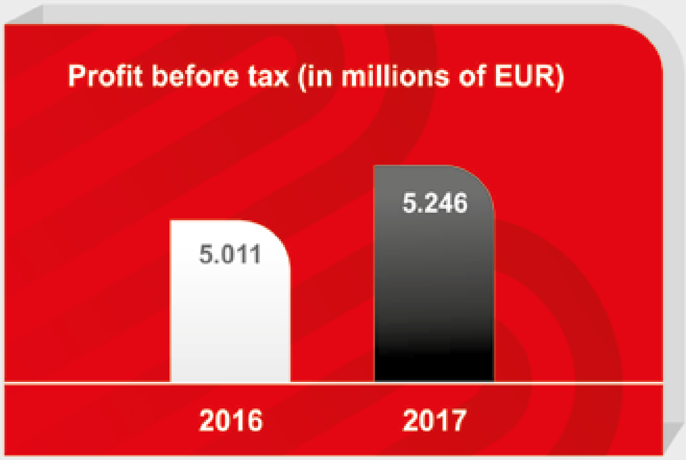

Capital adequacy ratio
14.72%
15.33%
2016
2017

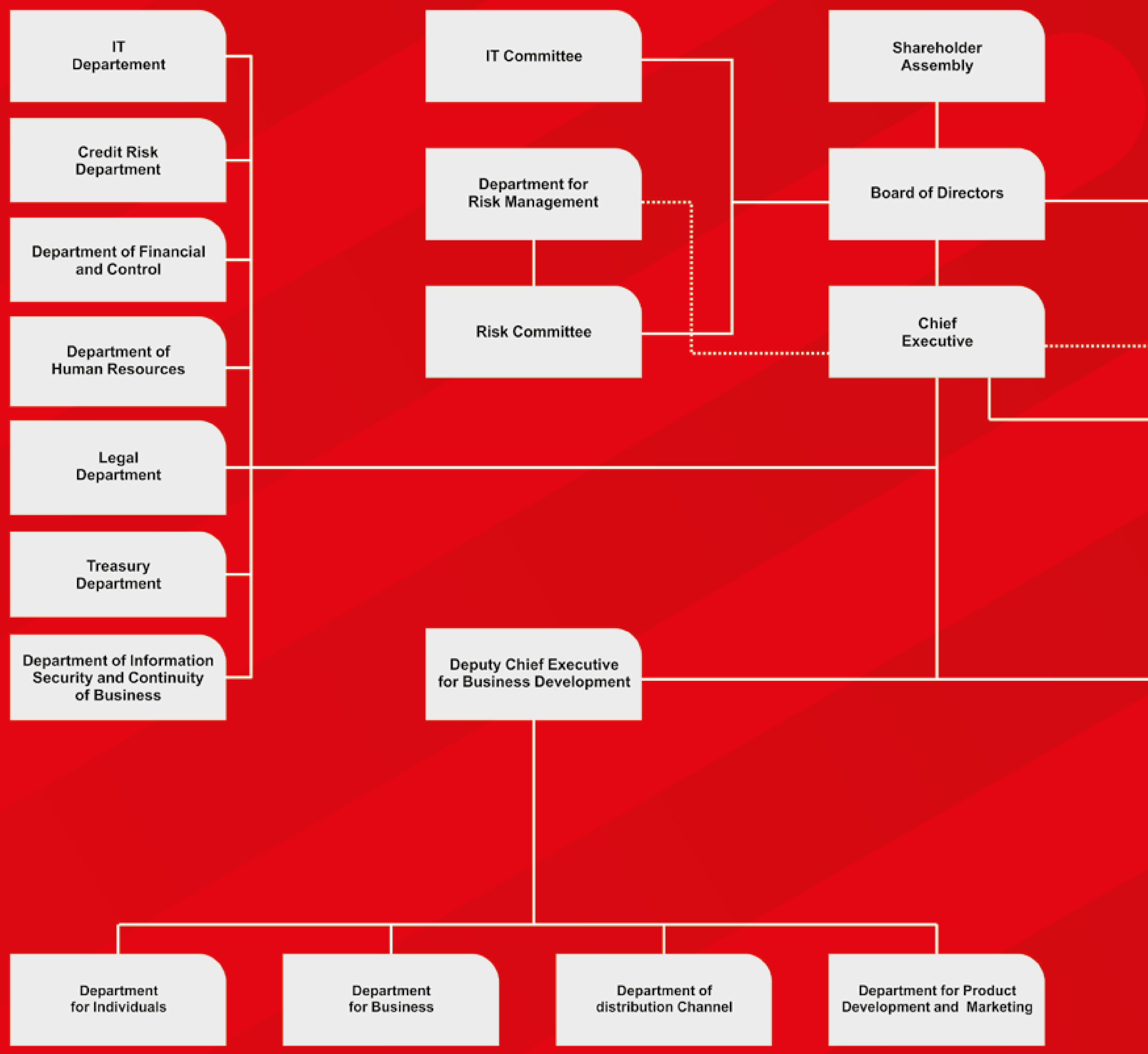

Assets (in EUR million)
223.004
239.325
2016
2017

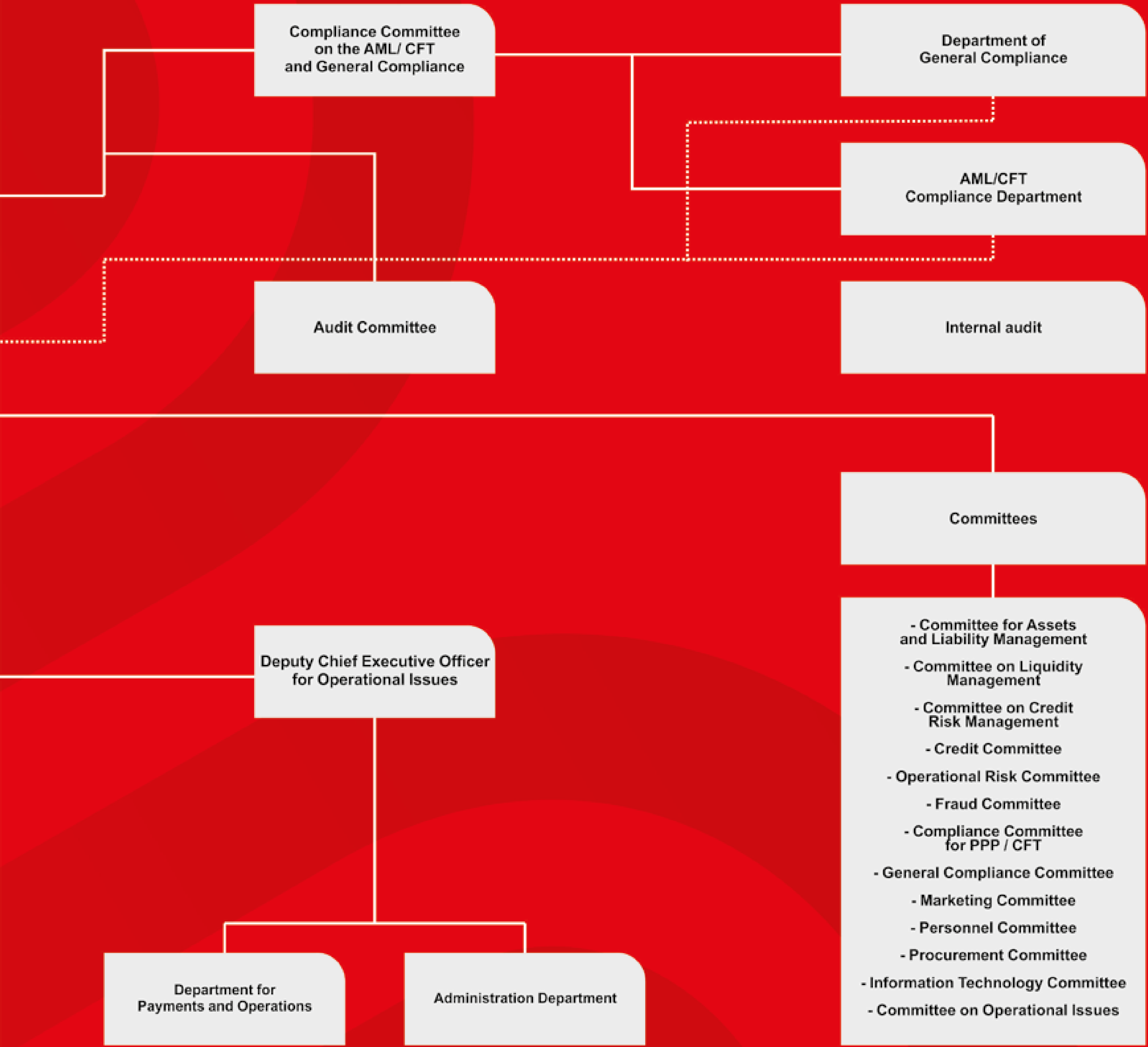

Loans (in EUR million)
147.953
166.099
2016
2017


Deposits (in millions of EUR)
199.904
211.495
2016
2017


Non-performing loans (NPLs)
5.44%
3.62%
2016
2017


Profit before tax (in millions of EUR)
5.011
5.246
2016
2017


IT
Departement
Credit Risk
Department
Department of Financial
and Control
Department of
Human Resources
Legal
Department
Treasury
Department
Department of Information
Security and Continuity
of Business
IT Committee
Department for
Risk Management
Risk Committee
Shareholder
Assembly
Board of Directors
Chief
Executive
Deputy Chief Executive
for Business Development
Department
for Individuals
Department
for Business
Department of
distribution Channel
Department for Product
Development and Marketing


Compliance Committee on the AML/ CFT and General Compliance
Department of General Compliance
AML/CFT Compliance Department
Audit Committee
Internal audit
Committees
- Committee for Assets and Liability Management
- Committee on Liquidity Management
- Committee on Credit Risk Management
- Credit Committee
- Operational Risk Committee
- Fraud Committee
- Compliance Committee for PPP / CFT
- General Compliance Committee
- Marketing Committee
- Personnel Committee
- Procurement Committee
- Information Technology Committee
- Committee on Operational Issues
Deputy Chief Executive Officer for Operational Issues
Department for Payments and Operations
Administration Department

Vision

Our Bank is oriented to provide sustainable and quality services based on high professional standards.

Mission

Local bank
MODEL:

M ust enable easy and fast access for customers to diversified banking products, boosting value for clients, employees, and shareholders;

O ffering and being a modern local provider of electronic banking services;

D etermining the professional upkeep for our employees;

E thics, respect and teamwork are our values;

L aws, policies and procedures are strictly respected!

Our values

We are characterized by teamwork, through which we meet the needs of our clients. Teamwork brings 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.

Economic Bank
A success story

The Economic Bank started working with the acquisition of the license in 2001, as the only bank with 100 percent local capital.

Since the establishment, the Economic Bank has played an important role in the banking market of the country, continuing to stay close to its customers today, to successfully maintain the support of loyal customers, associates and employees.

Our human resources are distinguished by the appropriate training and qualification, where each employee is professionally prepared, works with dedication to clients and the institution, creating value in every action.

The continuous professional upkeep of employees has enjoyed special focus on our journey as one of the key factors in providing professional services. Therefore, we proudly say that each of our 341 employees is among the key assets of the bank.

The Economic Bank Network has been built and developed based on market demands throughout the entire territory of Kosovo. As a result of this development, today we have 32 banking units out of which 7 branches in the main centers of Kosovo and 25 branches that extend to the smaller regional units of the country.

A special focus has been given to the ongoing modernization of the branch network throughout Kosovo. During 2017, we have reallocated the Gjilan / Gnjilane branch to a new location, with modern design in line with the new image and standard, including special spaces dedicated to business clients.

A special achievement is the 24/7 self-healing space that contains the most advanced technology. Also, always based on customer expectations, we have reallocated the sub branch of Lipjan to a more modern facility, including the remodeling of the branch in Peja and the sub-branch in Viti / Vitia.

The Economic Bank has continued to increase the quality of services by developing and adapting products according to customer expectations and needs. In keeping with the rapid advances in technology, we have continuously improved and expanded our distribution channels, including branch network, e-banking, call center, SMS banking, POS (POS), ATMs, enabling customers 24/7 access to our products and services.

Being aware of the role we have in Kosovo society as the only 100 percent local bank, we have also given corporate social responsibility (CSR) an important focus.

We aim to contribute to the social development of the country, with the particular aim of supporting initiatives that improve the situation of different social categories in particular and the community in genera..

“Success usually comes to those who are too busy looking for it”

- Henry David Thoreau

The Macroeconomic Environment **in Kosovo**

Kosovo's economy, similar to developments in the euro area and in the countries of the region, was characterized by an increase of economic activity during 2017. Growth of consumption and investments represent the main contributing factors, while the growth in exports of goods and services has affected the negative contribution of Net exports soften. Inflation rate increased mainly as a result of rising prices in international markets, while the fiscal position remained stable with low levels of budget deficit and public debt. During 2017, the fiscal sector was characterized by good performance of budget revenues and increased budget expenditures. The budget revenue ratio to GDP in 2017 was 26.1 percent compared to the region's average of 37.0 percent. At the same time, the budget expenditure ratio of 27.0 percent of GDP was lower compared to the region's average of 39.5 percent.

Budget revenues in 2017 amounted to 1.68 billion euros or 5.3 percent more compared to the previous year. Increased collection of budget revenues came as a result of increased economic activity, but also the reforms undertaken by revenue agencies aimed at narrowing the tax gap.

The primary budget deficit as a percentage of GDP was 0.9 percent, which is lower than the 1.0 percent deficit in the previous year.

The external sector has been characterized by positive developments during 2017 in both the current and the financial account. Current account deficit in relation to GDP decreased to 6.4 percent from 7.9 percent in 2016, while the balance of financial account reached 5.1 percent of GDP from 3.3 percent in 2016. This improvement in deficit of the current account is attributed to surplus surpluses in the balance of services, the secondary income account and the primary income account, while the deficit in commodity trade has increased.

The financial sector continues to be characterized by high stability, assessed on the basis of performance indicators and financial soundness.

Banking Sectors

Banking sector loans, as a key contributor to the growth of the financial system activity, have been characterized by an accelerated annual growth. Credit growth is attributed to the accelerated lending growth of enterprises, dominating the overall credit structure, as well as the double-digit lending to households, which characterized the banking sector in the last three years. Improvement of lending conditions by banks and increased demand for loans were the main factors in increasing lending activity by banks. Positive developments in non-bank structural factors such as the launch of the Kosovo Credit Guarantee Fund in 2016, private bailiffs, notaries, etc have had a positive impact on lending growth.

The main source of banking sector activity financing continues to be deposits. The stability of deposit growth has mainly contributed to the growth of household deposits, which are considered as the most stable source of financing in relation to other financing channels. The average interest rate on loans continued to decline, while the average interest rate on deposits increased slightly for the third consecutive year. Average interest rates on loans and deposits in the Kosovo banking sector are already at an approximate level with the average interest rates of the countries of the region.

The level of non-performing loans has halved in the last two years under 3.5 percent, while banks have proactively collected bad loans. Credit growth has averaged 11.6 percent compared to 2016, with strong contributions from corporate and in particular households (about two-thirds and one-third of system loans). This has been driven by the fall in interest rates (thanks to increased competition), the balance of more healthy banks, reforms to strengthen contract enforcement, etc.

Source: Central Bank of the Republic of Kosovo and International Monetary Fund

Position of the Economic Bank in the Kosovo banking market

Kosovo's banking market is a growing market, both in the financial field and in the field of innovation of service delivery. In both of these areas, the Economic Bank plays an important role as the only 100 percent local bank.

In 2017, the Economic Bank managed to maintain its position in the market, following the banking market trend, which continues to increase. The banking market growth in total assets of 7.6 percent was followed closely by the Economic Bank, which has increased in total assets by 7.3 percent.

In addition, the bank continued to expand its sales channels network by offering its services through alternative channels.

Participation in loans

The Economic Bank credit portfolio has continued to grow above the market growth average. Against 11.6 percent of the average market growth for 2017 compared to 2016, the Economic Bank for the same period has increased by 12.3 percent. The Economic Bank has improved its market position from 6.69 percent in 2016 to 6.73 percent in 2017.

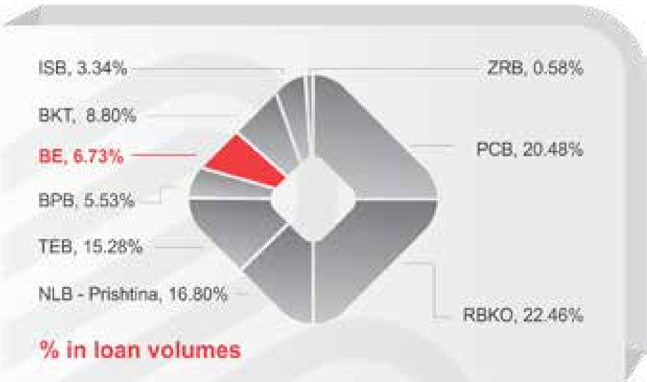


Figure 1: Bank Participation in General Lending, December 31, 2017.

Participation in deposits

The Economic Bank recorded during 2016 a record deposits growth of 21 percent and increased market share by 6.95 percent, continuing this year with the trend of stable deposit growth at the 5.8 percent rate and maintaining its market position of 6.95 percent.

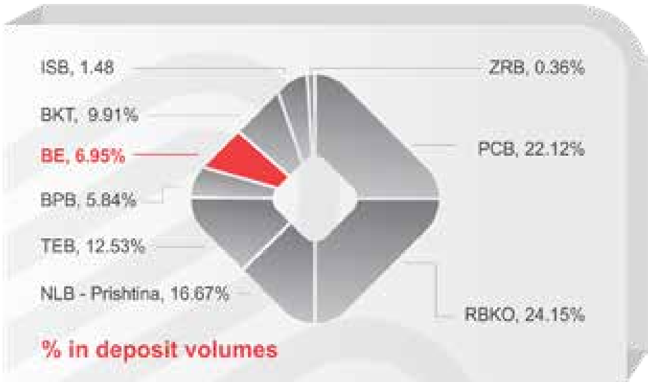


Figure 2: Banks' participation in deposits, December 31, 2017.

Statement of Financial Position

Amounts in EUR thousand	As at 31 December 2017	As at 31 December 2016
Assets		
Cash on hand and at banks	16,887	16,113
Balances with the Central Bank of Kosovo	30,554	36,867
Loans to customers	157,851	137,928
Investment in securities	26,456	24,770
Property and equipment	6,360	6,089
Intangible assets	514	394
Prepaid income tax	-	-
Other assets	703	843
Total assets	**239,325**	**223,004**
Liabilities		
Due to customers	209,447	197,708
Due to banks	2,048	2,196
Subordinated debt	1,050	1,050
Current tax liability	156	172
Other liabilities	463	439
Total liabilities	**213,164**	**201,565**
Equity and reserves		
Share capital	21,337	16,777
Revaluation reserve	118	102
Retained earnings/(Accumulated losses)	4,706	4,560
Total equity and reserves	**26,161**	**21,439**
Total liabilities, equity and reserves	**239,325**	**223,004**

Statement of Profit or Loss and Other Comprehensive Income

Amounts in EUR thousand	For the year ended December 31, 2017	For the year ended December 31, 2016
Interest income	14,284	13,450
Interest expense	(2,175)	(2,273)
Net interest income	**12,109**	**11,177**
Fee and commission income	2,536	2,356
Fee and commission expense	(752)	(683)
Net fee and commission income	**1,784**	**1,673**
Other operating incomes	80	31
Net foreign exchange losses	34	23
Revenue	**14,007**	**12,904**
Other operating expenses	(8,965)	(7,891)
Net impairment losses on loans	204	(2)
Total operating expenses	**(8,761)**	**(7,893)**
Profit before tax	5,246	5,011
Income tax	(540)	(451)
Net profit for the year	**4,706**	**4,560**
Other comprehensive income	**16**	**-**
Total comprehensive income for the year	**4,722**	**4,560**

The Performance of the **Economic Bank**

As the only bank with 100 per cent domestic capital, the Economic Bank has improved in most of the financial indicators in 2017. This success has been achieved by analyzing and responding to the needs of clients through the continuous increase of internal capacities and the pursuit and perfection of best practices in the provision of services and products.

The bank closed the year 2017 with profit before tax of EUR 5,246 million. This result, which is at the same time the best achieved so far by the Economic Bank, is followed by an increase of 5.6 percent in net interest income, 6.5 percent in net services revenues, and a decrease of 3.6 percent in expenditures of interest.

Bank assets

For 2017, the Economic Bank it was the fourth year in a row to increase its assets. This year-on-year increase in asset quality has come as a result of good performance, quality offer, flexibility and efficiency at work, which have made our bank even more competitive in the market.

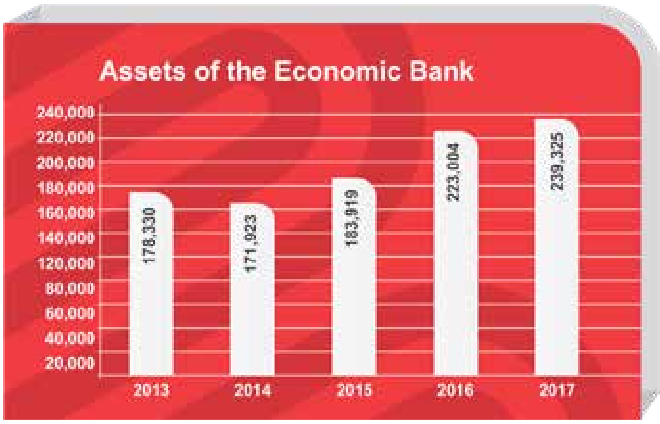


Figure 3: Economic Bank assets, 2013 - 2017.
All numbers are in ‘000 Euros.

Credit performance

MWith a rise of 12.3 percent in 2017 compared to 2016, the Economic Bank has managed to outperform its forecasts and maintain the growth trend, thus showing a steady growth.

During 2017, the bank continued diversifying the credit portfolio, taking care of the needs of its business and individual customers, but also taking into account credit risk, market risk and interest rate risk.

Deposit Performance

The Economic Bank has also shown high care with the portfolio of deposits by making their diversification as well as finding a balance between customer needs and internal needs.

In this way, the Economic Bank has managed to keep the loan / deposit ratio at 78.54 percent, making sure that throughout the year it is focused on the same deposit portfolio as for the loan portfolio.

The Economic Bank also controlled the costs arising from the portfolio of deposits, where with the portfolio growth of 5.8 percent, interest expenses decreased by 3.6 percent.

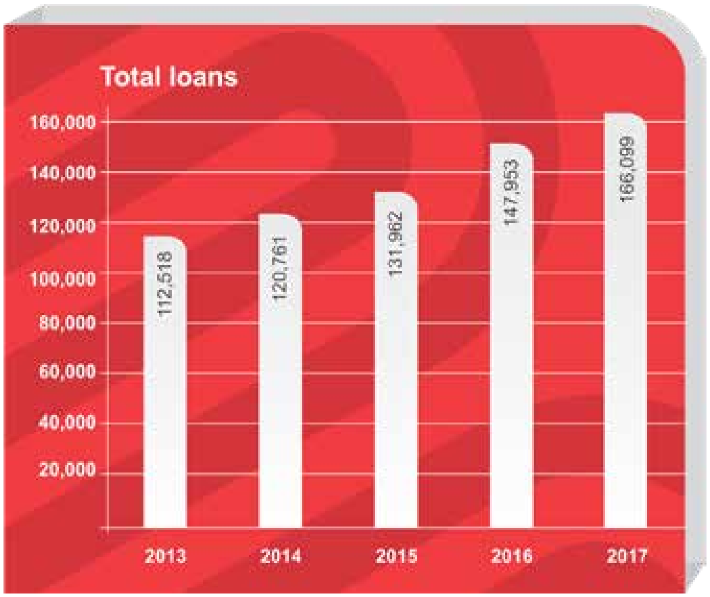


Figure 4: Credit Portfolio, 2013 - 2017.
All numbers are in ‘000 Euros.

Figure 5. Client Deposits, 2013 - 2017.
All numbers are in ‘000 Euros.

Income from interest and not interest

Euro '000	2013	2014	2015	2016	2017
Income from interest	13,637	13,552	13,571	13,450	14,284
Deposit costs	5,557	4,116	2,896	2,273	2,175
NET Revenues from Interest	**8,080**	**9,436**	**10,675**	**11,177**	**12,109**
Net revenues from commissions and fees	**1,425**	**1,482**	**1,496**	**1,673**	**1,784**

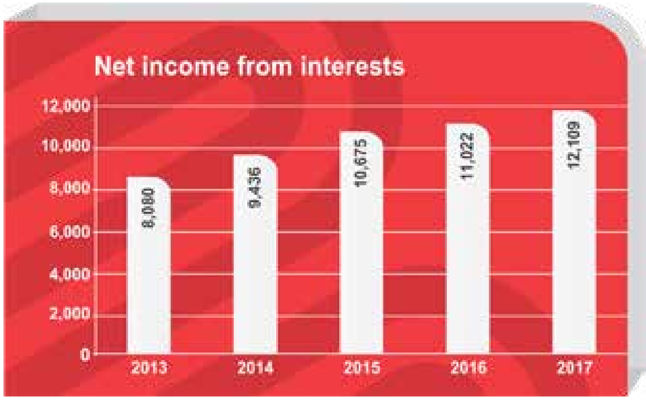


Figure 6: Net Interest Income, 2013 - 2017
All numbers are in '000 Euros.

Figure 7: Operating expenses, 2013 - 2017;
All numbers are in '000 Euros.

Operating expenses

Euro '000	**2013**	**2014**	**2015**	**2016**	**2017**
Administrative costs	3,380	3,481	3,718	4,081	4,824
Personnel expenses	2,454	2,520	2,787	2,793	3,125
Depreciation expense	998	1,010	845	859	834
Total Operating Expenditures	6,832	7,011	7,350	7,734	8,783

The Economic Bank has worked continuously in 2017 as in previous years in improving internal processes in order to increase the quality of services and its products, these developments that have affected all human resources as well as technology, have led to an increase of EUR 0.9 million.

Business **Development**

During 2017, we continued with a dynamic in the field of financing customer support and financing requirements that contributed to our growth strategy.

One of the key points of the developments for this year has been the increase in the quality of credit exposure in all segments, which has resulted in significant decreases in delays. The support of small and medium-sized enterprises remains as a well-proven focus of our bank, as this segment is considered as a key pillar of the development of the Economic Bank but also of the overall economy of the country.

In order to be as flexible as possible in meeting customer needs, we have revised and advanced all applicable policies in order to increase the provision of quality services.

We have also continued with various trainings for our employees, both internally and abroad, which we see as indispensable for development, sustainable and long-term business growth.

In order to increase customer care and differentiation in the market, in 2017 we continued to modernize the visual image by branding 4 branches and reallocating 2 more, to more favorable locations for our customers.

At the same time we have dedicated special treatment to the growth of self-help areas, where our customers can be served 24/7.

Our slogan "Economic Bank Thinks About You" is a guide we try to testify on every initiative and activity because we strongly believe in the obligation we make to every customer. Based on this, in the field of Marketing in 2017 we have realized and launched various campaigns both in the segment of individuals and business. These campaigns at the center of their message have had the presentation of the Economic Bank as an institution that plays an important role in the development of the local economy. As the only 100 percent local bank we take this role with a special responsibility and we try to convey it through our ongoing communication.

Our ongoing and growing presence in social networks, as well as communication through standard marketing channels, has been successful both in terms of selling and establishing a positive image as well as achieving the bank's overall objectives. During this year we have continued with the standardization of design and advertising in our branches and sub-branches in order to create contemporary environments for our customers.

Total loans

In the wake of the qualitative growth of credit exposure and the focus on financing small and medium enterprises, which has been part of our strategy, the year 2017 has resulted as a very successful one.

In 2017 a special focus has been to finance clients from various fields of activities and as a result we have managed to finance clients from commercial, service, transportation, construction, industrial, hotel, agricultural, consumer and much more areas.

Having the client's needs as a priority, we have also made their funding adequate, thus contributing to their further development.

During 2017, we have supported about 112 million euro lending, or about 9 million more than in the previous year. In this amount of credits, we have served clients with over 10,200 credit products.

In line with the Bank's strategy and our focus on risk delivery, during 2017 we had the best development in financing individual clients and micro clients in the amount of up to EUR 100,000 but not leaving aside client financing small and medium enterprises as well as corporations.

Credit exposure '000	2013		2014		2015		2016		2017	
	Exposure	%	Exposure	%	Exposure	%	Exposure	%	Exposure	%
over 500 thousand Euro	40,957	36.37%	38,105	31.55%	36,819	27.90%	41,788	28.24%	48,563	29.24%
from 100 to 500 thousand Euro	26,447	23.48%	30,498	25.25%	29,925	22.68%	28,430	19.22%	29,042	17.49%
up to 100 thousand Euros	20,572	18.27%	23,083	19.11%	24,651	18.68%	28,172	19.04%	29,913	18.01%
total business segment	**87,976**	**78.12%**	**91,686**	**75.90%**	**91,395**	**69.26%**	**98,390**	**66.50%**	**107,518**	**64.73%**
Segments for Individuals	**24,639**	**21.88%**	**29,105**	**24.10%**	**40,567**	**30.74%**	**49,564**	**33.50%**	**58,581**	**35.27%**
Total Exposure	**112,615**	**100.00%**	**120,791**	**100.00%**	**131,962**	**100.00%**	**147,954**	**100.00%**	**166,099**	**100.00%**

Micro businesses

Financing of the micro segment has been and remains the main focus of the Economic Bank, and naturally in 2017 this segment has been given special importance, both in financial support and in meeting needs based on their needs.

Training and staff preparation to be updated is one of the main priorities of the Economic Bank. With the aim of being as present as possible to provide adequate financial advice with a professional approach, this year we have also done various training. These kinds of training will play a very important role in the qualitative financial analysis in the service of our clients.

The support of the micro sector, as part of our bank's strategy, has also found broad support this year. The support is focused either on providing different services based on customer needs, but also through the delivery of electronic products where customers have been provided with better management of their time or 24-hour access to their bank accounts.

In order for this sector to have healthier development and financing opportunities even in the absence of pledges, in cooperation with the Kosovo Guarantee Fund we have managed to make their funding.

The micro segment is one of the main drivers of each country's development, so our strategy and focus will continue to give deserved attention to the support and funding of this sector.

Developments in 2017 in the Micro segment have resulted in an increase of credit exposure of EUR 1.7 million and allowances in the amount of EUR 22.2 million.

In order to stimulate the agricultural sector, the Economic Bank throughout the year is oriented to the design and implementation of targeted campaigns for this sector and to stimulate the financing of this category of clients.

These kinds of initiatives have resulted in the support of a considerable number of farmers.

Small and medium enterprises

Based on an experience of continuing support and support of this segment, the Economic Bank has provided a stable partnership of cooperation with this category of clients.

Focusing on providing quality products and services that have met the needs for further development of this segment, this cooperation has been further enhanced. Our focus has been to support a wide range of sectors of this segment, especially in the trade, services and hotel sector.

Particular importance in facilitating the conditions for accessing the clients of this segment in the management of 24/7 bank accounts was the provision of electronic services and self-service spaces.

Orientation and increased commitment of cooperation with small and medium enterprises is also evidenced by our financial support to this segment, 2017 allowed about EUR 25 million or 32 percent of total financing in the business segment offered by our bank.

Individual Clients

An important and primary priority of the Department of Individuals is the establishment and maintenance of a high level of customer satisfaction through the continuous increase of service quality as well as the expansion and improvement of the range of products and services offered to this category.

Our commitment to diversifying our product and service portfolio during 2017 is characterized by a wide range of projects, products and services in response to customer needs to increase their level of satisfaction.

Through the many launching campaigns for loans and deposits that have been realized throughout the year, we have managed to increase the number of new clients in the bank, but at the same time we analyze and understand their characteristics to meet the needs and requirements in improving the conditions and standard of living.

The Bank's emphasis on the development and growth of the segment for individuals has continued throughout the year and has been crucial both in the growth of the loan portfolio for 18.00 percent compared to the previous year and the increase in the deposit level of individuals by 6.50 percent . These are important indicators demonstrating the impact of this segment on the Bank's overall profitability balance.

Corporate Social Responsibility (CSR)

Businesses around the world daily care more than just success in the area where they operate, to contribute to the well-being of all stakeholders, which today implies the entire socio-economic environment surrounding them.

The Economic Bank takes this responsibility with high responsibility and is committed to giving its contribution in this regard. Therefore, the continued support of social, cultural and educational activities remains an important goal in fulfilling the bank's mission.

Social and health activities

The Economic Bank has built a long tradition of cooperation with local institutions aimed at improving the social environment. One of the primary goals is concrete and immediate support in solving current social problems.

Thus, the Economic Bank, as in previous years, has continued to support SOS Villages, which offer sustainable, safe and loving family care for children who have lost their parents or are unable to live with their biological family.

During the "I give hope" fundraising event, organized by SOS Children's Villages, the Economic Bank has donated a donation to the package "I WANT TO BE A LEADER", which covers a 1-year education expenditure for 14 young people without parental care.

In addition, the Economic Bank has also contributed to the "I HAVE A FAMILY" package, which covers 1-year food and hygienic costs for a child without parental care.

Another initiative that has been supported by our bank has been the organization "Action for Mother and Child". Knowing that children are the future of any society, this year we have continued to support the initiative of a group of young people who aim to improve the social and economic environment for mothers and children suffering from various illnesses and faced with lack of necessary medical services. The support of such an initiative is within the social responsibility of our institution and as such will continue in the upcoming years.

The health system, in particular the health of the children, continues to be a major challenge for our society. Therefore, given that children are the cornerstone of a state and society, the Economic Bank has decided to donate donations to UCCK, respectively the Pediatric Clinic, the Hematology and Oncology Department. Through this donation we have supplied new inventory in order to improve the working environment in order to provide the best working conditions and thus to create a safe future for children.

Support for sport

Sport is another social segment for which the Economic Bank continues to provide support by supporting our athletes and clubs in improving infrastructure conditions, participating in international competitions etc..

This year the Bank has supported the participation of football club FC “Liburni” from Gjakova in a international qualifying competitions for the European Cup.

In addition to providing support to sports clubs, the Economic Bank has also supported the organization of the Charitable Tournament organized by the American Chamber of Commerce.

Education Activities

Within the scope of social responsibility, the Economic Bank as the only 100 percent local bank continues to support various social categories, so this year the bank has also supported the organization of the StartupBattle “Pun’pun” Edition, a project designed by the College “Universum”.

The Economic Bank will continue to devote itself to supporting ideas and innovative projects in the future, because it strongly believes that through this support we can contribute to the improvement of the social and economic environment.

Distribution **Channels**

Branch network

During 2017, the Economic Bank has operated with a total of 32 branches, which are divided into 7 main branches within which 23 sub-branches and 2 banking offices.

Regarding the number of branches present in the banking market in Kosovo, we are the 3rd bank, which is an indication of our intention to be closer to the clients in the provision of services.

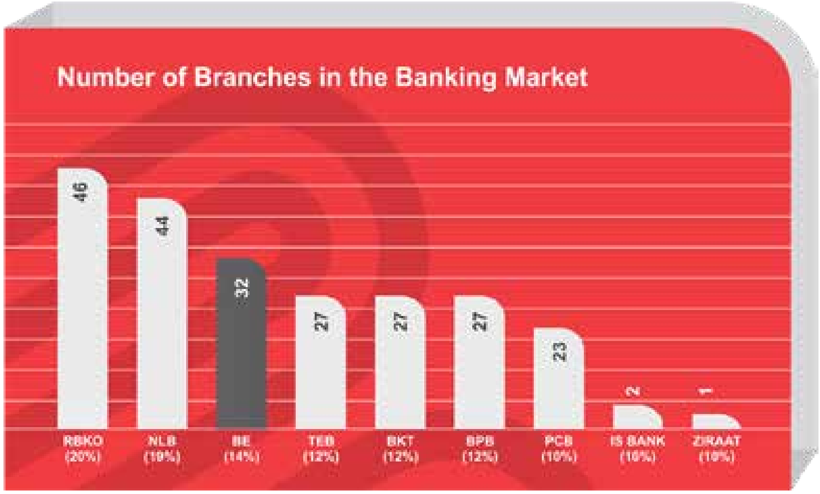


Figure 8. Participation of the Economic Bank in number of branches in the banking market

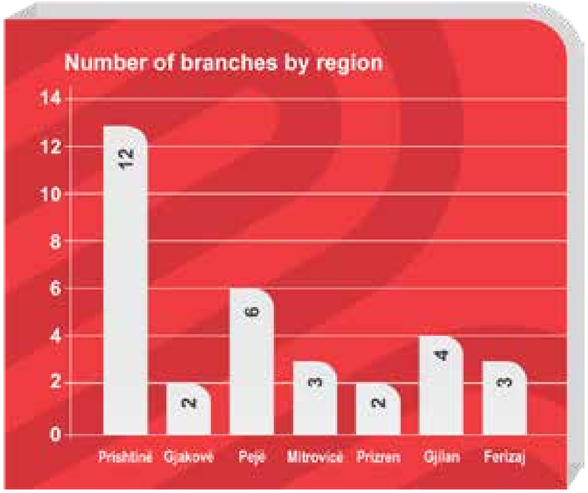


Figure 9. Number of branches by region of Economic Bank

During 2017, the Economic Bank also has paid special attention to the proper development of the branch network, including its sub-branches, in order to create a strong image of the Bank to current and potential customers.

In order to continuously improve the conditions of service delivery, we have reallocated the branches in Gjilan / Gnjilane and Lipjan / Lipljan to modern facilities, and we have done a remodeling of the branch in Peja.

Alternative distribution channels

One of the alternative channels of distrubation is the Call Center. During 2017, this center played an important role in managing client questions on a daily basis, providing necessary clarifications on banking and electronic products as an alternative to 24/7 banking services using ATMs, e-banking and SMS services.

The Economic Bank closed 2017 with the provision of services in 54 active ATMs and the focus was on the continuous improvement of the conditions for providing alternative services by investing in technical infrastructure for the purpose of at all times access to ATMs.

This is also confirmed by the availability level (uptime) in customer service, which in 2017 was 98 percent, with the total number of transactions being 643,000 or 15 percent more than in the previous year.

Always within the framework of the latest developments in the banking market and the Bank's strategy of providing services 24/7, we have created Self-Estimated Spaces also in Peja and Gjilan.

In 2017, in the area of the POS terminals network, the bank has focused on enhancing and strengthening the relationship with traders, making investments in improving the technical aspect in order to be in the best possible service of customers during all the time.

This approach has expanded the number of agreements with traders during 2017 and as a result we have increased the usability of the Sales Terminals (POS) by 95 percent..

Customer Care

The thoughts and suggestions of our clients play a very important role in identifying their expectations, because that way we can develop services and products to meet those expectations. The Claims Unit has been looked after to serve as an important support center where every request or suggestion is addressed with great dedication as a guide to improving the services provided.

Creating an adequate and professional process for dealing with customer complaints regarding products and services has ensured their quick and efficient resolution. This is confirmed by the research carried out in 2017 with the bank's physical and business clients, which shows a high level of satisfaction with the services provided.

Risk **Management**

Good risk management involves planning successive activities in identifying, analyzing, assessing, accepting and managing potential risks. The Bank is exposed to certain types of risks known as credit, operating, market, liquidity, legal risks, interest rate fluctuations, risks from electronic services or other lesser known risks.

The main objective of risk management is to achieve the right balance between risk and return as well as to reduce the unexpected effects on the Bank's financial performance.

In order to ensure business continuity, stress tests are undertaken to cope with potential shortages in credit portfolio quality and capitalization levels that may result from some hypothetical scenarios, such as: raising the rate of non-performing loans, reduced interest rates on assets and interest rates rise on liabilities, and the failure of larger borrowers.

The Bank activity remains stable, where all financial indicators such as capital adequacy, solvency, leverage, liquidity and other indicators are significantly above the minimum requirements of regulatory parameters.

Credit Risk

Our main focus has been the growth of credit quality with particular emphasis on improving all quality indicators of the credit portfolio. This period was characterized by improved credit analysis, portfolios diversification, regular monitoring or additional control of the credit portfolios. Most importantly, the level of nonperforming loans is at the lowest levels over the years, which has a positively impacted on the growth of regulatory capital - sufficient to cope with the effect of the negative fluctuations under all stress scenarios of the credit risk test.

Operational Risk

Operational risk is one of the most important areas, which is carefully treated at all levels. The Bank has revised the entire operational risk system by having a comprehensive approach to the identification, assessment, control, management and integrated operational risk monitoring at the institutional level - at the top-down hierarchical level. During the year the application for automated management of the operational risk management was implemented, setting the limits for these risks (known as a key risk indicator), allowed parameters as well as remedial measures where the identified risks had a higher impact according to the division of the categories according to Basel.

Market Risk and Liquidity Management

The objective of market risk and liquidity management is to manage and control that exposure to market risk is within acceptable parameters. The Bank has maintained all limits including all daily liquidity positions, interest rates that are monitored and tested regularly or periodically through various scenarios covering normal and unfavorable market conditions.

The bank maintains regular committees for assets and liabilities analyzing all positions on assets and liabilities, including reviewing or updating all documentation to take corrective action if necessary.

Risk-based supervision

In order to have a more professional approach to risk-based supervision, the foundations of the Internal Capital Adequacy Assessment (ICAAP) are being established. This document is being drafted in accordance with the requirements of the regulator and sets out the criteria for internal bank assessment of capital requirements according to the second pillar risks and according to the new capital standards.

Operations

The year 2017 is considered as a very dynamic year in the bank's operational terms, with particular emphasis on the management of the accounts.

The Bank has been maximally engaged in providing new information and updating existing customer information to create a complete database of databases through which it can analyze and provide better customer services, manage and reduce the operational risk and may be in compliance with the requirements and rules of the various state agencies for KYC (Know Your Costumer).

As a result of our dedication and engagement, we have managed to improve some important processes, thus meeting the legal requirements, and have achieved the Bank's goal of automating and improving operational processes.

Our cash management and payment solutions are tailored to provide our business customers with a range of products and services. The Economic Bank provides an adequate and secure infrastructure for fast and secure payment processing..

Through our online payments system, which provides 24/7 secure, convenient and fast banking services, our customers can transfer funds electronically to the recipient worldwide and process local payments, including payment utility services and other transactions using e-banking.

Also in function of the Direct Debit System (SDD), the bank supports its customers, offering full management of receivables and payables.

National payments

National payments, including high value payments, are now processed in real time.

Transfers at the national level have marked a total increase of 14 percent, with local transfers contributing with a 19 percent increase, while incoming transfers have increased by 9 percent compared to 2016.

The total amount of incoming transfers through the local payments system has increased by 9 percent compared to the previous year, while the outgoing domestic transfers have increased by 19 percent.

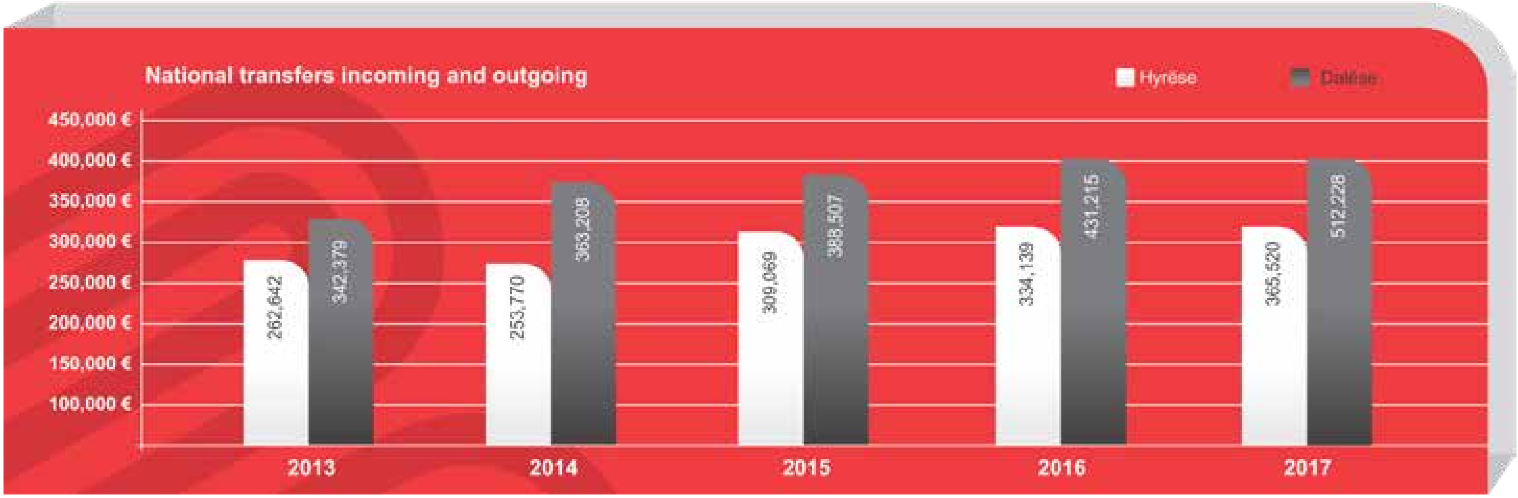


Figure 10: National transfers, incoming and outgoing;
All numbers are in '000 Euros

International transfers

International money transfers are of great importance to our customers. Through our network in dealing with foreign correspondent banks, international outgoing payments can be made for beneficiaries abroad all over the world.

As members of SWIFT, our customers enjoy a great advantage, especially in international outbound payments. International entry fees can be managed using the same system.

The total amount of incoming transfers through the international payment system has increased by 10 percent compared to the previous year, while international outgoing transfers have increased by 5 percent.

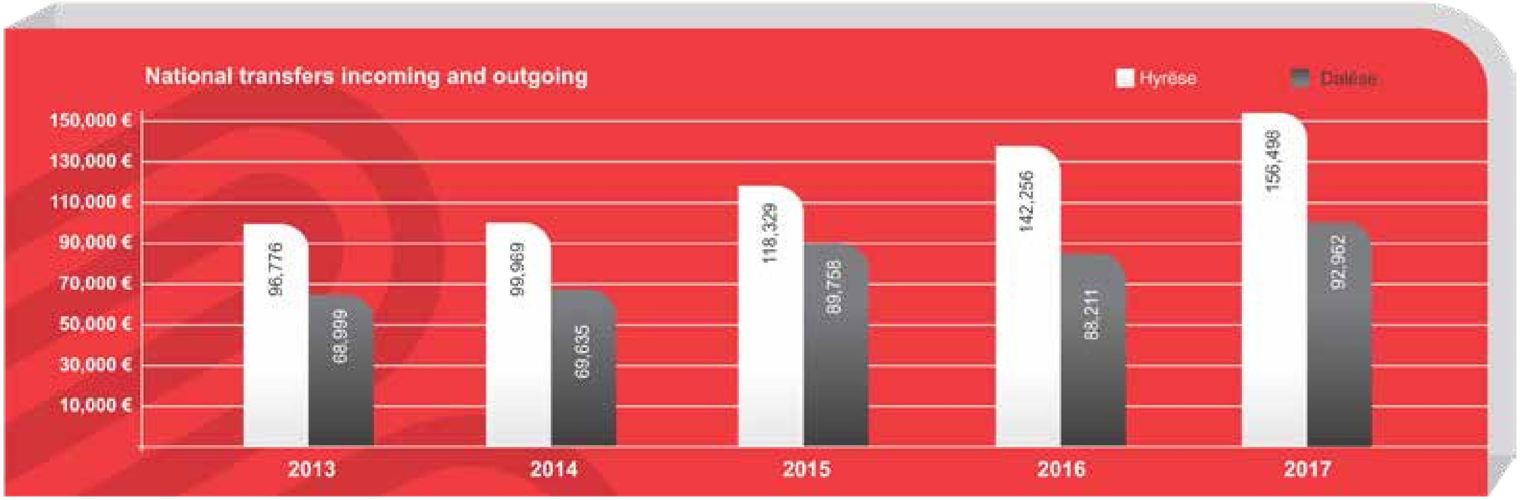


Figure 11: International, incoming and outgoing transfers; All numbers are in '000 Euros

International Warranties and loan letters

The total amount of Warranties and international letters of credit has increased by 16 percent compared to the previous year.

Bank cards

The Economic Bank offers its customers debit and credit cards through Master Card and Visa partners, where customers can perform ATM, POS, online payment and other services within and outside Kosovo. We continued in 2017 with a positive trend, with the total number of cards increasing by 26 percent. In this growth contributed mainly to debit cards, where in 2017 they increased by 28 percent, while credit cards increased by 7 percent compared to 2016.

Figure 12: International Warranties and loan letters; All numbers are in '000 Euros

Figure 13. Number of debit and credit cards over the years.

Information **Technology**

During 2017 a new data center was built, and with this investment we increased data security and availability of our banking services. In addition, the core banking software infrastructure has been modernized. These changes have significantly accelerated and improved internal and client services.

Within the framework of other Information Technology activities, it is worth mentioning the development of a separate strategic document “3 Year Strategy on Information Technology”, a document that will serve as a working guide in this department, with emphasis on supporting the development of business and quality improvement for our customers. Also, over 25 projects have been implemented, such as the new Anti Money Laundry module, the CIF (Costumer Information File), advancements in the E-Banking platform, and a large number of other developments which have helped to further improve the bank’s processes. This year we have continued building 24/7 self-help centers and advancing digital banking. The Economic Bank attaches particular importance keeping pace with technological innovations and constantly making long-term plans to be updated.

Management and Training of **Personnel**

The Human Resources Department appreciates the high level of staffing, ongoing efforts and commitment of each for the Bank's continued growth and progress over the 16 years of its presence in the market.

The Human Resources Department is an important factor, which also contributes to the development and realization of the overall business goals and the development of human resources. The Objective of the Department of Human Resources is the continuous professional upgrading of workers, investments in various trainings to increase the quality level in their performance by offering various opportunities for development. We strongly believe that well-trained workers can provide excellent customer service and this also ensures a sustainable development of the institution.

During 2017, we organized events, parties, meetings and activities that enable employees to meet informally and which have contributed to raising motivation.

During 2016-2017, human resources surveys were conducted to measure the level of satisfaction for all Bank employees. From the results of this survey it can be said that the Economic Bank employees are very satisfied with the work, which can be seen in some of their statements. If we compare the data over the years, we see that there are obvious improvements in the satisfaction of bank staff in general as satisfaction responses have increased, while those of discontent have fallen.

The HR team works closely and consistently with department and branch managers to develop, plan and organize the necessary training programs, both internally and externally. We engage internal staff as “volunteer trainers” so that their experience and range of expertise are shared with collaborators.

Human Resources provide new career paths and opportunities for internal mobility, whereby a number of internal staff at the branch and department level are given the opportunity to advance to new positions, based on their skills.

As in past years, opportunities for practical work for students from public and private universities have been provided. As practical work is a mandatory part of the curriculum of most universities in Kosovo, providing opportunities for practical work for students, the Economic Bank plays an important role in the education efforts in the financial sector in the country.

Throughout the year, around 70 students are offered practical quarterly work at the bank to help them develop the knowledge acquired at the university in order to better prepare for the labor market.

The Economic Bank has done an excellent job with regard to gender equality. The percentage of staff based on gender is almost the same, with a slight feminine dominance, including managerial and executive positions at the Bank.

The average age of employees around 36 is an indication that we have a relatively young human capital.

Figure 14. Number of employees by gender;

Years	2013	2014	2015	2016	2017
Number of employees over the years	303	321	323	335	341

The journey continues

The Economic Bank, as the only 100% local financial institution, will continue its successful journey in providing services with a view to contribute to a prosperous and democratic state.

Our mission is based on this noble purpose and this makes it our job to be taken not only as a commercial obligation but as a multi-dimensional activity.

Our determination to serve those segments of the society that best contribute to a prosperous society is not casual, because even so we aim to fulfill our mission. With our work and approach, we aim to give an example of how a responsible company should function.

This example can be seen from the moment you enter each of our branches in all parts of Kosovo, the service you receive from each of our staff, the modern technology that follows these services, but most of all the trust we have created to our customers.

Therefore our journey will continue strong and secure, because you are the ones who believe in it, so the Economic Bank will continue to always think 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 2017

(with independent auditors' report thereon)

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS AND 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 December 31, 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank are prepared, in all material respects, in accordance with the 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") as described in Note 2 to the financial statements.

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 ethical requirements that are relevant to our audit of the financial statements in Kosova, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER MATTER

The Bank has prepared a separate set of financial statements for the year ended December 31, 2017 in accordance with the International Financial Reporting Standards.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte Kosova Sh.p.k.

Deloitte Kosova sh.p.k.
Str. Lidhja e Pejes, no.177
Prishtina, Republika e Kosoves
Registration No: 80452632
April 13, 2018

Statement of Financial Position

Amounts in EUR thousand	Note	As at 31 December 2017	As at 31 December 2016
Assets			
Cash on hand and at banks	6	16,887	16,113
Balances with the Central Bank of Kosovo	7	30,554	36,867
Loans to customers	8	157,851	137,928
Investments in securities	9	26,456	24,770
Property and equipment	10	6,360	6,089
Intangible assets	11	514	394
Prepaid income tax		-	-
Other assets	12	703	843
Total assets		**239,325**	**223,004**
Liabilities			
Due to customers	13	209,447	197,708
Due to banks	14	2,048	2,196
Subordinated debt	15	1,050	1,050
Current tax liability		156	172
Other liabilities	16	463	439
Total liabilities		**213,164**	**201,565**
Equity and reserves			
Share capital	17	21,337	16,777
Revaluation reserve	17	118	102
Retained earnings/(Accumulated losses)		4,706	4,560
Total equity and reserves		**26,161**	**21,439**
Total liabilities, equity and reserves		**239,325**	**223,004**

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 41.

These financial statements have been approved by the Board of Directors of the Bank and signed on April 13, 2018, on its behalf by:

Ms. Merita Gjyshinca Peja
General Manager

Mr. Fitim Rexhepaj
Chief Finance Officer

Statement of Profit or Loss and Other Comprehensive Income

Amounts in EUR thousand	Note	For the year ended December 31, 2017	For the year ended December 31, 2016
Interest income	18	14,284	13,450
Interest expense	18	(2,175)	(2,273)
Net interest income		**12,109**	**11,177**
Fee and commission income	19	2,536	2,356
Fee and commission expense	19	(752)	(683)
Net fee and commission income		**1,784**	**1,673**
Other operating income	20	80	31
Net foreign exchange losses		34	23
Revenue		**14,007**	**12,904**
Other operating expenses	21	(8,965)	(7,891)
Net impairment losses on loans	8	204	(2)
Total operating expenses		**(8,761)**	**(7,893)**
Profit before tax		5,246	5,011
Income tax	22	(540)	(451)
Net profit for the year		**4,706**	**4,560**
Other comprehensive income		**16**	**-**
Total comprehensive income for the year		**4,722**	**4,560**

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 5 to 41.

Statement of Changes in Equity

Amounts in EUR thousand	Share capital	Revaluation reserve on AFS securities	Retained earnings/ (Accumulated losses)	Total equity and reserves
At 1 January 2016	**14,778**	**102**	**1,998**	**16,878**
Transactions with owners	1,998	-	(1,998)	-
Total comprehensive income for the year	1,998	-	(1,998)	-
Profit for the year	-	-	4,560	4,560
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**4,560**	**4,560**
At 31 December 2016	**16,777**	**102**	**4,560**	**21,439**
At 1 January 2017	**16,777**	**102**	**4,560**	**21,439**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners	4,560	-	(4,560)	-
Total transactions with owners recorded in equity	4,560	-	(4,560)	-
Transactions with owners				
Total comprehensive income for the year	-	-	-	-
Profit for the year	-	-	4,706	4,706
Other comprehensive income for the year	-	16	-	16
Total comprehensive income for the year	**-**	**16**	**4,706**	**4,722**
At 31 December 2017	**21,336**	**118**	**4,706**	**26,161**

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 41.

Statement of Cash Flows

Amounts in EUR thousand	Note	For the year ended December 31, 2017	For the year ended December 31, 2016
Operating activities			
Profit before taxation	22	5,246	5,011
Adjustment for:			
Amortization and depreciation	10,11	834	858
Net impairment loss on loans to customers	8	(204)	2
Loss on disposal of property and equipment		-	-
Interest income	18	(14,284)	(13,450)
Interest expense	18	2,175	2,273
Loss before changes in operating assets and liabilities		**(6,233)**	**(5,306)**
Changes in operating assets and liabilities			
Statutory reserves	6	(1,365)	(1,301)
Loans to customers	8	(19,660)	(15,887)
Other assets	12	140	(151)
Due to customers	13	11,739	34,142
Due to banks	13	(148)	803
Other liabilities	16	24	(100)
		(15,503)	**12,200**
Interests paid		(2,096)	(2,458)
Interests received		14,197	13,608
Income tax paid		(540)	(519)
Net cash generated from/(used in) operating activities		**(3,942)**	**22,831**
Investment activities			
Purchase of property and equipment and intangible assets	10,11	(1,234)	(857)
Net redemptions / (purchase) of securities	9	(1,728)	(3,264)
Net cash (used in) / generated from investing activities		**(2,962)**	**(4,121)**
Net increase/(decrease) in cash and cash equivalents		**(6,904)**	**18,710**
Cash and cash equivalents, beginning of the year		38,172	19,462
Cash and cash equivalents, end of the year	**6**	**31,268**	**38,172**

The Statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 41.

Notes to the financial statements for the year ended 31 December 2017

(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. 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) Basis of preparation

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

(c) Functional and presentation currency

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

(d) Use of judgments and estimates

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 4, 5 and 25.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Interest (continued)

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.

(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.

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 plus transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

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

- loans and receivables; and
- held-to-maturity.
- available-for-sale
- See notes 3 (j), (h) and (i).

Financial liabilities

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

(iii) Derecognition

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

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.

(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.

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
Substandard	20%
Doubtful	50%
Loss	100%

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% (2016: 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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).(vii)). 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 (f)(vii)).

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

(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 and to customers 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 and subordinated debt

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

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

(i) Property and equipment

(i) Recognition and measurement

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Property and equipment (continued)

(i) Recognition and measurement (continued)

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.

(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 2017	Useful life 2016
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.

(m) 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.

(n) Impairment of non-financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Impairment of non-financial assets (continued)

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.

(o) 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.

(p) 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.

(q) Financial guarantees and loan commitments

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

(r) Dividends

Dividends on ordinary shares are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Adoption of new and revised standards

(i) Standards and Interpretations effective in the current period

Note that as explained in Note 2.a, these financial statements are prepared based on CBK rules and IFRS standards below are not applicable:

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Company's financial statements.

(ii) Standards and interpretations in issue not yet effective

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

- **IFRS 9 Financial Instruments**
- **IFRS 15 "Revenue from Contracts with Customers"** and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Adoption of new and revised standards

(ii) Standards and Interpretations effective in the current period

- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018),

- **IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

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.

(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.

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

(b) Determining fair values (continued)

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.

5. DISCLOSURE AND ESTIMATION OF FAIR VALUE

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

Financial instruments 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 2017	24,628	-	24,628	-
31 December 2016	21,922	-	21,922	-
Total Assets	**46,550**	**-**	**46,550**	**-**

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	
			Level 2	Level 2
Assets	**2017**	**2016**	**2017**	**2016**
Cash on hand and at banks	16,887	16,113	16,887	16,113
Balance with CBK	30,554	36,867	30,554	36,867
Loans to customers	157,851	137,928	169,243	142,135
Investments in securities	1,828	2,848	1,828	2,848
Liabilities				
Due to customers	209,447	197,708	210,614	199,291
Due to banks	2,048	2,196	2,048	2,196
Subordinated Debt	1,050	1,050	1,050	1,027

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

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 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 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.

Bonds available for sale

Bonds available- for-sale include treasury bonds issued by the Government of Kosovo that are neither held for trading, nor held to maturity. Fair value of these investment securities is based on market prices or broker/dealer price quotations.

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.

6. CASH ON HAND AND AT BANKS

	As at December 31, 2017	As at December 31, 2016
Cash on hand	9,862	8,191
Current accounts with banks	7,025	7,922
	16,887	**16,113**

Cash and cash equivalents comprise the following:

	As at December 31, 2017	As at December 31, 2016
Cash on hand and at banks	16,887	16,113
Balances with the CBK (Note 7)	30,554	36,867
Statutory reserves	(16,173)	(14,808)
	31,268	**38,172**

In accordance with the CBK requirements relating to the deposits reserve for liquidity purposes, the Bank should maintain a minimum of 10% of customer deposits with maturities up to one year, as statutory reserves. The statutory reserves represent highly liquid instruments, including cash on hand, accounts at the CBK or at other banks in Kosovo, and the amounts held at the CBK should not be less than half of the total statutory reserves.

The assets with which the Bank may satisfy its liquidity requirement are 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.

7. BALANCES WITH THE CENTRAL BANK OF KOSOVO

	As at December 31, 2017	As at December 31, 2016
Statutory reserves with the CBK	16,173	14,808
Current accounts	14,381	22,059
	30,554	**36,867**

8. LOANS TO CUSTOMERS

	As at December 31, 2017	As at December 31, 2016
Loans	137,927	123,516
Overdraft facilities	28,034	24,361
	165,961	**147,877**
Accrued interest	917	804
Deferred disbursement fees	(779)	(725)
	166,099	**147,956**
Allowance for impairment	(8,248)	(10,028)
Loans to customers	**157,851**	**137,928**

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 (2016: 1 to 20 years). In 2017, the interest rates on loans to customers ranged from 2.45% to 24% p.a (2016: 1.5% to 24% p.a). The Bank has granted few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals.

The movements in the allowance for impairment are as follows:

	2017	2016
Allowance for impairment at 1 January	10,028	10,002
Loans written off	(2,435)	(916)
Recoveries of loans previously written off	859	944
Charge for the year	(204)	(2)
Allowance for impairment at 31 December	**8,248**	**10,028**

8. LOANS TO CUSTOMERS (CONTINUED)

		2017			2016	
Category	At amortized cost	Allowance for impairment	Net balance	At amortized cost	Allowance for impairment	Net balance
Standard	155,409	2,051	**153,358**	135,822	1,753	**134,069**
Watch	1,677	20	**1,657**	2,001	24	**1,977**
Sub-standard	3,003	665	**2,338**	2,078	700	**1,378**
Doubtful	1,018	520	**498**	1,029	525	**504**
Loss	4,992	4,992	**-**	7,026	7,026	**-**
Total	**166,099**	**8,248**	**157,851**	**147,956**	**10,028**	**137,928**

9. INVESTMENTS IN SECURITIES

	As at December 31, 2017	As at December 31, 2016
Held-to-maturity		
Government Treasury bills	-	-
Government Bonds	1,814	2,812
Accrued Interest	14	36
Total securities held-to-maturity	**1,828**	**2,848**
Available-for-sale		
Government Treasury bills	10,566	11,638
Government Bonds	14,017	10,219
Accrued Interest	45	65
Total securities available-for-sale	**24,628**	**21,922**
Total Investments in Securities	**26,456**	**24,770**

The following table provides for the movement of AFS investments during 2017 and 2016:

	AFS investments
At 01 January 2017	**21,857**
Additions	35,173
Disposal/matured	(32,464)
nrealized gain/(loss)	16
At 31 December 2017	**24,582**
At 01 January 2016	**987**
Additions	39,550
Disposal	(18,680)
Unrealized gain/(loss)	-
At 31 December 2016	**21,857**

10. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Motor vehicles	Total
Cost						
At 1 January 2016	**5,634**	**697**	**3,392**	**1,517**	**556**	**11,796**
Additions	-	139	254	156	62	611
Disposals	-	(29)	(367)	(195)	(76)	(667)
At 31 December 2016	**5,634**	**807**	**3,279**	**1,478**	**542**	**11,740**
Additions	-	220	398	293	59	970
Disposals	-	(71)	(135)	(49)	-	(255)
At 31 December 2017	**5,634**	**956**	**3,542**	**1,722**	**601**	**12,455**
Accumulated depreciation						
At 1 January 2016	**846**	**553**	**2,774**	**955**	**442**	**5,570**
Charge for the year	141	54	327	164	51	737
Disposals	-	(29)	(361)	(190)	(76)	(656)
At 31 December 2016	**987**	**578**	**2,740**	**929**	**417**	**5,651**
Charge for the year	141	63	259	175	52	690
Disposals	-	(71)	(129)	(46)	-	(246)
At 31 December 2017	**1,128**	**570**	**2,870**	**1,058**	**469**	**6,095**
Carrying amount						
At 31 December 2016	**4,647**	**229**	**539**	**549**	**125**	**6,089**
At 31 December 2017	**4,506**	**386**	**672**	**664**	**132**	**6,360**

As at 31 December 2017 and 2016 the Bank does not have any property or equipment pledged as collateral.

The carrying amount of tangible and intangible assets of the Bank at 31 December 2017 was EUR 6,874 thousand representing 27.22% of Tier 1 capital (2016: EUR 6,484 thousand representing 31.55% of Tier 1 capital). The maximum regulatory limit is 50% of Tier 1 capital. No breach of such ratio was reported in 2016, nor in 2017.

11. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2016	**831**
Additions during the year	246
Disposals	(2)
At 31 December 2016	**1,075**
Additions for the year	264
Disposals	-
At 31 December 2017	**1,339**
Accumulated amortization	
At 1 January 2016	**560**
Charge for the year	121
At 31 December 2016	**681**
Charge for the year	144
At 31 December 2017	**825**
Carrying amount	
At 1 January 2016	**271**
At 31 December 2016	**394**
At 31 December 2017	**514**

12. OTHER ASSETS

	As at December 31, 2017	As at December 31, 2016
Prepayments	333	354
Other	370	489
Total	**703**	**843**

13. DUE TO CUSTOMERS

	As at December 31, 2017	As at December 31, 2016
Time Deposits	102,185	99,631
Current accounts	82,316	72,123
Savings accounts	13,172	12,717
Flexi deposits	8,200	8,324
Blocked accounts	2,064	3,482
Accrued interest	1,510	1,431
Total	**209,447**	**197,708**

Current accounts are non-interest bearing.

The average effective interest rates for time deposits during 2017 and 2016 were as follows:

Year	1 month	3 months	6 months	1 year	18 months	2 -5 years
2017	0.09%	2.24%	1.87%	1.80%	1.70%	2.39%
2016	0.07%	1.32%	1.79%	1.84%	3.06%	2.31%

14. DUE TO BANKS

Balances due to banks amounting EUR 2,048 thousand (2016: EUR 2,196 thousand) represent current accounts from local banks. The current accounts are non-interest bearing.

15. SUBORDINATED DEBT

	2017	2016
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, 2017	As at December 31, 2016
Accrued expenses	203	238
Other taxes payable	64	67
Pension and social assistance charges	24	22
Provisions for litigations	43	50
Other provisions	79	-
Other deferred income	36	41
Provision for losses from guarantees	14	21
Total	**463**	**439**

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

	2017	2016
Provisions as at 1 January	21	17
Creation/(release) for the year	(7)	4
Provisions as at 31 December	**14**	**21**

17. SHARE CAPITAL AND RESERVES

The authorised and paid up share capital of the Bank comprises 83,348 ordinary shares (2016: 65,534) with par value of EUR 256 each (2016: 256). The shareholding structure of the Bank is as follows:

	As at December 31, 2017		As at December 31, 2016	
	%	**Amount**	**%**	**Amount**
Behgjet Pacolli	35	7,431	35	5,843
Afrim Pacolli	33	7,031	33	5,528
Selim Pacolli	14	2,950	14	2,319
Xhabir Kajtazi	12	2,525	12	1,986
Ismet Gjoshi	3	716	3	563
Hasan Hajdari	1	215	1	169
Zyhra Hajdari	1	206	1	162
Others with less than 1%	1	263	1	207
	100	**21,337**	**100**	**16,777**

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.

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, 2017	December 31, 2016
Revaluation reserve as at January 1	102	102
Revaluation reserve of AFS	16	-
Balance as of December 31	**118**	**102**

18. NET INTEREST INCOME

	Year ended December 31, 2017	Year ended December 31, 2016
Interest income		
Loans to customers	13,650	13,041
Deposits and balances with banks	19	3
Investments in securities	615	406
Total Interest income	**14,284**	**13,450**
Interest expense		
Due to customers	(2,100)	(2,198)
Subordinated debt	(75)	(75)
Total Interest expense	**(2,175)**	**(2,273)**
Net interest income	**12,109**	**11,177**

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

19. NET FEE AND COMMISSION INCOME

	Year ended December 31, 2017	Year ended December 31, 2016
Banking services	2,462	2,295
Guarantees	74	61
Fee and commission income	**2,536**	**2,356**
Swift expenses	(741)	(678)
License and other regulatory fees	(11)	(5)
Fee and commission expenses	**(752)**	**(683)**
Net fee and commission income	**1,784**	**1,673**

20. OTHER OPERATING INCOME

	Year ended December 31, 2017	Year ended December 31, 2016
Capital gains	-	9
Release of provisions for losses from guarantees (see note 16)	-	-
Other income	80	22
Total	**80**	**31**

21. OTHER OPERATING EXPENSES

	Year ended December 31, 2017	Year ended December 31, 2016
Personnel (see below)	3,125	2,807
Security	1,114	994
Depreciation	690	737
Rent	742	688
Advertising and marketing	341	349
Repair and maintenance	385	293
Deposit insurance fees	325	279
Utilities and fuel	253	240
Provisions for litigations	181	182
Professional charges and legal fees	125	141
IT services	345	135
Communication	115	123
Amortization	144	121
Office materials	34	45
Printing	5	10
Travel	5	6
Other assets written off	-	-
Other	1,036	741
Total	**8,965**	**7,891**

The number of employees as at 31 December 2017 is 343 (2016: 335).

	Year ended December 31, 2017	Year ended December 31, 2016
Wages and salaries	2,906	2,615
Pension contributions	144	131
Other compensations	75	61
Total	**3,125**	**2,807**

22. INCOME TAX

Income tax in Kosovo is assessed at the rate of 10% (2016: 10%) of taxable income.

	Year ended December 31, 2017	Year ended December 31, 2016
Current tax charge	540	451
Total	**540**	**451**

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

	Year ended December 31, 2017	Year ended December 31, 2016
Profit before income tax	5,246	5,011
Tax at the rate of 10%	525	501
Adjusted for:		
Non-deductible expenses	82	31
Additional tax deductible interest expenses	(5)	(40)
Exempt Income	(62)	(41)
Income tax expense for the year	**540**	**451**

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.

23. 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 2017 will be incurred.

	Year ended December 31, 2017	Year ended December 31, 2016
Guarantees		
Secured by cash deposits	729	615
Secured by other collateral	1,036	1,388
	1,765	**2,003**
Credit Commitments		
Approved but not disbursed loans	2,318	3,364
Unused portion of credit lines	8,993	8,898
Unused credit card facilities	**11,311**	**12,262**

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, 2017	Year ended December 31, 2016
Within one year	560	339
	560	**339**

23. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Banks significant lease agreements include the rent commitment in the main branches located in the cities of Prishtina, Gjakova, Peja, Prizren, Mitrovica, Gjilan, Ferizaj and Headhquater, 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, 2017 and 2016 is given below:

31 December 2017

Branch	Operating lease amount	Base for tax on rent	Tax on rent	Minimum lease payments	Sublease payments	Contingent rents
Branch of Prishtina	273	245	22	273	109	231
Banch of Gjakova	49	12	1	48	-	-
Branch of Peja	86	81	7	86	7	71
Branch of Prizren	42	42	4	42	-	10
Branch of Mitrovica	54	54	5	54	12	19
Branch of Gjilan	76	73	7	76	-	74
Branch of Ferizaj	71	68	6	71	53	71
Headquarters	91	78	7	91	-	84
Total	**742**	**653**	**59**	**741**	**181**	**560**

23. COMMITMENTS AND CONTINGENCIES (CONTINUED)

31 December 2016

Branch	Operating lease amount	Base for tax on rent	Tax on rent	Minimum lease payments	Sublease payments	Contingent rents
Branch of Prishtina	204	199	18	204	33 33	36
Banch of Gjakova	57	108	10	58	-	8
Branch of Peja	86	81	7	86	3 4	65
Branch of Prizren	42	42	4	42	-	38
Branch of Mitrovica	54	54	5	54	6 6	12
Branch of Gjilan	72	69	6	72	-	70
Branch of Ferizaj	77	75	7	77	21 21 21	62
Headquarters	95	81	7	95		48
Total	**687**	**709**	**64**	**688**	**148**	**339**

Litigations

As at 31 December 2017, there are certain legal proceedings raised against the Bank. The Bank has recognized provisions from potential losses amounting EUR 43 thousand during 2017, 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.

24. 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 2017 and 2016 are as follows:

	Board of Directors		Key management		Major shareholders and other parties related to them		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Loans to customers								
Loans to customers, gross	4	9	188	153	4,143	3,469	4,335	3,631
Allowance for impairment	-	-	(2)	(2)	(11)	(4)	(15)	(6)
Loans to customers, net	**4**	**9**	**186**	**151**	**4,132**	**3,465**	**4,320**	**3,625**
Cash collateral	(20)	(9)	(188)	(148)	(10,689)	(3,431)	(10,897)	(3,588)
Net exposure	**(16)**	**-**	**(2)**	**3**	**(6,557)**	**34**	**(6,577)**	**37**
Guarantees	-	-	-	-	455	455	455	455
Cash collateral	-	-	-	-	(455)	(455)	(455)	(455)
Net exposure	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Due to customers	31	16	54	227	15,566	16,808	15,650	17,051
Subordinated debt	-	-	-	-	1,050	1,050	1,050	1,050

The total estimated value of collateral obtained from related parties at 31 December 2017 was EUR 11,124,350.00. Such value as at December 31, 2016 amounted to EUR 7,500,297.67.

The unused credit commitments with related parties at 31 December 2017, are EUR 633,156.54 (2016: EUR 220,273.43).

24. RELATED PARTY TRANSACTIONS (CONTINUED)

Due to related parties represent 7.5% (2016: 8.6%) of total balances due to customers.

Transactions with related parties during 2017 and 2016 are as follows:

	Board of Directors		Key management		Major shareholders and other parties related to them		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Interest income	1	1	9	6	182	156	192	163
Fee and commission income	-	-	-	-	32	22	32	22
Interest expense	-	-	-	-	190	379	190	379
	1	**1**	**9**	**6**	**404**	**557**	**414**	**564**

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

	2017	2016
Short-term employee benefits for Board of Directors	70	54
Short-term employee benefits for key management	215	207
	285	**261**

25. 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 amortised 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.

25. 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.

25. 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 2017 and 2016, 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	
	2017	2016	2017	2016	2017	2016	2017	2016
Maximum exposure to credit risk								
Carrying amount	157,851	137,928	26,456	24,770	37,579	44,789	-	-
Amount committed/guaranteed	11,311	12,262	-	-	-	-	1,765	2,003
	169,162	150,190	26,456	24,770	37,579	44,789	1,765	2,003
At amortized cost								
Standard	155,409	135,822	26,456	24,770	37,579	44,789	-	-
Watch	1,677	2,001	-	-	-	-	-	-
Substandard	3,004	2,078	-	-	-	-	-	-
Doubtful	1,017	1,029	-	-	-	-	-	-
Loss	4,992	7,026	-	-	-	-	-	-
Total	**166,099**	**147,956**	**26,456**	**24,770**	**37,579**	**44,789**	**-**	**-**
Allowance for impairment (individual and collective)	(8,248)	(10,028)	-	-	-	-	-	-
Net carrying amount	**157,851**	**137,928**	**26,456**	**24,770**	**37,579**	**44,789**	**-**	**-**

Off balance: maximum exposure								
Financial guarantees: Low - fair risk	11,311	12,262	-	-	-	-	1,765	2,003
Total committed/guaranteed	**11,311**	**12,262**	**-**	**-**	**-**	**-**	**1,765**	**2,003**
Provisions recognized as liabilities	-	-	-	-	-	-	(14)	(21)
Total exposure	**11,311**	**12,262**	**-**	**-**	**-**	**-**	**1,751**	**1,982**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Analysis of credit quality (continued)

			2017				2016	
Loans and advances to customers	**Individuals**	**Micro**	**Corporate**	**Total Loans**	**Individuals**	**Micro**	**Corporate**	**Total Loans**
Total gross amount	59,164	27,555	79,380	**166,099**	50,014	25,915	72,027	**147,956**
Allowance for impairment (individual and collective)	(1,892)	(1,698)	(4,658)	**(8,248)**	(2,048)	(2,236)	(5,744)	**(10,028)**
Net carrying amount	**57,272**	**25,857**	**74,722**	**157,851**	**47,966**	**23,679**	**66,283**	**137,928**
At amortised cost								
Standard	57,133	25,007	73,269	**155,409**	47,827	23,084	64,912	**135,823**
Watch	561	791	325	**1,677**	407	445	1,149	**2,001**
Substandard	121	322	2,561	**3,004**	147	367	1,563	**2,077**
Doubtful	334	229	454	**1,017**	377	275	377	**1,029**
Loss	1,015	1,206	2,771	**4,992**	1,256	1,744	4,026	**7,026**
Total Gross	**59,164**	**27,555**	**79,380**	**166,099**	**50,014**	**25,915**	**72,027**	**147,956**
Less: allowance for individually impaired loans	(1,210)	(1,389)	(3,579)	**(6,178)**	(1,479)	(1,955)	(4,817)	**(8,251)**
Less: allowance for collectively impaired loans	(682)	(309)	(1,079)	**(2,070)**	(569)	(281)	(927)	**(1,777)**
Total Allowance for impairment	**(1,892)**	**(1,698)**	**(4,658)**	**(8,248)**	**(2,048)**	**(2,236)**	**(5,744)**	**(10,028)**
Loans with renegotiated terms								
Carrying amount	307	559	3,478	**4,344**	359	715	3,743	**4,817**
Allowance for impairment	(153)	(292)	(1,984)	**(2,429)**	(125)	(442)	(2,555)	**(3,122)**
Net carrying amount	**154**	**267**	**1,494**	**1,915**	**234**	**273**	**1,188**	**1,695**
Loans by past due days								
Not past due	55,397	23,261	66,728	**145,386**	46,676	21,871	60,599	**129,146**
Past due 1-30 days	2,109	2,119	8,196	**12,424**	1,428	1,450	5,711	**8,589**
Past due 31 - 90 days	588	811	1,682	**3,081**	532	723	2,334	**3,589**
Past due 91 – 365 days	534	500	595	**1,629**	480	504	252	**1,236**
Past due over 365 days	536	864	2,179	**3,579**	898	1,367	3,131	**5,396**
	59,164	**27,555**	**79,380**	**166,099**	**50,014**	**25,915**	**72,027**	**147,956**

25. 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 100 thousand (2016: EUR 100 thousand) at least quarterly when individual circumstances demand it.

Past due but not impaired loans

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

Loans with renegotiated terms

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

Write-off policy

The Bank writes off a loan (and any related allowances for impairment) 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 2017, is EUR 2,436 thousand (2016: EUR 916 thousand).

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Analysis of credit quality (continued)

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.

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	2017	2016
AA+ to AA-	3,475	4,948
A+ to A-	168	-
BB+ to B-	1,349	-
BBB+ to B-	515	770
Not Rated	313	92
Local Banks	1,205	2,112
	7,025	**7,922**

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.

25. 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:

	2017		2016	
	Loans and advances to customers	FV of collateral	Loans and advances to customers	FV of collateral
Mortgages	43,881	41,535	33,492	33,419
Cash collateral	4,810	4,769	4,169	4,168
Pledge	71,557	54,533	64,508	53,841
Mixed (mortgages and pledge)	40,220	37,029	41,198	41,138
Not collateralised	5,631	-	4,589	-
Total	**166,099**	**137,866**	**147,956**	**132,566**

Concentration of credit risk

As at 31 December 2017, one exposures that exceed 10% of Tier 1 capital represent 1.39% (2016: 1.55%) of the total loans portfolio. The exposures to related parties at 31 December 2017, represent 21.58% (2016: 19.93%) of the Tier 1 Capital. The majority of the exposures to related parties are covered by cash collateral representing 16.30% (2016:17.54%) 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:

EU countries	Loans to customers		Investments in securities		Balances with banks and CBK		Financial guarantees	
	2017	2016	2017	2016	2017	2016	2017	2016
Concentration by sector								
Corporate	74,722	66,283	-	-	-	-	1,281	1,198
Government	-	-	26,456	24,770	-	-	-	-
Banks	-	-	-	-	37,579	44,789	-	-
Individuals	57,272	47,966	-	-	-	-	-	-
Micro-enterprises	25,857	23,679	-	-	-	-	484	805
Total	**157,851**	**137,928**	**26,456**	**24,770**	**37,579**	**44,789**	**1,765**	**2,003**
Concentration by location								
EU countries	-	-	-	-	5,653	5,810	-	-
Republic of Kosovo	157,851	137,928	26,456	24,770	31,926	38,979	1,765	2,003
Total	**157,851**	**137,928**	**26,456**	**24,770**	**37,579**	**44,789**	**1,765**	**2,003**

25. 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.

The Department of Treasury on a constant basis monitors the interest rates risk through monitoring the market conditions and taking necessary re- pricing 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.

25. 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 2017 and 2016 are as follows:

	USD		EUR		CHF	
	2017	2016	2017	2016	2017	2016
Assets						
Cash on hand and at banks	0.07	-	0.08	0.02	(0.27)	(0.27)
Balances with CBK	-	-	(0.40)	(0.40)	-	-
Loans to customers	-	-	8.44	9.20	-	-
Investment securities held-to-maturity	-	-	2.95	2.94	-	-
Investment securities available for sale	-	-	0.66	0.69	-	-
Liabilities						
Customer deposits	0.28	0.23	0.97	1.09	-	-
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.

25. 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	100 bp	100 bp	100 bp
	Increase	Decrease	Increase	Decrease
2017	(37)	30	36	(38)
2016	(37)	41	45	(45)

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

31 December 2017	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	-	-	-	-	-	-	16,887	16,887
Balances with CBK	-	-	-	-	-	-	30,554	30,554
Investments in securities - fixed rate	-	-	8,731	2,854	14,871	-	-	26,456
Loans to customers - fixed rate	4,430	5,832	8,207	18,107	77,364	43,911	-	157,851
Other assets	-	-	-	-	-	-	370	370
Total	4,430	5,832	16,938	20,961	92,235	43,911	47,811	232,118
Liabilities								
Due to Customers – fixed rate	112,119	5,511	7,623	34,924	49,270	-	-	209,447
Due to Banks	2,048	-	-	-	-	-	-	2,048
Subordinated debt – fixed rate	-	-	-	-	1,050	-	-	1,050
Other liabilities	-	-	-	-	-	-	291	291
Total	**114,167**	**5,511**	**7,623**	**34,924**	**50,320**	**-**	**291**	**212,836**
Gap	**(109,737)**	**321**	**9,315**	**(13,963)**	**41,915**	**43,911**	**47,520**	**19,282**
Cumulative gap	**(109,737)**	**(109,416)**	**(100,101)**	**(114,064)**	**(72,149)**	**(28,238)**	**19,282**	**-**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk (continued)

31 December 2016	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	-	-	-	-	-	-	16,113	16,113
Balances with CBK	-	-	-	-	-	-	36,867	36,867
Investments in securities - fixed rate	-	-	7,544	507	4,654	12,065	-	24,770
Loans to customers - fixed rate	3,693	3,641	4,796	19,351	72,719	33,728	-	137,928
Other assets	-	-	-	-	-	-	489	489
Total	**3,693**	**3,641**	**12,340**	**19,858**	**77,373**	**45,793**	**53,469**	**216,167**
Liabilities								
Due to Customers – fixed rate	101,422	3,569	7,942	46,953	37,790	32	-	197,708
Due to Banks	2,196	-	-	-	-	-	-	2,196
Subordinated debt – fixed rate	-	-	-	-	-	1,050	-	1,050
Other liabilities		-	-	-	-	-	238	238
Total	**103,618**	**3,569**	**7,942**	**46,953**	**37,790**	**1,082**	**238**	**201,192**
Gap	**(99,925)**	**72**	**4,398**	**(27,095)**	**39,583**	**44,711**	**53,231**	**14,975**
Cumulative gap	**(99,925)**	**(99,853)**	**(95,455)**	**(122,550)**	**(82,967)**	**(38,256)**	**14,975**	**-**

25. 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 2017 and 2016 are as follows:

	2017	2016
Currency	**EUR**	**EUR**
1 USD	1.1993	0.9487
1 CHF	1.1702	0.9312
1 GBP	0.88723	1.1680

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

	USD		CHF		GBP	
	2017	2016	2017	2016	2017	2016
Sensitivity rates	5%	5%	5%	5%	5%	5%
Profit or loss						
+5% EUR	0.05	(0.30)	0.05	-	0.05	-
- 5% EUR	(0.05)	0.30	(0.05)	-	(0.05)	-

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

31 December 2017	EUR	USD	CHF	GBP	Total
Assets					
Cash on hand and at banks	11,213	2,225	3,254	195	16,887
Balances with CBK	30,554	-	-	-	30,554
Investments in securities	26,456	-	-	-	26,456
Loans to customers	157,851	-	-	-	157,851
Other assets	370	-	-	-	370
	226,444	**2,225**	**3,254**	**195**	**232,118**
Liabilities					
Due to customers	203,776	2,224	3,253	194	209,447
Due to banks	2,048	-	-	-	2,048
Subordinated debt	1,050	-	-	-	1,050
Other liabilities	291	-	-	-	291
	207,165	**2,224**	**3,253**	**194**	**212,836**
Net foreign currency position	**19,279**	**1**	**1**	**1**	**19,282**

31 December 2016					
Assets					
Cash on hand and at banks	8,625	4,123	3,173	192	16,113
Balances with CBK	36,867	-	-	-	36,867
Investments in securities	24,770	-	-	-	24,770
Loans to customers	137,928	-	-	-	137,928
Other assets	489	-	-	-	489
	208,679	**4,123**	**3,173**	**192**	**216,167**
Liabilities					
Due to customers	190,214	4,129	3,173	192	197,708
Due to banks	2,196	-	-	-	2,196
Subordinated debt	1,050	-	-	-	1,050
Other liabilities	238	-	-	-	238
	193,698	**4,129**	**3,173**	**192**	**201,192**
Net foreign currency position	**14,981**	**(6)**	**-**	**-**	**14,975**

25. 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.

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 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 2017	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Undeter-mined maturity	Total
Assets								
Cash on hand and at banks	16,887	-	-	-	-	-	-	**16,887**
Balances with CBK	14,381	-	-	-	-	-	16,173	**30,554**
Investments in securities	-	-	8,731	2,854	14,871	-	-	**26,456**
Loans to customers	4,430	5,832	8,207	18,107	77,364	43,911	-	**157,851**
Other assets	370	-	-	-	-	-	-	**370**
Total	**36,068**	**5,832**	**16,938**	**20,961**	**92,235**	**43,911**	**16,173**	**232,118**
Liabilities								
Due to customers	112,119	5,511	7,623	34,924	49,270	-	-	**209,447**
Due to banks	2,048	-	-	-	-		-	**2,048**
Subordinated debt	-	-	-	-	1,050	-	-	**1,050**
Other liabilities	291	-	-	-	-	-	-	**291**
Total	**114,458**	**5,511**	**7,623**	**34,924**	**50,320**	**-**	**-**	**212,836**
Liquidity gap	**(78,390)**	**321**	**9,315**	**(13,963)**	**41,915**	**43,911**	**16,173**	**19,282**
Cumulative gap	**(78,390)**	**(78,069)**	**(68,754)**	**(82,717)**	**(40,802)**	**3,109**	**19,282**	**-**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

31 December 2016	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	16,113	-	-	-	-	-	-	**16,113**
Balances with CBK	22,058	-	-	-	-	-	14,809	**36,867**
Investments in securities	-	-	7,545	507	4,654	12,064	-	**24,770**
Loans to customers	3,693	3,641	4,796	19,351	72,719	33,728	-	**137,928**
Other assets	489	-	-	-	-	-	-	**489**
Total	**42,353**	**3,641**	**12,341**	**19,858**	**77,373**	**45,792**	**14,809**	**216,167**
Liabilities								
Due to customers	101,422	3,569	30,192	24,703	37,790	32	-	**197,708**
Due to banks	2,196	-	-	-	-	-	-	**2,196**
Subordinated debt	-	-	-	-	-	1,050	-	**1,050**
Other liabilities	238	-	-	-	-	-	-	**238**
Total	**103,856**	**3,569**	**30,192**	**24,703**	**37,790**	**1,082**	**-**	**201,192**
Liquidity gap	**(61,503)**	**72**	**(17,851)**	**(4,845)**	**39,583**	**44,710**	**14,809**	**14,975**
Cumulative gap	**(61,503)**	**(61,431)**	**(79,282)**	**(84,127)**	**(44,544)**	**166**	**14,975**	**-**

(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.

	2017	2016
Total risk weighted assets	160,864	141,556
Total risk weighted assets for operational risk	15,488	13,590
Total	**176,352**	**155,146**
Regulatory capital (Total Capital)	27,032	22,763
Capital adequacy ratio (Total Capital)	**15.33%**	**14.67%**

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

25. 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:

	2017	2016
Total Assets	239,325	223,004
Total Equity	26,161	21,439
Leverage ratio	**10.93%**	**9.61%**

26. SUBSEQUENT EVENTS

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

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