Grant Thornton

# Independent Auditor's Report and Financial Statements prepared based on International Financial Reporting Standards

## Banka Kombëtare Tregtare Kosovë Sh.a.

31 December 2018

# Contents

# Independent Auditor's Report

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To the Shareholder of
Banka Kombëtare Tregtare Kosovë Sh.a.

*Opinion*

We have audited the accompanying financial statements of Banka Kombëtare Tregtare Kosovë Sh.a. (hereafter referred as the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

*Basis for Opinion*

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

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

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

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

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

Independent Auditor's Report (continued)

To the Shareholder of Banka Kombëtare Tregtare Kosovë Sh.a. (continued)

*Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

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

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

**Grant Thornton LLC**

GRANT THORNTON L.L.C. KOSOVO

Prishtina,
15 April 2019

Suzana Stavrikj
Statutory auditor

Statement of financial position as at 31 December 2018
*(In EUR)*

| | Notes | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Bank | 6 | 53,319,751 | 36,515,212 |
| Placements and balances with banks | 7 | 18,271,569 | 1,374,043 |
| Investment securities | 8 | 76,807,878 | 55,460,258 |
| Due from BKT Albania | 25 | 10,641,096 | 1,871,765 |
| Loans and advances to banks | 9.1 | - | 30,537,890 |
| Loans to customers, net | 9.2 | 247,370,257 | 212,081,878 |
| Property and equipment | 10 | 1,769,094 | 1,972,635 |
| Intangible assets | 11 | 22,414 | 35,556 |
| Income tax receivables | 27 | 360,903 | 128,202 |
| Other assets | 12 | 3,744,294 | 5,228,308 |
| **Total assets** | | **412,307,256** | **345,205,747** |
| **Liabilities and shareholder's equity** | | | |
| **Liabilities** | | | |
| Customer deposits | 13 | 351,354,331 | 301,678,067 |
| Due to banks | 14 | 17,859,118 | 20,009 |
| Deferred tax liabilities | 27 | 213,306 | 331,124 |
| Income tax liability | 27 | - | - |
| Accruals and other liabilities | 15 | 1,652,109 | 2,552,934 |
| Borrowings | 16 | 4,085,314 | 5,906,343 |
| **Total liabilities** | | **375,164,178** | **310,488,477** |
| **Shareholder's equity** | 17 | | |
| Share capital | | 17,000,000 | 17,000,000 |
| Accumulated profit from previous years | | 16,082,038 | 11,914,542 |
| Profit for the year | | 4,370,402 | 5,841,933 |
| Fair value reserve | | (309,362) | (39,205) |
| **Total shareholder's equity** | | **37,143,078** | **34,717,270** |
| **Total liabilities and shareholder's equity** | | **412,307,256** | **345,205,747** |

The financial statements were authorised for release by the Board of Directors on 15 April 2019 and signed on its behalf by:

*Suat Bakkal*
*CEO and Board Member*

*Agon Skeja*
*Head of Finance and Administration Group*

The accompanying notes from 1 to 29 form an integral part of these financial statements.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2018
*(In EUR)*

| | Notes | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| *Interest* | | | |
| Interest income | **18** | 16,641,523 | 15,314,246 |
| Interest expense | **19** | (2,889,809) | (2,766,932) |
| **Net interest income** | | **13,751,714** | **12,547,314** |
| *Non-interest income, net* | | | |
| Fees and commissions, net | **20** | 3,494,534 | 3,355,515 |
| Foreign exchange revaluation gain, net | | 19,192 | 1 |
| Profit / (loss) from FX trading activities, net | | 78,086 | (86,819) |
| Other (expenses) / income, net | **21** | (30,385) | 146,866 |
| **Total non-interest income, net** | | **3,561,427** | **3,415,563** |
| *Operating expenses* | | | |
| Personnel expenses | **22** | (3,941,998) | (3,903,705) |
| Administrative expenses | **23** | (5,089,442) | (4,612,505) |
| Depreciation and amortization | **10,11** | (641,750) | (711,670) |
| **Total operating expenses** | | **(9,673,190)** | **(9,227,880)** |
| Impairment losses on loans to customers | **9.2** | (2,146,664) | (365,552) |
| Impairment losses on financial assets, other than loans to customers | **24** | (689,222) | - |
| **Profit before income tax** | | **4,804,064** | **6,369,445** |
| Income Tax | **27** | (433,662) | (527,512) |
| **Net profit for the year** | | **4,370,402** | **5,841,933** |
| Revaluation of investment securities | | (270,157) | (39,204) |
| **Other comprehensive income/(expense) for the year** | | **(270,157)** | **(39,204)** |
| **Total comprehensive income for the year** | | **4,100,245** | **5,802,729** |

The accompanying notes from 1 to 29 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2018

*(In EUR)*

| | **Share Capital** | **Fair Value Reserve** | **Retained earnings** | **Total** |
|---|---|---|---|---|
| Balance as at 1 January 2017 | 17,000,000 | (1) | 11,914,542 | 28,914,541 |
| **Transactions with owners recorded directly in equity** | - | - | - | - |
| Contributions by and distributions to owners | - | - | - | - |
| Increase in share capital | - | - | - | - |
| **Total transactions with owners recorded in equity** | **-** | **-** | **-** | **-** |
| | | | | |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | - | - | 5,841,933 | 5,841,933 |
| Revaluation of available for sale securities | - | (39,204) | - | (39,204) |
| **Total comprehensive income for the year** | **-** | **(39,204)** | **5,841,933** | **5,802,729** |
| **Balance at 31 December 2017** | **17,000,000** | **(39,205)** | **17,756,475** | **34,717,270** |
| | | | | |
| Balance as at 31 December 2017 | 17,000,000 | (39,205) | 17,756,475 | 34,717,270 |
| Changes on initial application of IFRS 9 (note 3, (p)) | - | - | (1,674,437) | (1,674,437) |
| Restated balance as at 1 January 2018 | **17,000,000** | **(39,205)** | **16,082,038** | **33,042,833** |
| **Transactions with owners recorded directly in equity** | | | | |
| Contributions by and distributions to owners | - | - | - | - |
| Increase in share capital | - | - | - | - |
| **Total transactions with owners recorded in equity** | **-** | **-** | **-** | **-** |
| | | | | |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | - | - | 4,370,402 | 4,370,402 |
| Revaluation of investment securities | - | (270,157) | - | (270,157) |
| **Total comprehensive income for the year** | **-** | **(270,157)** | **4,370,402** | **4,100,246** |
| **Balance at 31 December 2018** | **17,000,000** | **(309,362)** | **20,452,440** | **37,143,079** |

The accompanying notes from 1 to 29 form an integral part of these financial statements.

Statement of cash flow for the year ended 31 December 2018
*(In EUR)*

| | Notes | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit before income tax | | 4,804,064 | 6,369,445 |
| *Adjustments to reconcile changes in net assets to net cash provided by operating activities:* | | | |
| Interest expense | **19** | 2,889,809 | 2,766,932 |
| Interest income | **18** | (16,641,523) | (15,314,246) |
| Depreciation and amortization | **10,11** | 641,750 | 711,670 |
| Gain on sale of fixed assets | **21** | - | (150) |
| Write off of loans to customers | **9.2, 21** | 781,513 | 1,911,383 |
| Impairment of financial assets | **9.2,24** | 2,835,886 | 365,552 |
| **Cash flows from operating profit before changes in operating assets and liabilities** | | **(4,688,501)** | **(3,189,414)** |
| *(Increase)/decrease in operating assets:* | | | |
| Restricted balances with Central Bank | | (2,700,896) | (3,930,980) |
| Placement and balance with banks | | (851) | (13) |
| Loans to banks | | 30,500,000 | 15,500,000 |
| Loans to customers | | (39,570,088) | (28,303,167) |
| Due from BKT Albania | | (8,769,331) | 8,988,749 |
| Other assets | | 850,943 | (2,625,889) |
| | | **(19,690,223)** | **(10,371,300)** |
| *Increase/(decrease) in operating liabilities:* | | | |
| Due to customers | | 49,377,178 | 15,026,134 |
| Due to banks | | 17,835,624 | (923,854) |
| Accruals and other liabilities | | (900,825) | (339,645) |
| | | **66,311,977** | **13,762,635** |
| Interest paid | | (2,588,268) | (2,949,936) |
| Interest received | | 16,161,336 | 15,284,280 |
| Income taxes paid | | (784,181) | (469,221) |
| Net cash flows from operating activities | | **54,722,140** | **12,067,044** |
| | | | |
| **Cash flows used in investing activities** | | | |
| Purchases of investment securities | | (37,478,626) | (35,186,143) |
| Proceeds from investments securities | | 15,965,613 | 14,969,423 |
| Purchases of property and equipment and intangibles | | (425,067) | (345,784) |
| **Net cash from/ (used in) investing activities** | | **(21,938,080)** | **(20,562,504)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Repayments of borrowings | | (1,820,000) | (1,820,000) |
| **Net cash generated from financing activities** | | **(1,820,000)** | **(1,820,000)** |
| | | | |
| **Net increase in cash and cash equivalents** | | **30,964,060** | **(10,315,460)** |
| **Cash and cash equivalents at the beginning of the period** | **6** | **15,051,531** | **25,366,991** |
| **Cash and cash equivalents at the end of the period** | **6** | **46,015,591** | **15,051,531** |

The accompanying notes from 1 to 29 form an integral part of these financial statements.

## 1. General

Banka Kombëtare Tregtare J.S.C. Kosovo (the "Bank") is a fully owned subsidiary of Banka Kombëtare Tregtare J.S.C in Albania. BKT - Kosova was registered on 30 August 2007 with the Central Bank of Republic of Kosova ('CBK') to operate as a foreign branch in the Republic of Kosova and is subject to CBK regulations.

On April 30, 2018, Banka Kombëtare Tregtare Kosovo Branch changed its status from foreign branch to Joint Stock Company. Now its bank license has changed from Banka Kombëtare Tregtare Kosovo Branch to Banka Kombëtare Tregtare J.S.C Kosovo.

The Bank offers a wide range of products and services to public and privately owned enterprises and to individuals in the Republic of Kosova. The main source of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both EUR and foreign currency. BKT offers a variety of corporate and consumer loans, debit and credit cards, ATMs, sophisticated alternative channels, qualified international banking services and various treasury products.

The network of BKT Kosova consists of 26 units. Seven units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti, Lipjan, Prishtina International Airport and Skenderaj.

The number of employees at the end of 2018 was 358 (2017: 348).

## 2. Basis of preparation

### (a) Statement of compliance

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

### (b) Basis of measurement

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

### (c) Functional and presentation currency

These financial statements are presented in EUR, which is also the Bank's functional and presentation currency.

### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of 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 accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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 note 4 and 5.

## 3. Significant accounting policies

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

### (a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost 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 period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction.

### (b) Interest

Interest income and expense are recognised in profit or loss using the effective interest rate 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 liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or 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 all 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 liability.

### (c) Fees and commission

Fees and commission income and expenses 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 are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

### (d) Lease payments made

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. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### (e) Current and deferred income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.
Current tax is the expected tax payable on the taxable income 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.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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.

## 3. Significant accounting policies (continued)

The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset 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.

### (f) Financial assets and liabilities

#### *(i) Recognition*

The Bank initially recognises financial assets and liabilities on the date at which 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 initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value corrected by (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

#### *(ii) De-recognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off certain loans when they are determined to be uncollectible.

## 3. Significant accounting policies (continued)

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

***(iii) Classification and initial measurement of financial assets***

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets are recognised in profit or loss.

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

As per the new standard, one of the conditions for financial assets to be classified either under 'amortised cost' or 'Fair Value Through Profit or Loss ("FVTPL") category is that the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank has performed the SPPI test and has determined the business models for its financial assets.

– ***Business model assessment***

There are three business models under IFRS 9 – 'Held to Collect ("HTC")', 'Held to Collect and Sell ("HTCS")' and 'Other ("Other BM")'.

1. Under the HTC model, cash flows result from collecting contractual payments. If an SPPI product is HTC, it is measured at amortised cost.
2. Under HTCS, cash flows result from contractual payments, as well as from selling the financial assets. If an SPPI product is HTCS, it is measured at fair value though other comprehensive income ("FVOCI").
3. Other BM are those that are neither HTC, nor HTCS. One example could be a model under which trading is the primary purpose with contractual payment collection not constituting an integral part of the model. If a product (SPPI or not) is held under Other BM, it is measured at fair value though profit or loss ("FVTPL").

The Bank has assessed the business model for its financial assets as follows;

*Treasury*

Treasury assets consist of cash or equivalents, Government Bonds, Investment securities such as Eurobonds, Bonds and Certificates.

Investment securities are accounted for depending on their classification as either Held-to-Maturity ("HTM"), or Available-for-Sale ("AFS") and in some cases as Held-for-Trading ("TRD").

The business model of the Bank under IFRS 9 is:

- "HTC" for HTM products. Such products shall be measured at amortised cost;
- "HTCS" for AFS products. Such products shall be measured at FVOCI; and
- "Other BM" for TRD products and shall be measured at FVTPL.

## 3. Significant accounting policies (continued)

**(f) Financial assets and liabilities (continued)**

***(iii) Classification and initial measurement of financial assets***

*Retail*

The Retail assets consist of various financing facilities to individuals (e.g. Mortgage loans, Consumer loans, Home improvement loans, Car loans, Credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.

The fair value of the Retail assets is not a critical aspect in the Bank's management of the portfolio.

The business model of the Banks under IFRS 9 is "HTC" and the Retail loans shall be measured at amortised cost.

*Corporate*

The Corporate assets consist of various financing facilities to corporates (e.g. Cash loans, Non-cash loans, Agro loans, Project & structured finance, Business credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.

The fair value of the Corporate assets is not a critical aspect in the Bank's management of the portfolio.

The business model of the Banks under IFRS 9 is "HTC" and the corporate loans shall be measured at amortised cost.

***(iv) Classification - (comparative periods)***

Financial assets are classified into the following specified categories: financial assets 'held for trading, 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***(v) Subsequent measurement of financial assets***

*Financial assets at amortised cost*

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and most of other receivables fall into this category of financial instruments as well as government bonds and forfeiting instruments that were previously classified as held-to-maturity under IAS 39.

*Financial assets at fair value through profit or loss (FVTPL)*

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments. The category also contains an equity investment. In the current financial year, the fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Bank determined that in the current period the Fair Value of these investments approximates to their carrying amount. The Bank's government bonds that were previously classified as held-for-trading under IAS 39 fall into this category.

## 3. Significant accounting policies (continued)

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

#### *(v) Subsequent measurement of financial assets (continued)*

*Financial assets at fair value through other comprehensive income (FVOCI)*
The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is “hold to collect” the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset. The Bank’s government bonds, treasury notes and treasury bills, corporate bonds, promissory notes, assets backed securities and equity portfolio that were previously classified as available for sale under IAS 39 fall into this category.

#### *(vi) Offsetting*

Financial assets and liabilities are set off 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 intends either to settle 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 by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

#### *(vii) Amortised cost measurement*

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

#### *(viii) 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.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

## 3. Significant accounting policies (continued)

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

#### *(viii) Fair value measurement (continued)*

In many cases the transaction price equals the fair value (that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold). When determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

#### *(ix) Impairment of financial assets*

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss. Recognition of credit losses is no longer dependent on the Bank first identifying a credit loss event. Instead the Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

#### *(x) Impairment of financial assets (comparative period)*

In the prior year, the impairment of financial assets was based on the incurred loss model. The Bank assessed whether there was objective evidence that financial assets not carried at fair value through profit or loss were impaired. Financial assets were impaired when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that could be estimated reliably.

The Bank considered evidence of impairment for loans and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and held-to-maturity investment securities were assessed for specific impairment. All individually significant loans and held-to-maturity investment securities found not to be specifically impaired were then collectively assessed for any impairment that has been incurred but not yet identified.

Loans and advances and held-to-maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and held-to-maturity investment securities with similar risk characteristics.

## 3. Significant accounting policies (continued)

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

#### *(x) Impairment of financial assets (comparative period)* (continued)

Impairment losses on assets carried at amortised cost were measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account against loans. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities were recognised by transferring the cumulative loss that had been recognised directly in other comprehensive income to profit or loss. The cumulative loss that was reclassified from other comprehensive income to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value were reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increased and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed, with the amount of the reversal recognised in profit or loss.

#### *(xi) Classification and measurement of financial liabilities*

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Bank's financial liabilities were not impacted by the adoption of IFRS 9. The Bank's financial liabilities include Customer deposits borrowings from banks and other financial institutions, subordinated debt and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

#### *(xii) Derivative financial instruments and hedge accounting*

The Bank applies the new hedge accounting requirements in IFRS 9 prospectively.

Derivative financial instruments are accounted for at fair value through profit and loss (FVTPL) except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- There is an economic relationship between the hedged item and the hedging instrument
- The effect of credit risk does not dominate the value changes that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

## 3. Significant accounting policies (continued)

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

#### *(xii) Derivative financial instruments and hedge accounting* (continued)

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item. If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

### (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 less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

### (h) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

### (i) Loans

Loans 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.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans at fair value through profit or loss as described in accounting policy 3(g), (iii).

### (j) Property and equipment and intangibles

#### *(i) Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. 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.

#### *(ii) Subsequent costs*

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

## 3. Significant accounting policies (continued)

### (j) Property and equipment and intangibles (continued)

#### *(iii) Depreciation*

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. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Leased hold improvements — Leasehold improvements are depreciated over the shorter of the lease term and their useful lives
- Motor vehicles and machinery — 5 years
- Office furniture — 5 years
- Computers and electronic equipment — 5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting dates.

#### *(iv) Intangible assets*

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives, if any.

Intangible assets consist of software licences and are amortized on straight-line basis over 3 years.

### (k) Assets acquired through legal process (repossessed collateral)

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. The Bank applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Collaterals repossessed by the Bank represent the repossessed collaterals of some unrecoverable loans, the ownership of which was taken by the Bank. The Bank has established an Asset Sale Committee, responsible for the disposal of these assets. These assets are accounted for as foreclosed assets and measured at fair value. The fair value of these assets at the reporting date is determined with reference to the current market prices.

### (l) Impairment of non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

## 3. Significant accounting policies (continued)

### (l) Impairment of non-financial assets (continued)

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### (m) Deposits and borrowings

Deposits and borrowings are part of the Bank's sources of funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits and borrowings are initially measured at fair value net of directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

### (n) 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.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

### (o) 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 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 Kosova 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.

## 3. Significant accounting policies (continued)

### (p) New Standards adopted as at 1 January 2018

**IFRS 15 'Revenue from Contracts with Customers'**

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations.
IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations.
The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.
The implementation of this new guidance did not have a significant impact on the timing or amount of revenue recognised by the Bank in any year. Had the implementation resulted in a significant impact, the new Standard would have been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018.

**IFRS 9 "Financial Instruments"**

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the Bank has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

The Bank has adopted new accounting policies, implementing the requirements of IFRS 9, effective as of 1 January 2018. The Bank also assessed the impact of IFRS 9 on its financial assets and upgraded and customized existing business applications and adopted new regulations to include IFRS 9 requirements.

The Bank assessed the impact of IFRS 9, in the following areas:

***1) Classifications of the financial assets***

Classification and measurement of financial instruments on or after 1 January 2018 is based on new criteria that take into account the contractual cash flows of financial instruments and the business model in which they are managed. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost (AC), measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit and loss (FVPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

## 3. Significant accounting policies (continued)

### (p) New Standards adopted as at 1 January 2018 (continued)

#### *1) Classifications of the financial assets (continued)*

Based on selected business models, the Bank has decided to classify its financial assets into following categories as at 1 January 2018:

| **Portfolio reviewed as at 31 December 2017** | **IAS 39 Classification Measurement** | | **SPPI Test** | **Business Model** | **IFRS 9 Classification measurement** | **Conclusion** |
|---|---|---|---|---|---|---|
| **Treasury** | | | | | | |
| Cash and other advances to banks | HTM | AC | Meet SPPI criteria | Held to collect contractual cash flows | AC | No financial impact identified |
| Placement and balances with banks | HTM | AC | Meet SPPI criteria | Held to collect contractual cash flows | AC | No financial impact identified |
| Treasury bills | AFS | FVOCI | Meet SPPI criteria | Held to collect and sell | FVOCI | No financial impact identified |
| Available to sale Securities | AFS | FVOCI | Meet SPPI criteria | Held to collect and sell | FVOCI | No financial impact identified at this stage. However any new instruments failing the SPPI test in the future will be measured at FVPL with consequential P&L volatility due to change in FV. |
| Held to maturity Securities | HTM | AC | Meet SPPI criteria | Held to collect contractual cash flows | AC | Given their frequency and insignificance in prior years the sales may be consistent with a business model whose objective is to hold financial assets in order to collect contractual cash flows. More over the Bank's management intention is to keep these assets until maturity. |
| **Loans to Banks** | LAR | AC | Meet SPPI criteria | Held to collect contractual cash flows | AC | |
| **Loans to customers** | | | Meet SPPI criteria | | | |
| Retail and corporate Loans | LAR | AC | Meet SPPI criteria | Held to collect contractual cash flows | AC | No financial impact identified |

## 3. Significant accounting policies (continued)
### (p) New Standards adopted as at 1 January 2018 (continued)

***2) Expected credit losses as at 1 January 2018***

The most significant impact on the Bank's financial statements from the implementation of IFRS 9 results from the new impairment requirements. Impairment losses are increased and became more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). See note 5 (b), (ii).

The key inputs into the measurement of ECLs estimated and adjusted on the opening balance of the Banks's equity at 1 January 2018 are the same as those in note 5 (b), (ii), with the exception of the LGD which was estimated as follows:

As at 1 January 2018, the Bank assumed the fixed Based Estimates. The Bank mapped each collateral type in BKT portfolios to the Basel LGD segments1, each with their own LGD parameters for Corporate and Retail Portfolio based on historical data. For Sovereigns and Banks Segment, LGD value is fixed 25% as per Basel requirements,

During the year 2018, the Bank revised the estimation of LGD as explained in note 5 (b), (ii). As 31 December 2018, the Bank applied the change in ECL, deriving from the estimation of the LGD, prospectively.

Based on assessments undertaken, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Banks's equity at 1 January 2018 was approximately EUR 1,674,437.
The total provisions amount to EUR 6,697,017, or equivalently 2.21% of the total exposure.

The Bank has decided to not restate comparative periods at initial application of IFRS 9.

## 3. Significant accounting policies (continued)

### (p) New Standards adopted as at 1 January 2018 (continued)

### *2) Expected credit losses as at 1 January 2018 (continued)*

### *i. Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)*

| In EUR | Original classification under IAS 39 | New classification under IFRS 9 | | Original carrying amount under IAS 39 | Remeasurement | New carrying amount under IFRS 9 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | **Financial assets** | | | |
| Cash and cash balances with central Banks | Loans and receivables | Amortised cost | Cash and cash balances with central Banks | 36,515,212 | - | 36,515,212 |
| Placements and Balances with the Banks | Loans and receivables | Amortised cost | Placements and Balances with the Banks | 3,245,808 | - | 3,245,808 |
| Treasury bills | AFS | FVOCI | Investment securities - measured at FVOCI | 15,981,321 | - | 15,981,321 |
| Held-for-trading securities | FVTPL | FVTPL | Investment securities - measured at FVTPL | - | - | - |
| Available-for-sale securities | AFS | FVOCI | Investment securities - measured at FVOCI | 39,478,938 | - | 39,478,938 |
| Held-to-maturity securities | HTM | Amortised cost | Investment securities - measured at amortised cost | - | - | - |
| Loans to Banks | Loans and receivables | Amortised cost | Loans to Banks | 30,537,890 | 35,830 | 30,502,060 |
| Loans to customers | Loans and receivables | Amortised cost | Loans to customers | 212,081,878 | 1,564,297 | 210,517,581 |
| Other Assets | Loans and receivables | Amortised cost | Other Assets | 5,356,508 | 74,310 | 5,282,198 |
| **Total financial assets** | | | | **343,197,555** | **1,674,437** | **341,523,118** |
| **Financial liabilities** | | | | | | |
| Customer deposits | Amortised cost | Amortised cost | Customer deposits | 301,678,067 | - | 301,678,067 |
| Due to banks and financial institutions | Amortised cost | Amortised cost | Due to banks and financial institutions | 20,009 | - | 20,009 |
| Due to third parties | Amortised cost | Amortised cost | Due to third parties | 5,906,343 | - | 5,906,343 |
| Accruals and other liabilities | Amortised cost | Amortised cost | Accruals and other liabilities | 2,552,934 | - | 2,552,934 |
| Subordinated debt | Amortised cost | Amortised cost | Subordinated debt | - | - | - |
| **Total financial liabilities** | | | | **310,157,353** | **-** | **310,157,353** |

## 3. Significant accounting policies (continued)

### (p) New Standards adopted as at 1 January 2018 (continued)

### *2) Expected credit losses as at 1 January 2018 (continued)*

#### *i. Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)*

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. The impact relates to liability credit reserve, the fair value reserve and retained earnings. There is no impact on other components of equity.

| In EUR | Impact of adopting IFRS 9 at 1 January 2018 |
|---|---|
| **Fair value reserve (IAS 39 AFS)** | |
| Closing balance under IAS 39 (31 December 2017) | (39,205) |
| Reclassification of investment securities (debt) from available-for-sale to FVTPL | - |
| Reclassification of investment securities (equity) measured at cost from available-for-sale to FVOCI | - |
| Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI | - |
| Opening balance under IFRS 9 (1 January 2018) | (39,205) |
| **Retained earnings** | |
| Closing balance under IAS 39 (31 December 2017) | 17,756,475 |
| Reclassifications under IFRS 9 | 1,674,437 |
| Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts) | - |
| **Opening balance under IFRS 9 (1 January 2018)** | **16,082,038** |

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets at 31 December 2017, to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

| **Allowance in EUR** | **31 December 2017 (IAS 39/IAS 37)** | **Reclassification to FVTPL measurement** | **Remeasurement** | **1 January 2018 (IFRS 9)** |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash and cash balances with central Banks | - | | - | - |
| Placements and Balances with the Banks | - | | - | - |
| Investment securities (HTM under IAS 39) | - | | - | - |
| Loans to Banks (L&R under IAS 39) | - | | 35,830 | 35,830 |
| Loans to customers (L&R under IAS 39) | 5,022,580 | | 1,564,297 | 6,586,877 |
| Other Assets | - | | 74,310 | 74,310 |
| **Total Allowance for amortised cost measurement** | **5,022,580** | **-** | **1,674,437** | **6,697,017** |
| Investment securities (AFS under IAS 39) | - | - | - | - |
| **Total Allowance for FVOCI measurement** | **-** | **-** | **-** | **-** |

Further information on the measurement of the impairment allowance under IFRS 9 can be found in note 3 (f) (ix) and 5 (b) (ii).

## 3. Significant accounting policies (continued)

### (q) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorisation of these financial statements, certain new standards and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Bank. Information on those expected to be relevant to the Bank's financial statements is provided below. Management anticipates that all relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the Bank's financial statements.

**IFRS 16 'Leases'**

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.
IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the Bank have decided not to early adopt.

Management is in the process of assessing the full impact of the Standard. So far, the Bank:

i. Has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Bank has reassessed these leases and concluded they will be recognised on the statement of financial position as a right-of-use asset
ii. Believes that the most significant impact will be that the Bank will need to recognise a right of use asset and a lease liability for the office and buildings currently treated as operating leases. This will mean that the nature of the expense of will change from being an operating lease expense to depreciation and interest expense
iii. Considers the IT system requirements and whether a new leasing system is needed.
iv. is assessing their current disclosures for finance leases and operating leases (Note 33, Section, 'Lease commitments') as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
v. Is assessing the additional disclosures that will be required.

The Bank is planning to adopt IFRS 16 on 1 January 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.
Choosing this transition approach results in further policy decisions the Bank need to make as there are several other transitional reliefs that can be applied. These relate to those leases previously held as operating leases and can be applied on a lease-by-lease basis. The Bank is currently assessing the impact of applying these other transitional reliefs.

## 4. Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 5).

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (note 3, (f), (iii)). The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk: As explained in note 3 (f) (ix) and 5 (b) (ii), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 3 (f) (ix) and 5 (b) (ii), for more details.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 (f) (ix) and 5 (b) (ii), for details of the characteristics considered in this judgement. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 (f) (ix) and 5 (b) (ii), for more details on ECL and note 3 (f) (viii) for more details on fair value measurement.

### *Determining fair values*

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

## 4. Use of estimates and judgements (continued)

Critical accounting judgments made in applying the Bank's accounting policies include:

***Valuation of financial instruments***

The Bank's accounting policy on fair value measurements is discussed under note 3 (f) (viii).

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.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

## 4. Use of estimates and judgements (continued)

***Fair values***

The table below sets out the carrying amounts and fair values of the financial assets and liabilities by the level in the fair value hierarchy into which the fair value measurement is categorised:

| **31 December 2018** | **Note** | **Carrying Amount** | **Fair Value** | | | |
|---|---|---|---|---|---|---|
| | | | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Placement and balances with banks | 7 | 18,271,569 | - | 18,271,569 | - | 18,271,569 |
| Investment securities | 8 | 76,807,878 | 55,738,302 | 21,069,577 | - | 76,807,878 |
| Due from BKT Albania | 25 | 10,641,096 | - | 10,641,096 | - | 10,641,096 |
| Loans to customers | 9 | 247,370,257 | - | 247,370,257 | - | 247,370,257 |
| **Total financial assets** | | **353,090,800** | **55,738,302** | **297,352,499** | **-** | **353,090,800** |
| Customer deposits | 13 | 351,354,331 | - | 351,354,331 | - | 351,354,331 |
| Due to banks | 14 | 17,859,118 | - | 17,859,118 | - | 17,859,118 |
| Borrowings | 16 | 4,085,314 | - | 4,085,314 | - | 4,085,314 |
| **Total financial liabilities** | | **373,298,763** | **-** | **373,298,763** | **-** | **373,298,763** |
| **31 December 2017** | **Note** | **Carrying Amount** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Placement and balances with banks | 7 | 1,374,043 | - | 1,374,043 | - | 1,374,043 |
| Investment securities | 8 | 55,460,258 | 39,478,938 | 15,981,321 | - | 55,460,258 |
| Loans to banks | 9.1 | 1,871,765 | - | 1,871,765 | - | 1,871,765 |
| Loans to customers | 9.2 | 212,081,878 | - | 212,081,878 | - | 212,081,878 |
| **Total financial assets** | | **270,787,944** | **39,478,938** | **231,309,007** | **-** | **270,787,944** |
| Customer deposits | 13 | 301,678,067 | - | 301,678,067 | - | 301,678,067 |
| Due to banks | 14 | 20,009 | - | 20,009 | - | 20,009 |
| Borrowings | 16 | 5,906,343 | - | 5,906,343 | - | 5,906,343 |
| **Total financial liabilities** | | **307,604,419** | **-** | **307,604,419** | **-** | **307,604,419** |

## 5. Financial risk management

### (a) Introduction and overview

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

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

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.

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risks.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO), Risk Management Group and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All these bodies 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. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank 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 Audit Committee is assisted in these functions by Internal Audit. 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.

### (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 to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). BKT Kosova has formed a Credit Committee to oversee the approval of requests for credits up to the limit of 500,000 EUR. Credit requests with amounts over EUR 500,000 are approved only upon decision of the Board of Directors. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

Each business unit is required to comply with Bank credit policies and procedures. Regular audits of business units and Credit Risk Management processes are undertaken by Internal Audit.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

***i. Maximum credit exposure***

The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets. Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2018 and 31 December 2017 are as follows:

**Financial Instruments Credit Risk**

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Exposure before impairment** | **Impairment** | **Net exposure for credit risk** | **Exposure before impairment** | **Impairment** | **Net exposure for credit risk** |
| **A. Credit risk exposure relating to balance sheet items** | | | | | | |
| Cash and Cash Balances with Central Banks | 53,319,751 | - | 53,319,751 | 36,515,212 | - | 36,515,212 |
| Placements and Balances with the Banks | 28,919,138 | (6,473) | 28,912,665 | 3,245,808 | - | 3,245,808 |
| Treasury bills | - | - | - | 15,981,321 | - | 15,981,321 |
| Held-for-trading Securities | - | - | - | - | - | - |
| Available-for-sale Securities | - | - | - | 39,478,938 | - | 39,478,938 |
| Held-to-maturity Securities | - | - | - | - | - | - |
| Investment securities - measured at FVTPL | - | - | - | - | - | - |
| Investment securities - measured at FVOCI | 68,592,401 | (138,991) | 68,453,409 | - | - | - |
| Investment securities - measured at amortised cost | 8,375,297 | (20,828) | 8,354,469 | - | - | - |
| Loans to banks | - | - | - | 30,537,890 | (35,830) | 30,502,060 |
| Loans to customers | 250,018,045 | (2,647,789) | 247,370,257 | 212,081,878 | (1,564,297) | 210,517,581 |
| Property and equipment | 1,769,094 | - | 1,769,094 | 1,972,635 | - | 1,972,635 |
| Intangible assets | 22,414 | - | 22,414 | 35,556 | - | 35,556 |
| Other assets | 4,738,267 | (633,070) | 4,105,197 | 5,356,508 | (74,310) | 5,282,198 |
| **Total Assets** | **415,754,407** | **(3,447,151)** | **412,307,256** | **345,205,747** | **(1,674,437)** | **343,531,310** |
| **Off balance sheet items** | | | | | | |
| Undrawn credit commitments | 67,173,252 | - | 67,173,252 | 110,429,590 | - | 48,000,574 |
| Outstanding cheques of non-resident banks | - | - | - | 493,368 | - | - |
| Spot foreign currency contract | 2,662,150 | - | 2,662,150 | 148,408,727 | - | - |
| Collaterals for loan portfolio | 700,488,617 | - | 700,488,617 | 2,821,969,922 | - | 634,191,900 |
| Securities pledged as collateral | 3,500,000 | - | 3,500,000 | 340,865,572 | - | - |
| **Total off balance sheet** | **773,824,019** | **-** | **773,824,019** | **3,422,167,179** | **-** | **682,192,475** |
| **Total credit risk exposure** | **1,189,578,427** | **(3,447,151)** | **1,186,131,276** | **7,049,893,735** | **(1,674,437)** | **1,025,723,785** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

#### *ii. Expected credit loss measurement*

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. This credit quality depends on the extent of credit deterioration since initial recognition and will spread over three stages:

“Stage 1” comprises of assets that have not suffered any significant deterioration of credit quality since initial recognition;

“Stage 2” comprises of assets that have suffered significant deterioration since initial recognition;

“Stage 3” concerns all assets where a default has occurred.

Under this general approach, the ECL for an asset is calculated over different time horizons according to the stage it was assigned to:

ECL over one year for assets in stage 1;

ECL over remaining lifetime for assets in stage 2 and stage 3.

The stage assignment is done according to the following rules:

Impairment: if the counterparty for the considered asset has defaulted, the asset is assigned to “Stage 3”. An asset is considered as having defaulted if any repayment (principal or interest) is overdue for more than 90 days or if the counterparty is in a proven situation of default (bankruptcy).

Rating D (lower than C): Assets with this rating are currently considered to be in stage 3.

Qualitative factors: IFRS 9 has advised to take into account qualitative factors such as watch lists or financial analysis by experts. Similarly to the previous case, there is also a second time threshold. In case the repayment of an asset is overdue for more than 30 days and less than 90 days, it is assigned to “Stage 2”.

Relative Threshold: if the counterparty has suffered significant deterioration in credit risk, that is if its credit quality since initial recognition has dropped more than a specific pre-defined relative threshold, then it is assigned to “Stage 2”.

All assets that are not in the previous cases are assigned to “Stage 1”.

*Grouping of instruments for losses measured on a collective basis*

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible.

Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes.

The Bank has three main portfolios, which are:

- Loan portfolio

  This category includes wholesale and individual/retail accounts loans.
- Treasury portfolio

  This category includes bonds, treasury bills and equity accounts.
- Project and Structured Finance

  This category includes letters of credit and bank guarantees.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

*Significant Deterioration through relative threshold*
The bank computes a relative threshold matrix that gives for each rating a prediction of what the expected rating for each time horizon should be.

Through-the-cycle (TTC) transition matrices give the percentage of counterparties which moved from one rating to another over a specific time interval. TTC matrices over a 10 year horizon are taken since this gives a comfortable horizon for a relative threshold.

*Credit risk grading*
The bank relied on proxies provided by external credit rating agencies. External TTC transition matrices for all European entities provided by international credit rating agencies are used. The following steps are then carried out:

First the mapping between the internal and external rating systems is performed;

From there, a TTC transition matrix with the number of observations (number of entities that changed from one specific rating to another) is used and a weighted average per mapped rating is computed in order to compute the internal ratings TTC matrix.

*Forward-looking information incorporated in the ECL models*
The TTC PDs are transformed into PIT PDs by taking into account the macroeconomic environment through a set of macroeconomic variables: real GDP growth rate, inflation rate and unemployment rate. These variables were sourced from the IMF[2], including historical data spanning 1990 – 2016 and baseline projections for 2017 – 2020. The first PD model includes a simplified form of the Merton model. In this framework, a systemic variable $X_t$ which represents the macroeconomic environment is introduced. The sensitivity of each rating's PD to this variable is obtained via the calibration of the $\rho$ parameter. The model takes into account the global default rate of each year and calculates $X_t$ for each year, which is then regressed over with the different combinations of macro-economic variables. Using projections of the macroeconomic variables, the regression formula is used to deduce projections of $X_t$, and based on the one factor Merton model the PIT PDs are obtained. The second PD model considers the default rate per rating in each year, which enables the calibration of the sensitivity $\rho_i$ for all ratings.

*Measuring ECL – Explanation of inputs, assumptions and estimation techniques*
The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

1. Probability of default (PD);
2. Loss given default (LGD); and
3. Exposure at default (EAD).

ECL is estimated under Baseline (typical), Best (favourable) and Adverse (unfavourable) conditions.
The only Point-in-Time estimates are for Probability of Default. LGD assumes Basel estimates and EAD uses amortisation type payment schedules. Once all components (PD, EAD, LGD) have been computed, the ECL is estimated under three different scenarios: Baseline (typical), Best (favourable) and Adverse (unfavourable) condition, with weights 52%, 18% and 30% respectively. The final ECL is the probability-weighted ECL under those three scenarios.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

*1. Probability of Default*

The probability of default has been modelled on the basis of the one factor Merton model. The approach to model the point-in-time forward looking and macroeconomic PD is divided into three different steps: - The first step is to calibrate the cumulated TTC PDs; - The second step is to include the forward looking information and transform the cumulated TTC PDs to PIT PDs; - The final step is to describe the conversion of PIT PDs to TTC PDs after a certain horizon.

Default rates are essential for the calculation of Point-in-Time Probability of Default (PD) and for the estimation of ECL.

The Bank used external default rate data for each relevant sector and region. A number of macro-economic variables sourced from the IMF2, including historical data spanning 1990 – 2016 and baseline projections for 2017 – 2020, were considered in modelling of PIT PD.

For non-rated accounts, PD are estimated using the nominal weighted average PD of all rated accounts within the same rating system. However, this does not guarantee that the PD for non-rated accounts in stage 2 (NRB2) is higher than for stage 1 (NRB1). To account for the higher risk of NRB2 exposures, the Bank mapped NRB2 to an equivalent risk grade with similar PIT PD as the PD for NRB1 exposure for a time horizon equal to the average residual lifetime of all unexpired accounts within the same sector.

*2. Loss Given Default (LGD)*

Loss Given Default is defined as the percentage of the Exposure at Default (EAD) that is ultimately lost in case of default of a counterparty, after all possible recoveries through selling of collateral or collection procedures. As regards to the loan to customers' portfolio, LGD is modelled using historical recovery rates or using the collateral value of the asset. The bank has considered information about past collateral value, time in default, time to sale, sale costs, in calculating the LGD.

A defaulted collateralised asset can move through different stages post default. The bank can seize the collateral ("Possession") in order to sell it ("Sale") and make up for the potential loss due to the default of the counterparty. Possession of collateral can occur voluntarily ("handing over the keys") or via litigation (court proceedings). And sales may be carried out by the institution (after obtaining possession) or by means of a customer self-sale. On the date of collateral sale, any shortfall is recognised in the P&L (write-off expense) and subsequent recoveries (debt collection either internal or external) may occur. Write-off occurs when there is a shortfall on collateral sale. Closed and cures occur when the full outstanding is recovered with the former resulting in the account closing (i.e. no lending). Cure refers to both closed and curing accounts. For the unsecured/uncollateralised types of assets the value of the collateral is supposed to be 0 and the actual model is still applied taking into account pure debt collection. In the light of this recovery process, the Bank defines LGD as the expected severity (loss) given a default.

The Banks mapped each collateral type in BKT portfolios to the Basel LGD segments1, each with their own LGD parameters for Corporate and Retail Portfolio based on historical data. For Sovereigns and Banks Segment, LGD value is fixed 25% as per Basel requirements.

*3. Exposure at Default (EAD)*

An asset can have a customised, linear or bullet amortisation type. For assets with a customised amortisation type, repayment schedules are used to estimate EAD. For assets without any amortisation type, a linear repayment plan is assumed. For off balance sheet exposures, it is required that provisions are held against undrawn commitments. BKT's calculation of the credit conversion factor (CCF) values is in line with Basel II requirements under the standardised approach: "Commitments with an original maturity up to one year and commitments with an original maturity over one year will receive a CCF of 20% and 50%, respectively." Early repayment/refinance assumptions are also incorporated into the calculation. However the early repayments are considered to be 0 for all assets as the Bank's historical data suggests insignificant material impact.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in gross carrying amount of loans to customers at amortised cost.

**CHANGES IN GROSS CARRYING AMOUNT OF LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 December 2018 | Retail lending | | | | Corporate lending | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2018** | **77,968,256** | **2,140,901** | **2,804,809** | **82,913,966** | **120,793,703** | **6,230,925** | **11,211,380** | **138,236,008** |
| Transfer to Stage 1 (from 2 or 3) | 746,815 | (520,675) | (226,140) | - | 4,440,983 | (2,595,568) | (1,845,415) | - |
| Transfer to Stage 2 (from 1 or 3) | (1,299,394) | 1,386,746 | (87,352) | - | (5,717,099) | 5,717,099 | - | - |
| Transfer to Stage 3 (from 1 or 2) | (1,431,637) | (473,983) | 1,905,620 | - | (1,117,669) | (346,875) | 1,464,544 | - |
| New financial assets originated or purchased | 40,537,264 | 330,439 | 100,244 | 40,967,947 | 93,601,957 | 8,826,219 | 575,179 | 103,003,355 |
| Derecognition of financial assets | (12,388,778) | (134,073) | (196,104) | (12,718,955) | (54,217,219) | (2,602,076) | (3,838,330) | (60,657,625) |
| Changes due to modifications that did not result in derecognition | (14,625,496) | (441,854) | (324,983) | (15,392,333) | (16,966,891) | (1,672,042) | (776,875) | (19,415,808) |
| Write-offs | - | - | (467,188) | (467,188) | - | - | (328,371) | (328,371) |
| Foreign exchange and other changes | 9,786 | - | (580) | 9,206 | (9,786) | - | 580 | (9,206) |
| **Gross Balance at 31 December 2018** | **89,516,816** | **2,287,501** | **3,508,326** | **95,312,643** | **140,807,979** | **13,557,682** | **6,462,692** | **160,828,353** |

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in allowance of loans to customers at amortised cost

**ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST**

| | Retail lending | | | | Corporate lending | | | |
|---|---|---|---|---|---|---|---|---|
| **31 December 2018** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Balance at 1 January 2018** | **755,005** | **261,245** | **645,637** | **1,661,887** | **3,989,963** | **506,918** | **428,109** | **4,924,990** |
| Transfer to Stage 1 (from 2 or 3) | 60,563 | (30,889) | (29,674) | - | 230,480 | (230,489) | 9 | - |
| Transfer to Stage 2 (from 1 or 3) | (34,808) | 44,320 | (9,512) | - | (390,193) | 390,193 | - | - |
| Transfer to Stage 3 (from 1 or 2) | (465,640) | (184,036) | 649,676 | - | (296,445) | (99,244) | 395,689 | - |
| New financial assets originated or purchased | 358,883 | 7,500 | 98,614 | 464,997 | 1,669,243 | 346,947 | 10,226 | 2,026,416 |
| Derecognition of financial assets | (120,466) | (11,511) | (42,890) | (174,867) | (489,505) | (58,044) | (13,098) | (560,647) |
| Write-offs | - | - | (203,872) | (203,872) | - | - | (120,898) | (120,898) |
| Changes in models/risk parameters | (373,409) | (103,419) | 745,076 | 268,248 | 757,620 | 188,535 | 454,862 | 1,401,017 |
| Foreign exchange and other changes | 542,668 | 51,811 | (29,088) | 565,391 | (1,558,993) | (403,411) | 118,513 | (1,843,891) |
| **Gross Balance at 31 December 2018** | **722,796** | **35,021** | **1,823,967** | **2,581,784** | **3,912,170** | **641,405** | **1,273,412** | **5,826,987** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

**CHANGES IN GROSS CARRYING AMOUNT OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)**

| 31 December 2018 | Due from Banks | | | | Investment Securities at FVOCI | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2018** | **30,500,000** | **-** | **-** | **30,500,000** | **55,591,351** | **-** | **-** | **55,591,351** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - | - | - | - |
| New financial assets originated or purchased | 6,017,047 | - | - | 6,017,047 | 69,702,837 | - | - | **69,702,837** |
| Derecognition of financial assets | (30,500,000) | - | - | (30,500,000) | (55,591,351) | - | - | **(55,591,351)** |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - | - | - | - |
| Write-offs | - | - | - | - | - | - | - | - |
| Foreign exchange and other changes | - | - | - | - | - | - | - | - |
| **Gross Balance at 31 December 2018** | **6,017,047** | **-** | **-** | **6,017,047** | **69,702,837** | **-** | **-** | **69,702,837** |
| **31 December 2018** | **Investment Securities at amortised cost** | | | | **Loan Commitments and financial guarantee contracts** | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Balance at 1 January 2018** | **-** | **-** | **-** | **-** | **19,874,618** | **-** | **-** | **19,874,618** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - | - | - | - |
| New financial assets originated or purchased | 5,303,912 | 3,566,452 | - | **8,870,364** | 4,760,149 | - | - | **4,760,149** |
| Derecognition of financial assets | - | - | - | - | (11,561,587) | - | - | **(11,561,587)** |
| Changes due to modifications that did not result in derecognition | - | - | - | - | 2,391,044 | - | - | **2,391,044** |
| Write-offs | - | - | - | - | - | - | - | - |
| Foreign exchange and other changes | - | - | - | - | - | - | - | - |
| **Gross Balance at 31 December 2018** | **5,303,912** | **3,566,452** | **-** | **8,870,364** | **15,464,224** | **-** | **-** | **15,464,224** |

The gross carrying amounts include only Nominal amounts. Unamortized discount; Accrued interest and Marked to market gain/ (loss) are not included.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

**RECONCILATION OF THE ACCUMULATED IMPAIRMENT ALLOWANCE OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)**

| 31 December 2018 | Due from Banks | | | | Investment Securities at FVOCI | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2018** | **35,831** | **-** | **-** | **35,831** | **-** | **-** | **-** | **-** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | **-** | - | - | - | **-** |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | **-** | - | - | - | **-** |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | **-** | - | - | - | **-** |
| New financial assets originated or purchased | 6,473 | - | - | **6,473** | 138,992 | - | - | **138,992** |
| Derecognition of financial assets | (35,831) | - | - | **(35,831)** | - | - | - | **-** |
| Write-offs | - | - | - | **-** | - | - | - | **-** |
| Changes in models/risk parameters | - | - | - | **-** | - | - | - | **-** |
| Foreign exchange and other movements | - | - | - | **-** | - | - | - | **-** |
| **Gross Balance at 31 December 2018** | **6,473** | **-** | **-** | **6,473** | **138,992** | **-** | **-** | **138,992** |

| 31 December 2018 | Debt Investment Securities at amortised cost | | | | Loan Commitments and financial guarantee contracts | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2018** | **-** | **-** | **-** | **-** | **74,310** | **-** | **-** | **74,310** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | **-** | - | - | - | **-** |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | **-** | - | - | - | **-** |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | **-** | - | - | - | **-** |
| New financial assets originated or purchased | 15,933 | 4,895 | - | **20,828** | 159,872 | - | - | **159,872** |
| Derecognition of financial assets | - | - | - | **-** | (22,108) | - | - | **(22,108)** |
| Write-offs | - | - | - | **-** | - | - | - | **-** |
| Changes in models/risk parameters | - | - | - | **-** | 352,498 | - | - | **352,498** |
| Foreign exchange and other movements | - | - | - | **-** | 68,498 | - | - | **68,498** |
| **Gross Balance at 31 December 2018** | **250,637** | **4,895** | **-** | **20,828** | **633,070** | **-** | **-** | **633,070** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

***iii. Credit quality analysis***

The following table sets out information about the credit quality of loan to customers in 2018 by asset quality at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**LOANS TO CUSTOMERS BY ASSET QUALITY AT AMORTISED COST**

| | Stage 1 | | | | | Stage 2 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2018** | **Non Past Due** | **Past due** | **Total** | **Allowance** | **Total Carrying Amount** | **Non Past Due** | **Past due** | **Total** | **Allowance** | **Total Carrying Amount** |
| **Retail lending** | **85,392,798** | **4,123,437** | **89,516,235** | **692,881** | **88,823,354** | **-** | **2,287,501** | **2,287,501** | **34,158** | **2,253,343** |
| Mortgage | 26,179,528 | 2,101,407 | 28,280,935 | 117,310 | 28,163,625 | - | 1,134,534 | 1,134,534 | 10,752 | 1,123,782 |
| Consumer | 56,128,119 | 1,996,622 | 58,124,741 | 532,517 | 57,592,224 | - | 1,048,887 | 1,048,887 | 19,840 | 1,029,047 |
| Credit cards | 3,085,151 | 25,408 | 3,110,559 | 43,054 | 3,067,505 | - | 104,080 | 104,080 | 3,567 | 100,514 |
| **Corporate lending** | **129,569,508** | **11,239,891** | **140,809,399** | **3,906,525** | **136,902,874** | **10,449,421** | **3,108,261** | **13,557,682** | **641,275** | **12,916,407** |
| Corporate | 92,884,086 | 8,211,514 | 101,095,601 | 2,736,209 | 98,359,392 | 8,246,501 | 1,226,779 | 9,473,281 | 458,824 | 9,014,457 |
| SME | 25,571,486 | 1,478,808 | 27,050,294 | 625,923 | 26,424,371 | 2,073,143 | 1,425,259 | 3,498,402 | 165,318 | 3,333,084 |
| Micro | 11,113,095 | 1,549,569 | 12,662,663 | 544,393 | 12,118,271 | 129,776 | 456,223 | 585,999 | 17,133 | 568,866 |
| **Total** | **214,965,436** | **15,363,328** | **230,328,764** | **4,599,406** | **225,729,358** | **10,449,421** | **5,395,762** | **15,845,183** | **675,434** | **15,169,749** |
| **Off balance sheet** | **-** | **-** | **-** | **110,787** | | | | | | |
| Retail Credit cards | | | | 101,294 | | | | | | |
| Business Credit cards | - | - | - | 9,493 | | | | | | |

| **31 December 2018** | Stage 3 | | | | | **Total net amount at amortised cost** | **Value of collateral** |
|---|---|---|---|---|---|---|---|
| | **Non Past Due** | **Past due** | **Total** | **Allowance** | **Total Carrying Amount** | | |
| **Retail lending** | **20,972** | **3,487,934** | **3,508,906** | **1,753,451** | **1,755,455** | **92,832,152** | **186,115,853** |
| Mortgage | 3,477 | 1,885,280 | 1,888,757 | 536,947 | 1,351,810 | 30,639,216 | 127,542,833 |
| Consumer | 13,127 | 1,147,217 | 1,160,344 | 789,555 | 370,789 | 58,992,060 | 58,573,020 |
| Credit cards | 4,368 | 455,437 | 459,805 | 426,948 | 32,857 | 3,200,876 | - |
| **Corporate lending** | **161,710** | **6,300,403** | **6,462,113** | **1,269,694** | **5,192,419** | **155,010,860** | **514,372,764** |
| Corporate | 152,961 | 3,213,123 | 3,366,084 | 667,324 | 2,698,760 | 110,072,608 | 344,405,739 |
| SME | 6,583 | 1,823,050 | 1,829,633 | 378,359 | 1,451,274 | 31,208,729 | 114,895,418 |
| Micro | 2,166 | 1,264,229 | 1,266,395 | 224,010 | 1,042,386 | 13,729,523 | 55,071,608 |
| **Total** | **182,682** | **9,788,336** | **9,971,019** | **3,023,145** | **6,947,874** | **247,843,852** | **700,488,617** |

Past due related to each stage is referred as follows: Stage 1: Past due 1-30 dpd, otherwise Non Past Due, Stage 2: Past due 31-90 dpd, otherwise Non Past Due, Stage 3: Past due over 90 dpd, otherwise Non Past Due.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality of loan to customers in the comparative period by asset quality at amortised cost.

| **31 December 2017** | **Retail** | **Business** | **Total** |
|---|---|---|---|
| Neither past due nor impaired | 74,074,528 | 126,739,735 | 200,814,263 |
| Past due and individually tested but not impaired | 3,193,367 | 4,944,585 | 8,137,952 |
| Individually impaired | 2,894,735 | 5,257,508 | 8,152,243 |
| **Total Loans, gross (Note 9.2)** | **80,162,630** | **136,941,828** | **217,104,458** |
| Allowance for impairment | (2,455,052) | (2,567,528) | (5,022,580) |
| **Total Loans, net of impairment** | **77,707,578** | **134,374,300** | **212,081,878** |

Past due in 2017 refers to all exposures which are more than 90 days in delay of their contractual cash flows.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the aging analyses of loan to customers in 2018 by product line.

**LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 Dec. 2018 | Retail lending – Mortgage | | | | Retail lending – Consumer | | | | Retail lending – Credit cards | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | **Total** | Stage 1 | Stage 2 | Stage 3 | **Total** | Stage 1 | Stage 2 | Stage 3 | **Total** |
| Current | 26,070,702 | - | - | **26,070,702** | 55,613,597 | - | 3 | 55,613,600 | 3,042,450 | - | 973 | **3,043,423** |
| 1 - 30 days | 2,092,923 | - | - | **2,092,923** | 1,978,627 | - | 2,415 | 1,981,042 | 25,055 | - | - | **25,055** |
| 31 - 90 days | - | 1,123,782 | 3,477 | **1,127,259** | - | 1,029,047 | 1,695 | 1,030,742 | - | 100,514 | - | **100,514** |
| 91 - 180 days | - | - | 496,737 | **496,737** | - | - | 60,223 | 60,223 | - | - | 4,647 | **4,647** |
| 181 - 360 days | - | - | 45,819 | **45,819** | - | - | 103,695 | 103,695 | - | - | 27,237 | **27,237** |
| > 361 days | - | - | 805,777 | **805,777** | - | - | 202,758 | 202,758 | - | - | - | **-** |
| **Total** | **28,163,625** | **1,123,782** | **1,351,810** | **30,639,216** | **57,592,224** | **1,029,047** | **370,789** | **58,992,060** | **3,067,505** | **100,514** | **32,857** | **3,200,876** |
| Value of collateral | 114,936,827 | 4,973,625 | 7,632,381 | **127,542,833** | 55,264,910 | 859,580 | 2,448,530 | **58,573,020** | - | - | - | - |
| Retail Credit cards Off balance sheet | 101,294 | | | | | | | | | | | |

**LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 Dec. 2018 | Corporate lending – Large Corporate | | | | Corporate lending – SME Corporate | | | | Corporate lending – Micro Corporate | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | **Total** | Stage 1 | Stage 2 | Stage 3 | **Total** | Stage 1 | Stage 2 | Stage 3 | **Total** |
| Current | 90,416,073 | 7,410,771 | 23,962 | **97,850,805** | 24,949,579 | 1,591,554 | 0.76 | **26,541,134** | 10,652,947 | 123,942 | - | **10,776,889** |
| 1 - 30 days | 7,943,319 | 387,107 | 62,018 | **8,392,444** | 1,474,792 | 342,380 | 1,271 | **1,818,442** | 1,465,324 | - | 62.59 | **1,465,387** |
| 31 - 90 days | - | 1,216,578 | 66,981 | **1,283,560** | - | 1,399,150 | 5,311 | **1,404,461** | - | 444,924 | 2,104 | **447,028** |
| 91 - 180 days | - | - | 43,915 | **43,915** | - | - | 74,582 | **74,582** | - | - | 3,831 | **3,831** |
| 181 - 360 days | - | - | 45,732 | **45,732** | - | - | 323,031 | **323,031** | - | - | 117,758 | **117,758** |
| > 361 days | - | - | 2,456,152 | **2,456,152** | - | - | 1,047,078 | **1,047,078** | - | - | 918,630 | **918,630** |
| **Total** | **98,359,392** | **9,014,457** | **2,699,279** | **110,072,608** | **26,424,371** | **3,333,084** | **1,451,274** | **31,208,729** | **12,118,271** | **568,866** | **1,042,386** | **13,729,523** |
| Value of collateral | 313,228,269 | 21,349,325 | 9,828,145 | **344,405,739** | 95,210,797 | 12,345,103 | 7,339,518 | **114,895,418** | 46,093,836 | 3,527,322 | 5,450,450 | **55,071,608** |
| Business Credit cards Off balance sheet | 9,493 | | | | | | | | | | | |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

Set out below is the ageing analysis of all past due loans either impaired or not impaired individually in the comparative period:

| **31 December 2017** | **Total Loans** |
|---|---|
| Past due up to 31 days | 204,038,550 |
| Past due 32-60 days | 2,337,440 |
| Past due 61-90 days | 1,535,386 |
| Past due 91-180 days | 902,349 |
| Past due over 180 days | 8,290,733 |
| **Total Loans** | **217,104,458** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality of financial assets, other than loans to customers, measured at amortised cost, FVOCI debt investments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**FINANCIAL INSTRUMENTS CREDIT RISK - OTHER THAN LOANS TO CUSTOMERS**

| | 2018 | | | | | 2017 |
|---|---|---|---|---|---|---|
| | **12-month ECL** | **Lifetime ECL not credit-impaired** | **Lifetime ECL credit-impaired** | **Purchased credit-impaired** | **Total** | **Total** |
| **Placements and Balances with banks at amortised cost** | | | | | | |
| Aa1 to Aa3 | - | - | - | - | - | - |
| A1 to A3 | - | - | - | - | - | - |
| Baa1 to Baa3 | - | - | - | - | - | - |
| Ba1 to Ba3 | - | - | - | - | - | - |
| B1 to B3 | 3,036,383 | - | - | - | 3,036,383 | - |
| Unrated | 2,980,663 | - | - | - | 2,980,663 | - |
| Exposure before impairment | *6,017,046* | - | - | - | **6,017,046** | - |
| Loss allowance | 6,473 | - | - | - | 6,473 | - |
| Carrying amount | **6,010,573** | - | - | - | **6,010,573** | - |
| **Loans to Banks at amortised cost** | | | | | | |
| Aa1 to Aa3 | - | - | - | - | - | - |
| A1 to A3 | - | - | - | - | - | - |
| Baa1 to Baa3 | - | - | - | - | - | - |
| Ba1 to Ba3 | - | - | - | - | - | - |
| B1 to B3 | - | - | - | - | - | - |
| Caa1 to Caa3 | - | - | - | - | - | - |
| Unrated | - | - | - | - | - | **30,537,890** |
| Exposure before impairment | - | - | - | - | - | ***35,830*** |
| Loss allowance | - | - | - | - | - | - |
| Carrying amount | - | - | - | - | - | **30,502,060** |
| **Investment Securities at FVOCI** | | | | | | |
| Aa1 to Aa3 | - | - | - | - | - | - |
| A1 to A3 | - | - | - | - | - | - |
| Baa1 to Baa3 | - | - | - | - | - | - |
| Ba1 to Ba3 | 4,230,589 | - | - | - | **4,230,589** | - |
| B1 to B3 | - | - | - | - | - | - |
| Unrated | 64,361,812 | - | - | - | **64,361,812** | - |
| Exposure before impairment | *68,592,401* | - | - | - | **68,592,401** | - |
| Loss allowance | 138,991 | - | - | - | **138,991** | - |
| Carrying amount | **68,453,410** | - | - | - | **68,453,410** | - |
| **Investment Securities at Amortised Cost** | | | | | | |
| Aa1 to Aa3 | - | - | - | - | - | - |
| A1 to A3 | - | - | - | - | - | - |
| Baa1 to Baa3 | - | - | - | - | - | - |
| Ba1 to Ba3 | 2,417,660 | 3,500,440 | - | - | **5,918,100** | - |
| B1 to B3 | 2,457,197 | - | - | - | **2,457,197** | - |
| Unrated | - | - | - | - | - | - |
| Exposure | *4,874,857* | *3,500,440* | - | - | ***8,375,297*** | - |
| Loss allowance | 15,993 | 4,895 | - | - | **20,888** | - |
| Carrying amount | **4,858,864** | **3,495,545** | - | - | **8,354,409** | - |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

Credit quality of financial assets other than loan and advances to customers, based on the internal rating system of the Bank is categorised as follows:

| 31 December 2018 | Cash and balances with Central Bank | Due from other banks | Investment securities | Other Assets | Total |
|---|---|---|---|---|---|
| Good | 53,319,751 | 28,912,665 | 76,807,878 | 4,105,197 | 163,145,491 |
| Acceptable | - | - | - | - | - |
| Close monitoring | - | - | - | - | - |
| **Total** | **53,319,751** | **28,912,665** | **76,807,878** | **4,105,197** | **163,145,491** |

| 31 December 2017 | Cash and balances with Central Bank | Due from other banks | Investment securities | Other Assets | Total |
|---|---|---|---|---|---|
| Good | 36,515,212 | 33,783,698 | 55,460,258 | 5,356,510 | 131,115,678 |
| Acceptable | - | - | - | - | - |
| Close monitoring | - | - | - | - | - |
| **Total** | **36,515,212** | **33,783,698** | **55,460,258** | **5,356,510** | **131,115,678** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality loans to customers for the corporate portfolio in 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST - CORPORATE PORTFOLIO

| **31 December 2018** | **12-month ECL** | **Lifetime ECL not credit-impaired** | **Lifetime ECL credit-impaired** | **Total** |
|---|---|---|---|---|
| **Large Corporate** | | | | |
| Strong (rating A) | 4,874,573 | - | - | **4,874,573** |
| Satisfactory(rating B&C) | 90,558,263 | 9,473,281 | - | **100,031,544** |
| Watch list (higher risk) (rating D lower than C*)* | - | - | - | **-** |
| Default (Lower than D and over 90 days past due) | - | - | 3,366,084 | **3,366,084** |
| *Total Rated* | *95,432,836* | *9,473,281* | *3,366,084* | ***108,272,200*** |
| Non Rated | 5,662,765 | 0 | 0 | **5,662,765** |
| **Total gross amount** | **101,095,601** | **9,473,281** | **3,366,084** | **113,934,966** |
| Loss allowance | 2,736,209 | 458,824 | 667,324 | **3,872,357** |
| **Carrying amount** | **98,359,392** | **9,014,457** | **2,698,760** | **110,072,608** |
| Collateral held for credit impaired assets & assets at FVPL | 313,228,269 | 21,349,325 | 9,828,145 | **344,405,739** |
| **SME Corporate** | | | | |
| Strong (rating A) | 632,592 | - | - | **632,592** |
| Satisfactory(rating B&C) | 21,722,607 | 3,363,957 | - | **25,086,564** |
| Watch list (higher risk) (rating D lower than C*)* | - | - | - | **-** |
| Default (Lower than D and over 90 days past due) | - | - | 1,829,633 | **1,829,633** |
| *Total Rated* | *22,355,199* | *3,363,957* | *1,829,633* | ***27,548,788*** |
| Non Rated | 4,695,095 | 134,445 | 0 | **4,829,541** |
| **Total gross amount** | **27,050,294** | **3,498,402** | **1,829,633** | **32,378,329** |
| | | | | **0** |
| Loss allowance | 625,923 | 165,318 | 378,359 | **1,169,600** |
| **Carrying amount** | **26,424,371** | **3,333,084** | **1,451,274** | **31,208,729** |
| Collateral held for credit impaired assets & assets at FVPL | 95,210,797 | 12,345,103 | 7,339,518 | **114,895,418** |
| **Micro Corporate** | | | | |
| Strong (rating A) | 139,529 | - | - | **139,529** |
| Satisfactory(rating B&C) | 7,711,633 | 171,732 | - | **7,883,365** |
| Watch list (higher risk) (rating D lower than C*)* | - | - | - | **-** |
| Default (Lower than D and over 90 days past due) | - | - | 1,266,395 | **1,266,395** |
| *Total Rated* | *7,851,163* | *171,732* | *1,266,395* | ***9,289,290*** |
| Non Rated | 4,811,501 | 414,267 | - | **5,225,768** |
| **Total gross amount** | **12,662,664** | **585,999** | **1,266,395** | **14,515,059** |
| Loss allowance | 544,393 | 17,133 | 224,010 | **785,535** |
| **Carrying amount** | **12,118,271** | **568,866** | **1,042,386** | **13,729,523** |
| Collateral held for credit impaired assets & assets at FVPL | 46,093,836 | 3,527,322 | 5,450,450 | **55,071,608** |
| **OFF BALANCE SHEET** | | | | |
| Credit cards Loss allowance | 9,493 | - | - | **9,493** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST – RETAIL PORTFOLIO**

| 31 December 2018 | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total |
|---|---|---|---|---|
| **Mortgage** | | | | |
| Defaults | - | - | 1,888,757 | **1,888,757** |
| Non Rated | 28,280,935 | 1,134,534 | - | **29,415,469** |
| **Total gross amount** | **28,280,935** | **1,134,534** | **1,888,757** | **31,304,226** |
| Loss allowance | 117,310 | 10,752 | 536,947 | **665,010** |
| **Carrying amount** | **28,163,625** | **1,123,782** | **1,351,810** | **30,639,216** |
| Collateral held for credit impaired assets & assets at FVPL | 114,936,827 | 4,973,625 | 7,632,381 | **127,542,833** |
| **Consumer** | | | | |
| Defaults | - | - | 1,160,344 | **1,160,344** |
| Non Rated | 58,124,741 | 1,048,887 | - | **59,173,628** |
| **Total gross amount** | **58,124,741** | **1,048,887** | **1,160,344** | **60,333,972** |
| Loss allowance | 532,517 | 19,840 | 789,555 | **1,341,912** |
| **Carrying amount** | **57,592,224** | **1,029,047** | **370,789** | **58,992,060** |
| Collateral held for credit impaired assets & assets at FVPL | 55,264,910 | 859,580 | 2,448,530 | **58,573,020** |
| **Credit_cards** | | | | |
| Defaults | - | - | 459,805 | **459,805** |
| Non Rated | 3,110,559 | 104,080 | - | **3,214,639** |
| **Total gross amount** | **3,110,559** | **104,080** | **459,805** | **3,674,444** |
| Loss allowance | 43,054 | 3,566 | 426,948 | **473,568** |
| **Carrying amount** | **3,067,505** | **100,514** | **32,857** | **3,200,876** |
| Collateral held for credit impaired assets & assets at FVPL | - | - | - | **-** |
| **OFF BALANCE SHEET** | | | | |
| Credit cards Loss allowance | 101,294 | - | - | **101,294** |

Set out below is an analysis about the credit quality of corporate loans to customers in the comparative period:

| **Rating** | **31 December 2017** |
|---|---|
| A – Good | 4,600,752 |
| B – Acceptable | 122,841,550 |
| C – Close Monitoring | 1,757,743 |
| D – Unacceptable | 7,162,872 |
| **(Note 9.2)** | **136,362,917** |
| Accrued interest | 684,794 |
| Less: unamortized deferred fee income | (105,883) |
| **Total** | **136,941,828** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

*Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

Once the loan is restructured, its performance is closely monitored for the purpose of impairment testing.

Set out below are the carrying amounts of loans to customers whose term have been renegotiated and are under monitoring:

FORBORNE LOANS TO CUSTOMERS ACCORDING TO THEIR CREDIT QUALITY AT AMORTISED COST

| 31 December 2018 | Total amount of Loans | Total amount of Forborne Loans | Forborne Loans (%) |
|---|---|---|---|
| Stage 1 | 230,328,764 | 5,028,682 | 2.18% |
| Stage 2 | 15,845,183 | 1,318,730 | 8.32% |
| Stage 3 | 9,971,019 | 4,629,212 | 46.43% |
| **Exposure before impairment** | **256,144,996** | **10,976,624** | 4.29% |
| Stage 1 Allowance | 4,634,967 | 186,943 | 4.03% |
| Stage 2 Allowance | 676,426 | 23,548 | 3.48% |
| Stage 3 Allowance | 3,097,378 | 1,004,884 | 32.44% |
| **Total net amount** | **247,732,224** | **9,761,248** | **3.94%** |
| Value of collateral | 700,488,617 | 41,591,658 | 5.94% |
| **OFF BALANCE SHEET** | | | |
| **Allowance** | **110,787** | - | - |

| | Loans to customers | | | |
|---|---|---|---|---|
| | **Retail** | **Corporate** | **Advances** | **Total Loans** |
| 31 December 2017 | 92,812,971 | 117,451,340 | 39,294,848 | 249,559,159 |

### *iv. Collateral and other credit enhancements*

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.
The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Financial Assets
- Charges over business assets such as premises, machineries, and accounts receivable;

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iv. Credit Collateral and other credit enhancements (continued)*

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Set out below is an analysis of collateral and credit enhancement obtained during the years:

| | Loans to customers | | |
|---|---|---|---|
| **31 December 2018** | **Retail** | **Corporate** | **Total Loans** |
| Residential, commercial or industrial property | 98,443,990 | 340,209,728 | 438,653,718 |
| Financial assets | 9,205,298 | 9,542,281 | 18,747,579 |
| Other | 78,461,565 | 164,625,755 | 243,087,320 |
| **Total** | **186,110,853** | **514,377,764** | **700,488,617** |

| | Loans to customers | | |
|---|---|---|---|
| **31 December 2017** | **Retail** | **Corporate** | **Total Loans** |
| Residential, commercial or industrial property | 88,474,423 | 290,692,249 | 379,166,672 |
| Financial assets | 6,913,716 | 9,594,194 | 16,507,910 |
| Other | 73,229,058 | 165,288,260 | 238,517,318 |
| **Total** | **168,617,197** | **465,574,703** | **634,191,900** |

*Impaired loans and securities*

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). The Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes of grading and takes the necessary actions according to the monitoring procedures. The Risk Committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

*Past due but not impaired loans*

Past due but not impaired loans are those 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.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

v. ***Impaired Financial Assets –Comparative information under IAS 39***

*Allowances for impairment*

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio and other financial assets. It relates to the specific loss component for individually significant exposures.

*Write-off policy*

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Central Bank of Kosova “On Credit Risk Management”. 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.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

#### *vi. Concentrations of credit risk*

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and investment securities as at 31 December 2018 and 31 December 2017 is shown below:

| | Note | Loans to customers | | Loans to banks | | Investment Securities | |
|---|---|---|---|---|---|---|---|
| | | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
| Carrying amount | 8,9.1,9.2, | 247,370,257 | 212,081,878 | 5,958,593 | 30,464,169 | 78,053,761 | 55,435,613 |
| **Concentration by sector** | | | | | | | |
| Corporate | | 154,861,272 | 134,374,300 | - | - | - | - |
| Government | | - | - | - | - | 69,334,415 | 55,435,613 |
| Banks | | - | - | 5,958,593 | 30,464,169 | 8,719,347 | 234,786,718 |
| Retail | | 92,508,985 | 77,707,578 | - | - | - | - |
| **Total** | | **247,370,257** | **212,081,878** | **5,958,593** | **30,464,169** | **78,053,761** | **55,435,613** |

| Concentration by location | Note | Loans to customers | | Loans to banks | | Investment securities | |
|---|---|---|---|---|---|---|---|
| | | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
| Albania | | - | - | - | - | - | - |
| Kosovo | | 247,370,257 | 212,081,878 | 996,302 | - | 65,152,759 | 55,435,613 |
| Europe | | - | - | 4,962,291 | 30,464,169 | 10,717,746 | - |
| Asia | | - | - | - | - | - | |
| Middle East and Africa | | - | - | - | - | 2,183,256 | - |
| America | | - | - | - | - | - | - |
| **Total** | 8,9.1,9.2 | **247,370,257** | **212,081,878** | **5,958,593** | **30,464,169** | **78,053,761** | **55,435,613** |

### (c) Liquidity risk

**Liquidity risk** is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The purpose of Liquidity Risk Management (LRM) 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. Bank's LRM policy includes how the Bank identifies, measures, monitors and control that risk.

**Organization of LRM:** Bank's LRM Organization includes two different bodies in the monitoring and management of liquidity. The involvement of different bodies helps provide clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to the Treasury and FI Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to the Risk Management Group. The main purpose of the Risk Management Group, which conducts daily overview of LRM reports, is to provide an early warning signal of liquidity risk to the senior management of the Bank.

**LRM Reports:** Bank's LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under "business as usual" scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows/ outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity.

The LRM approach of the Bank results in positive liquidity gaps for all time stages up to one year as at 31 December 2018.

## 5. Financial risk management (continued)

### (c) Liquidity risk (continued)

As at 31 December 2018, the Bank's assets and liabilities have remaining maturities as follows:

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Bank | 53,319,751 | - | - | - | - | 53,319,751 |
| Placement and balances with banks | 14,218,666 | 3,033,828 | - | 1,019,075 | - | 18,271,569 |
| Investment securities | - | 492,085 | 22,603,176 | 37,411,005 | 7,947,143 | 68,453,409 |
| Held-to-maturity securities | - | - | 3,495,545 | 2,409,694 | 2,449,230 | 8,354,469 |
| Due from BKT Albania | 10,641,096 | - | - | - | - | 10,641,096 |
| Loans and advances to customers | 4,851,577 | 3,464,214 | 40,983,840 | 125,973,991 | 72,096,635 | 247,370,257 |
| Other assets | 4,105,197 | - | - | - | - | 4,105,197 |
| **Total assets** | **87,136,287** | **6,990,127** | **67,082,561** | **166,813,765** | **82,493,008** | **410,515,748** |
| **Liabilities** | | | | | | |
| Customer deposits | 171,806,845 | 16,426,179 | 84,716,420 | 78,202,496 | 202,391 | 351,354,331 |
| Due to banks | 16,082,806 | - | 1,776,312 | - | - | 17,859,118 |
| Deferred tax liabilities | - | - | - | - | 213,306 | 213,306 |
| Accruals and other liabilities | 1,594,771 | - | - | - | 57,338 | 1,652,109 |
| Borrowings | - | - | 4,085,314 | - | - | 4,085,314 |
| **Total liabilities** | **189,484,422** | **16,426,179** | **90,578,046** | **78,202,496** | **473,035** | **375,164,178** |
| **Net Position** | **(102,348,135)** | **(9,436,052)** | **(23,495,485)** | **88,611,269** | **82,019,973** | **35,351,570** |
| **Cumulative net position** | **(102,348,135)** | **(111,784,187)** | **(135,279,672)** | **(46,668,403)** | **35,351,570** | **-** |

LRM reports are produced for Euro currency and for the total statement of financial position as well. Maximum cumulative outflow limits, which are managed and monitored on a daily-basis, have been assigned.

The assets and liabilities are presented at their remaining maturity in the table above. The cumulative liquidity gaps are in negative due to the high concentration of deposits (current accounts). However, the results of the stress testing show different situation, as the Bank uses the historical data and statistics in the liquidity risk management on the spreading changes, which also results in positive cumulative liquidity gaps up to 1 year.

## 5. Financial risk management (continued)

### (c) Liquidity risk (continued)

As at 31 December 2017, the Bank's assets and liabilities have remaining maturities as follows:

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Bank | 36,515,212 | - | - | - | - | 36,515,212 |
| Balances with banks | 357,912 | - | 1,016,131 | | - | 1,374,043 |
| Available for sale securities | - | 2,164,396 | 29,477,358 | 21,501,147 | 2,317,357 | 55,460,258 |
| Due from BKT Albania | 1,871,765 | - | - | - | - | 1,871,765 |
| Loans and advances to banks | - | 2,005,600 | 25,031,485 | 3,500,805 | - | 30,537,890 |
| Loans and advances to customers | 18,527,941 | 10,818,858 | 104,046,730 | 64,271,889 | 14,416,460 | 212,081,878 |
| Other assets | 3,898,716 | 1,457,794 | - | - | - | 5,356,510 |
| **Total assets** | **61,171,546** | **16,446,648** | **159,571,704** | **89,273,841** | **16,733,817** | **343,197,556** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Customer deposits | 151,111,137 | 17,382,563 | 74,993,840 | 58,083,523 | 107,004 | 301,678,067 |
| Due to banks | 20,009 | - | - | - | - | 20,009 |
| Deferred tax liabilities | - | - | - | - | 331,124 | 331,124 |
| Accruals and other liabilities | 2,552,934 | - | - | - | - | 2,552,934 |
| Borrowings | - | - | 911,343 | 4,995,000 | - | 5,906,343 |
| **Total liabilities** | **153,684,080** | **17,382,563** | **75,905,183** | **63,078,523** | **438,128** | **310,488,477** |
| **Net Position** | **(92,512,534)** | **(935,915)** | **83,666,521** | **26,195,318** | **16,295,689** | **32,709,079** |
| **Cumulative net position** | **(92,512,534)** | **(93,448,449)** | **(9,781,928)** | **16,413,390** | **32,709,079** | **-** |

## 5. Financial risk management (continued)

### (d) Market risk

#### *1) Foreign currency risk*

Foreign currency risk is the risk that the value of assets and liabilities will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Central Bank of Republic of Kosova guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions. The Treasury and FI Group manages the foreign currency positions and balances the currency spread of the Bank on an ongoing basis.

The following tables present the equivalent amount of assets, liabilities and shareholder's equity by currency as at 31 December 2018 and 2017:

| **2018** | **EUR** | **ALL** | **USD** | **GBP** | **CHF** | **Other** | **Total** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with Central Bank | 45,302,024 | 142 | 590,690 | 382,206 | 7,044,689 | - | 53,319,751 |
| Placements and balances with banks | 15,741,288 | - | 2,056,060 | 184,292 | 289,929 | - | 18,271,569 |
| Available for sale securities | 66,099,072 | - | 2,319,961 | 6,333 | 28,043 | - | 68,453,409 |
| Held-to-maturity securities | 3,495,545 | - | 4,858,924 | - | | - | 8,354,469 |
| Due from BKT Albania | 9,190,632 | 72,316 | 740,490 | 1,213,169 | (575,511) | - | 10,641,096 |
| Loans to customers | 246,540,078 | - | 830,179 | - | - | - | 247,370,257 |
| Other assets | 4,098,263 | 6,934 | - | - | - | - | 4,105,197 |
| **Total assets** | **390,466,902** | **79,392** | **11,396,304** | **1,786,000** | **6,787,150** | **-** | **410,515,748** |
| **Liabilities** | | | | | | | |
| Customer deposits | 331,500,948 | 580 | 11,354,563 | 1,785,690 | 6,712,550 | - | 351,354,331 |
| Due to banks | 17,859,118 | - | - | - | - | - | 17,859,118 |
| Deferred tax liabilities | 213,306 | - | - | - | - | - | 213,306 |
| Accruals and other liabilities | 1,486,853 | 78,813 | 22,895 | 10,457 | 53,091 | - | 1,652,109 |
| Borrowings | 4,085,314 | - | - | - | - | - | 4,085,314 |
| **Total liability** | **355,145,539** | **79,393** | **11,377,458** | **1,796,147** | **6,765,641** | **-** | **375,164,178** |
| **Net position** | **35,321,363** | **(1)** | **18,846** | **(10,147)** | **21,509** | **-** | **35,351,570** |
| **Net position (GAP)** | **35,321,363** | **35,321,362** | **35,340,208** | **35,330,061** | **35,351,570** | **35,351,570** | **-** |

## 5. Financial risk management (continued)

### (d) Market risk (continued)

### *1) Foreign currency risk (continued)*

| **2017** | **EUR** | **ALL** | **USD** | **GBP** | **CHF** | **Other** | **Total** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with Central Bank | 34,210,192 | 132 | 412,046 | 321,320 | 1,562,639 | 8,883 | 36,515,212 |
| Balances with banks | 1,153,645 | - | 3,663 | 34,906 | 161,590 | 20,239 | 1,374,043 |
| Available for sale securities | 55,460,258 | - | - | - | - | - | 55,460,258 |
| Due from BKT Albania | (5,387,090) | 40,082 | 4,023,508 | 1,268,794 | 1,955,593 | (29,122) | 1,871,765 |
| Loans and advances to banks | 30,537,890 | - | - | - | - | - | 30,537,890 |
| Loans to customers | 210,382,177 | - | 1,699,701 | - | - | - | 212,081,878 |
| Other assets | 5,294,875 | 6,437 | 38,394 | 6,267 | 10,537 | - | 5,356,510 |
| **Total assets** | **331,651,947** | **46,651** | **6,177,312** | **1,631,287** | **3,690,359** | **-** | **343,197,556** |
| **Liabilities** | | | | | | | |
| Customer deposits | 290,251,381 | 283 | 6,105,410 | 1,631,288 | 3,689,705 | - | 301,678,067 |
| Due to banks | 20,009 | - | - | - | - | - | 20,009 |
| Deferred tax liabilities | 331,124 | - | - | - | - | - | 331,124 |
| Accruals and other liabilities | 2,433,661 | 46,318 | 72,353 | - | 602 | - | 2,552,934 |
| Borrowings | 5,906,343 | - | - | - | - | - | 5,906,343 |
| **Total liability** | **298,942,518** | **46,601** | **6,177,763** | **1,631,288** | **3,690,307** | **-** | **310,488,477** |
| **Net position** | **32,709,429** | **50** | **(451)** | **(1)** | **52** | **-** | **32,709,079** |
| **Net position (GAP)** | **32,709,429** | **32,709,479** | **32,709,028** | **32,709,027** | **32,709,079** | **32,709,079** | **-** |

The following table shows the sensitivity of the Bank for foreign currency risk. The sensitivity analysis includes only the monetary items denominated in foreign currency at the end of the year, thus making adjustment of their value when the exchange rate of the foreign currencies is changed by 1% and/or 5%. Adverse amount below marks a decrease of the profit or loss which appears in case the EUR increases its value compared to the foreign currencies by 1% and/or 5%. When the value of the EUR compared to foreign currencies decreases by 1% and/or 5%, the effect on the profit or loss is equal but with reverse index as showed in the table below:

| *in EUR* | Change in 2018 | Change in 2017 | Profit or loss 2018 | Profit or loss 2017 |
|---|---|---|---|---|
| ALL | 5% | 5% | - | 3 |
| USD | 5% | 5% | 942 | (23) |
| GBP | 1% | 1% | (101) | - |
| CHF | 5% | 5% | 1,075 | 3 |
| Other | 5% | 5% | - | - |

## 5. Financial risk management (continued)

### (d) Market risk (continued)

#### *2) Interest rate risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department in Head Office manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee in Head Office. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date were outstanding for the whole year.

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2018 are as follows:

| | *USD* | *Euro* |
|---|---|---|
| **Assets** | | |
| Cash and balances with Central Bank | - | - |
| Loans and advances to banks | - | - |
| Loans to customers | 5.00% | 6.13% |
| Investment securities | - | 2.04% |
| | | |
| **Liabilities** | | |
| Customer deposits and due to banks | 1.82% | 1.79% |

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2017 are as follows:

| | *USD* | *Euro* |
|---|---|---|
| **Assets** | | |
| Cash and balances with Central Bank | - | - |
| Loans and advances to banks | - | 1.23% |
| Loans to customers | - | 6.56% |
| Investment securities available for sale | - | 1.35% |
| | | |
| **Liabilities** | | |
| Customer deposits and due to banks | 0.23% | 1.58% |

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:

| **2018** | **up to 1 Year scenarios** | | **over 1 Year scenarios** | |
|---|---|---|---|---|
| | 100 bp Decrease | 100 bp Increase | 100 bp Increase | 100 bp Decrease |
| Estimated Profit (loss) effect | (1,418,713) | 1,418,713 | 1,749,831 | (1,749,831) |

| **2017** | **up to 1 Year scenarios** | | **over 1 Year scenarios** | |
|---|---|---|---|---|
| | 100 bp Decrease | 100 bp Increase | 100 bp Increase | 100 bp Decrease |
| Estimated Profit (loss) effect | (13,784) | 13,784 | 375,214 | (375,214) |

## 5. Financial risk management (continued)

### (d) Market risk (continued)

### *2) Interest rate risk (continued)*

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2018 and 2017 are as follows:

| ***2018*** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Bank | 53,319,751 | - | - | - | - | 53,319,751 |
| Balances with banks | 14,220,989 | 3,035,751 | - | 1,014,830 | - | 18,271,569 |
| Available for sale securities | - | 492,085 | 22,603,176 | 37,411,005 | 7,947,143 | 68,453,409 |
| Held to maturity securities | - | - | 3,495,545 | 2,409,694 | 2,449,230 | 8,354,469 |
| Due from BKT Albania | 10,641,096 | - | - | - | - | 10,641,096 |
| Loans and advances to banks | - | - | - | - | - | - |
| Loans to customers | 4,851,576 | 3,464,214 | 40,983,840 | 125,973,991 | 72,096,635 | 247,370,257 |
| **Total** | **83,033,412** | **6,992,050** | **67,082,561** | **166,809,520** | **82,493,008** | **406,410,551** |
| **Liabilities** | | | | | | |
| Customer Deposits and due to banks | 187,889,652 | 16,426,179 | 90,578,141 | 74,117,087 | 202,391 | 369,213,449 |
| Borrowings | - | - | 4,085,313.52 | - | - | 4,085,314 |
| **Total** | **187,889,652** | **16,426,179** | **94,663,455** | **74,117,087** | **202,391** | **373,298,763** |

| ***2017*** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Bank | 36,515,212 | - | - | - | - | 36,515,212 |
| Balances with banks | 364,793 | - | 1,009,250 | - | - | 1,374,043 |
| Available for sale securities | - | 2,164,396 | 29,477,358 | 21,501,147 | 2,317,357 | 55,460,258 |
| Due from BKT Albania | 1,871,765 | - | - | - | - | 1,871,765 |
| Loans and advances to banks | - | 2,005,600 | 25,031,485 | 3,500,805 | - | 30,537,890 |
| Loans to customers | 28,821,344 | 10,820,329 | 104,047,596 | 64,271,888 | 4,120,721 | 212,081,878 |
| **Total** | **14,990,325** | **159,565,689** | **89,273,840** | **6,438,078** | **14,990,325** | **159,565,689** |
| **Liabilities** | | | | | | |
| Customer Deposits and due to banks | 151,131,146 | 17,382,563 | 74,993,840 | 58,083,523 | 107,004 | 301,698,076 |
| Borrowings | - | - | 5,906,343 | - | - | 5,906,343 |
| **Total** | **151,131,146** | **17,382,563** | **80,900,183** | **58,083,523** | **107,004** | **307,604,419** |

## 5. Financial risk management (continued)

### (e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk and carried out with collaboration with Head Office.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with internal standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

### (f) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

*Regulatory capital*

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosova ("CBK"), which ultimately determines the statutory capital required to underpin its business.

## 5. Financial risk management (continued)

### (f) Capital management (continued)

*Capital Adequacy*

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted exposures, calculated as the sum of the risk-weighted exposure amounts, on- and off-balance sheet for credit risk and for credit counterparty risk, capital requirement for market and operational risk.

The minimum Regulatory Capital Ratio against the risk weighted exposures required by Central Bank of Kosova is 12%. The minimum Tier 1 Capital Ratio is 8.0% and the minimum Regulatory Capital Ratio is 12%.

In December 2018, BKT has reported the following ratios:

- Tier 1 Capital Ratio 12.04%
- Total Capital Ratio 12.33%

*Risk-Weighted Assets (RWAs)*

Each exposure class has its own specific requirements on how to assess the appropriate risk weight and respective risk weighted exposures. For credit risk and counterparty risk is applied the Standardised Approach. Operational risk capital requirement is calculated based on the Basic Indicator Approach.

## 6. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2018 and 2017 are detailed as following:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Cash on hand | 22,031,155 | 14,367,798 |
| Balances with CBK | 31,288,596 | 22,147,414 |
| | **53,319,751** | **36,515,212** |

Deposits with the Central Bank of Kosovo include the statutory reserve of 10% of customer deposits in Kosovo.

Cash and cash equivalents included in Statement of cash flows as at 31 December 2018 and 2017 are presented as follows:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Cash and balances with Central Bank | 53,319,751 | 36,515,212 |
| Statutory reserves | (24,522,489) | (21,821,593) |
| Balances with banks | 17,218,329 | 357,912 |
| | **46,015,591** | **15,051,531** |

Balances with banks at 31 December 2018 and 2017 include current accounts with resident and non-resident banks.

## 7. Placements and balances with banks

Placements and balances with banks as at 31 December 2018 and 31 December 2017 consisted as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Placements | 5,965,066 | 1,000,000 |
| Current accounts | 12,260,995 | 364,793 |
| Accrued interest | 51,981 | 9,250 |
| Impairment provision | (6,473) | - |
| | **18,271,569** | **1,374,043** |

The short-term placements in banks with maturity up to 1 year are in amount of EUR 1,053,240 as of 31 December 2018 (31 December 2017: EUR 1,016,131).

## 8. Investment securities

Investment securities as at 31 December 2018 and 31 December 2017 are presented as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Treasury bills measured at FVOCI (2017: Treasury bills available-for-sale) | 12,703,090 | 15,981,320 |
| Treasury bonds and Eurobonds- measured at FVOCI (2017: Available-for-sale securities) | 55,750,319 | 39,478,938 |
| Corporate bonds- measured at amortised cost | 8,354,469 | - |
| **Total** | **76,807,878** | **55,460,258** |

### a) Investment securities - measured at FVOCI (Treasury bills available-for-sale)

Treasury bills by original maturity as at 31 December 2018 and 31 December 2017 are presented as follows:

| | *31 December 2018* | | | | |
|---|---|---|---|---|---|
| | Par Value | Carrying amount | Accrued interest | Impairment | Book value |
| 6 months | 9,000,000 | 8,975,951 | 10,967 | (6,508) | 8,980,410 |
| 12 months | 3,750,000 | 3,713,347 | 14,842 | (5,509) | 3,722,680 |
| | **12,750,000** | **12,689,298** | **25,809** | **(12,017)** | **12,703,090** |

| | *31 December 2017* | | | | |
|---|---|---|---|---|---|
| | Par Value | Carrying amount | Accrued interest | Impairment | Book value |
| 6 months | 250,000 | 249,782 | 98 | - | 249,880 |
| 12 months | 15,760,000 | 15,715,830 | 15,610 | - | 15,731,440 |
| | **16,010,000** | **15,965,612** | **15,708** | **-** | **15,981,320** |

## b) Investment securities - measured at FVOCI (Available-for-sale securities)

Treasury bonds and Eurobonds as at 31 December 2018 comprise as follows:

| Type | Nominal value | Unamortized discount | Accrued interest | Marked to market gain/ (loss) | Impairment | Book Value |
|---|---|---|---|---|---|---|
| Treasury notes EUR denominated | 52,540,000 | (782,774) | 197,708 | (308,232) | (125,224) | 51,521,478 |
| Eurobond – R. Macedonia EUR denominated | 2,000,000 | (47,446) | 52,438 | (2,554) | (1,601) | 2,000,837 |
| Bonds USD denominated | 2,183,406 | 29,123 | 14,201 | 1,424 | (150) | 2,228,004 |
| | **56,723,406** | **(801,097)** | **264,347** | **(309,362)** | **(126,975)** | **55,750,319** |

Available-for-sale securities as at 31 December 2017 comprise as follows:

| Type | Nominal value | Unamortized discount | Accrued interest | Marked to market gain/ (loss) | Impairment | Book Value |
|---|---|---|---|---|---|---|
| EUR denominated | 39,470,000 | (91,889) | 140,031 | (39,204) | - | 39,478,938 |
| | **39,470,000** | **(91,889)** | **140,031** | **(39,204)** | - | **39,478,938** |

## c) Investment securities - measured at amortised cost

Investment securities measured at amortized cost as at 31 December 2018 comprise as follows:

| Type | Nominal Value | Unamortized Premium / (Discount) | Accrued interest | Impairment | Book Value |
|---|---|---|---|---|---|
| Bonds EUR denominated | 3,500,000 | (66,012) | 66,452 | (4,895) | 3,495,545 |
| Bonds USD denominated | 5,240,175 | (429,055) | 63,736 | (15,932) | 4,858,924 |
| | **8,740,175** | **(495,067)** | **130,188** | **(20,827)** | **8,354,469** |

## 9. Loans

### 9.1 Loans and advances to banks

Loans and advances to banks in 2018 have been sold, and there was no portfolio at the end of the year.

Loans and advances to banks in 2017 were comprised from syndicated loans to foreign banks as presented in the table below:

| | **31 December 2017** |
|---|---|
| TURKIYE IS BANKASI | 3,500,000 |
| TURK EXIMBANK | 3,500,000 |
| TURKIYE GARANTI BANKASI AS | 3,500,000 |
| AKBANK TAS | 2,000,000 |
| ING BANK AS | 3,000,000 |
| YAPI VE KREDI BANKASI AS | 3,500,000 |
| TURKIYE VAKIFLAR BANKASI TAO | 3,500,000 |
| TURKIYE GARANTI BANKASI AS | 8,000,000 |
| **Total Loans to banks** | **30,500,000** |
| Accrued interest | 37,890 |
| | **30,537,890** |

## 9.2 Loans to customers, net

Loans to customers consisted of the following:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Loans to customers, gross | 254,818,596 | 216,314,595 |
| Accrued interest | 1,322,400 | 1,111,635 |
| Less allowances for impairment on loans | (8,408,771) | (5,022,580) |
| Less deferred fee income | (361,968) | (321,772) |
| | **247,370,257** | **212,081,878** |

Movements in the allowance for impairment on loans:

| | 2018 | 2017 |
|---|---|---|
| At 31 December | 5,022,580 | 6,568,411 |
| Impact of adopting IFRS 9 as at 1 January 2018 | 1,564,297 | - |
| At 1 January | 6,586,877 | 6,568,411 |
| Impairment charge for the year, net | 2,146,664 | 365,552 |
| Provision reversal of written off loans | (324,770) | (1,911,383) |
| At the end of the period | **8,408,771** | **5,022,580** |

During the year based on decision from the Board of Directors the Bank has written off loans in total amount of EUR 781,513, out of which impaired loans in amount of EUR 324,770 (2017: EUR 1,911,383).

The breakdown of the loan portfolio is as follows:

| | 2018 | 2017 |
|---|---|---|
| Retail (individuals) | 37% | 37% |
| Private Enterprises | 63% | 63% |

All loans are in EUR and bear interest rates ranging from 0.5% to 20.0%. The Bank has granted a 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.

## 9.3 Loans to customers, net (continued)

The classification of net corporate loans by industry is as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | EUR | % | EUR | % |
| Wholesale Trade | 54,466,879 | 33.87% | 39,782,804 | 29.03% |
| Construction | 31,556,064 | 19.62% | 22,386,461 | 16.33% |
| Retail Trade | 28,660,799 | 17.82% | 30,398,142 | 22.18% |
| Mining and Quarrying | 6,778,634 | 4.21% | 7,570,212 | 5.52% |
| Hotels and Restaurants | 6,017,340 | 3.74% | 4,644,944 | 3.39% |
| Agriculture, Hunting and Forestry | 4,968,584 | 3.09% | 4,134,526 | 3.02% |
| Transport, Storage and Communication | 4,585,361 | 2.85% | 4,680,817 | 3.42% |
| Other Community, Social and Personal Activities | 4,073,306 | 2.53% | 5,094,283 | 3.72% |
| Manufacturing of Wood and Wood Products | 3,400,714 | 2.11% | 1,094,553 | 0.80% |
| Manufacturing of other Non-Metallic product | 3,396,536 | 2.11% | 4,142,519 | 3.02% |
| Health and social Work | 1,949,958 | 1.21% | 2,242,972 | 1.64% |
| Manufacturing of Basic Metals and Metal Products | 1,944,390 | 1.21% | 2,946,566 | 2.15% |
| Education | 1,822,515 | 1.13% | 2,501,225 | 1.83% |
| Manufacturing of Food, Beverages, Tobacco | 1,500,294 | 0.93% | 1,607,043 | 1.17% |
| Financial Intermediation | 1,492,920 | 0.93% | 346,191 | 0.25% |
| Manufacturing of Rubber and Plastic Products | 1,391,791 | 0.87% | 117,427 | 0.09% |
| Manufacturing of Furniture | 792,370 | 0.49% | 687,607 | 0.50% |
| Working capital | 761,010 | 0.47% | 505,454 | 0.37% |
| Electricity, Gas & Water Supply | 315,789 | 0.20% | 626,855 | 0.46% |
| Manufacturing of Textile and Textile Products | 277,300 | 0.17% | 644,991 | 0.47% |
| Real Estate & Renting Activity | 171,101 | 0.11% | 303,191 | 0.22% |
| Public Administration & Defence | 140,045 | 0.09% | 217,277 | 0.16% |
| Manufacturing of Electrical & Optical Equipment | 122,249 | 0.08% | 138,246 | 0.10% |
| Manufacturing of Machinery & Equipment | 100,706 | 0.06% | 42,039 | 0.03% |
| Private Households | 78,688 | 0.05% | 84,930 | 0.06% |
| Manufacturing of Pulp and Paper Products | 57,143 | 0.04% | 89,479 | 0.07% |
| Manufacturing Of Leather & Leather | 5,874 | 0.00% | 20,809 | 0.02% |
| Extra Territory Organisation. & Bodies | - | 0.00% | - | 0.00% |
| Manufacturing Of Chemicals & Chemical Prod. | - | 0.00% | - | 0.00% |
| | **160,828,360** | **100.00%** | **137,051,563** | **100.00%** |

The classification of retail loans by type is as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | EUR | % | EUR | % |
| Call Loan | 53,680,014 | 56.32% | 42,875,571 | 53.34% |
| Home Purchase | 29,952,868 | 31.43% | 27,858,469 | 34.66% |
| Overdraft and Credit Cards | 4,593,500 | 4.82% | 3,456,378 | 4.30% |
| Cash Loan | 3,580,048 | 3.76% | 3,175,829 | 3.95% |
| Home Improvement | 1,684,516 | 1.77% | 1,725,043 | 2.15% |
| Car Purchase | 1,436,610 | 1.51% | 804,190 | 1.00% |
| Shop Loan | 344,394 | 0.36% | 404,036 | 0.50% |
| Home Construction | 40,425 | 0.04% | 74,772 | 0.09% |
| Education | 261 | 0.00% | 379 | 0.00% |
| | **95,312,636** | **100.00%** | **80,374,667** | **100.00%** |

## 10. Property and equipment

Property and equipment as at 31 December 2018 and 2017 are composed as follows:

| | Buildings | Motor vehicles | Computers and electronic equipment | Furniture and equipment | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 1 January 2017** | **3,042,592** | **1,335,249** | **4,122,204** | **544,736** | **9,044,781** |
| Additions | 66,486 | - | 568,813 | 40,862 | 676,161 |
| Disposals | (67,721) | - | (269) | - | (67,990) |
| **At 31 December 2017** | **3,041,357** | **1,335,249** | **4,690,748** | **585,598** | **9,652,952** |
| | | | | | |
| **At 1 January 2018** | **3,041,357** | **1,335,249** | **4,690,748** | **585,598** | **9,652,952** |
| Additions | 10,103 | 96,280 | 286,881 | 28,053 | 421,317 |
| Disposals | - | - | - | - | - |
| **At 31 December 2018** | **3,051,460** | **1,431,529** | **4,977,629** | **613,651** | **10,074,269** |
| | | | | | |
| **At 1 January 2017** | **(1,855,222)** | **(1,165,151)** | **(3,528,470)** | **(515,533)** | **(7,064,376)** |
| Charge for the year | (298,097) | (26,051) | (286,820) | (63,946) | (674,914) |
| Disposals | 58,692 | - | 281 | - | 58,973 |
| **At 31 December 2017** | **(2,094,627)** | **(1,191,202)** | **(3,815,009)** | **(579,479)** | **(7,680,317)** |
| | | | | | |
| **At 1 January 2018** | **(2,094,627)** | **(1,191,202)** | **(3,815,009)** | **(579,479)** | **(7,680,317)** |
| Charge for the year | (264,152) | (21,029) | (305,505) | (34,172) | (624,858) |
| Disposals | - | - | - | - | - |
| **At 31 December 2018** | **(2,358,779)** | **(1,212,231)** | **(4,120,514)** | **(613,651)** | **(8,305,175)** |
| **Net book value** | | | | | |
| **At 1 January 2017** | **1,187,370** | **170,098** | **593,734** | **29,203** | **1,980,405** |
| **At 31 December 2017** | **946,730** | **144,047** | **875,739** | **6,119** | **1,972,635** |
| **At 31 December 2018** | **692,681** | **219,298** | **857,115** | **-** | **1,769,094** |

During 2018 the Bank did not sold any asset. In 2017 the Bank has sold vehicles with net carrying value of EUR 9,017 and realized gain in amount of EUR 150 which is included as other income (Note 21).

As at December 31, 2018 and December 31, 2017 there are no property and equipment pledged.

## 11. Intangible assets

| | **Licences** |
|---|---|
| **Cost** | |
| **At 1 January 2017** | **244,337** |
| Additions | 22,491 |
| Disposals | - |
| **At 31 December 2017** | **266,828** |
| | |
| **At 1 January 2018** | 266,828 |
| Additions | 3,750 |
| Disposals | - |
| **At 31 December 2018** | **270,578** |
| | |
| **Accumulated amortization** | |
| **At 1 January 2017** | **(194,516)** |
| Charge for the year | (36,756) |
| Disposals | - |
| **At 31 December 2017** | **(231,272)** |
| | |
| **At 1 January 2018** | **(231,272)** |
| Charge for the year | (16,892) |
| Disposals | - |
| **At 31 December 2018** | **(248,164)** |
| | |
| **Net book value** | |
| **At 1 January 2017** | **49,821** |
| **At 31 December 2017** | **35,556** |
| **At 31 December 2018** | **22,414** |

## 12. Other assets

Other assets as at 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cards transactions settlement | 2,177,233 | 3,272,012 |
| Collaterals repossessed by the Bank | 1,358,010 | 1,189,448 |
| Prepaid expenses | 150,562 | 162,222 |
| Inventories | 20,926 | 6,486 |
| Cash differences | 324,745 | 316,669 |
| Advances to suppliers | 61,674 | 24,016 |
| Other assets | 284,214 | 257,455 |
| Impairment provision | (633,070) | - |
| | **3,744,294** | **5,228,308** |

Movements in the repossessed collateral and allowance for impairment are presented as follows:

| | Repossessed collateral |
|---|---|
| **Cost or fair value** | |
| At 1 January 2017 | 916,157 |
| Additions | 273,291 |
| **At 31 December 2017** | **1,189,448** |
| At 1 January 2018 | 1,189,448 |
| Additions | 168,562 |
| **At 31 December 2018** | **1,358,010** |

## 13. Customer deposits

Customer deposits as of 31 December 2018 and 2017 are composed as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| ***Current accounts:*** | | |
| Individuals | 106,614,542 | 91,961,776 |
| Private enterprises | 49,558,730 | 41,868,100 |
| State owned entities | 7,036,651 | 6,613,344 |
| | **163,209,923** | **140,443,220** |
| Add: Current maturity of long-term customer deposits | 109,739,521 | 103,044,320 |
| **Total short-term customer deposits** | **272,949,444** | **243,487,540** |
| **Term Deposits:** | | |
| Individuals | 144,439,494 | 115,264,194 |
| Private enterprises | 27,575,425 | 26,106,201 |
| State owned entities | 16,129,489 | 19,864,452 |
| | **188,144,408** | **161,234,847** |
| Less: Current maturity of long-term customer deposits | (109,739,521) | (103,044,320) |
| **Total long-term customer deposits** | **78,404,887** | **58,190,527** |
| | **351,354,331** | **301,678,067** |

## 13. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Local currency** | **Foreign currency** | **Total** | **Local currency** | **Foreign currency** | **Total** |
| **Current accounts** | **151,891,474** | **11,318,449** | **163,209,923** | **131,474,098** | **8,969,122** | **140,443,220** |
| **Term deposits** | **184,999,468** | **3,144,940** | **188,144,408** | **158,777,283** | **2,457,564** | **161,234,847** |
| One month | 375,825 | 3,550 | 379,375 | 609,902 | 2,136 | 612,038 |
| Three months | 1,148,493 | 7,099 | 1,155,592 | 1,324,013 | 14,403 | 1,338,416 |
| Six months | 4,364,811 | 809,695 | 5,174,506 | 3,468,072 | 788,385 | 4,256,457 |
| Twelve months | 77,612,043 | 1,856,365 | 79,468,408 | 60,748,424 | 1,409,027 | 62,157,451 |
| Over two years | 101,498,296 | 468,231 | 101,966,527 | 92,626,872 | 243,613 | 92,870,485 |
| **Total deposits** | **336,890,942** | **14,463,389** | **351,354,331** | **290,251,381** | **11,426,686** | **301,678,067** |

The five largest depositors of the Bank at 31 December 2018 comprise approximately 10 % (2017: 14%) of total deposits.

## 14. Due to banks and financial institutions

Due to banks as at 31 December 2018 and 31 December 2017 consisted as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Deposits from banks | 14,252,893 | - |
| Securities sold under Repo agreement | 2,481,460 | - |
| Current accounts of resident banks | 1,124,765 | 20,009 |
| | **17,859,118** | **20,009** |

## 15. Accruals and other liabilities

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Accounts payable | 1,460,650 | 2,371,774 |
| Accrued expenses | 174,656 | 174,103 |
| Guarantee deposits received | 6,656 | 7,057 |
| Other liabilities | 10,147 | - |
| | **1,652,109** | **2,552,934** |

As of 31 December 2018 the balance of accounts payables includes: inter-branch account for cards settlement, payable taxes such as withholding taxes for interest, salaries etc.; payable management bonuses, other payable expenses.

"Guarantee deposits received" represents guarantees received from suppliers based on contracts with them.

## 16. Borrowings

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Current maturity of long – term borrowings | 1,820,000 | 1,820,000 |
| Non-current maturity of long – term borrowings | 2,265,000 | 4,085,000 |
| **Total long – term borrowings** | **4,085,000** | **5,905,000** |
| Accrued interest | 314 | 1,343 |
| | **4,085,314** | **5,906,343** |

1. A loan by European Fund for Southeast Europe S.A. ("EFSE") in amount of EUR 5,000,000 was disbursed on December 20, 2013. The applicable margin for the loan is 3% per annum.
The loan will be repaid in consecutive semi-annual instalments starting from December 30, 2015 to December 30, 2020.

2. A loan by European Fund for Southeast Europe S.A**.** ("EFSE") in amount of EUR 5,000,000 was disbursed on June 30, 2014. The applicable margin for the loan is 3% per annum.
The loan will be repaid in consecutive semi-annual instalments starting from June 30, 2016 to June 30, 2021.

Loans are given with the purpose to be placed to private micro and small enterprises and entrepreneurs (MSEs) that are registered and/or residents in Kosova to finance working capital and investment requirements.

As at 31 December 2018, the Bank is in compliance with the covenants with EFSE, such as open credit exposure ratio and cost to income ratio.

## 17. Share capital

At 31 December 2018 the authorised share capital is EUR 17,000,000 (2017: EUR 17,000,000). The Bank is a joint stock company 100% owned by Banka Kombëtare Tregtare J.S.C in Albania. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank's residual assets.

**Reserves**

The fair value reserve comprises the cumulative net change in the fair value of debt securities measured at FVOCI (2017: available-for-sale financial assets) until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance.

**Retained earnings**

Retained earnings as at 31 December 2018, includes the cumulative non-distributed earnings.

## 18. Interest income

Interest income is composed as follows:

| | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| Loans to customers | 14,697,177 | 14,238,369 |
| Due from BKT Albania (Note 25) | 132,281 | 81,331 |
| Investment securities | 1,509,786 | 669,519 |
| Balances with banks | 302,279 | 325,027 |
| | **16,641,523** | **15,314,246** |

## 19. Interest expenses

| | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| Customer deposits | 2,696,150 | 2,534,740 |
| Due to banks | 43,144 | 29,486 |
| Interest expenses for borrowings | 150,515 | 202,706 |
| | **2,889,809** | **2,766,932** |

## 20. Fees and commissions, net

Fee and commission income and expense are comprised of the following items:

| | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| *Fee and commission income* | | |
| Lending activity | 584,692 | 527,597 |
| Payment services to clients | 2,308,447 | 2,144,934 |
| Customer accounts' maintenance | 382,812 | 358,508 |
| Cash transactions with clients | 444,793 | 409,715 |
| | **3,720,744** | **3,440,754** |
| *Fee and commission expense* | | |
| Inter-bank transactions | (226,210) | (85,239) |
| | **(226,210)** | **(85,239)** |
| | **3,494,534** | **3,355,515** |

### 21. Other (expense) / income, net

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| *Other income* | | |
| Gain on sale of fixed assets | - | 150 |
| Income from collection of written off loans | 367,608 | 141,947 |
| Other income | 58,749 | 13,819 |
| | **426,357** | **155,916** |
| *Other expenses* | | |
| Write off of loans to customers, net | (456,743) | - |
| Net carrying value of sold assets | - | (9,017) |
| Other expenses | - | (33) |
| | **(456,743)** | **(9,050)** |
| **Other (expense) / income, net** | **(30,385)** | **146,866** |

## 22. Personnel expenses

Personnel expenses are composed as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Salaries | 3,658,310 | 3,564,670 |
| Social insurance | 173,771 | 160,500 |
| Other employee benefits | 109,917 | 178,535 |
| | **3,941,998** | **3,903,705** |

## 23. Administrative expenses

Administrative expenses are composed as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Lease payments | 1,073,381 | 1,093,319 |
| Credit/debit card expenses | 1,175,370 | 854,739 |
| Telephone, electricity and IT expenses | 480,259 | 476,397 |
| Other external services | 174,313 | 124,384 |
| CBK clearing expenses | 198,931 | 171,717 |
| Deposit insurance expense | 489,711 | 373,708 |
| Repairs and maintenance | 321,955 | 356,436 |
| Security and insurance expenses | 302,286 | 299,602 |
| Taxes other than tax on profits | 327,624 | 399,604 |
| Marketing expenses | 263,434 | 220,911 |
| Office stationery and supplies | 91,648 | 83,227 |
| Sundry expenses | 101,566 | 67,550 |
| Representation expenses | 77,593 | 61,173 |
| Training | 11,371 | 29,738 |
| | **5,089,442** | **4,612,505** |

Credit / debit card operational expenses are related to expenses for issuing, maintenance and operational expenses for credit and debit cards.

## 24. Impairment of financial assets, other than loans to customers

Movements in the allowance for impairment financial assets other than loan:

| | Investment securities | Loans to banks | Placements in banks | Other assets | Total |
|---|---|---|---|---|---|
| **At 31 December 2017** | **-** | **-** | **-** | **-** | **-** |
| Impact of adopting IFRS 9 as at 1 January 2018 | - | 35,830 | - | 74,310 | 110,140 |
| Restated balance as at 1 January 2018 | - | 35,830 | - | 74,310 | 110,140 |
| Impairment charge / (release) for the year | 159,819 | (35,830) | 6,473 | 558,760 | 689,222 |
| **At 31 December 2018** | **159,819** | **-** | **6,473** | **633,070** | **799,362** |

## 25. Related party transactions

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

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank’s sole shareholder is Calik Finansal Hizmetler, which is owned by Calik Holding at 100% as at 31 December 2015. The ultimate controlling party is Mr. Ahmet Calik.

Aktif Yatirim Bankasi and Kosovo Electricity Distribution and Supply Company J.S.C (KEDS) are controlled by Calik Holding. As at January 1, 2015 KEDS is divided into two companies: KEDS and Kosovo Electricity Supply Company (KESCO).

***Balances and transactions with related parties***

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| **Assets** | | |
| ***Placements and balances with banks:*** | | |
| Aktif Yatirim Bankasi | 298,108 | 33,891 |
| Due from BKT Albania | 10,641,096 | 1,871,765 |
| ***Loans to customers:*** | | |
| KEDS / KESCO | 247,731 | 494,540 |
| Senior management | 238,092 | 231,305 |
| **Total Assets** | **11,425,027** | **2,631,501** |
| | | |
| **Liabilities** | | |
| ***Customer current accounts and deposits:*** | | |
| KEDS / KESCO | 6,967,431 | 10,347,453 |
| Aktif Yatirim Bankasi | 298,108 | - |
| Senior management | 209,817 | 239,133 |
| ***Other liabilities:*** | | |
| Aktif Yatirim Bankasi | 7,033,731 | - |
| **Total Liabilities** | **14,509,087** | **10,586,586** |

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| **Commitments and contingencies** | | |
| ***Guaranties in favour of customers:*** | | |
| KEDS / KESCO | 14,468 | 4,178,598 |
| Senior management | - | - |
| ***Commitments in favour of customers:*** | | |
| KEDS / KESCO | 4,738 | 326,863 |
| Senior Management | 37,157 | 31,188 |

## 25. Related party transactions (continued)

The balances due from Head Office include transfers of funds on behalf of the Bank or its customers, management of foreign currency positions performed by the BKT Kosova, and other inter-company balances.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Statement of comprehensive income** | | |
| ***Interest income from:*** | | |
| ***Aktif Yatirim Bankasi*** | 32,297 | - |
| ***KESCO JSC & KEDS SHA*** | 20,046 | 32,567 |
| ***BKT ALBANIA*** | 132,281 | 81,331 |
| ***Interest expenses for:*** | | |
| ***Aktif Yatirim Bankasi*** | (1,044) | |
| ***BKT Albania*** | (698) | |
| ***KESCO JSC & KEDS SHA*** | - | (1,860) |
| ***Fees and commissions:*** | | |
| ***KESCO JSC & KEDS SHA*** | 62,910 | 43,439 |
| **Net** | **245,792** | **155,477** |

***Transactions with directors and executive officers***

The remuneration of directors and executive officers is included in personnel expenses. It can be detailed as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Directors | 256,651 | 171,909 |
| Executive officers | 391,020 | 381,909 |
| | **647,671** | **553,818** |

## 26. Contingencies and commitments

| Guarantees and letters of credit | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Guarantees in favour of customers | 13,552,646 | 19,199,846 |
| Letters of credit issued to customers | 2,138,089 | 674,772 |

Guarantees issued in favour of customers are guaranteed by mortgages or fully cash collateralised.

| Other | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Undrawn credit commitments | 67,173,252 | 48,000,574 |
| Collaterals for loan portfolio | 700,488,617 | 634,191,900 |

**Legal**

In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2018.

**Lease commitments**

Lease commitments for the years ended 31 December 2018 and 2017 are composed as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Not later than 1 year | 929,605 | 809,472 |
| Later than 1 year and not later than 5 years | 1,930,548 | 1,848,693 |
| Later than 5 years | 595,082 | 494,200 |
| **Total** | **3,455,235** | **3,152,365** |

The Bank has entered into lease commitments with duration up to ten years. The Bank may cancel these leases upon giving three months' notice period. Therefore, at 31 December 2018, the maximum non-cancellable commitment payable not later than one year is EUR 206,062 (2017: EUR 214,677).

The Bank's tax books and records for the financial year ended 31 December 2018 were not audited by the local tax authorities. Consequentially, the Bank's tax liabilities may not be considered finalized. Additional taxes that may arise in the event of tax audit cannot be determined with any reasonable accuracy.

## 27. Income tax

Income tax is comprised as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Current income tax expense | 551,480 | 603,251 |
| Deferred tax income | (117,818) | (75,739) |
| | **433,662** | **527,512** |

## 27. Income tax (continued)

The tax on the Bank's results before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Banks as follows:

| | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| Profit before tax | 4,804,064 | 6,369,445 |
| Add/Less: non-deductible expenses | (98,047) | (1,025,144) |
| Non-allowable tax depreciation | 18,535 | 23,306 |
| CBK Impairment losses allowed for tax purposes | 790,242 | 664,904 |
| **Taxable profit/ (losses) for the year** | **5,514,794** | **6,032,511** |
| **Tax profit/(losses) carried forward** | **5,514,794** | **6,032,511** |

Deferred tax is calculated based on the enacted tax rate of 10%. The carry forward period for any tax losses in accordance with the laws in Kosova is seven years. The Bank did not recognize the net deferred tax assets relating to temporary differences, due to the fact that it is not certain that the deferred tax asset will be utilized. The tax losses are detailed as follows:

The movement on the deferred income tax account is as follows:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Liability at 1 January | 331,124 | 406,863 |
| Release for the period | (117,818) | (75,739) |
| Liability at the end of the year | **213,306** | **331,124** |

Deferred income tax liabilities are attributable to the following items:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Allowance for loan impairment | 79,024 | 66,490 |
| Decelerated depreciation | 1,854 | 2,331 |
| Deferred interest expenses | 36,940 | 6,918 |
| | **117,818** | **75,739** |

## 27. Income tax (continued)

### Income tax liability is consisted as follow:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Accumulated taxable profit** | **5,514,794** | **6,032,511** |
| 10% tax on income | 551,480 | 603,251 |
| Prepayments of income tax during the year | (912,383) | (731,453) |
| **Income tax receivable** | **(360,903)** | **(128,202)** |

## 28. Exchange rates

Official exchange rates used in the translation of the items denominated in foreign currencies in the statement of financial position were as follows:

| | 31-Dec-18 | | 31-Dec-17 | |
|---|---|---|---|---|
| **Currency** | **Units per EUR** | **EUR per Unit** | **Units per EUR** | **EUR per Unit** |
| **USD** | 1.14497278 | 0.87338321 | 1.1998614888 | 0.8334295328 |
| **GBP** | 0.894133321 | 1.11840167 | 0.8885946523 | 1.1253725165 |
| **CHF** | 1.126886864 | 0.88740053 | 1.1695382921 | 0.8550382717 |
| **ALL** | 123.4200005 | 0.00810241 | 133.1246285157 | 0.0075117581 |

## 29. Events after the reporting period

There are no events after the reporting period that would require either adjustments or additional disclosures in the financial statements.