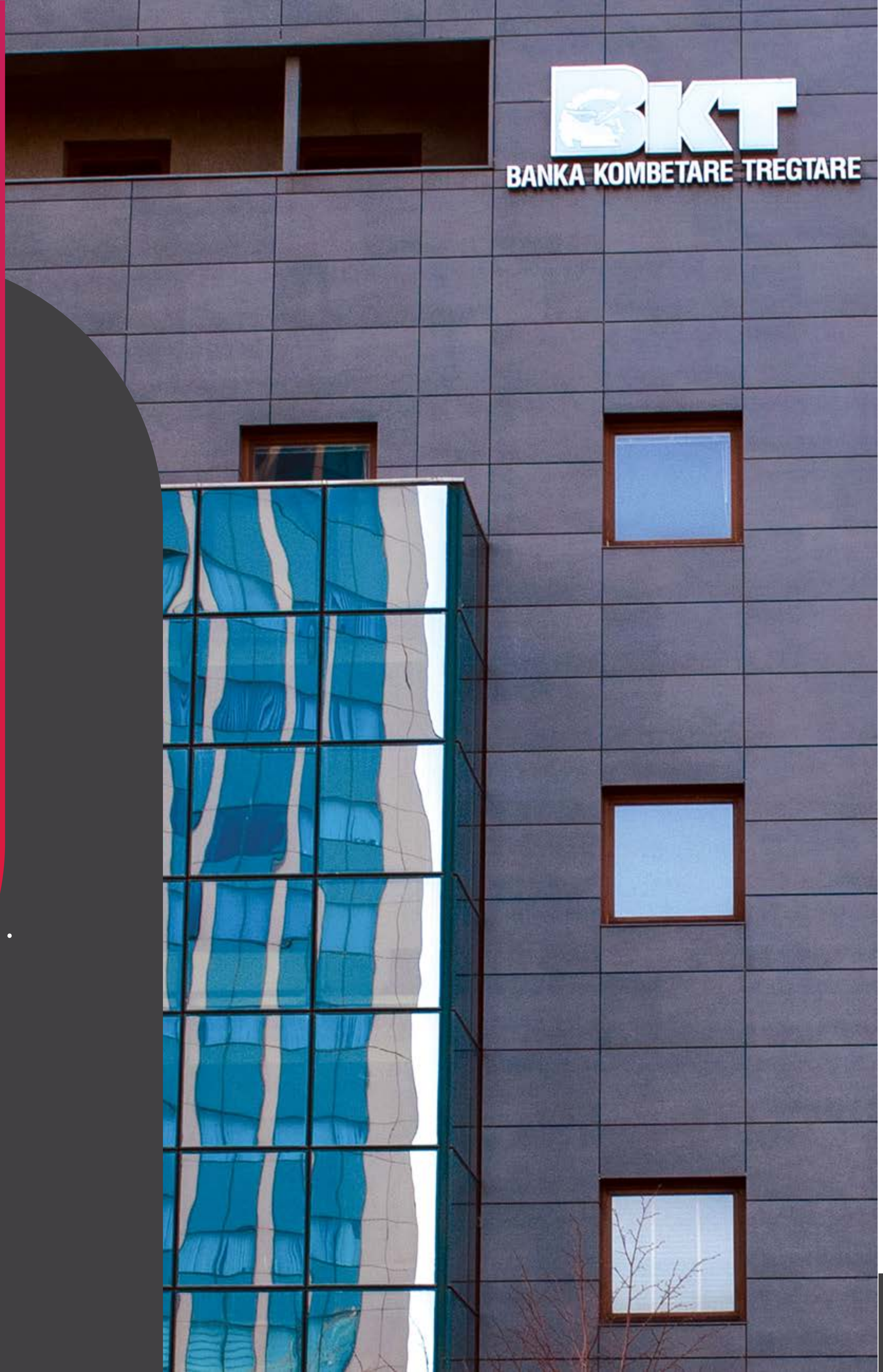
BKT is the new future

since 1925

Annual Report 2018

BANKA KOMBETARE TREGTARE

Index



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Queen Teuta

Queen Teuta, who was an Illyrian Queen during 230-227 BC, was part of Illyria-Dardania antiquity that represents both historical and stateship identity of Albanians in Albania and Kosovo. Both Queen Teuta's kingdom and Dardania Kingdom had their own coins (Illyrian coins) through which they proved their economic and political power.

A future built on history

BKT Kosovë has its roots back in 1925 when on November 29, was established the first branch of Banka Kombëtare Tregtare, in Durrës, Albania.

The building in which today is still located BKT Durrës branch, represents the oldest financial institution in Albania. Banka Kombëtare Tregtare, with the name it hold today, was established in January 1993, from the merging of Banka Tregtare Shqipëtare and Banka Kombëtare Shqipëtare. Today, BKT is the biggest and the oldest bank in Albania.

Banka Kombëtare Tregtare, the largest and oldest bank in Albania, brought over 80 years of experience in the banking sector in Kosovo when it opened its first branch in Pristina. From that moment on the financial market of Kosovo began a new era. BKT in Kosovo created numerous facilities and opportunities in the banking sector as well as a variety of banking products.

With maximum dedication, starting with a staff of 11 people, Banka Kombëtare Tregtare to expanded its network in 16 cities of Kosovo by being positioned closer to citizens and clients with 27 branches and agencies and at the same time increasing the number of employees to 361. BKT Kosovo is committed to serving all customer categories; both individuals and corporations, small and medium-sized enterprises, and also the micro enterprises that are at the forefront of business.

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

Expertise meets with the newborn

BKT opened its first branch in Kosovo on November 2007, just a few months prior to Kosova's declaration of Independence. BKT brought its traditional banking experience, knowledge and expertise of over 80-year heritage, to this newborn country. From that moment on, BKT and Kosovo continued to grow together and help each other prosper.

Growing means experiencing changes and adapting to new developments in every area. Therefore, BKT Kosovo, continously adopts the latest technological developments in financial world by investing in latest trends.

Mission

To contribute to rising standards of living by using our talents and energy to develop solutions that add value to people's lives, by providing people with peace of mind, convenience, and possibilities in banking sector.

Vision

To grow and become a leading bank in Kosovo, by adding value to every life we touch, in each of our areas of operation, with reliable teams empowered by our innovative and entrepreneurial spirit.

Values and Working Principles

Our people are guided by the fundamental values and main working principles as follows:

Our Core Values

- Fairness
- Heart-guided work
- Reputation
- People orientation
- Innovation
- Agility
- Sustainability
- Integrity
- Confidentiality
- Transparency

Our Work Principles

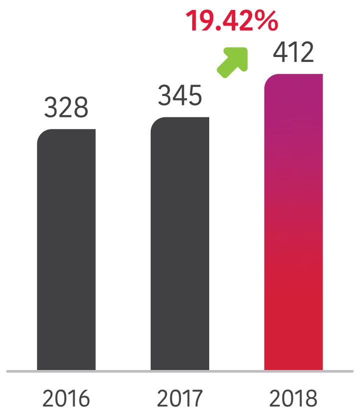
- Teamwork
- Accountability
- Open communication
- Quality
- Efficiency
- Customer focus

BKT in Figures

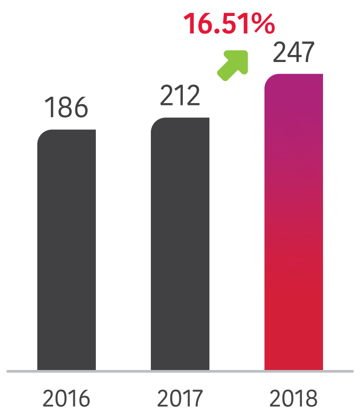
Key Indicators	December 2018	December 2017
Return on average assets	1,64%	1,69%
Return on equity	17,25%	11,50%

Assets (EUR 000)	31.12.2018	31.12.2017	31.12.2016	Change 2017-2018
Loans and advances to customers	247.370.257	212.081.878	186.056.458	17%
Total assets	412.307.256	345.205.747	327.719.126	19%
Customer Deposits	351.354.331	301.678.067	286.835.087	16%
Net profit of the year	4.370.402	5.841.933	3.707.484	-25%
Total shareholders’ equity	37.143.079	34.717.270	28.914.541	7%

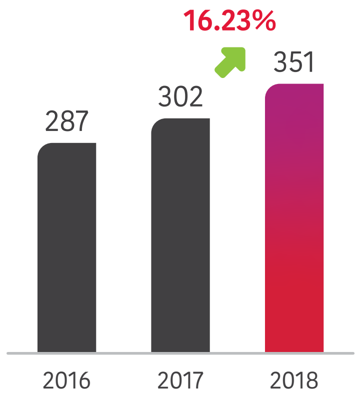
Total Assets
(EUR million)



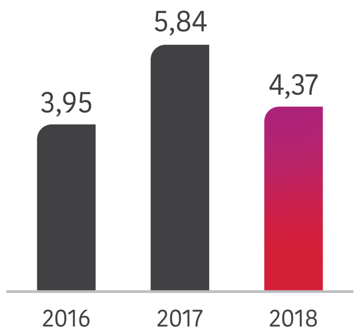
Total Loans
(EUR million)



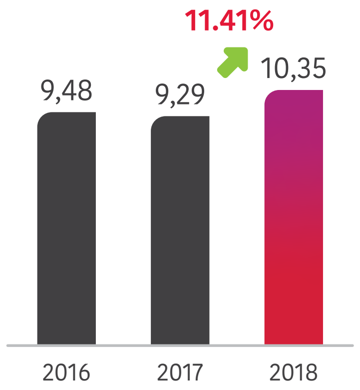
Total Deposits
(EUR million)



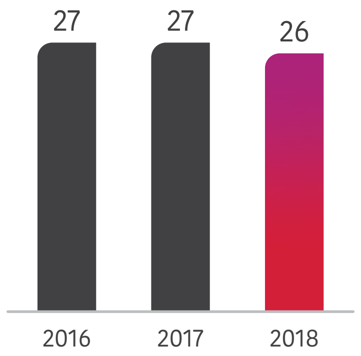
Net Profit
(EUR million)



Market Share in Total Assets
(%)



Number of Brnaches
(Number)



Çalık Holding

Established by Ahmet Çalık, Çalık Holding operates in several sectors: energy, construction and real estate, textiles, mining, finance, and telecoms. With operations spread throughout 22 countries spanning Central Asia, the Balkans, Middle East and North Africa (MENA) regions, the Group employs more than 30,000 people.

Çalık Holding stands out as a major player in Turkey and even worldwide with its companies; in the energy sector with Çalık Enerji; in oil exploration with Çalık Petrol; in electric power distribution with YEDAŞ, YEPAŞ, KEDS with Limak partnership, ARAS EDAŞ and ARAS EPAŞ with Kiler partnership; in the construction sector with Gap İnşaat and Çalık Gayimenkul; in mining with Lidya Madencilik and Polimetal Madencilik; in textiles with Çalık Denim and Gap Pazarlama; in finance with Aktif Bank, Albania BKT (Banka Kombëtare Tregtare) and Kosovo BKT; in telecoms with Albtelecom, and in digital transformation with Çalık Digital.

Within the scope of its operations in different corners of the world, Çalık Holding - known for its trustworthy reputation, strong financial structure, and long-term cooperation with other international companies - develops innovative business models and achieves sustainable growth in every field in which it operates. Çalık Holding, in an effort to add permanent value to people's lives everywhere it operates, focuses on the digitalization of its business processes, services, and products due to the new opportunities that Industry 4.0 holds for the business world.

Ahmet Çalık
Chairman of the Board
Çalık Holding

Milestones

1925

The inauguration of the Bank's Durrës headquarters on 30 November 1925.

1993

Following the merging of the Albanian Commercial Bank (ACB) and the National Bank of Albania (NBA), BKT assumes its present name.

1997

BKT is established as a Joint Stock Company in July 1997, with assets reaching ALL 2.7 billion.

2000

BKT accomplishes its privatization process. The new shareholders invest US$ 10 million, resulting in the strong capitalization of the Bank.

2001

The new shareholders structure brings BKT major transformations including the development of a new infrastructure and the restructuring of all aspects of the Bank's operations.

2006

60% of the BKT shares are transferred to Çalık - Şeker Konsorsiyum Yatırım A.Ş. BKT is awarded as "The Bank of the Year in Albania" by The Banker magazine.

2007

A new branch opens in Pristine, Kosova in November 2007 as the first foreign investment of BKT.

2008

JCR Eurasia Rating assigned AAA (Alb) to BKT. BKT was cited as the best medium-sized bank in South East Europe and "The Best Bank in Albania".

2009

BKT becomes a 100% subsidiary of the Çalık Group following the acquisition of the remaining shares by ÇalıkFinansalHizmetler. BKT is evaluated as "The Best Bank in South East Europe for 2009".

2010

BKT celebrates its tenth anniversary of privatization and the 85th anniversary of its first branch in Durrës with many awards and honors. The Banker, a prestigious British magazine, recognizes BKT as "The Best Bank in Albania". A similar honor, "The Best Bank in Albania", comes from another prestigious British magazine, EMEA Finance. Finally, JCR Eurasia Rating reaffirms the rating of "AAA (Alb)" with stable outlook.

2011

BKT continues its high performance during 2011, placing it in the vanguard of the financial sector in Albania. The Banker and EMEA Finance reaffirm the award of "The Best Bank in Albania" for the second year. JCR Eurasia Rating evaluates BKT for the third year in a row, giving it a rating of "AAA (Alb)" with stable outlook, and Moody's assigns the bank a "B1" rating, the highest rating that Moody's can give an Albanian financial entity. BKT signs a line trade financing agreement with the Islamic Trade Finance Corporation (ITFC). Under this agreement, the bank carries out the first-ever murabaha transaction in Albania.

2012

Awards and positive evaluations continue, reflecting BKT's success in the Albanian market. The preeminent British magazine Euromoney evaluates BKT as "The Best Bank in Albania for 2012". EMEA Finance continues recognizing BKT as "The Best Bank in Albania" for the third time in a row, and names Mr Seyhan Pencabligil "CEO of the Year 2012 in Europe", emphasizing BKT's exceptional performance. Furthermore, BKT has been certified with the "ISO 9001:2008" certificate on Quality Management Systems applicable for banking services through TÜV AUSTRIA CERT. JCR Eurasia Rating reaffirms the rating of "AAA (Alb)" with stable outlook for the fourth year in a row and assigns the "AA (Alb)/Merit" evaluation for Corporate Governance. This is the first ever such rating given to an Albanian company for its compliance with the Code of Corporate Governance.

2013

BKT doesn't disappoint expectations in 2013, receiving all three major awards in the finance industry: "The Best Bank in Albania" by Euromoney, The Banker, and EMEA Finance. JCR Eurasia Rating confirms its "AA (Alb)/Merit" evaluation to BKT for Corporate Governance and reaffirms "AAA (Alb)" with stable outlook to BKT for the fifth time in a row. Also, during 2013 the first Islamic Leasing Company in Albania, Albania Leasing Company, was established in a partnership with BKT.

Milestones

2014

BKT officially becomes the largest bank by assets within the Albanian banking system and continues its award-winning tradition during 2014, being recognized as “The Best Bank of Albania” for the third time in a row by Euromoney, which also selects BKT for the “Corporate Social Responsibility Award in Central and Eastern Europe and the Commonwealth of Independent States”. This last award confirms BKT’s success in the implementation of its CSR policy, which has innovative initiatives that affect the most sensitive aspects of Albanian society. Both EMEA Finance and The Banker name BKT “The Best Bank in Albania” for the fifth time. JCR Eurasia Rating reaffirms a rating of “AAA (Alb)” with stable outlook for the sixth consecutive time, and upgrades the bank to “AAA (Alb)/ Distinctive” for Corporate Governance.

2015

BKT celebrates its 90th anniversary, again receiving all three major awards in the finance industry: “The Best Bank in Albania” by Euromoney, The Banker, and EMEA Finance. For the second time in a row, JCR Eurasia Rating recognized BKT with “AAA (Alb)/ Dis- tinctive” for Corporate Governance, and “AAA (Alb)” with stable outlook for the seventh consecutive time. Furthermore, BKT has been recertified with the “ISO 9001:2008” certificate on Quality Management Systems applicable for banking services through TÜV AUSTRIA CERT. BKT’s Annual Report for 2014 won two awards in the ARC worldwide competition organ- ized by MERCOMM Inc.: The Silver Award for Banks and the Honor Award in Green / Environmentally Sound Annual Reports. The ARC Awards are considered the Oscars of official publications.

2016

With its stable performance, BKT is honored with prestigious awards on the national and international level. Euromoney evaluates BKT in its annual Awards for Excellence as “The Best Bank in Albania” for the fifth consecutive year, and The Banker reaffirms its recognition of BKT as “The Best Bank in Albania” for the seventh year. JCR Eurasia Rating reaffirms “AAA (Alb)” with stable outlook to BKT for the eighth con- secutive time and reconfirms “AAA (Alb)/ Distinctive” for Corporate Governance.

2017

BKT continues receiving the most significant accolades in the financial services industry: “The Best Bank in Albania” by Euromoney and The Banker, while JCR Eurasia Rating reaffirms “AAA (Alb)” with stable outlook for the ninth consecutive year. EMEA Finance also recognizes BKT as “The Best Local Bank in Albania” in its 2016 awards for excellence.

BKT continues to offer products, services, and innovative solutions by adding value for a wide customer base through a strong platform of services with its 93 branches in Albania and Kosovo.

In 2017, BKT also made the first dividend payment by 30 million USD.

2018

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

Board of Directors

MEHMET USTA
Chairman of the Board

SEYHAN PENCABLIGİL
Vice Chairman of the Board

AYŞEGÜL ADACA OĞAN
Board Member

ABDURRAHMAN BALKIZ
Board Member

GALİP TÖZGE
Board Member

SUAT BAKKAL
CEO & Board Member

Senior Management

Left to right: **Egzon Ramaxhiku** (Head of Compliance Department), **Muharrem Inan** (Financial Instituions & Treasury Group Head), **Elton Xhafaj** (Internal Audit Group Head), **Suat Bakkal** (CEO & Board Member), **Albion Mulaku** (Corporate & Commercial Banking Group Head), **Agon Skeja** (Accounting & Financial Control Group Head), **Ali Krasniqi** (PML-CFT (AML) Department Head), **Naim Ratkoceri** (Loan Management & Legal Group Head), **Edita Isufi** (Risk Management Department Head), **Njomza Buxhovi** (Retail Banking Group Head).

Chairman's Message

In 2018 Banka Kombëtare Tregtare J.S.C Kosovë (BKT Kosovo) delivered a good financial performance, in a positive macroeconomic trend and a favorable business environment, despite a great competition. Kosovo market has proven to be a stable environment for banking sector with a continuous increase in number of new businesses opening. Its economy is young and dynamic and it offers a number of great advantages in doing business such as a young and qualified population, new infrastructure, and a favorable fiscal system. The banking sector in Kosovo is rated among the sectors with the best performance in the economy. It represents the largest part of Kosovo's financial sector, and was characterized by an increase in the level of financial intermediation. The increase in the level of financial intermediation to some extent is the result of increased competition in the banking sector, which among other things has been manifested with interest rates more favorable to clients and higher quality of services. Kosovo's banking sector continues to be profitable, liquid and solvent.

Great results of BKT Kosova confirmed our continued progress in building a stronger bank that is capable of delivering great results. BKT Kosovo has implemented some of the best and most developed financial services by transferring developed financial products from Albania and Turkey where we have a mother Bank BKT Albania and a sister bank Aktif Bank, respectively. In view of this, as a Group we offer our customers who have trade or investment relations with Turkey or Albania, efficiency and convenience to use our Banking networks in these Countries.

So, with a strong foundation and heritage and having distinguished itself in several ways in Kosovo, from small beginnings eleven years ago, BKT Kosovo has seen significant growth and marked improvement in all indicators. The result achieved by Banka Kombëtare Tregtare J.S.C - Kosovo in 2018, confirmed that the strategic decisions taken over the past few years have played a key role to emerge successfully from a challenging period of transformation.

As a result of its contribution to the financial sector, on April 30, 2018, Banka Kombëtare Tregtare Kosovo Branch changed its status from foreign branch to Joint Stock Company.

With the continued support of our Turkish sole shareholder ÇALIK Holding and with the loyalty of our customers, also tremendous effort of our staff and employees, BKT Kosovo has achieved to close the year with EUR 4.37 million in net profit. We also managed to increase the total assets by 20%.

In 2018 our priority was to transform the Bank into a digitized, faster, and simple financial services provider, while focusing on customers' needs. This is key to our long-term success and to fulfilling our aim to become the best bank for customers, colleagues and shareholders.

Our target is to layout the path for the New Future of doing banking. Leaning on our roots, tradition, experience and expertise is making it easier to transform into a digitized bank. Technology is the New Future. Convenience, simplicity, time saving are our top priorities in maximizing Bank's capacities into transforming ways of working and enhancing customer experience.

Financial industry has never experienced more rapid technological growth in its entire history. In order to maintain our competitive advantage in the market we must be in line or always a step ahead of competition in digitalizing our services. Therefore, in 2018, we continued to invest in our existing infrastructure, improving system flexibility, digital transformation, creation of new and efficient experiences for all our customers.

Creating opportunities and space for our employees so that they can do the job with their maximum capacity is a priority of the Board. Our employees are essential to both current and future success. The Board highly appreciates the Group's commitment to development and support that they offer to our employees, while providing our utmost support to the Executive Management in realizing Bank's plans.

On behalf of our shareholder and the Board of Directors, I would like to offer our gratitude to the Banking Regulator, Central Bank of the Republic of Kosovo, to professional Bank Management and staff for their continuous commitment and hard work. Special thanks go to our clients that placed their trust in us and continue to do so.

Sincerely,

Mehmet Usta
Chairman of the Board of Directors

CEO’s Message

In 2018 the macroeconomic environment of Kosovo was characterized by a real increase of 4%, which was a significant increase compared to the countries of the region. Although this growth was heavily dependent to consumption which was supported by remittances, this year, economy created also investment driven growth. That’s a good indicator that the Country diversifies the dynamics of the economy to continue its experience solid growth which happened over the last decade.

In 2018 we have delivered a strong financial performance with increased profits and assets. It was one of the best years for Banka Kombëtare Tregtare J.S.C Kosovo. BKT, as usual, contributed to boosting economic growth by financing the private sector with very favorable conditions, the sector that is the catalyst for economic growth. This approach resulted in a successful year for the Bank closing the year with a net profit of EUR 4.37 million. Assets have risen to EUR 415 million, showing an increase of 20.5%. Total deposits rose by 16.5%, reaching EUR 351 million, while loans totaled EUR 248 million, an increase of 18%. We take pride into these achievements because they show our position of strength in the sector. Our Bank has increased significantly in comparison to the sector with 2.5 times more in asset size, 2 times more in deposit size and more than 1.6 times in loans size.

We are proud of our customer focus and financial performance. To deliver this sustainable success in the long-term we need to ensure we remain focused on enhancing customer experience. With this in mind, we have set ourselves ambitious goals to transform the Bank for success in a digital world, with a significant increase in latest technological investment, while relying genuinely into our heritage and traditional way of banking. We have already made a great start in implementing the strategic initiatives which will further digitize the Bank, enhance customer experience, maximize our capabilities as an integrated financial services provider and transform the way we work. For this reason, it is constantly invested in the improvement of these services and their diversity, as well as in training of employees in order to exceed the expectations of our customers. In a year in which we met more of our customers’ simple needs via mobile than any other channel for the first time, we have made a number of functionality enhancements designed to put customers more in control of their finances digitally. As a result, during 2018 we saw a significant increase in the performance of banking services in alternative channels. Over 71% of all banking transactions are carried out through digital channels.

Customers continue to prefer face-to-face contact for more complex needs. We therefore remain committed to continuously increase our presence in the market and widen our branch network while tailoring it to continue meeting these complex needs effectively.

We recognize that our employees play a critical role in our transformation and have made significant progress in providing them with the skills they will need in the future as well as an improved working environment and tools to deliver change more effectively. At the same time, we are simplifying and improving our colleague interaction, responding to changing expectations towards employers.

Our employees take pride in working for an inclusive and diverse bank and with their support we are building a culture in which everyone feels included, empowered and inspired to do the right thing for customers. We are also proud of our employees to whom we attribute our successes.

Working together for a New Future is our ultimate goals. For that reason, we are constantly finding ways to contribute into a better and cleaner environment. Therefore, during 2018, we have put special focus on Project Finance, with special concentration on renewable energy and financed mainly hydro projects. Our aim is to finance projects that have a direct impact on the wellbeing of citizens of Kosovo and economic development of the country.

Furthermore, in order to contribute to a better society, BKT has participated in many activities and made numerous donations that benefit the Kosovo youth and environment. BKT Kosova is dedicated to further contribute to the Kosovar economy by offering financial means to business with affordable conditions, thus, enabling prosperity and growth of the private sector and more employment opportunities.

During 2019, we will build on our strong foundations by continuing to enhance our digital functionality to meet customers’ simple needs, while also ensuring that our branch network continues to meet complex needs effectively. With customers becoming more empowered as a result of greater choice than ever before, we must continue to be responsive to their changing expectations and ensure that we continue to offer products and services they value. Our leading cost position, combined with our simple business model, provides us with the operational flexibility to compete effectively from a position of strength.

In order to more directly bring innovation and technology in the market, our aim is to focus on establishing a Fintech Company which will offer technological financial services for businesses and individuals. Our current strategic plan with continued strong investment, will further improve customer service and grow our leading digital bank as part of our multi-channel strategy, while continuing to provide sustainable returns to our shareholders.

Sincerely,

Suat Bakkal
CEO & Board Member

Retail Banking Group

Retail Banking achieved a strong set of 2018 results. Throughout the year many brand enhancing investments were made to improve customer experience through creativity, innovation and putting customers at the heart of decision-making.

A number of strategic priorities were set and continued to be delivered throughout the year. These included continuing to:

- Developing and driving stronger relationships with both existing and new customers across all channels, in order to provide them with accessibility, choice and flexibility.
- Analyzing customer expectations and focusing on providing customers with the tools to help make smart financial decisions that create value for them.
- Enhancing service quality through product development and technical advancements.
- Improving ways we work by analyzing our working practices and policies to achieve better outcomes for our customers and stakeholders.

Our focus and progress during 2018, was based on being:

Strong market leader for Term Deposits

During 2018 our main objective was to promote a culture of savings by providing quality financial advising personalized to customer needs, as well as a large array of deposit related products driven by our customers' needs. Financial education, accomplished through customer advisers and regular customer meetings, clearly demonstrated the objective of the bank to promote savings as a very important way to achieve financial sustainability.

A portfolio of diversified deposits was maintained and grown during 2018, reflecting continued success in attracting deposits with improved current account mix.

Focusing on improving the living conditions

We continued to support individual clients' investment plans, mainly by being focused on housing loans through numerous strategic mortgage partnerships in order to provide customers with opportunities to offer wider choices to purchase or build their homes.

The way how BKT offers its retail services, is linked to the overall bank's strategy which is strongly focused on steady and healthy growth, by building enduring relationships that deliver value, and propositions personalized to customer needs.

Having quite a young population, Kosovo needs better financing conditions for mortgage loans in order to enable everyone, especially young couples to sort out their living arrangements. In cooperation with many local business partners engaged in residential construction, we managed to offer fast and efficient service, accompanied with advicing and concrete opportunities provided to interested clients in order to fullfill their mortgage needs. This strategy, focusing on tailor made products, enabled us to offer loans with very good conditions for our customers.

Another area of focus was creating faster solution for our customers by offering consumer loans which provide quick access to funds with great financing conditions. Furthermore, developing partnerships with market leading auto dealers, gave our customers opportunities to choose from lots of brands and cars at affordable prices.

A bank with fast digitalization projects

We continued to leverage technology to better serve our clients through multi-channels offerings for their banking needs. During 2018, investments to enhance digital banking capabilities were made. The Bank engaged in several digitalization projects which intend to bring new ways of banking in Kosovo, but also maintain and improve the bank's current technology. Investments were made in project for new fleet of POS devices which will bring new features for digital payments experience, such as: contactless functionality and Bonus Loyalty Schema. The project for new fleet of ATMs, which are the state-of-the-art machines, offering to clients fast and pleasant cash transactions, both withdrawing and depositing, but also possibilities for Bill Payments (Barcode & Invoice number), Money Transfer through ATM, Third Party Deposits, Credit Card Limit Increase, etc.

In line with Bank's priorities for expanding and adding more features into digital channels according to clients' needs and latest technological developments, the number of users in mobile banking channels has significantly increased during 2018.

We have seen a significant shift of retail clients from performing transactions in branches to performing them through digital channels, increasing the number of digital engagement strongly growing during the year.

Corporate Group

During 2018, Corporate and Business Banking Group (CBBG) has maintained its focus in offering quality service to its clients and expanding the partnership with them. Group's main objectives for 2018 was concentrated toward client relationship management by supporting them in their projects and creating flexibility in utilizing banking products and services.

Expanding cooperation with clients, by supporting them through financing their short term needs and investments according to their plans and projections is our continuous aim. We were looking forward to support businesses in their efforts for increasing their competitiveness in the market and increasing their capacities and as a result, our loan portfolio has increased for 18%.

Professional and qualitative service to our clients remain our main objective; therefore, during 2018, we reorganized the business divisions to further improve work efficiency and restructured the branches to ensure that it serves the clients more effectively and we have divided branches into business and retail branches.

We have continued cooperation with Kosovo Credit Guarantee fund by supporting clients with lack of collateral and startup businesses. We managed to make more businesses bankable and this led to more formalized business and increased capacities of SME businesses in Kosova businesses.

Continuing investment in digitalization of services

Alternative banking channels such as business e-banking and mobile banking have been advanced by offering additional features so we can create flexibility to our clients.

During 2018, we have enriched our digital services and now clients can make international transfer from the comfort of their homes or offices.

Supporting agro sector

With continuous support for agro sector, we have financed farmers and agro businesses with the purpose to increase their capacities and stimulating development of domestic products. In this regard, during 2018 we became member to credit guarantee fund for "Agro window" with the purpose to expand our agro business portfolio and supporting farmers for increasing their capacities. During 2018 we have been part of project (bid) from Vushtrri municipality for financing agro and micro.

Project finance

During 2018 we have introduced project financed opportunity with the purpose to identify potential in this area so we can support our clients when they identified a feasible investment plan, with special focus on renewable energy, construction projects and different infrastructural projects. During 2018, the Bank financed mainly hydro projects and construction projects and managed to build a portfolio of around EUR 5 million, for 6 months. Our aim is to finance projects that have a direct impact on the wellbeing of citizens of Kosovo and economic development of the count.

Human Resources Department

HR Department at BKT Kosova is a strategic partner, an employee sponsor, advocate and a change mentor. In the past year, the HR Department has leaded the organization in areas such as development and strategic utilization of employees to serve business goals and talent management. In this role, HR was established to support the attainment and the accomplishment of the overall organization-wide business plan and objectives. The tactical HR Department representatives during 2018 have deeply cared about the design of the work systems in which people succeed and contribute. The December 2018, was ended up with 361 employees.

We take pride having innovative and diversified workforce

73,5% of our employees are under 35

55% of our employees are women

Recruitment

HR services include the design of work positions, hiring, reward & recognition system, performance development and appraisal systems, career and succession planning and employee development. HR professionals were aligned with the business, personnel of the organization as a strategic contributor to business success.

The initial starting point of the employee experience concept it was well defined about how HR can give employees an experience that fits with their needs, expectations and capabilities. At 2018, HR was a candidate-driven marketplace, focused on mirroring the consumer world in the candidate experience. A big focus was given to the new generations throw different programs such as the Future Bankers Programme Internship Programme, where most of these internees today are joining our institution as regular time employees.

HR is about people

As an employee sponsor or advocate, the HR Department has played an integral role in organizational success via its knowledge about advocacy of people. This advocacy includes expertise in how to create a work environment in which people are ready to contribute. Through bank employees' development career, HR maintained a close cooperation with all of the bank employees to keep a strong relationships with them by creating a 360 degree relationship round, where staff can feel free to express their needs and requirements.

In order to ensure a smooth implementation of new organization structure introduced during the year, HR Department organized on-job trainings and gave direct assistance to all staff into adapting to these changes.

Career management

BKT tries to ensure that all its employees are fit for their position and for their future growth and development. This is achieved through constant monitoring of their performance evaluations and identifying their strength and weaknesses, but also through continuous one-on-one discussion with each of them.

HR Department prepared recommendations on what the employee can do to ensure that they are making progress on their career path.

Learning and development

Continuous training and development of our employees is considered as an investment and not an expense. Therefore, BKT has a wide range program with training opportunities for the staff inside and outside of the bank. BKT is particularly investing in online learning programs and trainings which are more convenient for employees and more cost efficient for the organization. These trainings are particularly designed to build employees' capacities, functional expertise, talent skills and managing change in a digital banking environment.

Health, wellbeing and social activities

Get together and social activities are a crucial part of HR program which enables employees to socialize with each other in more relaxed environments, engage in more relaxed conversations and know each other better. This creates a better working environment, cooperation and productivity. Picnics, parties, lunches, dinners and meetings outside of the institution are a crucial part of our year – around work.

HR technology & process development

HR Department of BKT Kosova at year 2018 has collected together the employees to make them trust the technology for their benefit and their best productivity which attributed to smart and creative solutions for HR processes within efficiency and simplification, goal management, service levels, communication and internal relationships.

Choosing the right platform for digitizing HR processes was an important and often a very difficult challenging task. Digitizing HR platform to support the future development and time management at the bank came as result of hard work from HR Department Staff, changes were made at payroll & bonus system part, performance evaluations, cost effective HR services, HR administrative processes and HR operations solution.

Loan Management & Legal Group

Banking sector continues to be characterized with high stability based on the level of indicators that measure financial health and performance. Aggregated risk index of banking sector marked a decrease compared to the previous year, mainly impacted by the reduction of credit risk. Also, profitability and high-level of capitalization contributed to the reduction of sector's risk.

Exposure to credit risk continued to decrease, reflecting further decrease of Non-Performing Loans rate to total loans to 2.7 percent in November 2018 comparing with December 2017 that was 3.1 percent, which represents the lowest level since 2010.

The write-off process of Non-Performing Loans from bank balances impacted the further improvement of credit portfolio quality, along with a positive impact from the economic activity, improving the solvency of economic agents, as well as improvement of other structural factors. Non-Performing Loans rate to total loans remains at the lowest level compared to the regional countries, which had an average NPL rate of 10.0 percent in Dec 2017.

A part of the declining effect in NPLs is also attributable to other factors such as the good financial performance of the enterprise during this year, which may have contributed to the solvency of these borrowers. The activity of the Private Enforcement Agents has also facilitated and accelerated the process of loans repayment, whilst advancement of structural reforms to facilitate collateral enforcement has had an impact on increasing bank confidence and consequently increasing the volume of loans issued by banks. Consequently, these factors have been reflected in lower sources of non-performing loans and their recovery over the period.

Effects in the level of write offs were noticed in the second half of 2017, which was characterized with a significant increase of write offs and at the same time reduction of the non-performing loans rate to total loans. Even though the NPLs rate in the banking sector was at low level even before the applications of amendments in the article concerning write off loans, such a measure is expected to have a positive effect on prevention of future accumulation of losses.

Regarding BKT Kosova, the quality of credit exposures is maintained and monitored through a diligent process of identification, management and mitigation of credit exposures for all portfolio segments. During the year 2018, as per the changes of new bank organizational structure, the Collection & Restructuring Department has been affected by the scope of duties and responsibilities, which reflected with the higher monitoring and collection activity.

Also the role of the Soft Collection Unit was highly valued, due to their support and efforts on contacting and managing customers in the early stages, by also saving the time of branches on monitoring activities.

In terms of NPL management performance, during 2018 BKT Kosova managed to further decrease the NPL ratio to 4.32 percent in Dec 2018 comparing with Dec 2017 that was 4.59 percent.

To further improve and progress with its NPL management performance, BKT Kosova is working on strengthening its structures, resources by applying new ideas and methodologies.

During 2018, Legal Department continued to ensure that BKT Kosovë sh.a activities comply with regulatory legal framework and applicable laws by identifying legal risks timely and managing those risks accordingly. Also managed to collect considerable amounts of debts from the retail and corporate loans under the legal process and managing to finalize enforcement procedures with respect to some non-performing loan cases that resulted with repossession and selling some of them.

Among daily activities, the Legal Department has actively participated in meetings held in Central Bank, Kosova Bankers Association, American Chamber of Commerce and other state institutions (Central and Local) with the aim of improving legislation that directly or indirectly have impact in banks activities, contributing with comments and proposing concrete legal solutions always in best Banks interests.

Treasury & Financial Institutions Group

In a time of transition and changes for BKT Kosova, Financial Institutions Department (FID) has been very active in visiting Kosovo Banks and international banks in foreign countries such as: Albania, Austria, Hungary, Macedonia and Turkey.

During 2018 we focused on enhancing corresponding banking relationships, improving services provided, establishing credit lines for international borrowings and accessing different markets. We have opened correspondent account with a new international bank, made its first international borrowing, signed a standby credit line agreement with a Turkish bank and also, signed GMRA to start repo transactions on international securities. In meanwhile, the bank's profile was created in Bankers' Almanac and SWIFT as subsidiary which helps international banks to access information about our bank. Also, Bloomberg dealing code for BKT Kosovo was created to be able to execute transactions through Bloomberg Dealing. We will continue international visits in 2019 to introduce Kosovo banking sector to international counterparts, to improve services, to access new markets and increase number of products served. The objective is to decrease corresponding banking costs while creating different alternatives for the bank to execute trades at more competitive prices.

In Treasury department (TD) we continued to be active in primary market for Kosovo government securities. At the same time, we tried to revive secondary market by asking both way prices to market participants throughout year. Additionally, investments in international markets through Eurobonds, syndication loans and Money Market transactions increased and diversified. With establishment of FID, TD had access to market participants in different countries which helped effective liquidity management and profitability. In 2018, we started to execute swap and repo transactions actively which is expected to increase further throughout 2019. We intend to increase number of products used to hedge balance sheet needs and served in our branches. Throughout 2019, we will be more profit oriented through FX and securities, focus on effective liquidity management and optimum balance sheet management.

Risk Management Group

BKT Kosovo during 2018 has maintained a conservative and consistent approach to risk. This enabled us to protect our customers, to bear responsibility and to support the sustainable growth of the economies we serve. An active approach to risk management remains the key to our success.

The Bank has faced several types of risks as a result of our business activities, such as credit, liquidity, market and operational risk that managed to manage successfully. For all material risks, we have implemented established risk management standards by the Central Bank of Kosovo.

During 2018, BKT Kosovo has changed its status from a branch of a foreign bank to a Joint Stock Company. Consequently, the Bank's priority has been to adapt to the additional requirements and standards set out in the regulations of the Central Bank of Kosovo. Among the main activities in the field of risk management were the monitoring of large exposures, exposures to persons related to the bank, and capital adequacy.

As a result, in 2018, we revised the policies and applications and ensured compliance with Basel II principles. We have also applied stringent tests for market risk and interest rate, credit and liquidity rates, and resulted within the set parameters.

Among other things, in 2018, we have given special importance to the implementation and use of the International Financial Reporting Standard (IFRS 9), which enables and aims to improve the recognition and reporting of financial instruments in accordance with accepted accounting standards internationally, reflecting also the requirements or additional standards established by the CBK.

In order to evaluate and adequately address the risks, we have also actively promoted an increase in "Risk Culture" in the bank, particularly through training and a presentation program, so that all employees are able to manage the risks that are related to their activity.

Corporate Social Responsibility

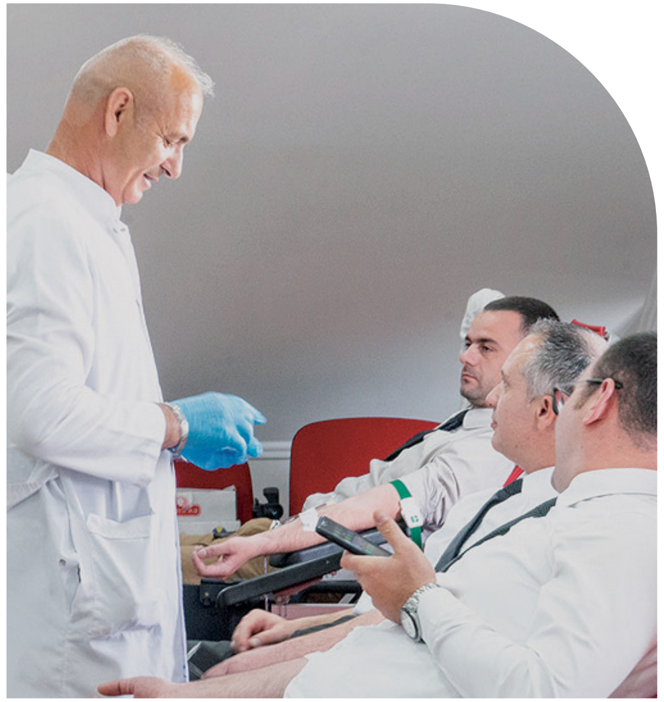
BKT is invloved in helping and contributing to a greater environment

BKT is involved in many projects related to the environment, community and social responsibility in order to make a contribution to the society and to create value for the country by offering quality products and services and through creating employment opportunities .

Description of the concept of social responsibility of BKT is based on the principle of "Contribution to Society". From this point of view, directly or indirectly, BKT supports the environment, various arts, sports and education activities.

BKT's most important social responsibility instruments are the sponsorships, activities and various charitable actions that reflect the institution's values to society and employees.

The donation of 20 computers to SOS Kosovo's Villages has been very positively accepted by this center which has had a great need for a computer cabinet where children and young people of this center will be able to enter the computer world, develop different skills and use computers for educational and professional training purposes.



In cooperation with the National Blood Transfusion Center, BKT organized the voluntary blood donation day for the second time. During the day, 43 blood bags were collected, a move that shows the real contribution made by the Bank's employees. BKT hopes that this blood donation will help motivate and increase the spirit and awareness of people about the importance of blood donation and the will to help one another. The blood donation activity organized by BKT succeeded. This is evident from the enthusiasm shown by Bank employees who fully supported the activity. The number of blood donors will surely increase in the future, given that this activity is set in the calendar of the National Bank's National Bank's activities.

In order to contribute to a greener environment, BKT has participated in the activity organized by the Municipality of Pristina in honor of the 'International Earth Day' with the purchase of seedlings. About thirty employees of the National Commercial Bank have volunteered this activity, planting dozens of seedlings in one of Pristina's quarters.

Banka Kombëtare Tregtare supports the project "You are a Sunflower", which aims to make a donation to the Pediatric Clinic at the Department of Hematology at General Hospital in Prishtina.

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

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Grant Thornton LLC
Rr. Rexhep Mala 18, 10 000 Pristina, Kosovo
T: +381 38 247 771 / +381 38 247 801
F: +381 38 247 802
www.grantthornton-ks.com

Independent Auditor's Report

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.

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
Suzana Stavrikj
Statutory Auditor

Prishtina, 15 April 2019

	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.

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Interestv			
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.

	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.

	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.

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.

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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.

(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.

(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.

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.

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(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).

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

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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.

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.

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

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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.

(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.

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(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.

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.

(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.

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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.

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	
Loans to Banks	LAR	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 customers			Meet SPPI criteria			
Retail and corporate Loans	LAR	AC	Meet SPPI criteria	Held to collect contractual cash flows	AC	No financial impact identified

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.

In EUR	Original classification under IAS 39	New classification under IFRS 9		Original carrying amount under IAS 39	Re-measurement	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	w35,830	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**

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).

(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.

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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.

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.

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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.

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**

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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.

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 IMF2, 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 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 pi 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.

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.

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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.

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

ALLOWANCE 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	**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**

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.

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	**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	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**

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.

	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						

	Stage 3						
31 December 2018	**Non Past Due**	**Past due**	**Total**	**Allowance**	**Total Carrying Amount**	**Total net amount at amortised cost**	**Value of collateral**
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.

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.

LOANS TO CUSTOMERS AT AMORTISED COST

	Retail lending											
	Mortgage				Loan Commitments and financial guarantee contracts				Credit cards			
31 Dec. 2018	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				SME Corporate				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											

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**

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**	-

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**

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**

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**

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.

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.

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.

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.

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.

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**	**-**

(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**	**-**

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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%	-	-

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%

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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	100 bp	100 bp	100 bp
	Decrease	Increase	Increase	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	100 bp	100 bp	100 bp
	Decrease	Increase	Increase	Decrease
Estimated Profit (loss) effect	(13,784)	13,784	375,214	(375,214)

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**

(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.

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.

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

	31 December 2018		31 December 2018	
	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%**

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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**

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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**

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.

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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.

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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	-	150
Gain on sale of fixed assets	367,608	141,947
Income from collection of written off loans	58,749	13,819
Other income	**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

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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**

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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**

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 December 2018		31 December 2018	
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.