A FORCE THAT SHAPES THE FUTURE

BKT Kosova

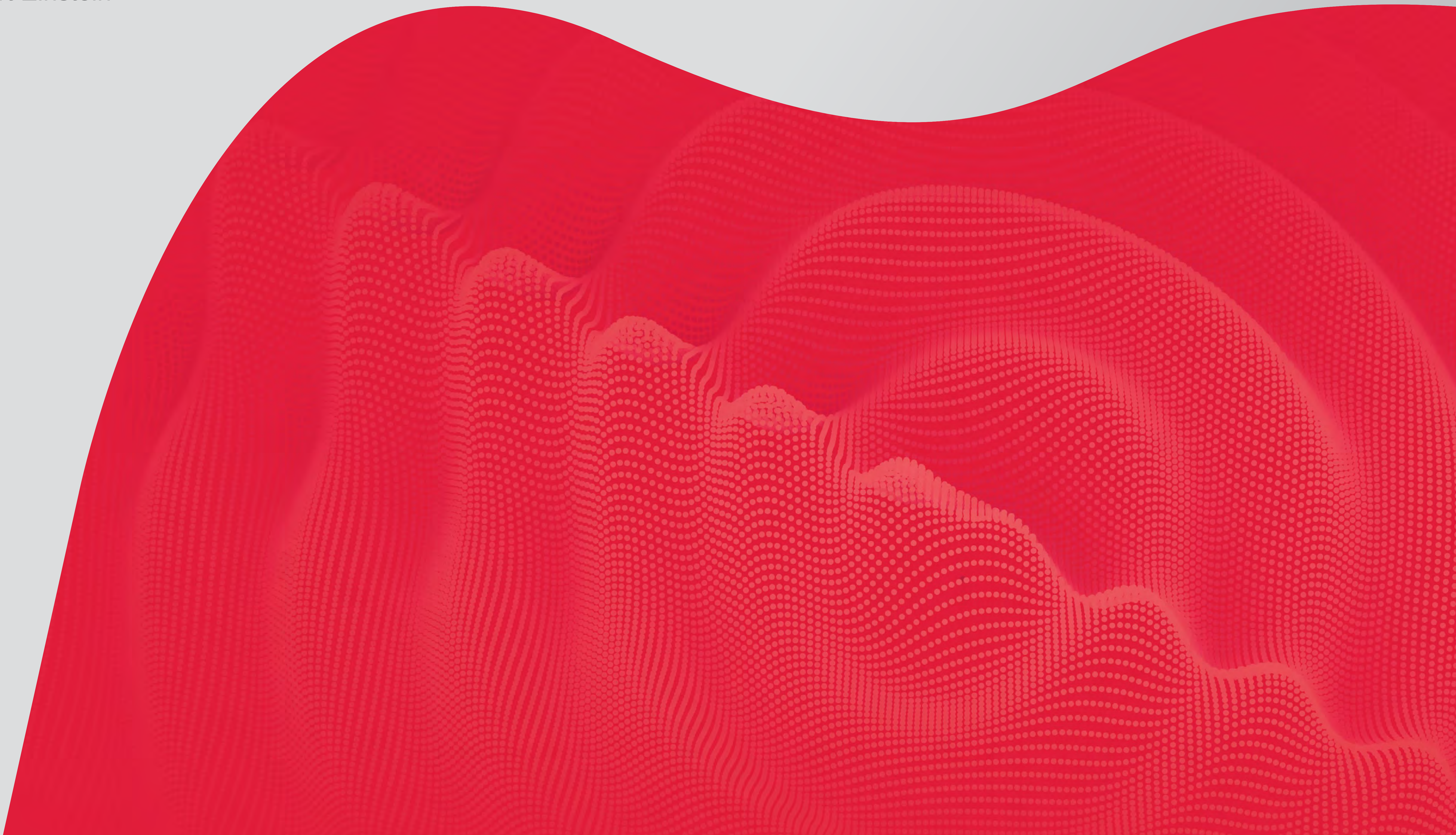
ANNUAL REPORT 2019

BANKA KOMBETARE TREGTARE

Ne jemi gjithmonë këtu...

“The true sign of intelligence is not knowledge but imagination.”

Albert Einstein



ANNUAL REPORT

CONTENT

CORPORATE HISTORY, GROUP, VALUES, ETHICS AND SOCIAL RESPONSIBILITY

Strong roots, Stronger vision

The roots of Banka Kombëtare Tregtare are found on November 29th 1925 with the establishment of the first branch in the historical building in Durrës that represents also the oldest Albanian financial institution in the country.

Banka Kombëtare Tregtare, with the name it holds today, was established in January 1993, by merging Banka Tregtare Shqiptare and Banka Kombëtare Shqiptare into a single bank. Today, BKT is the biggest and the oldest bank in Albania.

BKT opened its first branch in Kosovo, respectively, on November 2007, a few months prior to Kosova's declaration of Independence (February 17th 2008). BKT brought its experience of over 80-years of heritage, to this newborn country. From that moment on, BKT and Kosovo continued to grow together and help each other prosper.

With maximum dedication, starting off with a staff of 11 people, Banka Kombëtare Tregtare expanded its network in 16 cities of Kosovo by being positioned closer to clients with 26 branches and agencies and at the same time increasing the number of employees to 358.

On April 30, 2018, Banka Kombëtare Tregtare Kosovo Branch changed its status from foreign branch to Joint Stock Company. Now it is a Bank licensed by the Central Bank of the Republic of Kosovo and with the change of the status the Bank changed also its name from Banka Kombëtare Tregtare Kosovo Branch to BKT Kosovë J.S.C.

BKT in Kosovo created numerous facilities and opportunities in the banking sector, as well as a variety of banking products.

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 the business.

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 the latest trends.

Values and Working Principles

The work of our teams is characterized by fundamental work values and principles, such as:

Our Core Values
- Fairness
- Heart-guided work
- People orientation
- Innovation
- Agility
- Sustainability
- Integrity
- Confidentiality
- Transparency

Our Work Principles
- Teamwork
- Accountability
- Open communication
- Quality
- Efficiency
- Customer-centricit

Mission

Our mission is to use our energy and talent to contribute to raising standards of living by finding solutions that add value to people's lives through opportunities and convenience in the banking sector.

Vision

Our vision is to become a leading bank in Kosovo, by adding value in every area we operate. We aim to achieve this with the help of our reliable teams and their innovative and entrepreneurial spirit.

Social Responsibility

Caring for the future

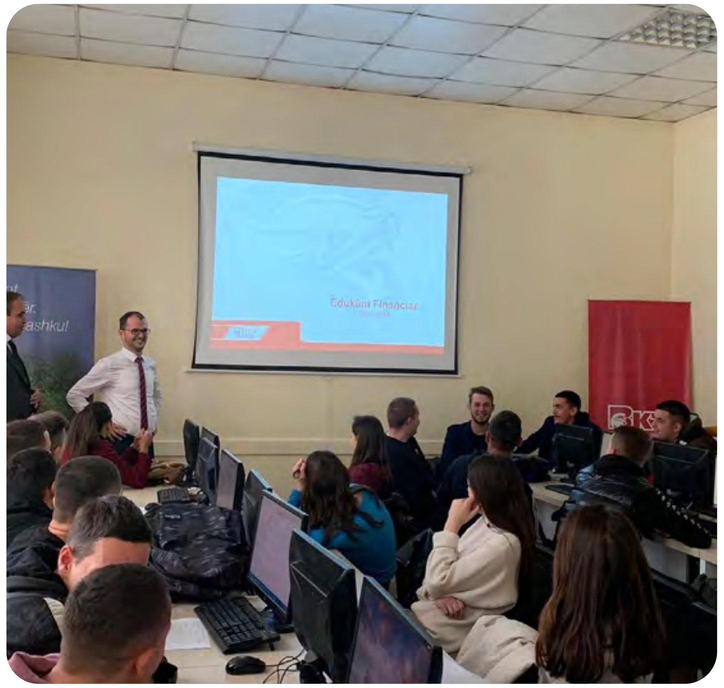
Banka Kombëtare Tregtare Kosovë SH.A is involved in many projects related to environment, community and social responsibility, in order to contribute to the society, as well as to create values for the country, by offering quality products and services and creating opportunities for employment.

The description of the concept of BKT's social responsibility is based on the principle of "Contribute to Society". Therefore, BKT supports the environment, various forms of art, sports, and educational activities.

BKT's most important social responsibility instruments are sponsorships, activities and various charities that reflect the values of the institution towards society and its employees.

Throughout 2019, BKT has contributed to the environment and society in various ways:

Cooperation between BKT and the Ministry of Culture, Youth and Sports on Financial Education of the youth of the country, contributing to the joint project "Think for Tomorrow", the first meeting of which was held in an economic high school in Mitrovica, to further continue to other school centers in the country.



In collaboration with the National Blood Transfusion Center, for the third time BKT organized a voluntary blood donation day, where 30 blood bags were collected. BKT hopes that this blood donation will help motivate and raise awareness of the importance of blood donation. The success of this activity was seen in the enthusiasm of bank employees who fully supported the activity. The number of blood donors will undoubtedly increase in the future, based on the fact that this activity is placed in the calendar of the ordinary activities of the National Commercial Bank. (Pictured)

In order to contribute to a greener environment, BKT has participated in an event organized by the Municipality of Pristina, in honor of the International Earth Day. About twenty employees of the BKT in Kosovo supported this activity on April 22, 2019. They have contributed to the planting of dozens of seedlings near "Dardania" primary school in Pristina. This activity has also become part of BKT's calendar of activities.

BKT has been the main sponsor of the Mini Tennis Championship, organized by the Tennis Federation of Kosovo. This championship was held on October 26 and 27, 2019 at the Tennis Club "Prishtina". Participants included people from the age of 2 years until the age of 45. BKT Kosova is dedicated to contribute to the society, acting in various forms, to positively impact the lives of every citizen.

FOREWORDS: CHAIRMAN OF THE HOLDING, CHAIRMAN OF THE BOARD AND CEO

A LOOK AT ÇALIK GROUP

Ahmet Çalık

Çalık Holding Chairman

Dear Ladies and Gentlemen,

Çalık Group started its operations in 1981 in textile industry, today it operates in 7 sectors; energy, construction, mining, textile, finance, telecommunications and digital, across 22 countries and employs around 23,000 people. As Çalık Group, we mark our on-going progress with sustainability in the business areas in our focus in line with our strength in developing international projects, offering innovative solutions in our business areas and our goal of creating world brands. In this framework, I would like to mention the significant projects and activities we implemented with the companies in our Group in the year 2019.

BKT Kosova achieved to become one of the fastest growing banks in the country, scoring 28% growth in deposits and 24% growth in loans of customers during the year 2019. Moreover, we are moving forward fast in our efforts to improve digitalisation and user experience in the field of banking for BKT. During 2019, BKT Kosova continued its transformation into state-of-the-art digitised services and automated processes, aiming at providing fast, secure and convenient banking service both to individuals and businesses. This new dynamism, ensures a positive outlook and further development of our bank in Kosovo, while it sets new banking standards in the country.

As one of the biggest investors in Albania, we continued to add value to society and economy. As has been the case every year, this year also witnessed Banka Kombetare Tregtare, our point of activities in banking abroad, awarded as "The Best Bank in Albania" by the respectable organisations of the country.

Through ALBtelecom, one of the well-established companies in Albania representing our Group in telecommunications sector, we promoted two innovative applications, BiP and LifeBox, offered under Lifecell to the people of Albania through cooperation with Turkcell. We employed this package to support our commitment to offering the most innovative digital solutions to improve the quality of communication and of life in Albania.

We achieved an increase of 30 per cent in the net profit of our Aktif Bank company, thereby reaching 51 million EUR, as a company that functions as the largest ecosystem of financial technologies in Turkey with its investments in technology, as well as its innovative business models reinterpreting investment banking. While its size of assets reached 2.7 billion EUR with an increase of 29 per cent, its return on equity was registered at 20 per cent. We increased the credit amount of our bank to a level higher than 1.2 billion EUR. This year, we mediated foreign trade transactions to 70 different countries notably including African, Middle Eastern, and CAD countries with a total value of approximately 356 million EUR and offered foreign trade solutions to Turkish exporters in these geographies. In addition, we provided 178 million EUR in current total in cash and non-cash loans to 38 projects, amounting to a capacity of 240 MW in total, in mostly solar, but also hydroelectric and wind power through our Bank, which has reached a total commodity financing size of 15 million EUR with the help of end-to-end financing to companies and farmers. We achieved a size in the north of 449 million EUR in sports loans through the additional funding of 41 million EUR extended to 17 different football clubs during the year.

We rolled out Navoi-2, a product of sufficient flexibility to function as both a simple and a combined-cycle power plant, through the cooperation between our company involved in the field of energy, Çalık Energy, and our consortium partners in Uzbekistan, Mitsubishi Corporation and Mitsubishi Hitachi Power System (MHPS). We are also approaching completion in the construction works for our 900 MW Turakurgan Power Plant project situated again in Namangan, Uzbekistan, and we will hand over the project in the first months of the year 2020. On the other hand, construction works are ongoing for our Tedzani 4 Hydroelectric Plant in Sub-Saharan Africa, which, once completed, will increase the installed capacity of the State of Malawi by 5.2 per cent.

We started significant initiatives also in the field of renewable energies in the year 2019. The commissioning of our Solar Power Plant project with an installed capacity of 6 MW in Amasya increased the currently commissioned solar power plant capacity of our Group to 94 MW. We were granted approval for Nigoza Wind Power Plant from the Parliament of Georgia, the construction works will commence for the 50-MW plant in Georgia in the year 2020.

Construction works are continuing at full speed for the Port of Basra Rehabilitation Project, where we are involved as a subcontractor with our Çalık Energy and Gap Construction companies. As has been the case for many years, we were listed in this year's ENR 250 of the largest contracting companies of the world with both Çalık Energy and Gap Construction companies. We extended our activities to the Gulf Region with Qatar after the Middle East with our Gap Construction company.

We have reached 55 million metres in the annual fabric manufacturing capacity of Çalık Denim, marked today as one of the top 10 premium denim manufacturers in the world. We, through Gap Pazarlama company, started with the exportation of textile products from Uzbekistan to the U.S. in cooperation with the business partnerships we have secured this year.

This year, we started up a joint company under the name of Secom Aktif Güvenlik Çözümleri in cooperation with SECOM, one of the leading integrated security providers in the world with its command of the advanced technology and expertise of the world and of Japan, with the aim of advancing our goals and power in international markets through Aktif Bank as an institution that allocated 20 per cent of its budget to investments in technology this year.

We started production at full capacity with Çöpler Sulfide Plant through our Lidya Mining company in the year 2019. We simultaneously accelerated its activities abroad, as well.

We continued with our pioneering work in the sector through our electricity distribution company, YEDAŞ, by way of the projects we developed within the scope of corporate and operational excellence in the year 2019. Our retail electricity provider, YEPAŞ, became the first to integrate with, and conduct its processes in, the e-devlet platform. YEPAŞ Customer Relations Centres was named as the provider with the highest customer satisfaction in customer relations, through the evaluation conducted by the Ministry of Energy and Natural Resources.

Through our Aras Electricity company, we established a system that allows for the measurement and reporting of all our activities in 58 districts in seven provinces with the aim of maximising business quality and efficiency and customer satisfaction.

In Kosovo, the youngest country in Europe, we realised investments exceeding 16 million Euro in total in various Network Projects including the 20 Masterplan Projects, 121 DG Reinforcement Projects, and 5 20-kV Transformation Projects through our electricity distribution and retail company, KEDS, during the year 2019.

While our search for new licences continued in Turkey and abroad through our Çalık Petrol company, we drilled three new wells and had MT performed at 250 points in Adıyaman Besni licence to increase production. We produced 250.000 barrels of crude oil in total.

Another initiative of importance for our Group in the year 2019 was the establishment of our CLK company to operate in the fields of Logistics, Trade, and Supply. We started to offer value-added transport services to our own companies and others in line with the standards of international transport businesses.

Our Goals for 2020

As Çalık Group, we are a part of a constantly transforming global network laden with a high level of competition. In order for us to realise more effective initiatives in this competitive world, we, as Çalık Group, will advance our efforts to create world brands, and our strength in developing worldwide projects and offering innovative solutions in our fields of business in 2020 as we did in 2019. Accordingly, we, as the Group, will continue to invest in digital transformation as one of our most important tools for renewal and establishing new enterprises. The currently ongoing societal transformation based on technological change in the world brings to the agenda; the emergence of a new smart society, as well. At this point, we aim to lead the society and the business world with our activities and to support this transformation to achieve the highest efficiency possible on the basis of the Society 5.0 approach. We will continue to change and renew ourselves in line with the global development for sustainable success.

Until now, we have always exhibited great sensitivity in taking steps to benefit humanity and acting in line with environmental consciousness in the meantime. Çalık Energy and Çalık Denim signed the Global Compact in the year 2019 within the scope of our efforts for sustainability. In our group, we will formulate our Strategy for Sustainability to build the future and continue with our intense efforts through our prospective roadmaps and measures in the forthcoming period.

I would like to extend my gratitude to our co-workers, business partners, customers, and all of our stakeholders for their respective contributions to the successful results we achieved in the year 2019. We will continue working and producing for our country and for humanity in the light of our values with great determination.

Sincerely Yours,

Ahmet Çalık
Chairman of Çalık Holding

Chairman's message

A YEAR OF GROWTH!

Mehmet Usta

Chairman of the Board of Directors

Kosovo economy during 2019 was marked again with a growth of 4.2%. This was mirrored in banking industry, as we saw almost all banks' economic and financial indicators improving and displaying positive trends and results. While navigating an exciting business environment, we stayed focused on performing our core role as a financial services provider with clear principles and values.

Bearing in mind the opportunities available in Kosovo and the highly competitive market in banking industry, BKT Kosova performed outstandingly during 2019, registering another very successful year in terms of development and growth. The bank managed to grow in all indicators, ensuring a positive outlook for the future development and setting benchmarks of yearly growth aiming at becoming the largest bank in the market. Our assets grew by 30%, deposits grew by 28% and loan portfolio grew by 24%, altogether achieved within a very energetic and dynamic frame, exercised by our professional workforce and management. The achieved results ensured a yearly net profit of EUR 6 million.

BKT Kosova 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. Local economy is highlighted as very 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 constitutes one of the best performers in the country and for this we feel proud to be part of it with our contribution.

The positive results of BKT Kosova during 2019 set and strengthen further our objectives to work toward continuous growth and development with a long-term outlook of operating in Kosovo. BKT Kosova continued being supported by our group banks in Albania and Turkey, who shared their long experience in implementing new and innovative financial services and channels. In view of this, as a Group, we aim at bringing the best banking options both for individuals and businesses in Kosovo.

So, possessing strong roots and history in banking and with a local history of twelve years of operations in the country, BKT Kosova marked significant growth and marked improvement in all indicators, over the years. The achieved results during 2019 and earlier, confirm that the strategic decisions taken over the past years of operations, have played a key role to enable us for succeeding in our challenging journey of transformation and development.

Considering the continuous support of ÇALIK Holding as our sole shareholder, the support of BKT Albania as our mother company, the loyalty of our new customers, the acquisition of new customers and last but not least, the marvelous dedication of our employees, BKT Kosova has achieved again to mark a very successful year which sets the trend for the upcoming objectives.

Financial industry is experiencing a rapid technological advancement and certainly BKT Kosova is no exception to this trend. In order to maintain our competitive advantage in the market we are always aiming at taking a step ahead of competition in digitalizing our services and developing state-of-the-art solutions to our clientele. Therefore, in 2019, we continued investing not only in our existing infrastructure, but also in bringing new products, in developing new channels of service and in improving the customer experience in doing banking.

Our employees constitute the foundations of our strengths and opportunities, so we have made sure that they all feel part of our historical achievements and they are all onboarded towards our future breakthroughs. The Board highly appreciates the commitment and dedication from each employee of the bank and it certainly provides its utmost support to the Executive Management of the bank in conducting the strategic plans.

On behalf of the Board, I would like to thank all our employees for their tremendous efforts they put forth to make BKT the great bank we know it to be. I want to extend my gratitude and appreciation to all my colleagues of the Board of Directors for their continued dedication and commitment. I also want to thank our shareholders for their ongoing support and lastly, I would like to thank our customers for the opportunity they give us to serve them every day. We look forward to bigger achievements during 2020 and forthcoming years.

Sincerely,

Mehmet Usta

Chairman of the Board of Directors

CEO's Message

A YEAR OF INNOVATION!

Suat Bakkal

CEO & Board Member

2019 yet again was marked with high performance of BKT Kosova in all indicators. The inertia of innovation, automation, energy and agility, continued for BKT Kosova during 2019 as well. Following the macroeconomic growth of the country economy by 4.2%, BKT Kosova's performance aligned with even higher performance, by increasing substantially both the assets and the liabilities.

As historically, BKT Kosova played its role on the overall economic development of the country and on reshaping the layout of the banking industry. This was achieved mainly by working on two pillars: granting easy access to financial services for individuals and businesses with favorable conditions and investing on bank's process optimization, service innovation and automation. The respective installed approaches, ensured successful results in business achievements, enabling the bank to mark a net yearly profit of EUR 6 million.

Being in an expanding mode, offering multiple services through innovative and convenient channels and having a professional, dedicated and energetic workforce, BKT Kosova grew its assets to EUR 537 million, marking a yearly increase of 30%. This was mainly achieved due to growth of loan portfolio which reached to EUR 306 million, an increase of 24% compared to 2018. On the other side, the deposit base of the clients continued its diversification and growth and it reached to a base of EUR 449 million, marking an increase of 28% compared to previous year.

BKT Kosova takes pride for reaching these achievements, especially because they display our strengthened position in a very dynamic business climate and competition in the sector. In the context of a highly competitive spirit within the industry, our Bank has increased significantly in comparison to the sector, with 15.72% more than market in asset size, 11.7% in deposit size and 13.31% in loan size.

Enhancement of customer experience remains being the hallmark of our daily operations. As a bank, we have set big goals ahead of us and as such, the customer-centric approach constitutes the biggest catalyst on reaching our objectives. Traditional and conventional banking will certainly remain as an important part of our operations, however, transforming our services into digital ones is what will differentiate us from the other players in the market. We have taken solid steps toward not only reaching high levels of automation, but bringing innovative services and channels, as well.

A lot of investments and process improvements took place during 2019, mainly directed to implementing the strategic plans of further digitization of the Bank, enhancing customer experience, maximizing our capabilities and transforming the way we operate. Therefore, we have continuously invested during 2019 and the same elevated trend is forecasted to continue during 2020, accompanied with training of our workforce who are expected to exceed the expectations our customers have from us.
In every aspect of digitization of the bank, certain important projects were implemented. The change in mindset of BKT workforce and improvements driven by the business lines and all other support functions of the organization, eventually began to give fruitful results. The outcome of the kick-off year for the digitization of the bank, not only resulted in dramatic increase in the customer satisfaction but also in financial figures, as well. Business volumes, transaction numbers, income and service quality, they all marked significant increase throughout the year.

Regardless the high digitization pace of our services, we are aware that the customers continue preferring human contact while conducting their complex banking transactions. For this reason, BKT Kosova will remain committed to continuously increase our presence in the market be it from our own expanding network or by widening our market presence via partners that we choose to operate with. On the other hand, our employees play a critical role in our transformation and they have made significant progress in acquiring the skills they need in order for the bank to handle the transformation as smoothly as possible. In addition, our workforce takes pride in working for an inclusive and diverse bank and with their support we are building a culture in which everyone feels integrated, empowered and inspired to contribute in bank's success and in customer loyalty and satisfaction.

Our corporate social responsibility continues being treated as one of the main pillars on which BKT Kosova operates. We are constantly finding ways to contribute into a better and cleaner environment, while engaging directly in activities that have direct impacts on leaving a green footprint in the environment we operate in. Consequently, during 2019 we have been treating Project Finance with a special focus on renewable energy and energy efficiency related projects. Our objective remains to finance projects that have a direct positive impact on the environment and economic development of the country. Moreover, our bank continues to contribute to society, by participating in many activities in the nature of donations and sponsorships that benefit various segments of society.

As a universal bank, BKT Kosova will continue offering easy access to finances for all participants in the economic and social environment of Kosovo. The bank has been and will be an open door to businesses in order to help them grow their assets and increase employment, whereas on the other side, the bank will be the first choice for banking for various types of individuals, such as depositors, private investors, salary receivers, professionals, pensioners, and so on. Finally, I believe that our bank has met all the required prerequisites to see into the future as a market leader of Kosovo banking sector, which will result in high customer acquisition and loyalty, employee satisfaction and wellbeing and sustainable returns for our shareholders.

Sincerely,

Suat Bakkal
CEO & Board Member

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 presentname.

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 tranaferred to Çalik - Seker Konsorsiyum Yatirim A.S. BKT is awarded as "The Bank of the Year in Albania" by The Banker magazine.

2007

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

2008

JCR Euroasia 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 Çalik Group following the asquisiton of the remaining shraes by ÇalikFinansHizmetler. BKT is evaluated as "The Best Bank in South Europe for 2009".

2010

BKT celebrates its tenth anniversary of privatization and the 85the anniversary of its first branch in Durrës with many awards and honors. The Banker, a prestigious British magazine, recognizes BKT as "The Best Bank inAlbania". 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 Euroasia Rating evaluated 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 evaluation continue, reflecting BKT's success in the Albanian market. The preeminent British magazine Eruomonet 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 TUV AUSTRIA CERT. JCR Euroasia 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.

Annual Report 2019

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 Euroasia Rating confirms its "AA (Alb)/Merit" evaluation to BKT for Corporate Governance and reaffirms "AAA (Alb)" with stable outlook to BKT for the fifith time in a row. Also, during 2013 the firste Islamic Leasing Company in Albania, Albania Leasing Company, was established in a partnership with BKT.

2014

BKT officially becomes the largest bank by assets withinthe 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, wich also selcts 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 Euroasia 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 Euroasia Rating recognized BKT with "AAA (Alb)/Distinctive" for Corporate Governance, and "AAA (Alb)" with stable outlook for the seventh consecutive time. Furthermore, BKT has been recertified with the "ISO9001:2008" certificate on Quality Management Systems applicable for banking services through TUV AUSTRIA CERT. BKT's Annual Report for 2014 won two awards in the ARC worldwide competition organized 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 rprestigious awards on the national and international level. Euromoney evaluates BKT in its annual Awards for Exccellence 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 Euroasia Rating reaffirms "AAA (Alb)" with stable outlook to BKT for the eighth consecutive 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 Euroasia 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 divided 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 AND EXECUTIVE MANAGEMENT

Board of Directors

MEHMET USTA
Chairman of the Board

GALİP TÖZGE
Board Member

ABDURRAHMAN BALKIZ
Board Member

SEYHAN PENCABLIGİL
Vice Chairman of the Board

AYŞEGÜL ADACA OĞAN
Board Member

Gürol Güngör
Board Member

Suat Bakkal
CEO & Board Member

Executive Management

SUAT BAKKAL
CEO & Board Member

ALBION MULAKU
Corporate & Business Banking Group Head

NJOMZA BUXHOVI
Retail Banking Group Head

MUHARREM INAN
Treasury & Financial Institutions Group Head

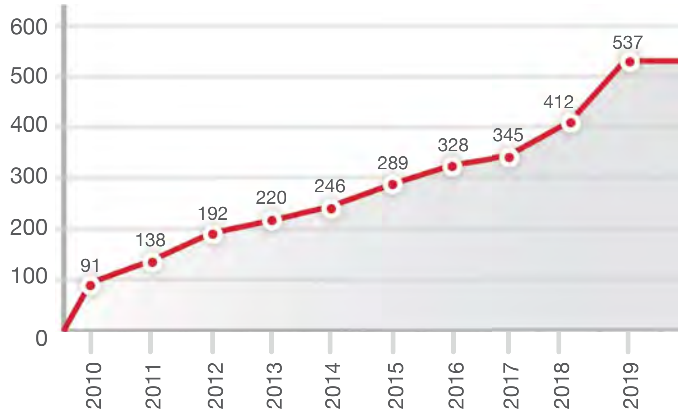
NAIM RATKOCERI
Loan Management & Legal Group Head

AGON SKEJA
Finance & Administration Group Head

ELTON XHAFAJ
Internal Audit Group Head

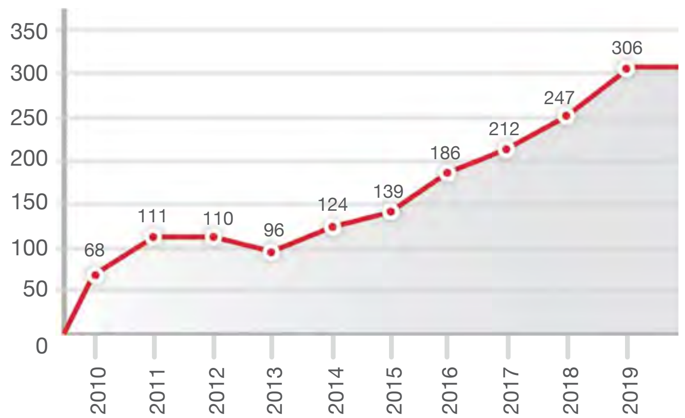
SUMMARY OF 2019 RESULTS

04



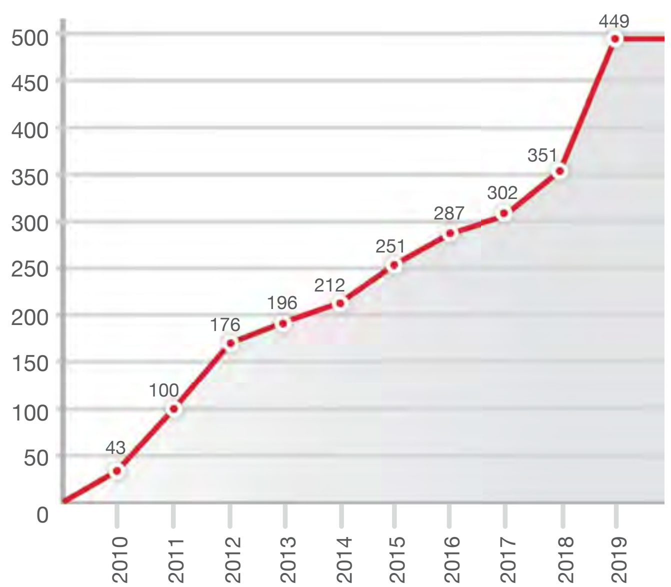
TOTAL ASSETS
EUR' Millions/Year

91	138	192	220	246	289	328	345	412	**537**
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019



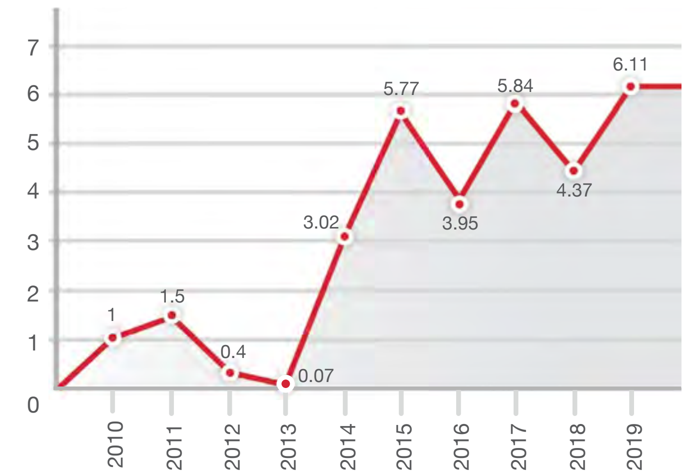
TOTAL LOANS
EUR' Millions/Year

68	111	110	96	124	139	186	212	247	**306**
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019



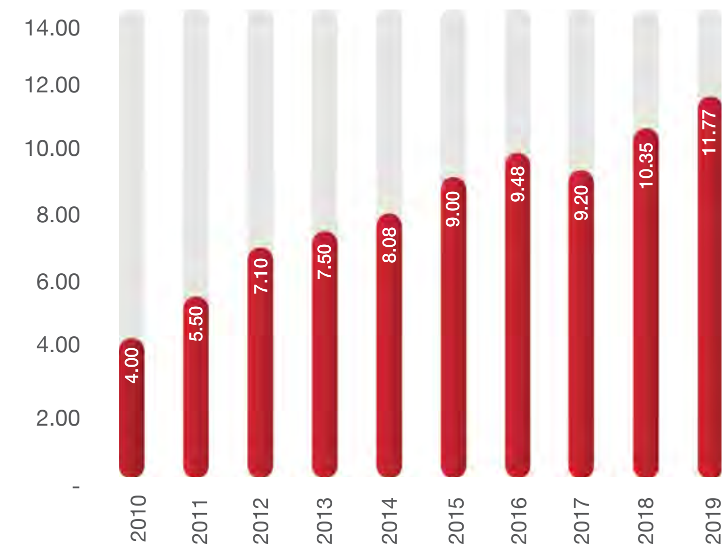
TOTAL DEPOSITS
EUR' Millions/Year

43	100	176	196	212	251	287	302	351	**449**
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019



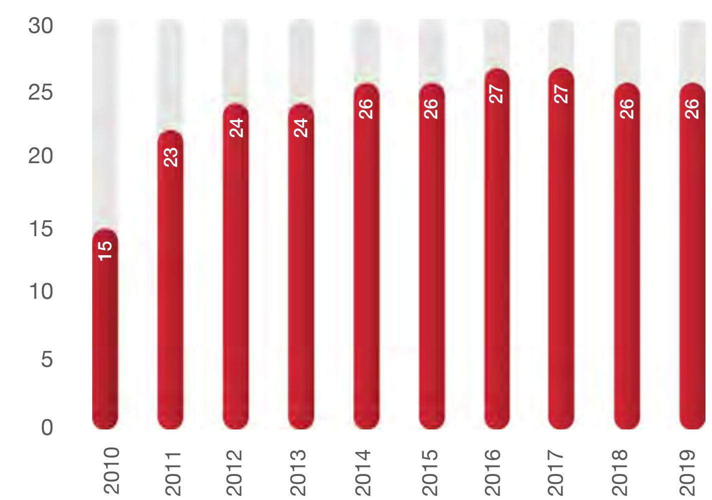
NET PROFIT
EUR' Millions/Year

1	1.5	0.4	0.07	3.02	5.77	3.95	5.84	4.37	**6.11**
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019



MARKET SHARE IN TOTAL ASSETS (%)
Expressed in % / Year

4.00	5.50	7.10	7.50	8.08	9.00	9.48	9.29	10.35	**11.77**
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019



Number of branches
Expressed in Year

15	23	24	24	26	26	27	27	26	**26**
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019

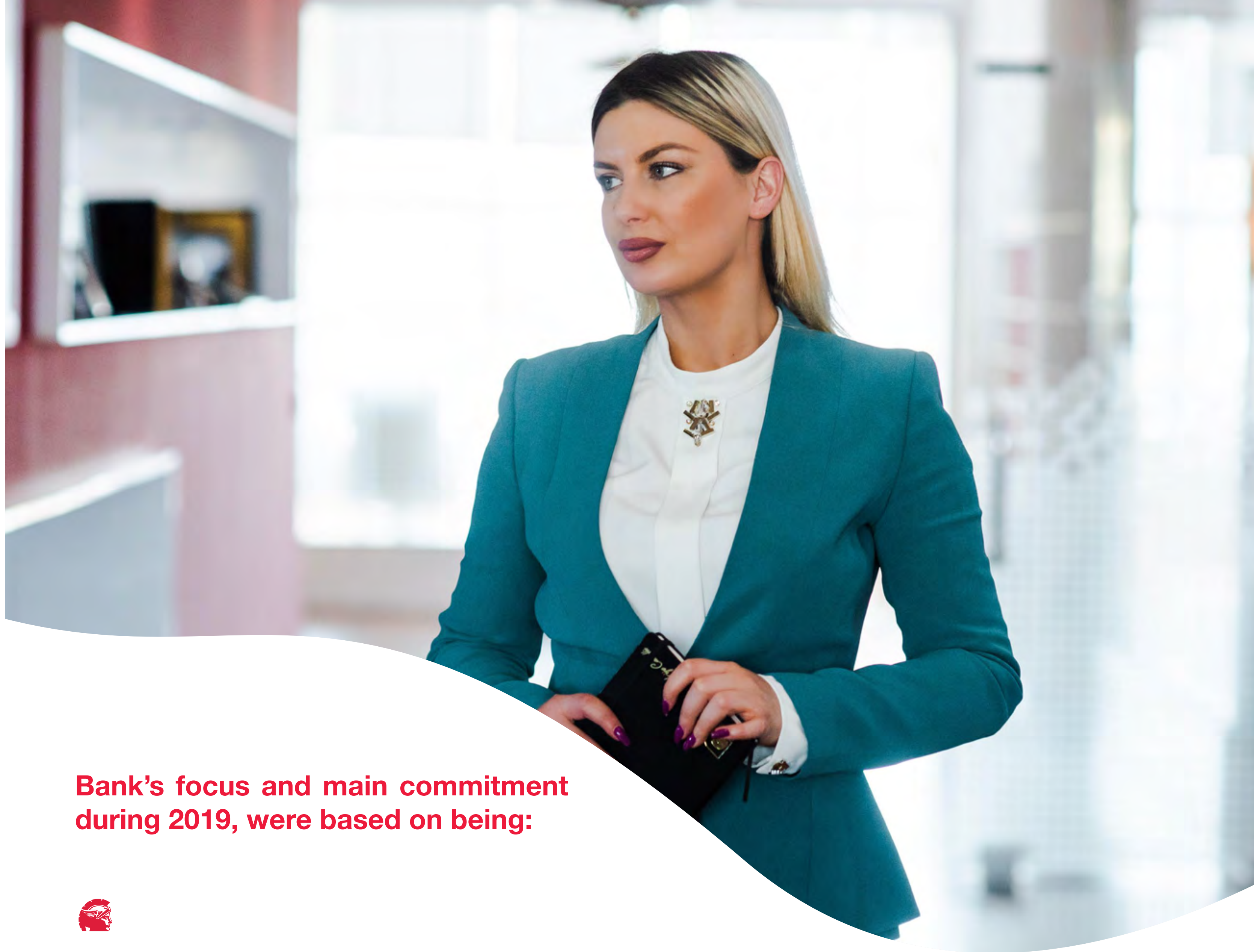
05

Tailoring products and services to costumer needs

2019 marked again a very successful year for BKT Kosova. Many investments were made to enhance and enrich the brand and improve customer experience to resonate on creativity, innovation and putting customers at the heart of decision-making.

Retail Banking Group continued to contribute directly to enhancing market presence and growing market share, with tireless efforts such as:

- Maintaining market presence by enhancing service both throughout physical network and developing state-of-the-art technological solutions
- Developing and driving stronger relationships with both existing and new customers across all channels, in order to provide them with accessibility, choice and flexibility
- Analysing 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
- Enhancing processes by analysing working practices aimed at achieving better outcome for customers and stakeholders.



Bank's focus and main commitment during 2019, were based on being:

Term Deposit market leader

During 2019 retail banking group's 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 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 2019, reflecting continued success in attracting deposits with improved current account mix. Bank's total customer deposits grew by almost 23.43% whereas retail deposits grew by 20.48%.

Customer deposits grew by almost **23.43%**

Retail deposits grew by **20.48%**

A perfect customer's choice for their housing loans

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.

With one of the youngest population in Europe, Kosovo needs better financing conditions for mortgage loans in order to enable everyone, especially young couples to sort out their living arrangements.

The bank 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.

In cooperation with many local business partners engaged in residential construction, the bank managed to offer fast and efficient service, accompanied with advising and concrete opportunities provided to interested clients in order to fulfill their mortgage needs. This strategy, focusing on personalized products, enabled offering loans with very good conditions for customers.

A trustful partner for personal loans

Another area of focus was creating faster solution for customers by offering various consumer loans, which provide quick access to funds with great financing conditions.

In line with the bank's mission to provide opportunities to all customer categories, the bank started providing pensioner loans, for Kosovo elderly who were not having access to credit facilities before. This created a competitive advantage in the market as well as accomplished the mission and vision of the bank in terms of social responsibility.

All in all, the bank marked another very successful year in retail loans, by achieving a sustainable growth of around 25.29%, which is in line with growth of liabilities, as well.

Innovative channels of service

Innovation strategy developments during 2019, becoming more "borrower friendly" and competing to acquire new customers, has incited BKT towards development of new channels that distinguishes the bank from competitors and enables financing clients through a third-party intermediary relationship.

In order to expand the business possibilities of selling loan products, a new channel has been developed through merchant dealer partners by allowing potential and existing customers to obtain financing through third-party relationships. The developments in technology has improved to the point where merchants that previously may have only accepted cash or credit cards are now able to offer the option of a loan at the moment of purchase.

By enabling clients to obtain financing through third-party relationships, BKT has expanded its offerings to a wider range of new and existing customers from many dealerships, merchants and retailers that handle big-ticket items such as real estate and cars, to smaller-ticket items such as furniture and white/grey/brown goods. Due to merchant dealers' wide network, BKT offers more opportunities to clients, to be financed through a wider range of borrowers due to their network relationships, and serve the client with a one-stop-shop and easy access to financing.

BKT has reached a significant number of agreements with Auto Dealers, covering 90% of new cars market.

Banks' aim during 2019 was to be a Partner of merchants and clients.

- In a digitized era, BKT is holding onto personalized contact with clients.
- Instead of online application – personalized assistance at the merchant.
- Loan pre-approval within 20 minutes.
- Fast and easy financing.

DIGITAL BANKING

06

Global moves, crafted locally

2019 was a year of investments and project deployments. The change in mind-set of BKT eventually began to give fruitful results. The outcome of the kick-off year for the digitization of the bank, not only resulted in dramatic increase in the customer satisfaction but also in financial figures, as well. Business volumes, transaction numbers, income and service quality, they all marked significant increase.

The recent improvements in terms of digital steps can be grouped in the below bullets:

01 Renewal and placement of ATM fleet

02 Renewal and instalment of POS fleet

03 Contactless conversion of Card Portfolio

04 Corporate website redesign

05 Renewal of e-banking channels

06 BKT Mobile application updates

07 Launch of IVR module for customer service

08 Analysis of mobile payment and digital banking products

2020 will be the year of the new projects and monetization of digital investments. Projects over sale of retail banking products in digital platforms, mobile payment alternatives and increasing the capabilities of payment systems will be the challenge of the new era with high expectations.

In terms of both asset and liability products, this year BKT clients will enjoy many benefits and special campaigns via digital channels.

As a result of these undertakings, were achieved these positive results:

41% increase in annual POS transaction numbers (2.5 X more than the market average) and 32% increase in annual POS volume (2.3 X more than the market average

The significant increases in the market in terms of volume per terminal and volume per merchant. Almost 3X more than the market average)

89% increase in cash deposit transaction number compared to 2018 YE, 100% increase in volume.

Renewal of ATM's created a dramatic move in customer preferences towards ATM's for the cash transactions, which can be done through tellers in the branches. As of 2019 YE, 6 cash deposit transactions out of 10 are performed via ATM's, not tellers. Every 7€ cash withdrawal out of 10€ is performed in ATM's. For the amounts less than 500€ the share of ATM's have been more than double the size of teller transactions.

All Prima credit and debit card portfolios have been upgraded to contactless technology. Also, business debit and credit cards are being issued in contactless form. This has increased the debit card volume for more than 30%.

Launching new e-banking and mobile banking updates with continuous communication of digital channels, led to a 60% annual increase in the number of clients using digital banking channels.

On mobile banking, the impact has been even greater; the number of mobile-banking-only users increased by almost 150%.

Registering and showing intention to use digital channels is pretty important, but the most important figure to follow is how actively the channels are being used. The marketing efforts to activate the client base has paid off in 2019, as the active user base of digital channels has increased by 291%, meaning the active digital banking users base have been tripled.

CORPORATE AND BUSINESS BANKING

07

Your business. In safe hands

During 2019, Corporate and Business Banking Group has continued to offer quality service to its clients and to expand the partnership with them. Group's main objectives for 2019 were focused towards client relationship management and adapting to market needs, in order to support them with their projects and creating flexibility in utilizing banking products and services.

Corporate Group was constantly looking forward to support businesses in their efforts for increasing their competitiveness in the market and increasing their capacities. As a result, it's worth mentioning that the loan portfolio growth was in line with projection although it was increased by 21% which is biggest growth in banking sector. In addition to loan portfolio, in 2019 the corporate group has focused also in corporate deposits which managed to increase by 30%.

During 2019 the group reorganized the business divisions to further improve work efficiency and restructured the branches to ensure that it meets clients' needs more effectively, by dividing branches into business and retail branches. This division had a positive impact in banks performance. In 2019 it was approved increase in number of staff, in order to give clients more qualitative service.

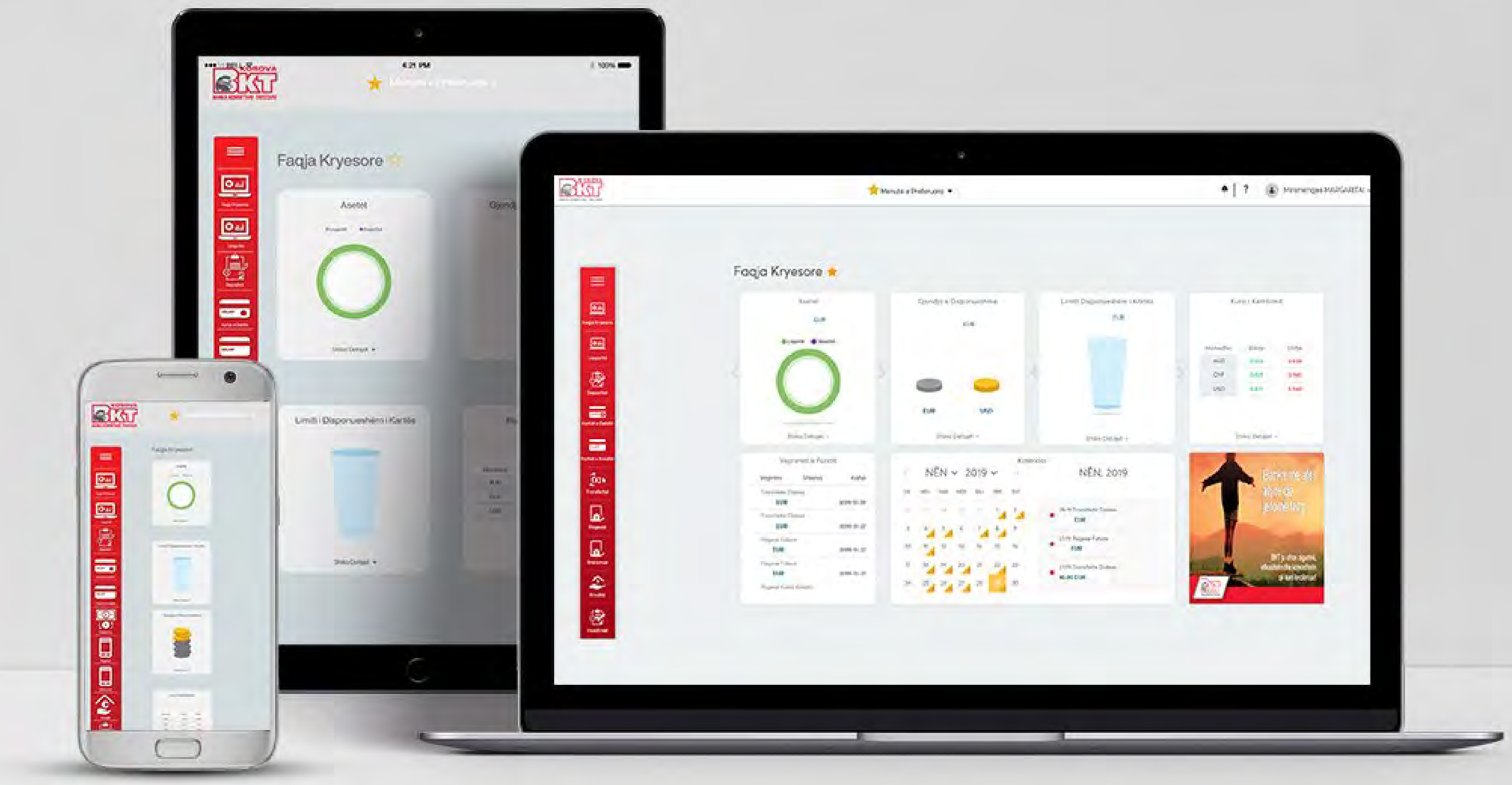
BKT Kosova continued to cooperate with Kosovo Credit Guarantee Fund by supporting clients with lack of collateral and those commencing operations as startup businesses. The bank also has made agreement with EFSE for project "Green for Growth" for supporting projects related to renewable energy and energy efficiency.

Corporate Group managed to provide financial education to businesses, leading to more structured and formalized businesses and increased capacities of SME's in Kosovo.

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 the bank can create flexibility to clients.

During 2019, the bank has enriched digital services to business clients which provides the comfort to them to complete their banking operations from their homes, offices or mobile phones.



Supporting Agro Sector

With continuous support for Agro sector, the bank has financed farmers and agro businesses aiming to increase their capacities and stimulating development of domestic products. In this regard, during 2019 the bank became member of credit guarantee fund for “Agro window“, which reflected on the purpose to expand bank’s agribusiness portfolio.. During 2019 the project (bid) from Vushtrri municipality for financing agro and micro clients, continued.

During 2019 the bank has reached agreements with large dairy farms dealing with production of dairy products for financing their network of suppliers (smaller farms and individual farmers). Overall, bank’s agro portfolio was increased by 13%.

Project Finance

During 2019, project related to financed opportunities with the purpose to identify potential in this area was introduced, enabling the bank to support clients in their feasible investment plans. The project had a very good impact and it was very well accepted by business clients.

In 2019 project finance with special focus on renewable energy, construction projects and different infrastructural projects, continued operating. During 2019, the Bank continued financing mainly hydro projects and construction projects and managed to almost double the structured finance portfolio, which has reached total amount at around EUR 9 million.

Bank’s aim is to finance projects that have a direct impact on the wellbeing of citizens of Kosovo and economic development of the country.

TREASURY AND FINANCIAL INSTITUTIONS

08

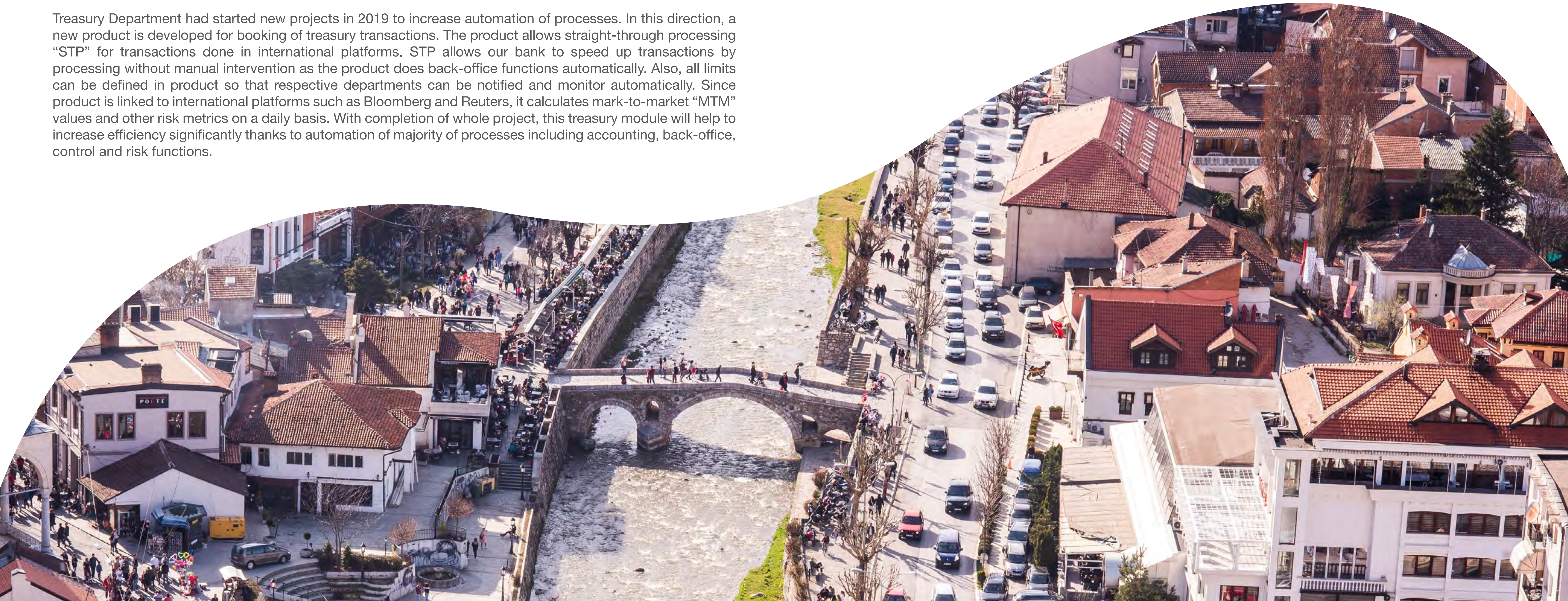
Treasury & Financial Institutions Group

Treasury Department has been shifting its focus to improve services and processes in 2019. The department increased number of Bloomberg terminals in 2019, so that majority of Treasury transactions are done through this international platform. Usage of platform facilitated access to international markets and counterparties and their access to our bank. Besides, it helped to standardize confirmations of transactions where all related departments were notified simultaneously. This decreased manual processes significantly resulted in higher efficiency. Most importantly, all transactions are stored in Bloomberg databases, which can be accessed any time.

Treasury Department had started new projects in 2019 to increase automation of processes. In this direction, a new product is developed for booking of treasury transactions. The product allows straight-through processing "STP" for transactions done in international platforms. STP allows our bank to speed up transactions by processing without manual intervention as the product does back-office functions automatically. Also, all limits can be defined in product so that respective departments can be notified and monitor automatically. Since product is linked to international platforms such as Bloomberg and Reuters, it calculates mark-to-market "MTM" values and other risk metrics on a daily basis. With completion of whole project, this treasury module will help to increase efficiency significantly thanks to automation of majority of processes including accounting, back-office, control and risk functions.

While improving its processes internally, Treasury Department focused on improving customer experiences and services. At the beginning of the year, the department visited clients in their premises and held phone surveys to understand their needs, which resulted in a significant market share increase in 2019. With same ambition, Treasury Department started a project with an international bank to develop its own investment platform in second half of 2019. With this new product, clients can do international investments with one-click, in BKT e-banking and mobile banking without any manual intervention. This investment platform will be one of the milestones in the digitization of our customer services.

Financial Institutions Department has been expanding its international network by visiting more than 100 institutions in more than 15 countries in one year. This ended up with new correspondent banks, higher market penetration, improved customer services at lower costs. Also, the department has concentrated to facilitate access to our bank's data for international counterparties. In line with this target, majority of bank related data is published in our bank's website and international databases. This helped to decrease manual processes while establishing relationships with international counterparts.



HUMAN RESOURCES AND TRAINING

09

Investing in our team means being a great place to work

Human Resources Department of BKT Kosova during 2019 saw a rapid growth of requests for workforce from business lines. In order to meet the bank's growth and set targets, the Department had to change also the strategy of recruiting and get more in the field of Head-Hunting, since there were positions that had to be filled with more experienced employees. 11 experienced employees were hired during 2019. Valuable expertise has been added in IT and specific business skills in business development section.

The bank has closed the year 2019 with 358 active employees. During the year there have been 43 recruitments, from which 32 are without any experience and have been hired through advertisements or through other partners. To date, 56% of the employees are female while 44 % are male.

Today's recruitment process should be as attractive as possible, new generations are more focused in visuals than the content itself. Human Resources Department had to redesign the types of advertisement based on the new trends, the department has made it simpler for applicants to approach the bank. Beside the use of technology and bank's presence in social media, the job advertisements have been shared in universities and other professional courses.

The Department's success of the year continued with hirings of interns who later were trained in a way that became part of employees. There are 9 intern students that were hired, who now are part of the bank. There are many more students that will be managers in the future, since we consider them amongst ones that possess high level of development abilitities.

Human Resources Department main goal in 2019 was new generations that are seeking new challenges and tech-savvy people that have good critical thinking skills.

358

Active employees. During the year there have been 43 recruitments, from which 32 are without any experience and have been hired through advertisements or through other partners.

56 %

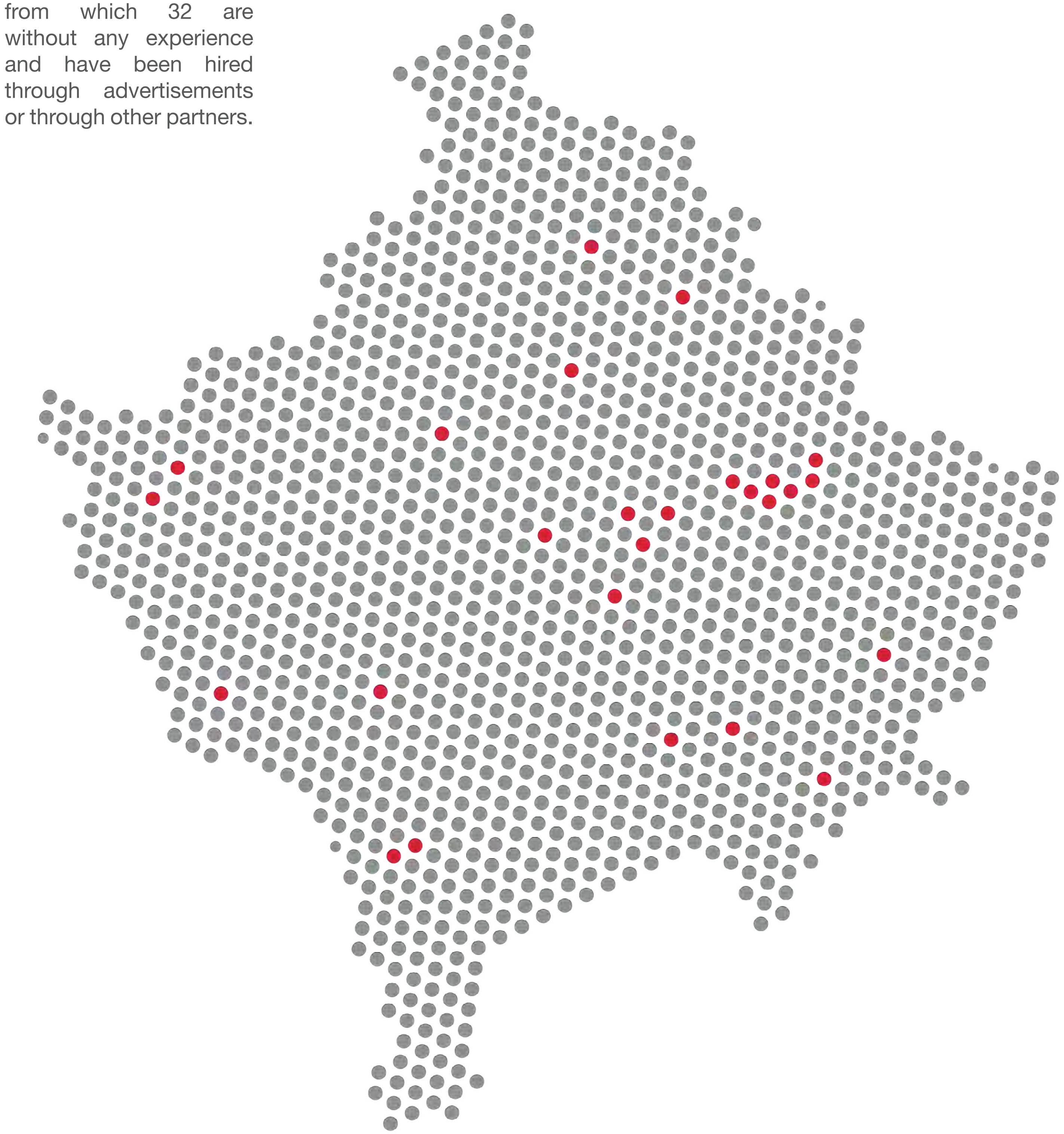
of the employees are Female

44 %

of the employees are Male

26

Branches



LEGAL AND LOAN MANAGEMENT

Always committed to the highest ethical standards

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 in the sector. By closing the year 2019 with NPL rate to total loans at 2% , comparing with Dec 2018 that was 2%, which represents the lowest level since 2010.

The collection activity along with write-offs of Non-Performing Loans from bank balances impacted the further improvement of credit portfolio quality. Non-Performing Loans rate to total loans remains at the low level compared to the regional countries (South-east Europe), which had an average NPL rate of 10 percent in Dec 2018, only three countries reported total NPL ratios above the 10 percent threshold, as Albania (11.8%), Croatia (12.1%), and Ukraine (54.0%).
(Source: https://www2.deloitte.com/hu/en/pages/finance/articles/npl-study.html)

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 as well as better risk management practices in the banks. 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.

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 2019, the Loan Collection & Restructuring Department has been affected by the scope of duties and responsibilities, which reflected with more proactive measures, higher monitoring and collection activity by also involving branches in regular monitoring activities. During the year of 2019 field visits, contacts, communications with clients were in the focus of Department in order to have early reaction and prevention measures towards clients showing difficulties in repayment.

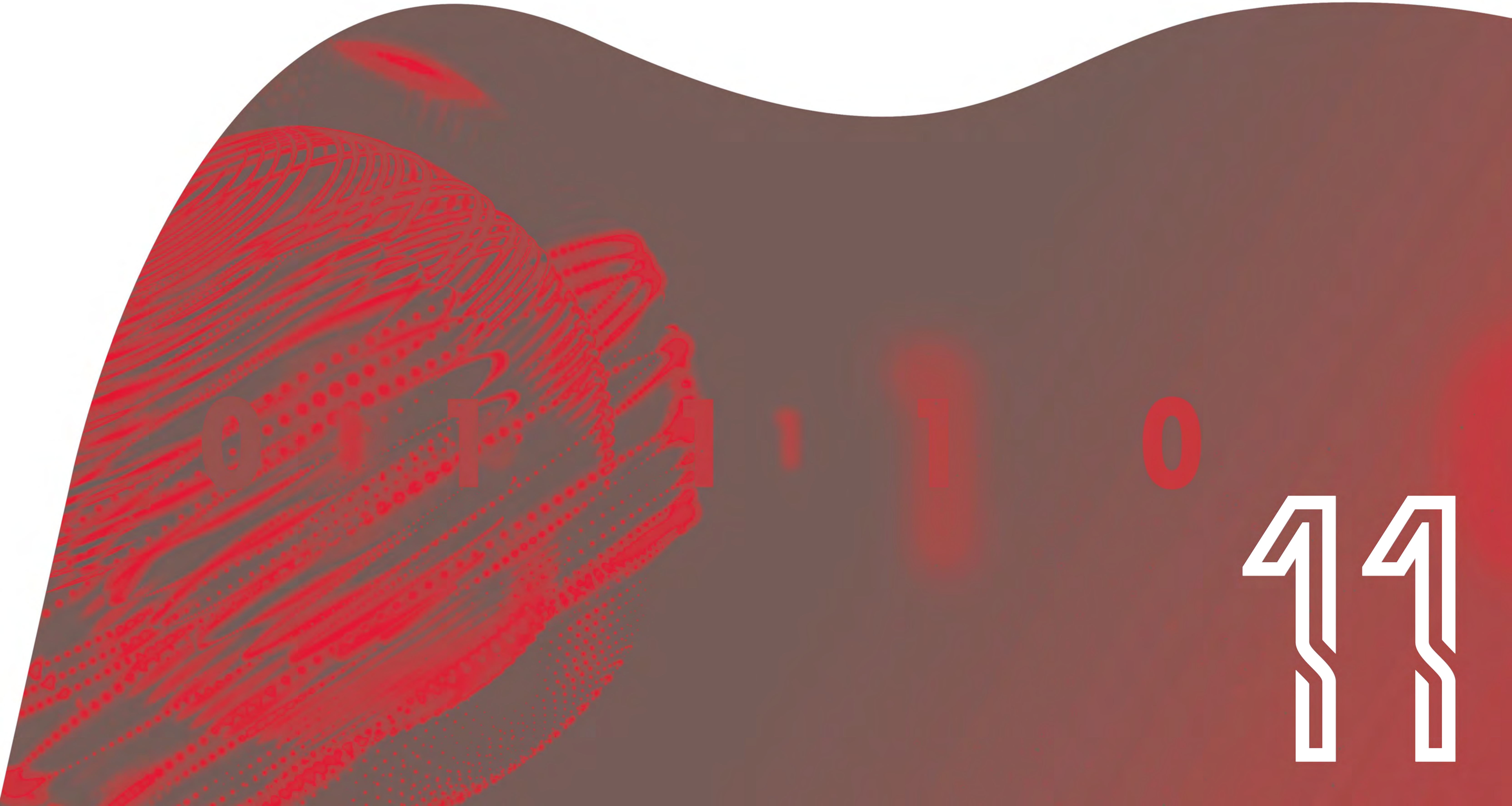
In terms of NPL management performance, during 2019 BKT Kosova managed to further decrease the NPL ratio to 2.66 percent in Dec 2019 comparing with Dec 2018 that was 4.32 percent. Needs to be emphasized the decreasing trend of NPL also amount wise, as a result of collection and closure of some old and problematic cases. Year 2019 will be remembered as a very successful year in terms of collection which has resulted with lowest NPL of the Bank in the last couple of years.

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

During 2019, legal matters are addressed properly providing right legal solutions by demonstrating effective legal performance and high value to the business aligning them with those of the broader organization and measure the performance in achieving these priorities. Apart of that, engagement on the enforcement and other legal procedures has contributed a lot on the loan recovery process as well ensuring required legal protection of the Bank interests.

Apart of activities in house, the Legal Department has actively participated in various meetings, round tables held in various institutions (Central and Local) aiming at improving legislation that in one way or another affects bank's activities, by proposing concrete legal solutions always at best Bank's interests.

RISK MANAGEMENT



11

Risk Management

During the year 2019, BKT Kosova has managed to evaluate and adequately address the risk of the bank successfully through proactive and constructive approach in accordance with the risk management framework.

Part of the challenges for the Risk Management Group was the preparation for application of the new regulatory framework issued by Central Bank of Kosova, with particular highlights on amendments of Regulation on Credit Risk Management and Regulation on Capital Adequacy of Banks. As a consequence, the bank worked on application of the new regulatory framework and take necessary measures for its reflection in terms of internal regulatory framework and in terms of its application in practice. In the meantime, it has been evaluated the impact of new regulatory requirement in existing bank's activity.

Among other things, during the year 2019 it has been started the implementation 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.

With the growth of BKT's performance overall banking transactions, especially emphasizing the expand in field of new products and the digitalization of new and existing services, the Risk Management Group has been exposed toward new risk which effectively has reached to manage them successfully by applying, enriching and expanding the scope of credit, operational, market, liquidity and compliance risk. All the identified risks have been treated in compliance with the internal regulatory framework of BKT Kosova and in meantime with respective regulation of Central Bank of Kosova as well.

Finally, among other vital roles that continue to be part of Risk Management activity is the proactivity and contribution in increasing the risk awareness of employees in order to enable them to identify and manage the risks within their activities.

FINANCIALS OF 2019

12

Banka Kombëtare Tregtare Kosovë sh.a.

Financial Statements as at and for the year ended December 31, 2019 With the Independent Auditors' Report Thereon

CONTENT

MAZARS

INDEPENDENT AUDITOR'S REPORT

To the Management and Shareholder of BANKA KOMBËTARE TREGTARE KOSOVË sh.a.

Opinion

We have audited the financial statements of **BANKA KOMBËTARE TREGTARE KOSOVË** sh.a. (the Bank), which comprise the statement of financial position as at December 31, 2019, 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 December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other matters

Financial statements for the year ended as at December 31st, 2018 are audited by another auditor, who has expressed an unmodified opinion on the financial statements on April 15th, 2019.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit 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

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conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the planning and performance of 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 entity'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 Company'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to 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.

25 March, 2020

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TEIT GJINI
LEGAL AUDITOR

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Restated Statement of Financial Position as at 31st December 2019

(amounts in EUR)

	Notes	December 31, 2019	*Restated* December 31, 2018	*Restated* January 01, 2018
Assets				
Cash and balances with Central Bank	6	68,789,883	53,319,751	36,515,212
Placements and balances with banks	7	37,244,984	18,271,569	1,374,043
Investment securities	8	113,609,245	76,807,878	55,460,258
Due from BKT Albania	25	25,139	12,801,636	4,032,305
Loans and advances to banks	9	-	-	30,502,060
Loans to customers, net	9	305,985,957	247,370,257	210,517,581
Property and equipment	10	2,343,011	1,769,094	1,972,635
Right to use assets	3	2,799,428	-	-
Intangible assets	11	12,052	22,414	35,556
Income tax receivables	27	-	360,903	128,202
Deferred tax asset	27	277,547	-	-
Other assets	12	5,647,780	4,377,364	5,228,308
Total assets		**536,735,026**	**415,100,866**	**345,766,160**
Liabilities				
Customer deposits	13	449,152,204	351,354,331	301,678,067
Due to banks	14	4,661,073	17,859,118	20,009
Due to BKT Albania	25	774,405	-	-
Deferred tax liabilities	27	-	213,306	331,124
Income tax liability	27	196,960	-	-
Provisions	24	536,621	633,070	74,310
Accruals and other liabilities	15	2,299,295	1,652,109	2,552,934
Lease liabilities	3	2,841,154	-	-
Borrowings	16	22,283,169	4,085,314	5,906,343
Total liabilities		**482,744,881**	**375,797,248**	**310,562,787**
Equity				
Share capital		22,000,000	17,000,000	17,000,000
Accumulated profit from previous years		22,612,980	18,242,578	12,400,645
Profit for the year/ period		6,113,354	4,370,402	5,841,933
Fair value reserve		3,263,811	(309,362)	(39,205)
Total shareholder's equity	17	**53,990,145**	**39,303,618**	**35,203,373**
Liabilities and shareholder's equity		**536,735,026**	**415,100,866**	**345,766,160**

The audited statement of financial position is to be read in conjunction with the notes set out in pages 7 to 78 that form part of the audited financial information.
The audited financial information was authorised for release by the Board of Directors on 03 March 2020 and signed on its behalf by:

Suat Bakkal
CEO and Board Member

Agon Skeja
Head of Finance and Administration Group

Banka Kombëtare Tregtare Kosovë sh.a.
Statement of profit or loss and other comprehesive income for the year ended 31st December 2019 *(amounts in EUR)*

	Notes	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Interest			
Interest income	18	21,243,614	16,469,196
Interest expense	19	(4,220,136)	(2,889,809)
Net interest income		**17,023,478**	**13,579,387**
Total non-interest income, net			
Fees and commissions, net	20	3,637,206	3,249,746
Foreign exchange revaluation gain, net		(96,778)	19,192
Securities trading gain (loss), net		974,325	417,115
Profit / (loss) from FX trading activities, net		262,033	78,086
Other (expenses) / income, net	21	(1,776,426)	(30,385)
Total non-interest income, net		**3,000,360**	**3,733,754**
Operating expenses			
Personnel expenses	22	(4,315,654)	(3,941,998)
Administrative expenses	23	(4,762,223)	(5,089,442)
Depreciation and amortization	10,11	(1,726,638)	(641,750)
Total operating expenses		**(10,804,515)**	**(9,673,190)**
Impairment losses on loans to customers	9	(2,531,376)	(2,146,664)
Impairment losses on financial assets, other than loans to customers	24	(4,015)	(689,222)
Profit before income tax		**6,683,932**	**4,804,065**
Income tax expense	**27**	**(570,578)**	**(433,662)**
Current year income tax expense		(1,061,431)	(551,480)
Deferred income tax expense		490,853	117,818
Profit (Loss) for the period		**6,113,354**	**4,370,402**
Revaluation of investment securities		3,573,173	(270,157)
			-
Total of other comprehensive income for the period		**3,573,173**	**(270,157)**
Total comprehensive income for the period		**9,686,527**	**4,100,245**

The audited statement of comprehensive income is to be read in conjunction with the notes set out in pages 7 to 78 that form part of the audited financial information.

Banka Kombëtare Tregtare Kosovë sh.a.
Restated Statement of changes in equity for the year ended 31st December 2019 *(amounts in EUR)*

	Share capital	Fair value reserves	Retained earnings	Total
Balance at 1 January 2018	**17,000,000**	**(39,205)**	**17,756,475**	**34,717,270**
Changes on initial application of IFRS 9	-	-	(1,674,437)	(1,674,437)
Balance as at 1 January 2018 with IFRS 9 application effect	**17,000,000**	**(39,205)**	**16,082,038**	**33,042,833**
Prior year errors	-	-	2,160,540	2,160,540
Restated balance as at 1 January 2018	**17,000,000**	**(39,205)**	**18,242,578**	**35,203,373**
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 period	-	-	4,370,402	**4,370,402**
Revaluation of available for sale securities, net of income tax	-	(270,157)	-	**(270,157)**
Total comprehensive income for the year	**-**	**(270,157)**	**4,370,402**	**4,100,245**
Balance at 31 December 2018	**17,000,000**	**(309,362)**	**22,612,980**	**39,303,618**
Balance as at 1 January 2019	**17,000,000**	**(309,362)**	**22,612,980**	**39,303,618**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners	-	-	-	-
Increase in share capital	5,000,000	-	-	5,000,000
Total transactions with owners recorded in equity	**5,000,000**	**-**	**-**	**5,000,000**
Total comprehensive income for the year				
Profit for the period	-	-	6,113,354	6,113,354
Revaluation of available for sale securities, net of income tax	-	3,573,173	-	3,573,173
Total comprehensive income for the period	**-**	**3,573,173**	**6,113,354**	**9,686,527**
Balance at 31 December 2019	**22,000,000**	**3,263,811**	**28,726,334**	**53,990,145**

The audited statement of changes in equity is to be read in conjunction with the notes set out in pages 7 to 78 that form part of the audited financial information.

	Notes	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Cash flows from operating activities:			
Profit before income tax		6,683,932	4,804,064
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Interest expense	19	4,220,136	2,889,809
Interest income	18	(21,243,614)	(16,641,523)
Depreciation	10,11	1,726,638	641,750
Gain/ Loss on disposal of property, plant & equipment		(50,887)	-
Gain/loss on sale of investment securities		(974,325)	(417,115)
Gain on recovery of written off loans to customers		(201,765)	(367,608)
Write-off of loans to customers		3,233,656	781,513
Other non-monetary income		(1,900,666)	(456,743)
Impairment of loans to customers		1,198,386	2,146,664
Impairment of other financial assets		4,015	689,222
Impairment of other assets		225,002	-
Cash flows from operating profit before changes in operating assets and liabilities		**(7,079,492)**	**(5,929,967)**
(Increase)/decrease in operating assets:			
Restricted balances with Central Bank		(5,765,776)	(2,700,896)
Placement and balance with banks		(3,044,223)	(851)
Loans to banks		-	30,500,000
Loans to customers		(60,208,934)	(38,745,737)
Due from BKT Albania		12,776,497	(8,769,331)
Other assets		(921,209)	850,943
		(57,163,645)	**(18,865,872)**
Increase/(decrease) in operating liabilities:			
Due to customers		97,361,361	49,377,178
Due to banks		(13,177,663)	17,835,624
Due to BKT Albania		774,405	-
Accruals and other liabilities		78,178	(900,825)
		85,036,281	**66,311,977**
Interest paid		(3,686,157)	(2,588,268)
Interest IFRS 16 paid		(99,994)	-
Interest received		19,391,991	16,161,336
Income taxes paid		(508,768)	(784,181)
Net cash flows from / (used in) operating activities		**35,890,216**	**54,305,025**
Cash flows used in investing activities		-	
Proceeds from sale of investment securities		(31,378,004)	(21,095,898)
Purchases of property and equipment		(1,447,055)	(425,067)
Proceeds from sale of Properties, plant & equipment		50,887	-
Net cash from/ (used in) investing activities		**(32,774,172)**	**(21,520,965)**
Cash flows from financing activities			
(Repayments of)/ Proceeds from due to banks		18,179,999	(1,820,000)
Capital injection		5,000,000	
Change in lease principal		(801,412)	
Net cash generated from financing activities		**22,378,587**	**(1,820,000)**
Net increase in cash and cash equivalents		**25,494,631**	**30,964,060**
Cash and cash equivalents at the beginning of the period	6	46,015,591	15,051,531
Cash and cash equivalents at the end of the period	**6**	**71,510,222**	**46,015,591**

The audited statement of cash flows is to be read in conjunction with the notes set out in pages 7 to 78 that form part of the audited financial information.

1. GENERAL

Banka Kombëtare Tregtare Kosovë sh.a (the "Bank") is a commercial bank offering a wide range of universal services. The Bank provides banking services to public and privately-owned enterprises and to individuals in Kosova.

Banka Kombëtare Tregtare J.S.C. Kosova (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 Kosova Branch changed its status from foreign branch to Joint Stock Company. Now its bank license has changed from Banka Kombëtare Tregtare Kosova Branch to Banka Kombëtare Tregtare J.S.C Kosova. 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 2019 was 358 (2018: 358).

Share capital

At 31 December 2019 the authorised share capital is EUR 22,000,000 (2018: 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.

Upon the Shareholder's Decision dated 20 March 2019, the Bank share capital was increased from EUR 17,000,000 to EUR 22,000,000 by capital injection performed on 20 June 2019.

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 Financial Statements have been prepared in accordance with the accounting policies adopted in the Banks's most recent annual financial statements for the year ended 31 December 2019.

(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.

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

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 considers 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.

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 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 of procedure is initiated after the loan is classified in LOSS category and by taking into consideration the collateral type. Exposures not secured with collateral will be written of 12 months after the exposure was classified in LOSS category, exposures secured with pledges will be written of 24 months after the exposure was classified in LOSS category and exposures secured with mortgages will be written of 48 months after the exposure was classified in LOSS category. If the amount to be written off is greater than the accumulated loss allowance, the difference creates an expense which in the end of the account year it is netted from income. Any subsequent recoveries are booked as extraordinary income.

(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.

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)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. Government bonds that are held for trading are classified as held-for-trading under IAS 39 fall into this category.

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 de-recognition 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 fall into this category.

(v) 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.

(vi) 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.

(vii) 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 considers factors specific to the transaction and to the asset or liability.

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

(viii) 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.

***(ix) Classification and measurement of financial liabilitie*s**
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.

(x) 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.

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

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

If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

(g) Cash and cash equivalents
Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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

(i) Loans
Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

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

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

(j) Property and equipment and intangibles (i) Recognition and measurement

(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. Write off for repossessed collateral is booked for all the repossessed assets more than 5 years from the end of actual reporting period.

(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.

3.1 New Standards adopted as at 1 January 2019

The Bank has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IFRS 16 'Leases'
IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

Initial direct costs
An entity may exclude initial direct costs from the measurement of the Right of Use asset at the date of initial application.

Based on IFRS 16, if a lessee elects to apply the standard with the modified retrospective application, the lessee shall choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

Option 1 – its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. The practical expedient to exclude initial direct costs from the measurement of the Right of Use asset at the date of initial application is applicable under Option 1 or;
Option 2 – an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease. Although it is not stated explicitly in the new standard, the practical expedient on initial direct costs is not relevant under Option 2. The Bank does not adjust the Right of Use asset for historical amounts e.g. initial direct costs.

The Bank has opted to apply the modified retrospective method under Option 2.

Low-value assets
Lessees can also make an election to apply a method similar to current operating lease accounting to leases for which the underlying asset is of low-value. IFRS 16 does not define the term low-value.

Banka Kombëtare Tregtare Kosovë Sh.a uses the EUR 5,000 as a threshold and simultaneously analyses the nature of the asset in order to assess whether a leased asset qualifies for the low-value asset exemption. The types of assets that qualify for the low-value asset exemption might change over time if, due to market developments, the price of a particular type of asset changes.

Incremental Borrowing Rate
The rate used for calculation of the RoU asset and the Lease liability has taken into consideration the term, FX denomination, risk associated with the bank, security, risk associated with the asset and economic environment. The closest values matching this definition are Funds Transfer Pricing (FTP) rates. The term and FX denomination are taken into consideration when constructing the EUR yield curves. The Bank considered at the initial application date the rates published by 31 December 2018.

After consideration, the Bank determined that there are no differences in terms of security, due to the fact that the lessor effectively has security of owning the asset. Therefore, no adjustments were required. Since the starting point is in the same jurisdiction and in the same currency as leases, no adjustment is required for this segment as well. In addition, for assets such as office buildings and ATM space, considering that they are in a frequented area, are not highly illiquid or specialized assets, specific asset premium would be nil.

The incremental borrowing rate is determined as the base rate yield curve plus the credit spread.

a. Base rate yield curve
Input data in the model are money market rates (inter-bank rates in maturity bucket ON-1Y). These data are published on daily basis in "Reuters" (inter-bank trading platform). For higher maturities, the rate is calculated by extrapolating starting from the money market rates of December 2018.

The Bank uses the Cubic spline interpolation for EUR yield curve construction. Cubic spline interpolation is a special case of spline type interpolation that is used very often to avoid the problem of Runge's phenomenon. This method gives an interpolating polynomial that is smoother and has smaller error than some other interpolating polynomials such as Lagrange polynomial and Newton polynomial. Cubic smoothing splines fitted to univariate time series data can be used to obtain local linear forecasts. The approach is based on a stochastic state space model which allows the use of a likelihood approach for estimating the smoothing parameter, and which enables easy construction of prediction intervals. In essence the same mathematical mechanic is followed by the NSS (Nelson-Siegel-Svensson) model. Whereas an interpolation typically begins with specifying a functional form either to approximate discount function or forward rates, and then estimates the unknown parameters. The cubic spline approach, brings more flexibility on the shape of a yield curve and is thus good for financial practitioners who are looking for small pricing anomalies.

b. Credit spread
For the credit spread calculations, the Bank has approached the following logic:

1. Identify the international long-term Issuer Default Rating of the financial institution ("Bank"). International long-term IDR is given by the External Credit Rating Agency such as Moody's, Fitch or Standard & Poor. The Bank will use only the official, world-wide accepted, external credit rating agencies such as Fitch, Moody's and S&P because only these 3 agencies do the analyses world-wide, make and publish the studies on PDs, LGD's (where credit spread will be determined as PD*LGD) etc. on the global level. These three agencies are also the only ones allowed to be used for the purpose of relying on the expert-data parameters for e.g. in EU (as per CRD/CRR regulation etc.).
2. If the financial institution (Bank) does not have such a rating and it is part of a Bank, the lower rating of the country ceiling for the country where Bank is located and the external agency's international long-

term Issuer Default Rating of the ultimate parent is used. The underlying reason for this approach is that when a bank is part of a Bank, support is more likely.

3. If neither of these steps results in a rating, country ceiling for the country in which Bank is located is identified and at least one notch is subtracted. The country ceiling is the best rating that an entity based in that country can receive, so this is used as a benchmark as we tend to work with the biggest and most robust institutions. Additionally, the downward risk adjustment is made for the sake of prudence.

The state of Kosova does not have a credit rating.

The credit rating of BKT Kosova (B-) is determined by starting from the credit rating of BKT Albania (B), as the parent company, deducted by one notch for the sake of prudence.

In this manner, is determined the credit rating of the Bank at B-. That particular rating of the Bank is assigned proper probability of default rate (PD rate), which is externally calculated – expert data given by the external credit rating agency. However, PD is just a probability. In order to approximate full credit risk, LGD is needed. By multiplying the PD rate and LGD rate, credit loss rate is obtained and this is the approximation of credit risk. It is recommended to use Basel LGD value as fixed at 45% at all times.

BKT Kosova	**B-**

At initial application date, the credit spread of the Bank is 2.77%. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 3.08%.

The Bank has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

Set out below, are the carrying amounts of the Bank's right-of-use assets and lease liabilities and the movements during the period:

	Right of use assets		Lease liabilities
	Buildings	**Total**	**Total**
As at 1 January 2019	3,632,695	3,632,695	3,632,695
Additions	9,871	9,871	9,871
Depreciation expense	(843,138)	(843,138)	-
Interest expense	-	-	99,994
Payments	-	-	(901,406)
As at 31 December 2019	**2,799,428**	**2,799,428**	**2,841,154**

Set out below, are the amounts recognised in profit or loss:

	For the year ended as at 31 December 2019
Depreciation expense of right-of-use assets	843,138
Interest expense on lease liabilities	99,994
Rent expense - short term leases payments	97,458
Total amounts recognized in profit or loss	**1,040,590**

Set out below, are the amounts of short-term and long-term lease liabilities:

	31 December 2019
Short-term lease liabilities	791,264
Long-term lease liabilities	2,049,890
Total lease liabilities	**2,841,154**

For leases previously classified as operating leases under IAS 17, a lessee recognizes a lease liability measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. IFRS16(53)(j).

3.2 Leases

As described in Note 3.1, the Bank has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

a. Accounting policy applicable from 1 January 2019

The Bank as a lessee

For any new contracts entered into on or after 1 January 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Bank has the right to direct the use of the identified asset throughout the period of use
- The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment (except those meeting the definition of investment property) and lease liabilities have been included in trade and other payables.

b. Accounting policy applicable from 1 January 2019

The Bank as a lessor

The Bank's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Bank classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

c. Accounting policy applicable before 1 January 2019

The Bank as a lessee

Finance leases

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Bank obtains ownership of the asset at the end of the lease term.

For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life.

See the accounting policy note in the year-end financial statements for the depreciation methods and useful lives for assets held under finance leases. The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases are treated as operating leases. Where the Bank is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Bank as a lessor

The Bank also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

d. Other pronouncements

Other accounting pronouncements which have become effective from 1 January 2019 and have therefore been adopted do not have a significant impact on the Bank's financial results or position are detailed below:

- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

3.3 Restatement

3.3.1 Statement of financial position

The table below represents the restatements done as of 1 January 2018 to the statement of financial position.

	December 31, 2017	Adjustments of IFRS 9	Ref	After IFRS 9 adj. January 01, 2018	Adj. of misstatements	Ref	Restated January 01, 2018
Assets							
Cash and balances with Central Bank	36,515,212			36,515,212			36,515,212
Placements and balances with banks	1,374,043			1,374,043			1,374,043
Investment securities	55,460,258			55,460,258			55,460,258
Due from BKT Albania	1,871,765			1,871,765	2,160,540	*(b)*	4,032,305
Loans and advances to banks	30,537,890	(35,830)	*(a)*	30,502,060			30,502,060
Loans to customers, net	212,081,878	(1,564,297)	*(a)*	210,517,581			210,517,581
Property and equipment	1,972,635			1,972,635			1,972,635
Intangible assets	35,556			35,556			35,556
Income tax receivables	128,202			128,202			128,202
Other assets	5,228,308	(74,310)	*(a)*	5,153,998	74,310	*(c)*	5,228,308
Total assets	**345,205,747**	**(1,674,437)**		**343,531,310**	**2,234,850**		**345,766,160**
Liabilities							
Customer deposits	301,678,067			301,678,067			301,678,067
Due to banks	20,009			20,009			20,009
Deferred tax liabilities	331,124			331,124			331,124
Provisions	-			-	74,310	*(c)*	74,310
Accruals and other liabilities	2,552,934			2,552,934			2,552,934
Borrowings	5,906,343			5,906,343			5,906,343
Total liabilities	**310,488,477**	**-**		**310,488,477**	**74,310**		**310,562,787**
Equity							
Share capital	17,000,000			17,000,000			17,000,000
Accumulated profit from previous years	11,914,542	(1,674,437)	*(a)*	10,240,105	2,160,540	*(b)*	12,400,645
Profit for the year	5,841,933			5,841,933			5,841,933
Fair value reserve	(39,205)			(39,205)			(39,205)
Total shareholder's equity	**34,717,270**	**(1,674,437)**		**33,042,833**	**2,160,540**		**35,203,373**
Liabilities and shareholder's equity	**345,205,747**	**(1,674,437)**		**343,531,310**	**2,234,850**		**345,766,160**

The financial statements of the year 2018 are restated and the table below represents the restatements done as of 31 December 2018 to the statement of financial position.

	December 31, 2018	Adjustments of misstatements	Ref	Restated December 31, 2018
ASSETS				
Cash and balances with Central Bank	53,319,751			53,319,751
Placements and balances with banks	18,271,569			18,271,569
Investment securities	76,807,878			76,807,878
Due from BKT Albania	10,641,096	2,160,540	*(b)*	12,801,636
Loans to customers, net	247,370,257			247,370,257
Property and equipment	1,769,094			1,769,094
Intangible assets	22,414			22,414
Income tax receivables	360,903			360,903
Other assets	3,744,294	633,070	*(c)*	4,377,364
Total assets	**412,307,256**	**2,793,610**		**415,100,866**
Liabilities and shareholder's equity				
Liabilities				
Customer deposits	351,354,331			351,354,331
Due to banks	17,859,118			17,859,118
Deferred tax liabilities	213,306			213,306
Provisions	-	633,070	*(c)*	633,070
Accruals and other liabilities	1,652,109			1,652,109
Borrowings	4,085,314			4,085,314
Total liabilities	**375,164,178**	**633,070**		**375,797,248**
Equity				
Share capital	17,000,000			17,000,000
Accumulated profit from previous years	16,082,038	2,160,540	*(b)*	18,242,578
Profit for the year	4,370,402			4,370,402
Fair value reserve	(309,362)			(309,362)
Total shareholder's equity	**37,143,078**	**2,160,540**		**39,303,618**
Liabilities and shareholder's equity	**412,307,256**	**2,793,610**		**415,100,866**

(a) Implementation of IFRS 9 "Financial Instruments"
In 2018, IFRS 9 has replaced IAS 39 'Financial Instruments: Recognition and Measurement'. 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 were recognised in retained earnings. The Bank has adopted new accounting policies, implementing the requirements of IFRS 9, effective as of 1 January 2018. Total adjustment of the adoption of IFRS 9 on the opening balance of the Banks's equity at 1 January 2018 was an increase in provisions amounting to EUR 1,674,437.

(b) Correction of transactions with related parties
During 2018 the Company changed its legal structure from a branch of BKT Albania to a joint stock company. As a result of such legal changes, the Bank identified a need for adjustment in its separate financial statements due to a transaction of transfer of "Kosova entity discounted loan agreement portfolio", from mother to the branch in the prior years. The branch had not recognised such discount in its separate financial statements of the prior years since it did not impact the balances on consolidated level. As a consequence, the separate financial statements are restated to include the result of the discounted transfer of loan which increases retained earnings with EUR 2,160,540, and increases the balance of "Due from BKT" for the same amount.

(c) Presentation of loss allowance of letter of credits and letter of guarantees
Bank has presented the loss allowance related to letter of credits and letter of guarantees as a deduction of other assets. IFRS 7 "Financial Instruments: disclosures" requires that loss allowance related to loan commitments and financial guarantee contracts shall be recognised separately as a provision. As a consequence, the financial statements are restated to reflect the presentation of loss allowance for letter of credits and letter of guarantees as provisions. The effect of this adjustment is an increase of provisions balance with Eur 633,070 as of 31 December 2018 (1 January 2018: Eur 74,310) and an increase in other assets with Eur 633,070 as of 31 December 2018 (1 January 2018: Eur 74,310).

(d) Statement of profit or loss and other comprehensive income.
The comparative audited figures of profit or loss statement were reclassified.

The bank has stated gain (loss) from securities trading at the face of profit or loss and other comprehensive income statement by transferring the amount of Eur 172,327 and Eur 244,788 from interest income and fees and commissions net respectively.

The bank has disclosed separately current year income tax and deferred income tax expense amounting Eur(551,480) and Eur 117,881 respectively.

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 derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

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

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

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

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

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.

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 2019			Fair Value			
	Note	Carrying Amount	Level 1	Level 2	Level 3	Total
Placement and balances with banks	7	37,244,984	-	37,244,984	-	37,244,984
Investment securities	8	113,609,245	105,911,833	7,697,412	-	113,609,245
Due from BKT Albania	25	25,139	-	25,139	-	25,139
Loans to customers	9	305,985,957	-	305,985,957	-	305,985,957
Total financial assets		**456,865,325**	**105,911,833**	**350,953,492**	**-**	**456,865,325**
Customer deposits	13	449,152,204	-	449,152,204	-	449,152,204
Due to banks	14	5,435,478	774,405	4,661,073	-	5,435,478
Borrowings	16	22,283,169	-	22,283,169	-	22,283,169
Total financial liabilities		**476,870,851**	**774,405**	**476,096,446**	**-**	**476,870,851**

31 December 2018			Fair Value			
	Note	Carrying Amount	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	21,069,576	-	76,807,878
Due from BKT Albania	25	12,801,636	-	12,801,636	-	12,801,636
Loans to customers	9	247,370,257	-	247,370,257	-	247,370,257
Total financial assets		**355,251,340**	**55,738,302**	**299,513,038**	**-**	**355,251,340**
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**

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 2019 and 31 December 2018 are as follows:

Financial Instruments Credit Risk

	31 December 2019			31 December 2018		
	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	68,789,883	-	68,789,883	53,319,751	-	53,319,751
Placements and Balances with the Banks	37,277,297	(7,174)	37,270,123	31,079,678	(6,473)	31,073,205
Investment securities - measured at FVOCI	106,146,687	(234,855)	105,911,832	68,592,401	(138,991)	68,453,410
Investment securities - measured at amortised cost	7,722,140	(24,727)	7,697,413	8,375,297	(20,828)	8,354,469
Loans to customers	315,593,114	(9,607,157)	305,985,957	255,779,028	(8,408,771)	247,370,257
Other assets	5,872,782	(225,002)	5,647,780	4,377,364	-	4,377,364
Total Assets	**541,401,903**	**(10,098,915)**	**531,302,988**	**421,523,519**	**(8,575,063)**	**412,948,456**
Off balance sheet items						
Undrawn credit commitments	37,231,125	-	37,231,125	67,173,252	-	67,173,252
Spot foreign currency contract	18,575,154	-	18,575,154	2,662,150	-	2,662,150
Collaterals for loan portfolio	699,438,780	-	699,438,780	700,488,617	-	700,488,617
Securities pledged as collateral	-	-	-	3,500,000	-	3,500,000
Total off-balance sheet	**755,245,059**	**-**	**755,245,059**	**773,824,019**	**-**	**773,824,019**
Total credit risk exposure	**1,296,646,962**	**(10,098,915)**	**1,286,548,047**	**1,195,347,538**	**(8,575,063)**	**1,186,772,475**

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 consider 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 – 2017 and baseline projections for 2018 – 2021. 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 ρ 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.

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

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 – 2017 and baseline projections for 2018 – 2021, 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.

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 2019	Loans and advances to customers			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**230,324,795**	**15,845,183**	**9,971,018**	**256,140,996**
Transfer to Stage 1 (from 2 or 3)	11,344,088	(11,103,743)	(240,345)	-
Transfer to Stage 2 (from 1 or 3)	(9,951,783)	10,083,941	(132,158)	-
Transfer to Stage 3 (from 1 or 2)	(1,731,136)	(1,088,562)	2,819,698	-
New financial assets originated or purchased	150,004,032	1,177,383	48,022	151,229,437
De-recognition of financial assets	(44,456,635)	(1,468,051)	(588,299)	(46,512,985)
Changes due to modifications that did not result in de-recognition	(37,243,147)	(2,280,514)	(2,089,426)	(41,613,087)
Write-offs	-	-	(3,233,656)	(3,233,656)
Gross Balance at 31 December 2019	**298,290,214**	**11,165,637**	**6,554,854**	**316,010,705**

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included. As of 31 December 2019 unamortized deferred fee amounts 417,591 Eur.

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

31 December 2018	Loans and advances to customers			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2018	**198,761,959**	**8,371,826**	**14,016,189**	**221,149,974**
	-	-	-	-
Transfer to Stage 1 (from 2 or 3)	5,187,798	(3,116,243)	(2,071,555)	-
Transfer to Stage 2 (from 1 or 3)	(7,016,493)	7,103,845	(87,352)	-
Transfer to Stage 3 (from 1 or 2)	(2,549,306)	(820,858)	3,370,164	-
New financial assets originated or purchased	134,139,221	9,156,658	675,423	143,971,302
De-recognition of financial assets	(66,605,997)	(2,736,149)	(4,034,434)	(73,376,580)
Changes due to modifications that did not result in de-recognition	(31,592,387)	(2,113,896)	(1,115,904)	(34,822,187)
Write-offs	-	-	(781,513)	(781,513)
Foreign exchange and other changes	-	-	-	-
	-	-	-	-
Gross Balance at 31 December 2018	**230,324,795**	**15,845,183**	**9,971,018**	**256,140,996**

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included. As of 31 December 2018, Unamortized deferred fee amounts 361,968 Eur.

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 2019	Loans to customers allowance			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**4,634,966**	**676,426**	**3,097,378**	**8,408,770**
Transfer to Stage 1 (from 2 or 3)	735,983	(578,735)	(157,248)	-
Transfer to Stage 2 (from 1 or 3)	(130,790)	180,713	(49,923)	-
Transfer to Stage 3 (from 1 or 2)	(62,253)	(26,803)	89,056	-
New financial assets originated or purchased	4,415,046	89,861	75,752	4,580,659
De-recognition of financial assets	(630,084)	(34,860)	(189,122)	(854,066)
Write-offs	-	-	(1,332,990)	(1,332,990)
Changes in models/risk parameters	(1,892,020)	130,133	566,671	(1,195,216)
Foreign exchange and other changes	-	-	-	-
Gross Balance at 31 December 2019	**7,070,848**	**436,735**	**2,099,574**	**9,607,157**

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	Loans to customers allowance			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2018	**4,744,968**	**768,163**	**1,073,746**	**6,586,877**
	-	-	-	-
Transfer to Stage 1 (from 2 or 3)	**291,043**	**(261,378)**	**(29,665)**	**-**
Transfer to Stage 2 (from 1 or 3)	**(425,001)**	**434,513**	**(9,512)**	**-**
Transfer to Stage 3 (from 1 or 2)	**(762,085)**	**(283,280)**	**1,045,365**	**-**
New financial assets originated or purchased	**2,028,126**	**354,447**	**108,840**	**2,491,413**
De-recognition of financial assets	**(609,971)**	**(69,555)**	**(55,988)**	**(735,514)**
Write-offs	**-**	**-**	**(324,770)**	**(324,770)**
Changes in models/risk parameters	**384,211**	**85,116**	**1,199,938**	**1,669,265**
Foreign exchange and other changes	**(1,016,325)**	**(351,600)**	**89,425**	**(1,278,500)**
Gross Balance at 31 December 2018	**4,634,966**	**676,426**	**3,097,379**	**8,408,771**

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 2019	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 2019	**6,017,047**	**-**	**-**	**6,017,047**	**69,702,837**	**-**	**-**	**69,702,837**
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	11,164,482			11,164,482	78,474,987			78,474,987
De-recognition of financial assets	(4,965,066)			(4,965,066)	(44,633,406)			(44,633,406)
Changes due to modifications that did not result in de-recognition	(6,941)			(6,941)	(2,086,605)			(2,086,605)
Write-offs				-	-	-	-	-
Foreign exchange and other changes				-	-	-	-	-
Gross Balance at 31 December 2019	**12,209,522**	**-**	**-**	**12,209,522**	**101,457,813**	**-**	**-**	**101,457,813**

31 December 2019	Investment Securities at amortised cost				Loan Commitments and financial guarantee contracts			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
Balance at 1 January 2019	**5,303,912**	**3,566,452**	**-**	**8,870,364**	**15,464,224**	**-**	**-**	**15,464,224**
Transfer to Stage 1 (from 2 or 3)				-	(5,000)		5,000	-
Transfer to Stage 2 (from 1 or 3)				-				-
Transfer to Stage 3 (from 1 or 2)				-				-
New financial assets originated or purchased	2,726,517			2,726,517	5,787,659			5,787,659
De-recognition of financial assets		(3,566,452)		(3,566,452)	(9,012,074)			(9,012,074)
Changes due to modifications that did not result in de-recognition	101,980			101,980	50,000			50,000
Write-offs				-				-
Foreign exchange and other changes				-				-
Gross Balance at 31 December 2019	**8,132,409**	**-**	**-**	**8,132,409**	**12,284,809**	**-**	**5,000**	**12,289,809**

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	**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**
De-recognition of financial assets	(30,500,000)	-	-	(30,500,000)	(55,591,351)	-	-	**(55,591,351)**
Changes due to modifications that did not result in de-recognition	-	-	-	**-**	-	-	-	**-**
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**
De-recognition of financial assets	-	-	-	**-**	(11,561,587)	-	-	**(11,561,587)**
Changes due to modifications that did not result in de-recognition	-	-	-	**-**	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 2019	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 2019	**6,473**	**-**	**-**	**6,473**	**138,992**	**-**	**-**	**138,992**
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	3,309	-	-	**3,309**	175,048	-	-	**175,048**
Derecognition of financial assets	(2,775)	-	-	**(2,775)**	(73,380)	-	-	**(73,380)**
Write-offs	-	-	-	**-**	-	-	-	**-**
Changes in models/risk parameters	167	-	-	**167**	(5,805)	-	-	**(5,805)**
Foreign exchange and other movements	-	-	-	**-**	-	-	-	**-**
Gross Balance at 31 December 2019	**7,174**	**-**	**-**	**7,174**	**234,855**	**-**	**-**	**234,855**

31 December 2019	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 2019	**15,933**	**4,895**	**-**	**20,828**	**633,070**	**-**	**-**	**633,070**
Transfer to Stage 1 (from 2 or 3)	-	-	-	**-**	(320)	-	320	**-**
Transfer to Stage 2 (from 1 or 3)	-	-	-	**-**	-	-	-	**-**
Transfer to Stage 3 (from 1 or 2)	-	-	-	**-**	-	-	-	**-**
New financial assets originated or purchased	8,290	-	-	**8,290**	114,572	-	-	**114,572**
Derecognition of financial assets	-	(4,895)	-	**(4,895)**	(381,993)	-	-	**(381,993)**
Write-offs	-	-	-	**-**	-	-	-	**-**
Changes in models/risk parameters	504	-	-	**504**	171,292	-	(320)	**170,971**
Foreign exchange and other movements	-	-	-	**-**	-	-	-	**68,498**
Gross Balance at 31 December 2019	**24,727**	**-**	**-**	**24,727**	**536,621**	**-**	**-**	**536,621**

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

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

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

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

iii. Credit quality analysis

The following table sets out information about the credit quality of loan to customers in 2019 and 2018 by asset quality at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

		31 December 2019		31 December 2019	
		On balance sheet	**Off balance sheet**	**On balance sheet**	**Off balance sheet**
Stage 1	Non Past Due	279,970,189	5,109,178	214,961,467	-
	Past due	18,320,025	16,048	15,363,328	-
	Total	**298,290,214**	**5,125,226**	**230,324,795**	**-**
	Allowance	7,021,598	49,251	4,599,406	110,787
	Total Carrying Amount	**291,268,616**	**5,075,975**	**225,725,389**	**(110,787)**
Stage 2	Non Past Due	4,720,748	-	10,449,421	-
	Past due	6,444,889	80,532	5,395,762	-
	Total	**11,165,637**	**80,532**	**15,845,183**	**-**
	Allowance	435,252	1,483	675,434	
	Total Carrying Amount	**10,730,385**	**79,049**	**15,169,749**	**-**
Stage 3	Non Past Due	99,810	768,562	182,682	
	Past due	6,455,044	280,483	9,788,336	
	Total	**6,554,854**	**1,049,045**	**9,971,018**	**-**
	Allowance	1,938,867	160,706	3,023,144	
	Total Carrying Amount	**4,615,987**	**888,339**	**6,947,874**	**-**
Total net amount at amortised cost		**306,614,988**	**6,043,363**	**247,843,012**	**(110,787)**
Value of collateral		**699,438,780**		**700,488,617**	

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

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

The following table sets out information about the aging analyses of loan to customers in 2019 and 2018:

31 December 2019	**Loans to customers 2019**				**Loans to customers 2018**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current	273,905,486	3,462,947	68,380	277,436,813	210,745,348	9,126,267	24,939	219,896,553
1 - 30 days	17,363,129	885,357	7,780	18,256,266	14,980,040	729,487	65,767	15,775,293
31 - 90 days	-	6,382,081	7,081	6,389,162	-	5,313,995	79,568	5,393,564
91 - 180 days	-	-	700,921	700,921	-	-	683,935	683,935
181 - 360 days	-	-	650,707	650,707	-	-	663,272	663,272
> 361 days	-	-	3,181,119	3,181,119	-	-	5,430,395	5,430,395
Total	**291,268,615**	**10,730,385**	**4,615,988**	**306,614,988**	**225,725,388**	**15,169,749**	**6,947,875**	**247,843,012**
Value of collateral	**640,204,424**	**37,490,440**	**21,743,916**	**699,438,780**	**624,734,639**	**43,054,955**	**32,699,024**	**624,734,639**
Off balance sheet	**211,440**				**110,787**			

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 (2019). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

FINANCIAL INSTRUMENTS CREDIT RISK - OTHER THAN LOANS TO CUSTOMERS

	2019					2018
	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	2,004,884	-	-	-	2,004,884	-
Ba1 to Ba3	-	-	-	-	-	-
B1 to B3	-	-	-	-	-	3,036,383
Unrated	10,204,639	-	-	-	10,204,639	2,980,663
Exposure before impairment	**12,209,523**	**-**	**-**	**-**	**12,209,523**	**6,017,046**
Loss allowance	7,174	-	-	-	7,174	6,473
Carrying amount	**12,202,349**	**-**	**-**	**-**	**12,202,349**	**6,010,573**
Investment Securities at FVOCI						
Aa1 to Aa3	-	-	-	-	-	-
A1 to A3	1,111,422	-	-	-	1,111,422	-
Baa1 to Baa3	4,332,390	-	-	-	4,332,390	-
Ba1 to Ba3	6,085,598	-	-	-	6,085,598	4,230,589
B1 to B3	26,692,964	-	-	-	26,692,964	-
Unrated	63,235,439	-	-	-	63,235,439	64,361,812
Exposure before impairment	**101,457,813**	**-**	**-**	**-**	**101,457,813**	**68,592,401**
Loss allowance	234,855	-	-	-	234,855	138,991
Carrying amount	**101,222,959**	**-**	**-**	**-**	**101,222,959**	**68,453,410**
Investment Securities at Amortised Cost						
Aa1 to Aa3	-	-	-	-	-	-
A1 to A3	-	-	-	-	-	-
Baa1 to Baa3	-	-	-	-	-	-
Ba1 to Ba3	-	-	-	-	-	5,918,100
B1 to B3	8,132,409	-	-	-	8,132,409	2,457,197
Unrated	-	-	-	-	-	-
Exposure before impairment	**8,132,409**	**-**	**-**	**-**	**8,132,409**	**8,375,297**
Loss allowance	24,727	-	-	-	24,727	20,888
Carrying amount	**8,107,682**	**-**	**-**	**-**	**8,107,682**	**8,354,409**

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

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 2019	Cash and balances with Central Bank	Due from other banks	Investment securities	Other Assets	Total
Good	68,789,883	37,270,123	113,609,245	5,925,327	225,594,578
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**68,789,883**	**37,270,123**	**113,609,245**	**5,925,327**	**225,594,578**

31 December 2018	Cash and balances with Central Bank	Due from other banks	Investment securities	Other Assets	Total
Good	53,319,751	31,073,205	76,807,878	4,738,267	165,939,101
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**53,319,751**	**31,073,205**	**76,807,878**	**4,738,267**	**165,939,101**

The following table sets out information about the credit quality loans to customers for the corporate portfolio in 2019. 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 2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Large Corporate				
Strong (rating A)	4,068,305	-	-	**4,068,305**
Satisfactory(rating B&C)	134,564,735	5,835,839	27,795	**140,428,369**
Watch list (higher risk) (rating D lower than C*)*	-	-	-	**-**
Default (Lower than D and over 90 days past due)	-	-	1,530,977	**1,530,977**
Total Rated	138,633,040	5,835,839	1,558,772	**146,027,651**
Non Rated	211,560	-	-	**211,560**
Total gross amount	**138,844,600**	**5,835,839**	**1,558,772**	**146,239,211**
Carrying amount	**134,253,483**	**5,555,097**	**1,381,363**	**141,189,943**
Collateral held for credit impaired assets & assets at FVPL	324,115,453	19,783,773	6,798,244	**350,697,470**
SME Corporate				
Strong (rating A)	1,477,949			**1,477,949**
Satisfactory(rating B&C)	28,924,852	2,001,303	12,360	**30,938,515**
Watch list (higher risk) (rating D lower than C*)*	-	-	-	**-**
Default (Lower than D and over 90 days past due)	-	-	1,991,856	**1,991,856**
Total Rated	**30,402,801**	**2,001,303**	**2,004,216**	**34,408,320**
Non Rated	231,594	109,693	-	**341,287**
Total gross amount	**30,634,395**	**2,110,996**	**2,004,216**	**34,749,607**
				-
Carrying amount	**29,632,153**	**1,986,842**	**1,695,563**	**33,314,558**
Collateral held for credit impaired assets & assets at FVPL	93,111,640	6,277,753	7,869,054	107,258,447
Micro Corporate				
Strong (rating A)	1,357,020			**1,357,020**
Satisfactory(rating B&C)	11,111,498	1,068,440	2,751	**12,182,689**
Watch list (higher risk) (rating D lower than C*)*				**-**
Default (Lower than D and over 90 days past due)			460,914	**460,914**
Total Rated	**12,468,518**	**1,068,440**	**463,665**	**14,000,623**
Non Rated	**1,527,551**	**67,553**	**8,730**	**1,598,111**
Total gross amount	**13,996,069**	**1,135,993**	**472,395**	**15,598,734**
Carrying amount	**13,450,919**	**1,129,830**	**374,018**	**14,954,767**
Collateral held for credit impaired assets & assets at FVPL	48,648,730	5,438,383	1,725,198	**55,812,311**
OFF BALANCE SHEET	**201,089**	**1,249**	**30,076**	**232,414**
Credit cards Loss allowance	11,420	216	9,338	**20,974**

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**	**-**	**-**	**5,662,765**
Total gross amount	**101,095,601**	**9,473,281**	**3,366,084**	**113,934,966**
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**	**-**	**4,829,541**
Total gross amount	**27,050,294**	**3,498,402**	**1,829,633**	**32,378,329**
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**
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 2019. 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 2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage				
Defaults			1,258,443	1,258,443
Non Rated	32,086,037	1,047,229	1,636	33,134,902
Total gross amount	**32,086,037**	**1,047,229**	**1,260,079**	**34,393,345**
Collateral held for credit impaired assets & assets at FVPL	80,324,968	3,622,511	2,744,651	86,692,130
Consumer				
Defaults			767,532	767,532
Non Rated	79,054,700	911,982	42,159	80,008,841
Total gross amount	**79,054,700**	**911,982**	**809,691**	**80,776,373**
Collateral held for credit impaired assets & assets at FVPL	41,705,052	570,861	1,001,343	43,277,256
Creditcards				
Defaults			445,321	445,321
Non Rated	3,680,137	123,599	4,378	3,808,114
Total gross amount	**3,680,137**	**123,599**	**449,699**	**4,253,435**
Collateral held for credit impaired assets & assets at FVPL	-	-	-	-
	4,924,137	79,283	1,018,969	**6,022,389**
OFF BALANCE SHEET	39,275	1,267	151,368	**191,910**
Credit cards Loss allowance	83,229	4,675	541,767	**629,671**

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**
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**
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**
Collateral held for credit impaired assets & assets at FVPL	-	-	-	-
OFF BALANCE SHEET				
Credit cards Loss allowance	101,294	-	-	101,294

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Total loss allowance as per December 2019	7,021,597	435,252	1,938,868	9,395,717
Total loss allowance as per December 2018	4,599,406	675,433	3,023,443	8,308,282

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 2019	Total amount of Loans	Total amount of Forborne Loans	Forborne Loans (%)
Stage 1	298,290,214	2,781,463	0.93%
Stage 2	11,165,637	2,764,725	24.76%
Stage 3	6,554,854	2,681,474	40.91%
Exposure before impairment	**316,010,705**	**8,227,662**	**2.60%**
Stage 1 Allowance	7,070,848	76,262	1.08%
Stage 2 Allowance	436,736	28,927	6.62%
Stage 3 Allowance	2,099,573	372,651	17.75%
Total net amount	**306,403,548**	**7,749,823**	**2.53%**
Value of collateral	699,438,780	41,878,642	5.99%
OFF BALANCE SHEET Allowance	**212,884**	-	-

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	230,324,794	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	**256,140,996**	**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	**247,732,225**	**9,761,249**	**3.94%**
Value of collateral	700,488,617	41,591,658	5.94%
OFF BALANCE SHEET			
Allowance	**110,787**	-	-

iv. Credit Collateral and other credit enhancement

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 2019	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial property	350,783,232	104,227,225	455,010,457
Financial assets	10,986,755	10,369,922	21,356,677
Other	151,998,240	71,073,406	223,071,646
Total	**513,768,227**	**185,670,553**	**699,438,780**

	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**

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.

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.

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

v. Concentration 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 2019 and 31 December 2018 is shown below:

	Note	Loans to customers		Loans to banks		Investment Securities	
		31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Carrying amount	8,9.1,9.2	305,985,957	247,370,257		5,958,593	113,609,245	76,807,878
Concentration by sector							
Corporate		189,275,170	154,861,272		-	2,431,704	-
Government		-	-		-	92,954,700	68,453,409
Banks		-	-		5,958,593	18,222,841	8,354,469
Retail		116,710,787	92,508,985		-		-
Total		**305,985,957**	**247,370,257**		**5,958,593**	**113,609,245**	**76,807,878**

Concentration by location	**Note**	**Loans to customers**		**Loans to banks**		**Investment securities**	
		31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Albania		-	-	-	-	4,729,596	-
Kosova		305,985,957	247,370,257	-	996,302	65,167,441	64,224,569
Montenegro						4,092,984	
Macedonia						-	2,000,840
Turkey						23,746,831	8,354,469
Egypt						6,524,874	
Ukraine						3,474,026	
Europe		-	-		4,962,291	3,441,791	
Russia						2,431,702	
Middle East and Africa		-	-		-	-	2,228,001
Total	8,9.1,9.2	**305,985,957**	**247,370,257**	-	**5,958,593**	**113,609,245**	**76,807,878**

(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 2019.

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

As at 31 December 2019, 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	Non specified	Total
Assets							
Cash and balances with Central Bank	38,501,618	-	-	-	-	30,288,265	68,789,883
Placement and balances with banks	30,573,029	5,630,779	-	1,041,176	-	-	37,244,984
Investment securities	188,059	446,007	5,110,041	67,775,540	32,392,185	-	105,911,832
Held-to-maturity securities	-	91,028	29,987	7,576,398	-	-	7,697,413
Due from BKT Albania	25,139	-	-	-	-	-	25,139
Loans and advances to customers	13,555,835	22,954,481	140,690,061	92,847,391	35,938,189	-	305,985,957
Other assets	2,875,019	-	2,653,640	-	-	-	5,528,659
Total assets	**85,718,699**	**29,122,295**	**148,483,729**	**169,240,505**	**68,330,374**	**30,288,265**	**531,183,867**
Liabilities							
Customer deposits	226,055,045	15,777,392	99,794,421	107,525,346	-	-	449,152,204
Due to banks	1,436,133	1,381,979	1,842,961	-	-	-	4,661,073
Due to BKT Albania	774,405	-	-	-	-	-	774,405
Income tax liability	-	196,960	-	-	-	-	196,960
Accruals and other liabilities	2,299,295	-	-	-	-	-	2,299,295
Borrowings	18,169	-	4,037,222	18,227,778	-	-	22,283,169
Total liabilities	**230,583,047**	**17,356,331**	**105,674,604**	**125,753,124**	**-**	**-**	**479,367,106**
Net Position	**(144,864,348)**	**11,765,964**	**42,809,125**	**43,487,381**	**68,330,374**	**30,288,265**	**51,816,761**
Cumulative net position	**(144,864,348)**	**(133,098,383)**	**(90,289,259)**	**(46,801,878)**	**21,528,496**	**51,816,761**	**-**

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.

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	Non specified	Total
Assets							
Cash and balances with Central Bank	28,797,262	-	-	-	-	24,522,489	53,319,751
Balances with banks	14,218,666	3,033,828	-	1,019,075	-		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	12,801,636	-	-	-	-		12,801,636
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	1,319,934	-	2,906,869	-	-		4,226,803
Total assets	**61,989,075**	**6,990,127**	**69,989,430**	**166,813,765**	**82,493,008**	**24,522,489**	**412,797,894**
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	1,652,109	-	-	-	-	-	1,652,109
Borrowings	-	-	4,085,314	-	-	-	4,085,314
Total liabilities	**189,541,760**	**16,426,179**	**90,578,046**	**78,202,496**	**415,697**	**-**	**375,164,178**
Net Position	**(127,552,685)**	**(9,436,052)**	**(20,588,616)**	**88,611,269**	**82,077,311**	**24,522,489**	**37,633,716**
Cumulative net position	**(127,552,685)**	**(136,988,737)**	**(157,577,353)**	**(68,966,084)**	**13,111,227**	**37,633,716**	**-**

(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 2019 and 2018:

2019	EUR	ALL	USD	GBP	CHF	Other	Total
Assets							
Cash and balances with Central Bank	56,248,716	144	422,137	732,981	11,301,953	83,952	68,789,883
Placements and balances with banks	32,399,264	94,442	806,953	3,431,694	493,737	18,894	37,244,984
Available for sale securities	92,954,700	-	9,376,259	-	3,580,873	-	105,911,832
Held-to-maturity securities	-	-	7,697,413	-	-	-	7,697,413
Due from BKT Albania	-	14,792	-	-	10,347	-	25,139
Loans to customers	305,170,034	-	815,923	-	-	-	305,985,957
Other assets	5,605,303	(109,612)	14,451	6,687	11,819	11	5,528,659
Total assets	**492,378,017**	**(234)**	**19,133,136**	**4,171,362**	**15,398,729**	**102,857**	**531,183,867**
Liabilities							
Customer deposits	433,746,576	371	8,196,247	1,890,593	5,318,407	10	449,152,204
Due to banks	4,024	-	1,427,293	25	3,229,731	-	4,661,073
Due to BKT Albania	418,278	-	355,668	403	-	56	774,405
Income tax liability	196,960	-	-	-	-	-	196,960
Accruals and other liabilities	2,170,038	-	111,919	(9,932)	27,270	-	2,299,295
Borrowings	22,283,169	-	-	-	-	-	22,283,169
Total liability	**458,819,045**	**371**	**10,091,127**	**1,881,089**	**8,575,408**	**66**	**479,367,106**
Net position	**33,558,972**	**(605)**	**9,042,009**	**2,290,273**	**6,823,321**	**102,791**	**51,816,761**
Net position (GAP)	**33,558,972**	**33,558,367**	**42,600,376**	**44,890,649**	**51,713,970**	**51,816,761**	**-**

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
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	11,351,172	72,316	740,490	1,213,169	(575,511)	-	12,801,636
Loans to customers	246,540,078	-	830,179	-	-	-	247,370,257
Other assets	4,219,869	6,934	-	-	-	-	4,226,803
Total assets	**392,749,048**	**79,392**	**11,396,304**	**1,786,000**	**6,787,150**	**-**	**412,797,894**
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
Provisions	-	-	-	-	-	-	-
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	**37,603,509**	**(1)**	**18,846**	**(10,147)**	**21,509**	**-**	**37,633,716**
Net position (GAP)	**37,603,509**	**37,603,508**	**37,622,354**	**37,612,207**	**37,633,716**	**37,633,716**	**-**

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 2019	Profit or loss2019
ALL	5%	(30)
USD	5%	452,100
GBP	1%	22,903
CHF	5%	341,166
Other	5%	5,140

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

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 2019 are as follows:

	USD	*Euro*
Assets		
Cash and balances with Central Bank	-	-
Loans and advances to banks	-	-
Loans to customers	6.00%	5.95%
Investment securities	6.69%	3.12%
Liabilities		
Customer deposits and due to banks	1.90%	1.06%

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 available for sale	-	2.04%
Liabilities		
Customer deposits and due to banks	1.82%	1.79%

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

2019	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp	100 bp	100 bp	100 bp
	Decrease	Increase	Increase	Decrease
Estimated Profit (loss) effect	(925,473)	925,473	1,421,060	(1,421,060)

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	(1,642,332)	1,642,332	1,995,055	(1,995,055)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2019 and 2018 are as follows:

2019	*Up to 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Non specified*	*Total*
Assets							
Cash and balances with Central Bank	38,501,618	-	-	-	-	30,288,265	68,789,883
Balances with banks	30,573,029	5,630,779	-	1,041,176	-	-	37,244,984
Investment securities	188,059	446,007	5,110,041	67,775,540	32,392,185	-	105,911,832
Held-to-maturity securities	-	91,028	29,987	7,576,398	-	-	7,697,413
Due from Head Office	25,139	-	-	-	-	-	25,139
Loans to customers	13,555,835	22,954,481	140,690,061	92,847,391	35,938,189	-	305,985,957
Total assets (TA)	**82,843,680**	**29,122,295**	**145,830,089**	**169,240,505**	**68,330,374**	**30,288,265**	**525,655,208**
Liabilities							
Customer Deposits and due to banks	227,491,178	17,159,371	101,637,382	107,525,346	-	-	453,813,277
Borrowings	18,169	-	4,037,222	18,227,778	-	-	22,283,169
Total liabilities (TL)	**227,509,347**	**17,159,371**	**105,674,604**	**125,753,124**	**-**	**-**	**476,096,446**

2018	*Up to 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Non specified*	*Total*
Assets							
Cash and balances with Central Bank	28,797,262	-	-	-	-	24,522,489	53,319,751
Balances with banks	14,218,666	3,033,828	-	1,019,075	-		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 Head Office	12,801,636	-	-	-	-		12,801,636
Loans to customers	4,851,577	3,464,214	40,983,840	125,973,991	72,096,635		247,370,257
Total assets (TA)	**60,669,141**	**6,990,127**	**67,082,561**	**166,813,765**	**82,493,008**	**24,522,489**	**408,571,091**
Liabilities							
Customer Deposits and due to banks	187,889,651	16,426,179	86,492,732	78,202,496	202,391	-	369,213,449
Borrowings	-	-	4,085,314	-	-		4,085,314
Total liabilities (TL)	**187,889,651**	**16,426,179**	**90,578,046**	**78,202,496**	**202,391**	**-**	**373,298,763**

(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 2019, BKT has reported the following ratios:

- Tier 1 Capital Ratio 12.89%
- Total Capital Ratio 13.02%

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 2019 and 2018 are detailed as following:

	31 December 2019	31 December 2018
Cash on hand	29,086,204	22,031,155
Balances with CBK	39,703,679	31,288,596
	68,789,883	**53,319,751**

Deposits with the Central Bank of Kosova include the statutory reserve of 10% of customer deposits in Kosova. Cash and cash equivalents included in Statement of cash flows as at 31 December 2019 and 2018 are presented as follows:

	31 December 2019	31 December 2018
Cash and balances with Central Bank	68,789,883	53,319,751
Statutory reserves	(30,288,265)	(24,522,489)
Balances with banks	33,008,604	17,218,329
	71,510,222	**46,015,591**

Balances with banks at 31 December 2019 and 2018 include current accounts with resident and non-resident banks.

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

7. PLACEMENTS AND BALANCES WITH BANKS

Placements and balances with banks as at 31 December 2019 and 31 December 2018 consisted as follows:

	31 December 2019	31 December 2018
Placements	12,017,924	5,965,066
Current accounts	25,042,636	12,260,995
Accrued interest	191,598	51,981
Impairment provision	(7,174)	(6,473)
	37,244,984	**18,271,569**

The short-term placements in banks with maturity up to 1 year are in amount of EUR 8,017,924 as of 31 December 2019 (31 December 2018: EUR 1,053,240).

8. INVESTMENT SECURITIES

Investment securities as at 31 December 2019 and 31 December 2018 are presented as follows:

	31 December 2019	31 December2018
Treasury bills measured at FVOCI (Treasury bills)	-	12,703,090
Treasury bonds and Eurobonds- measured at FVOCI	105,911,832	55,750,319
Corporate bonds- measured at amortised cost	7,697,413	8,354,469
Total	**113,609,245**	**76,807,878**

a) Investment securities - measured at FVOCI (Treasury bills)

In 2019 there were no portfolio of Treasury bills, while as at 31 December 2018 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**

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

Treasury bonds and Eurobonds as at 31 December 2019 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Impairment	Book Value
EUR denominated	88,240,000	1,087,810	1,082,903	2,750,658	(206,671)	92,954,700
CHF denominated	3,408,882	41,961	22,013	108,509	(493)	3,580,872
USD denominated	8,990,564	(161,277)	170,020	404,643	(27,691)	9,376,260
	100,639,446	**968,494**	**1,274,936**	**3,263,810**	**(234,855)**	**105,911,832**

Available-for-sale securities as at 31 December 2018 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Impairment	Book Value
EUR denominated	54,540,000	(830,220)	250,146	(310,786)	(126,825)	53,522,315
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**

c) Investment securities - measured at amortised cost

Investment securities measured at amortized cost as at 31 December 2019 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Impairment	Book Value
Bonds USD denominated	8,011,394	(410,269)	121,015	(24,727)	7,697,413
	8,011,394	**(410,269)**	**121,015**	**(24,727)**	**7,697,413**

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 TO CUSTOMERS

9.1 Loans and advances to banks

Loans and advances to banks in 2019 have been sold, and there was no portfolio at the end of the year.

9.2 Loans to customers, net

Loans to customers consisted of the following:

	31 December 2019	31 December 2018
Loans to customers, gross	313,987,080	254,802,972
Accrued interest	2,023,625	1,338,024
Less allowances for impairment on loans	(9,607,157)	(8,408,771)
Less deferred fee income	(417,591)	(361,968)
	305,985,957	**247,370,257**

Movements in the allowance for impairment on loans:

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
At 31 December	-	5,022,580
Impact of adopting IFRS 9 as at 1 January 2018	-	1,564,297
At 1 January	8,408,771	6,586,877
Impairment charge for the year, net	2,531,376	2,146,664
Provision reversal of written off loans	(1,332,990)	(324,770)
At the end of the period	**9,607,157**	**8,408,771**

During the year based on decision from the Board of Directors the Bank has written off loans in total amount of EUR 3,233,656, out of which impaired loans in amount of EUR 1,332,990 (2018: EUR 781,513).

The breakdown of the loan portfolio is as follows:

	2019	2018
Retail (individuals)	38%	37%
Private Enterprises	62%	63%

All loans are in EUR and bear interest rates ranging from 0.5% to 22.45%. 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.

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

	31 December 2019		31 December 2018	
	EUR	%	EUR	%
Construction and other industries	49,975,478	25%	38,650,487	24%
Wholesale Trade	43,686,948	22%	54,466,879	34%
Retail Trade	40,686,125	21%	28,660,799	18%
Manufacturing	23,812,383	12%	12,989,367	8%
Hotels and other services	13,530,589	7%	8,658,667	5%
Services	18,422,335	9%	12,214,844	8%
Agriculture	5,680,625	3%	4,968,584	3%
Other	793,069	0%	218,733	0%
Total	**196,587,552**	**100%**	**160,828,360**	**100%**

The classification of retail loans by type is as follows:

	31 December 2019		31 December 2018	
	EUR	%	EUR	%
Loans	114,206,190	96%	90,719,136	95%
Overdraft and credit cards	5,216,963	4%	4,593,500	5%
Total	**119,423,153**	**100%**	**95,312,636**	**100%**

10. PROPERTY AND EQUIPMENT

Property and equipment as at 31 December 2019 and 2018 are composed as follows:

Cost	Buildings	Motor vehicles	Computers and electronic equipment	Furniture and equipment	Total
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**
Additions	37,088	561,079	817,636	19,523	1,435,326
Transfers		(907,299)	730	906,569	-
Disposals		(285,171)			(285,171)
At 31 December 2019	**3,088,548**	**800,138**	**5,795,995**	**1,539,743**	**11,224,424**
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)**
Charge for the year	(223,538)	(103,765)	(494,699)	(39,407)	(861,409)
Transfer		796,372	11	(796,383)	-
Disposals	-	285,171	-	-	285,171
At 31 December 2019	**(2,582,317)**	**(234,453)**	**(4,615,202)**	**(1,449,441)**	**(8,881,413)**
Net book value					
At 31 December 2018	**692,681**	**219,298**	**857,115**	**-**	**1,769,094**
At 31 December 2019	**506,231**	**565,685**	**1,180,793**	**90,302**	**2,343,011**

In 2019 the Bank has sold vehicles with net carrying value of EUR 285,171 and realized gain in amount of EUR 50,887 which is included as other income (Note 21). During 2018 the Bank did not sell any asset.

As at December 31, 2019 and December 31, 2018 there are no property and equipment pledged.

11. INTANGIBLE ASSETS

Intangible assets as at 31 December 2019 and 2018 are composed as follows:

	Intangible assets	Total
Cost		
At 1 January 2018	266,828	266,828
Additions	3,750	3,750
Disposals	-	-
At 31 December 2018	**270,578**	**270,578**
Additions	11,729	11,729
Disposals	-	-
At 31 December 2019	**282,307**	**282,307**
Accumulated depreciation		
At 1 January 2018	(231,272)	(231,272)
Charge for the year	(16,892)	(16,892)
Disposals	-	-
At 31 December 2018	**(248,164)**	**(248,164)**
Charge for the year	(22,091)	(22,091)
Disposals	-	-
At 31 December 2019	**(270,255)**	**(270,255)**
Net book value		
At 31 December 2018	**22,414**	**22,414**
At 31 December 2019	**12,052**	**12,052**

12. OTHER ASSETS

Other assets as at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Cards transactions settlement	3,093,640	2,177,233
Collaterals repossessed by the Bank	1,892,971	1,358,010
Prepaid expenses	119,121	150,562
Inventories	-	20,926
Cash differences	74	324,745
Advances to suppliers	101,243	61,674
Other assets	665,733	284,214
Impairment for other assets	(225,002)	-
	5,647,780	**4,377,364**

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

Movements in impairment of other assets

	31 December 2019	31 December 2018
As of January 1st 2019	-	-
Additions during 2019	225,002	-
Reverse charge	-	-
Balance as of 31st December 2019	**225,002**	**-**

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

	Repossessed collateral
At 1 January 2019	1,358,010
Additions	1,545,276
Sales and disposals	1,010,315
At 31 December 2019	**1,892,971**

13. CUSTOMER DEPOSITS

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

	31 December 2019	31 December 2018
Current accounts:		
Individuals	134,726,939	106,614,542
Private enterprises	58,340,514	49,558,730
State owned entities	19,538,518	7,036,651
	212,605,971	**163,209,923**
Add: Current maturity of long-term customer deposits	129,020,917	109,739,521
Total short-term customer deposits	**341,626,888**	**272,949,444**
Term Deposits:		
Individuals	167,755,383	144,439,494
Private enterprises	28,050,870	27,575,425
State owned entities	40,739,980	16,129,489
	236,546,233	**188,144,408**
Less: Current maturity of long-term customer deposits	(129,020,917)	(109,739,521)
Total long-term customer deposits	**107,525,316**	**78,404,887**
	449,152,204	**351,354,331**

Current accounts and deposits can be further analysed as follows:

	31 December 2019			31 December 2018		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	**201,586,700**	**11,019,271**	**212,605,971**	**151,891,474**	**11,318,449**	**163,209,923**
Term deposits	**232,159,875**	**4,386,358**	**236,546,233**	**184,999,468**	**3,144,940**	**188,144,408**
One month	417,039	-	417,039	375,825	3,550	379,375
Three months	594,297	-	594,297	1,148,493	7,099	1,155,592
Six months	3,690,618	821,585	4,512,203	4,364,811	809,695	5,174,506
Twelve months	85,440,867	2,951,175	88,392,042	77,612,043	1,856,365	79,468,408
Over two years	142,017,054	613,598	142,630,652	101,498,296	468,231	101,966,527
Total deposits	**433,746,575**	**15,405,629**	**449,152,204**	**336,890,942**	**14,463,389**	**351,354,331**

The five largest depositors of the Bank at 31 December 2019 comprise approximately 16 % (2018: 10%) of total deposits.

14. DUE TO BANKS AND FINANCIAL INSTITUTIONS

Due to banks as at 31 December 2019 and 31 December 2018 consisted as follows:

	31 December 2019	31 December 2018
Deposits from banks	4,293,762	14,252,893
Securities sold under Repo agreement	-	2,481,460
Current accounts of resident banks	367,311	1,124,765
	4,661,073	**17,859,118**

15. ACCRUALS AND OTHER LIABILITIES

	31 December 2019	31 December 2018
Accounts payable	1,993,636	1,460,650
Accrued expenses	237,478	174,656
Guarantee deposits received	6,656	6,656
Other liabilities	61,525	10,147
	2,299,295	**1,652,109**

As of 31 December 2019, 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

Borrowings as at 31 December 2019 and 31 December 2018 consisted as follows:

	31 December 2019	31 December 2018
Current maturity of long – term borrowings	4,037,222	1,820,000
Non-current maturity of long – term borrowings	18,227,778	2,265,000
Borrowings	**22,265,000**	**4,085,000**
Accrued interest	18,169	314
	22,283,169	**4,085,314**

1. A loan by European Fund for Southeast Europe S.A. (“EFSE”) in amount of EUR 10,000,000 was disbursed on December 20, 2019. The applicable margin for the loan is 2.35% per annum. The loan will be repaid in consecutive semi-annual instalments starting from December 15, 2020 to December 15, 2024.
2. A loan by Green for Growth Fund, Southeast Europe S.A. (“GGF”) in amount of EUR 10,000,000 was disbursed on December 16, 2019. The applicable margin for the loan is 2.25% per annum. The loan will be repaid in consecutive semi-annual instalments starting from December 15, 2020 to December 15, 2024.
3. 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.
4. 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 2019, 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 2019 the authorized share capital is EUR 22,000,000 (2018: 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. Upon the Shareholder's Decision dated 20 March 2019, the Bank share capital was increased from 17,000,000 EUR to 22,000,000 by capital injection performed on 25 May 2019, while the shareholding structure was changed as follows:

	31 December 2019			31 December 2018		
	No. of shares	Total in EUR	%	No. of shares	Total in EUR	%
Banka Kombetare Tregtare J.S.C in Albania	**2,200,000**	**22,000,000**	**100**	**1,700,000**	**17,000,000**	**100**

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 de-recognized or reclassified. This amount is increased by the amount of loss allowance.

Retained earnings

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

18. INTEREST INCOME

Interest income is composed as follows:

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Loans to customers	18,569,523	14,941,965
Due from BKT Albania (Note 25)	8,265	132,281
Investment securities	2,402,922	1,092,671
Balances with banks	262,904	302,279
	21,243,614	**16,469,196**

19. INTEREST EXPENSES

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Customer deposits	3,834,936	2,696,150
Due to banks	167,356	43,144
Interest expenses for borrowings	117,850	150,515
Interest expenses for leases	99,994	
	4,220,136	**2,889,809**

20. FEES AND COMMISSIONS, NET

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

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Fee and commission income		
Lending activity	190,877	339,904
Payment services to clients	2,653,065	2,308,447
Customer accounts' maintenance	468,945	382,812
Cash transactions with clients	480,141	444,793
	3,793,028	**3,475,956**
Fee and commission expense		
Inter-bank transactions	(155,822)	(226,210)
	(155,822)	**(226,210)**
	3,637,206	**3,249,746**

21. OTHER (EXPENSE) / INCOME, NET

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Other income		
Gain on sale of fixed assets	50,887	-
Income from collection of written off loans	201,765	367,608
Other income	10,703	58,750
	263,355	**426,358**
Other expenses		
Write off of loans to customers, net	(1,900,666)	(456,743)
Net carrying value of sold assets	-	-
Other expenses	(139,115)	-
	(2,039,781)	**(456,743)**
Other (expense) / income, net	**(1,776,426)**	**(30,385)**

22. PERSONNEL EXPENSES

Personnel expenses are composed as follows:

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Salaries	3,768,183	3,658,310
Social insurance	176,182	173,771
Other employee benefits	371,289	109,917
	4,315,654	**3,941,998**

23. ADMINISTRATIVE EXPENSES

Administrative expenses are composed as follows:

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Lease payments	97,458	1,073,381
Credit/debit cards expenses	1,467,675	1,175,370
Telephone, electricity and IT expenses	381,905	480,259
Other external services	271,659	174,313
CBK external services	247,386	198,931
Deposit insurance expense	609,078	489,711
Fuel, Repairs and maintenance	281,495	321,955
Security and insurance expenses	286,305	302,286
License and the taxes	398,244	327,624
Marketing expenses	271,648	263,434
Impairment expenses	225,002	-
Office stationery and supplies	80,445	91,648
Sundry expenses	96,090	101,566
Representation expenses	41,284	77,593
Training	6,549	11,371
	4,762,223	**5,089,442**

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	Placements in banks	Other assets	Total
At 31 December 2018	159,819	6,473	633,070	799,362
Impairment charge / (release) for the year	99,763	701	(96,449)	4,015
At 31 December 2019	**259,582**	**7,174**	**536,621**	**803,377**

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS

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

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank’s sole shareholder is BKT Albania owned by CalikFinansalHizmetler which is controlled by Calik Holding. The ultimate controlling party is Mr. Ahmet Calik.

AktifYatirimBankasi, Kosova Electricity Distribution and Supply Company J.S.C (KEDS), Kosova Electricity Supply Company (KESCO) and Albtelecom sha are controlled by Calik Holding.

Balances and transactions with related parties

	31 December 2019	31 December 2018
Assets		
Placements and balances with banks:		
Aktif Yatirim Bankasi	31,478	298,108
Due from BKT Albania	25,138	12,801,636
Loans to customers:		
KEDS / KESCO	68	247,731
Albtelecom Sh.a	2,501,501	-
Senior management	207,456	238,092
Total Assets	**2,765,641**	**13,585,567**
Liabilities		
Customer current accounts and deposits:		
KEDS / KESCO	12,247,625	6,967,431
Aktif Yatirim Bankasi	-	298,108
Senior management	303,965	209,817
Due to BKT Albania	774,406	
Other liabilities:		
Aktif Yatirim Bankasi	-	7,033,731
Total Liabilities	**13,325,996**	**14,509,087**

	31 December 2019	31 December 2018
Commitments and contingencies		
Guaranties in favour of customers:		
BKT Albania	1,038,168	-
KEDS / KESCO	-	14,468
Senior management	11,950	-
Commitments in favour of customers:		
KEDS / KESCO	4,932	4,738
Senior Management	26,937	37,157

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.

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Statement of comprehensive income		
Interest income from:		
AktifYatirimBankasi	140	32,297
KESCO JSC & KEDS SHA	6,957	20,046
BKT ALBANIA	8,265	132,281
Albtelecom SHA	13,801	-
Interest expenses for:		
AktifYatirimBankasi	(17,309)	(1,044)
BKT Albania	(24,121)	(698)
KESCO JSC & KEDS SHA	-	-
Fees and commissions:		
KESCO JSC & KEDS SHA	42,857	62,910
Albtelecom SHA	519	
Net	**31,109**	**245,792**

Transactions with directors and executive officers

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

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Directors	329,178	256,651
Executive officers	460,025	391,020
	789,203	**647,671**

26. CONTINGENCIES AND COMMITMENTS

Guarantees and letters of credit

	31 December 2019	31 December 2018
Guarantees in favour of customers	11,061,309	13,552,646
Letters of credit issued to customers	1,228,500	2,138,089

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

Other

	31 December 2019	31 December 2018
Undrawn credit commitments	37,231,125	67,173,252
Collaterals for loan portfolio	699,473,780	700,488,617

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 2019.

Lease commitments

Lease commitments for the years ended 31 December 2019 and 2018 are composed as follows:

	31 December 2019	31 December 2018
Not later than 1 year	791,264	929,605
Later than 1 year and not later than 5 years	1,534,587	1,930,548
Later than 5 years	515,303	595,082
Total	2,841,154	**3,455,235**

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 2019, the maximum non-cancellable commitment payable not later than one year is EUR 201,590 (2018: EUR 206,062).

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 2019	31 December 2018
Current income tax expense	1,061,431	551,480
Deferred tax income	(490,853)	(117,818)
	570,578	**433,662**

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:

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Profit before tax	6,683,932	4,804,064
Add/Less: non-deductible expenses	(721,930)	(98,047)
Non-allowable tax depreciation	107,157	18,535
CBK Impairment losses allowed for tax purposes	4,545,151	790,242
Taxable profit/ (losses) for the year	**10,614,310**	**5,514,794**
Tax profit/(losses) carried forward	**10,614,310**	**5,514,794**

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:

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Liability at 1 January	(213,306)	(331,124)
Release for the period	490,853	117,818
Asset/ (Liability) at the end of the year	**277,547**	**(213,306)**

Deferred income tax liabilities are attributable to the following items:

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Allowance for loan impairment	454,515	79,024
Decelerated depreciation	10,716	1,854
Deferred interest expenses	25,622	36,940
	490,853	**117,818**

Income tax liability is consisted as follow:

	For the year ended as at December 31, 2019	For the year ended as at December 31, 2018
Accumulated taxable profit	**10,614,307**	**5,514,794**
10% tax on income	1,061,431	551,480
Prepayments of income tax during the year	(864,471)	(912,383)
Income tax receivable	**196,960**	**(360,903)**

Banka Kombëtare Tregtare Kosovë sh.a.
Explanatory notes as of and for the year ended 31st December 2019
(amounts in EUR, unless otherwise stated)

28. EXCHANGE RATES

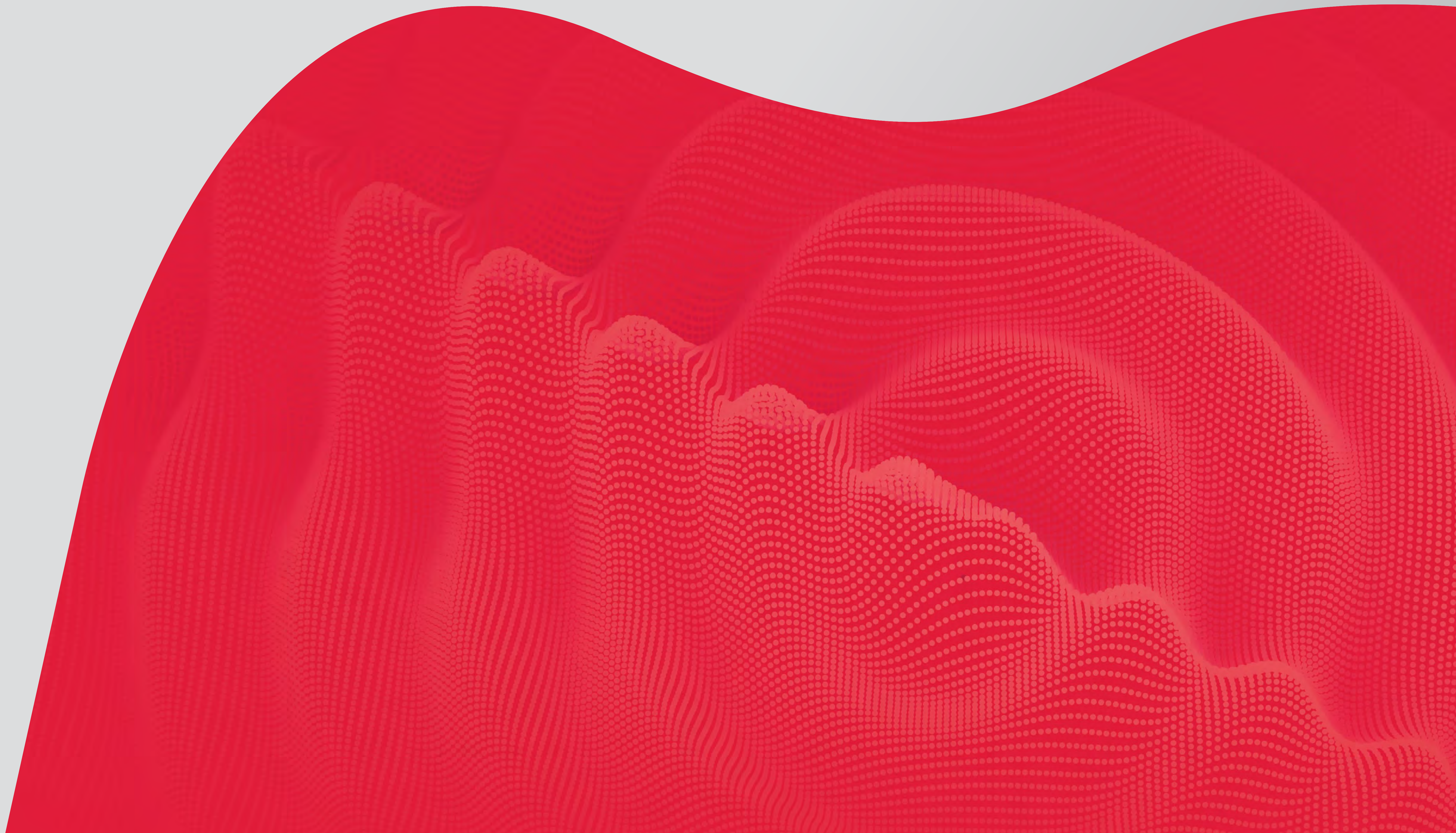
Official exchange rates used in the translation of the items denominated in foreign currencies in the statement of financial position were as follows:

	31-Dec-19		31-Dec-18	
Currency	**Units per EUR**	**EUR per Unit**	**Units per EUR**	**EUR per Unit**
USD	1.12331371	0.8902233	1.14497278	0.87338321
GBP	0.85054793	1.1757128	0.894133321	1.11840167
CHF	1.08538604	0.9213312	1.126886864	0.88740053
ALL	121.77000033	0.0082122	123.4200005	0.00810241

29. EVENTS AFTER THE REPORTING PERIOD

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As the situation is still evolving in Kosova and worldwide, its extent is highly uncertain at the time of issuing these financial statements. The management expects loan provision, fair value and impairment of investment securities as well as interest income and interest expenses related to financial instruments to be impacted by the situation to be impacted by the situation. The impact will be recognized by the Company in 2020. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects. Management considers that this outbreak to be a non-adjusting event after the reporting date and has made a disclosure to the financial statements.

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



BKT KOSOVA

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