2018
ANNUAL REPORT

Banka Ekonomike

Content

Banka Ekonomike

Fatos Krasniqi
Chief Executive

Message from
Chief Executive

Dear Colleagues, Clients and Shareholders of Banka Ekonomike ,

The year 2018 was not only a very positive year for the Economic Bank, but is now also marked as the most successful year of our bank since its establishment. This gives us a special pleasure when experiencing the achievement of success based on the contribution of many colleagues over the years who have entrusted the mission and vision of our bank and have given each one the maximum in achieving this success.

For me as executive director this year is even more special because it is the first year as the head of this institution and I would like to thank all the colleagues that have made me feel part of the family of Banka Ekonomike since the very first day.

During 2018 we operated in a macroeconomic environment that was better than in many other countries in Southeast Europe with a GDP growth of about 4 percent, thus contributing to another very good year for the bank, with a pre-tax profit of € 5.249 million.

Also during 2018, Banka Ekonomike increased the number of loans in all segments always with a reasonable and reasonable approach, increasing our portfolio by EUR 12 million to EUR 178.158 million at the end of the year, recording an increase of 7.30 percent.

As a result of our prudent approach and a higher level of customer service, we have managed to keep the lowest level of non-performing loans since the existence of Banka Ekonomike. The year 2018 ended with 3.3 percent of non-performing loans. At the same time, the banking system of Kosovo has the lowest ratio of non-performing loans in South East Europe.

Our deposits reached the highest level ever at EUR 250,272 million, recording an increase of 18 percent. This increase in deposits is a clear example of the trust the customers have at Banka Ekonomike and their satisfaction with our service.

The liquidity risk is treated with added care, where the ratio between loan exposures and deposits is at the level of 71 percent. Along with its successful performance, being the only 100 percent local bank, this year as well the customer service was our priority, where we focused on further enhancing customer satisfaction with all of our products and services. We have made significant investments in technology and employee training to meet and exceed the expectations of our customers to ensure a unique experience in each customer relationship.

During 2018, we worked on the further re-consolidation of the information technology department by carrying out many projects that not only fulfilled the bank's legal requirements but significantly improved and speeded up the internal and customer services.

Social responsibility towards society continues to be one of the priority pillars of the bank. During 2018 we paid special attention to the support of our athletes and clubs to improve infrastructure conditions, participation in international competitions, etc.

Among other things, this year the bank has worked hard to improve processes, enforce compliance, especially full compliance with applicable laws and regulations, advance distribution channels and create the most positive and realistic image of the bank.

Such success can only be achieved with a dedicated staff, so I want to thank every member of our great family of Banka Ekonomike, especially the Deputy Chief Executive, Hamide Pacolli Gashi and the Deputy Chief Executive Officer, Arben Ferri. A special thank ypu goes as well to the Shareholders of Banka Ekonomike and to the Board of Directors for a continued support in passing all the challenges with great success during 2018.

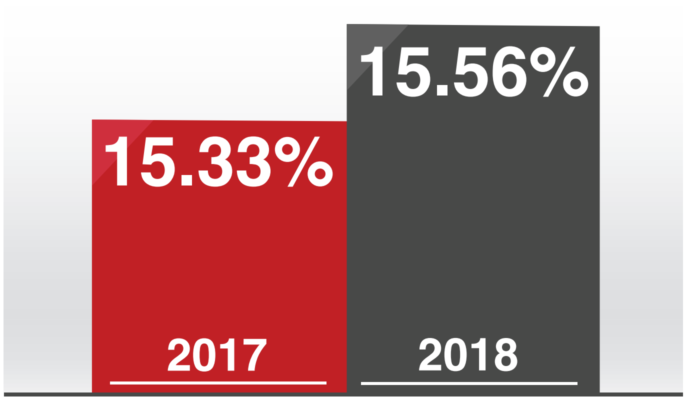
And in the end, a special thank you goes to our customers who, with the confidence shown to us, have become part of our success.

Fatos Krasniqi
Chief Executive

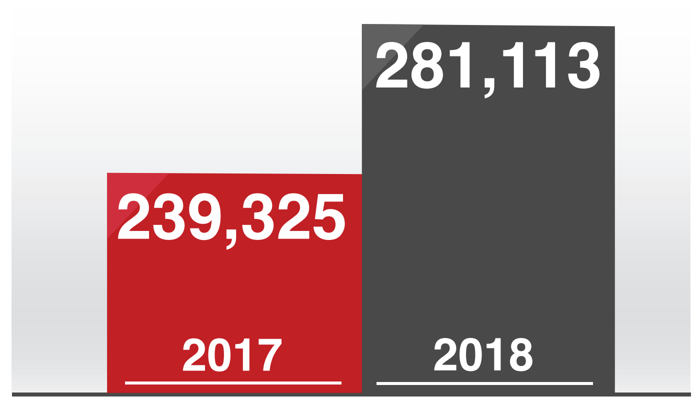
Hamide Pacolli Gashi
Deputy Chief Executive

Arben Ferri
Deputy Chief Executive Officer

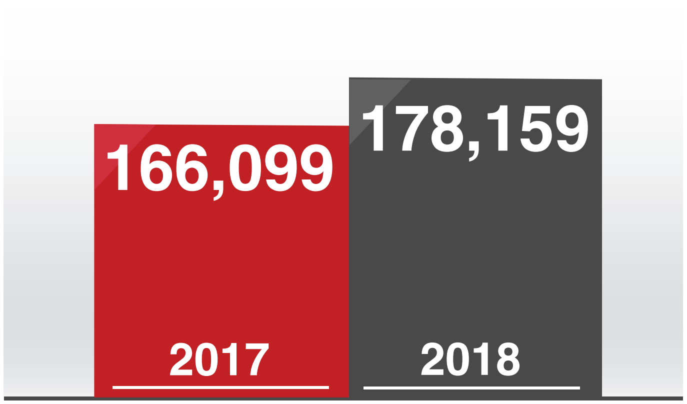
Capital adequacy ratio



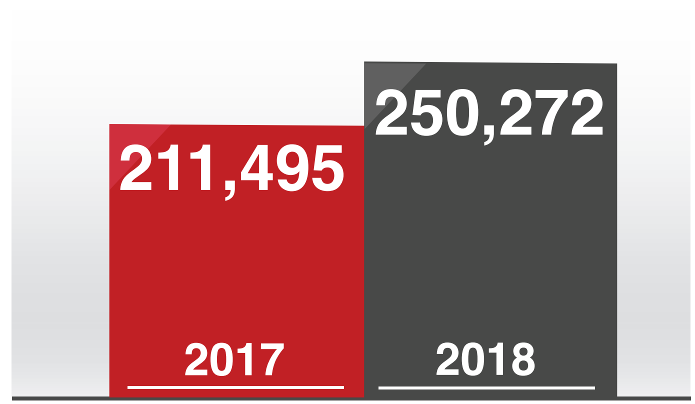
Assets (in millions EUR)



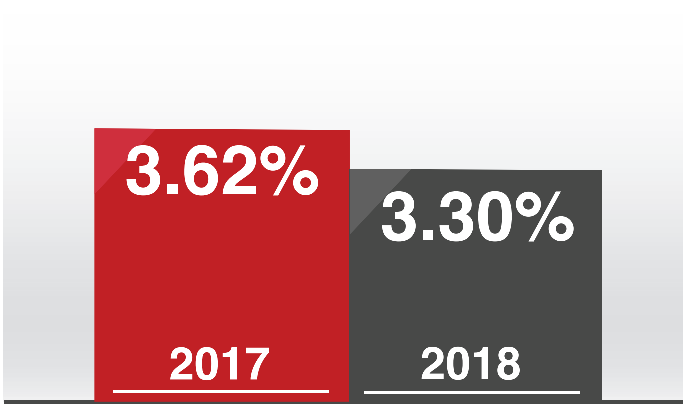
Loans (in millions EUR)



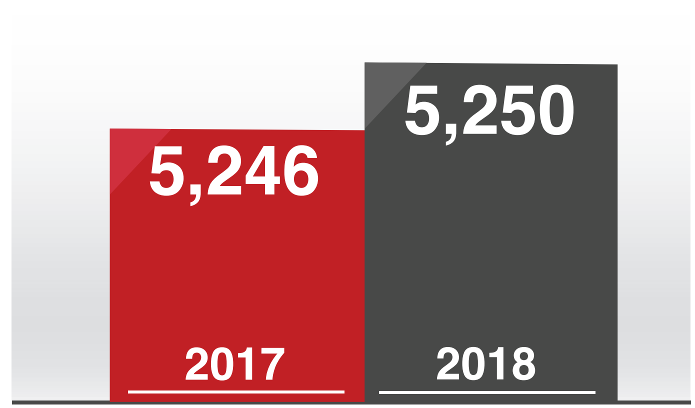
Deposits (in millions EUR)

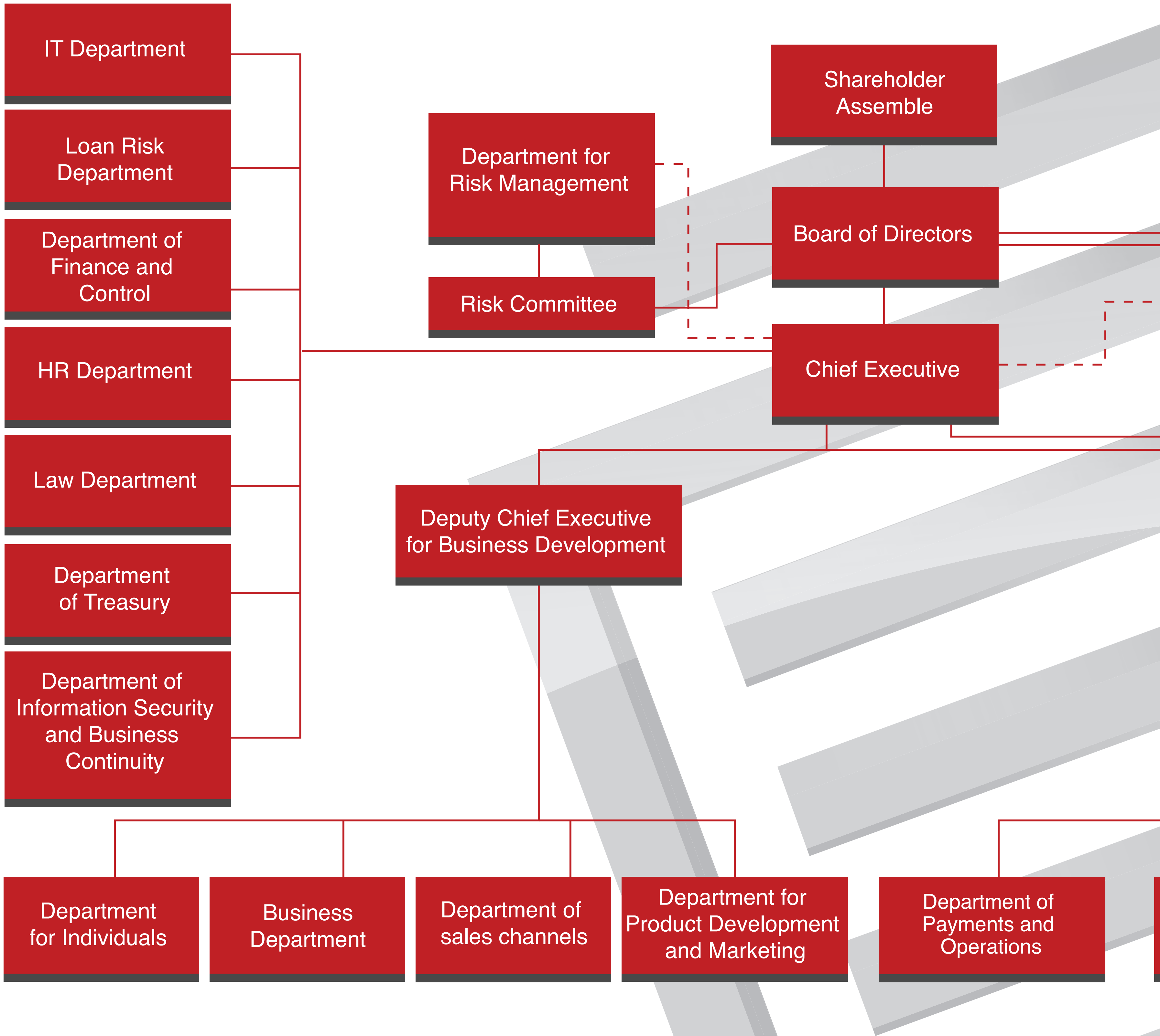


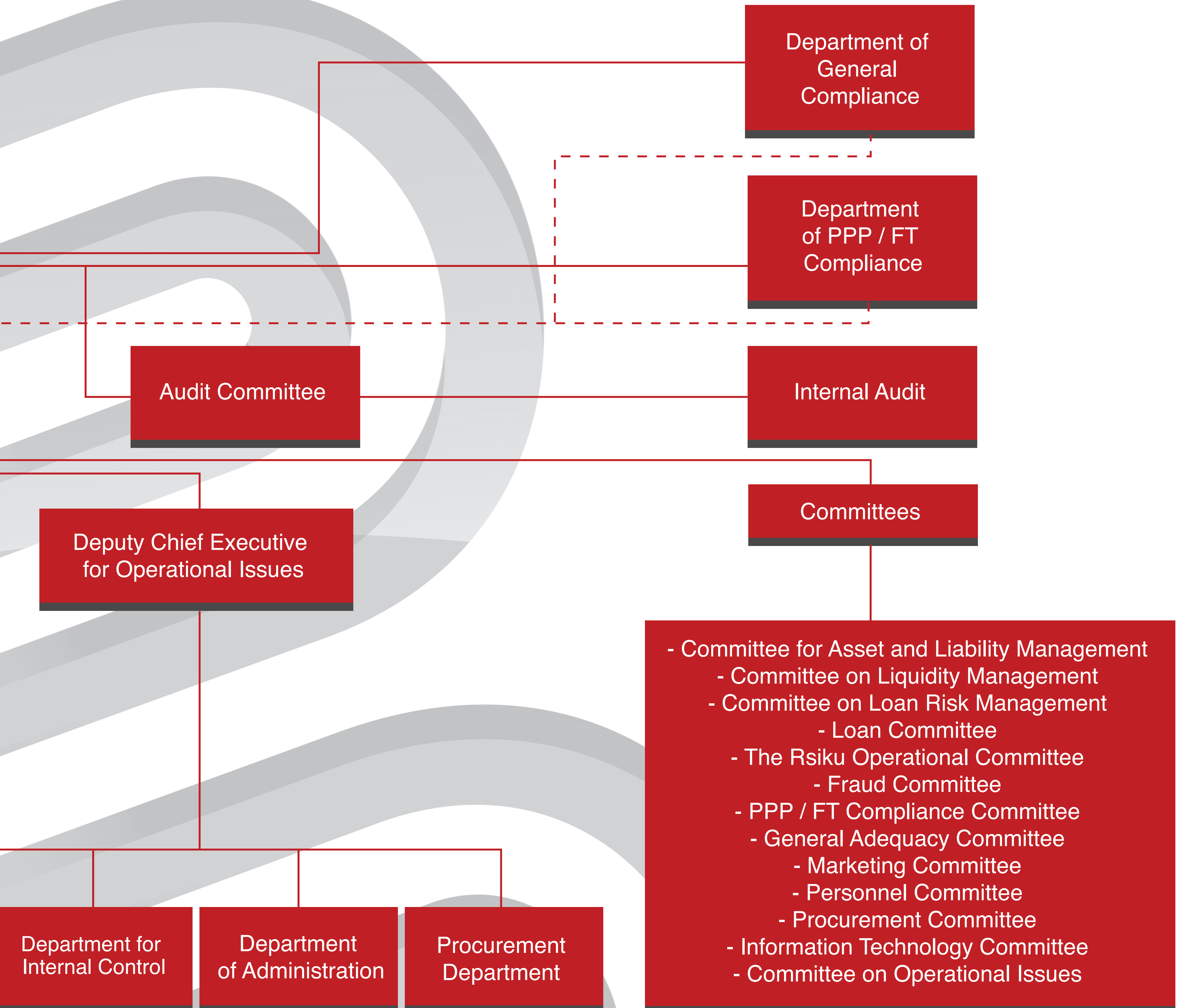
Non-performing loans (NPL)



Profit before tax (in millions EUR)




IT Department
Loan Risk Department
Department of Finance and Control
HR Department
Law Department
Department of Treasury
Department of Information Security and Business Continuity
Department for Risk Management
Risk Committee
Shareholder Assemble
Board of Directors
Chief Executive
Deputy Chief Executive for Business Development
Department for Individuals
Business Department
Department of sales channels
Department for Product Development and Marketing
Department of Payments and Operations


Department of General Compliance
Department of PPP / FT Compliance
Audit Committee
Internal Audit
Committees
Deputy Chief Executive for Operational Issues
- Committee for Asset and Liability Management
- Committee on Liquidity Management
- Committee on Loan Risk Management
- Loan Committee
- The Rsiku Operational Committee
- Fraud Committee
- PPP / FT Compliance Committee
- General Adequacy Committee
- Marketing Committee
- Personnel Committee
- Procurement Committee
- Information Technology Committee
- Committee on Operational Issues
Department for Internal Control
Department of Administration
Procurement Department

Vision

A bank dedicated to constant growth and continued quality with professional high standards and quality services.

Mission

MODEL local bank:

Main Focus is to enable customers easy and quick access to diversified banking products, raising value to customers, employees, and shareholders;

Offering a modern local provider of electronic banking services;

Determining the professional upkeep for our employees;

Ethics, respect and teamwork are our values;

Laws, policies and procedures are strictly respected!

Our values

We are characterized by TEAM-WORK, by which we meet the needs of our customers. Teamwork brings mutual respect, better middle ground relations, and empowerment towards achieving our common goals.

We are characterized by RESPECT to each other and RESPECT for our clients.

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

Banka Ekonomike
- A success story

Banka Ekonomike was licensed in 2001 when it also started operating as the only 100 percent local bank.
Being the only fully owned local capital bank, our mission took on an even more important dimension because through providing a higher level service, we would like to give an example that this could also be achieved by an established financial institution entirely from the country.
Today, almost two decades later, we can proudly say that not only that have we achieved this goal but in many areas we have also surpassed.
One of the key assets of the bank are our 331 employees who are distinguished by their professional training and continuing development in order to improve their performance to the best of both clients and the bank. Excellent results push us to pay more attention to training and continuous staff advancement. In order to be as accessible to customers and following market demand, Banka Ekonomike also focused on improving distribution channels this year; namely branch network, call center, ATMs, POS and customer care.
In order to create a strong image and presence in the market, Banka Ekonomike has reached an extension of the branches throughout the territory of Kosovo. During 2018, Banka Ekonomike has operated a total of 30 branches, which are divided into 7 main regions within which 23 sub-branches operate. According to the statistics from the total bank end-of-year 2018 report, out of 201 branches / sub-branches present in the banking market in Kosovo,

Banka Ekonomike ranked 3rd or about 15 percent participation in the total number, which is a target indicator of the bank to be as close to clients as possible in providing services. In 2018, the bank has moved branches in Klinë / Klina, Hajvali and Drenas to more modern facilities and has remodeled the branch of Prizren.
Also, taken into consideration the development of the banking market towards the digitalization of service delivery, in Ferizaj / Uro evac town our bank has created self-service spaces for 24/7 in order to facilitate access to services at any time by clients.
Banka Ekonomike strongly believes that by supporting activities of different groups as needed, contributes to social welfare and the positive results positively reflect also on the bank.

Macroeconomic Environment

Developments in the Euro Area and the countries of the region in 2018 were characterized by annual growth of 1.8 percent, which is a lower growth rate compared to the previous year of 2.4 percent, while inflation has increased 1.7 percent compared to 1.4 percent in the previous year.

Kosovo's economy, similar to that of the Eurozone and the countries of the region, was characterized by slowing growth. According to the data of the Kosovo Agency of Statistics (KAS), Gross Real Domestic Product during 2018 results to have increased by about 3.9 percent. CBK's expectations for this growth rely mainly on changing external sector dynamics over the last months of the year (export growth and slowdown in import growth), as well as increased capital expenditure and public spending.
According to CBK projections, economic activity in 2019 will mark a slight improvement compared to 2018, reaching the 4.2 percent rate (4.0 percent in 2018).

The consumer price index in 2018 has marked the average rate of 1.1 percent. The average inflation rate was 2.2 percent.
The fiscal sector was characterized by an increase of revenues of 4.4 percent and budget expenditures of 13.0 percent. Despite the fact that the growth rate of expenditures was significantly higher than the rate of revenues, Kosovo's budget recorded a low budget deficit of 0.8 percent of Gross Domestic Product.
Public debt during 2018 has increased to 1.1 billion Euros, about 9.7 percent higher compared to 2017. The growth of public debt in Kosovo is attributed to the growth of domestic debt while the external public debt was characterized by a decline. As a percentage of Gross Domestic Product, public debt has reached 17.1 percent from 16.2 percent in 2017. Despite growth, this level of debt is still far from the 40 percent threshold set by law.

The external sector during 2018 has been characterized by an annual growth of the current account deficit 31.2 percent. As a percentage of Gross Domestic Product, the current account deficit is estimated to have reached 14.5 percent, down from 11.7 percent in 2017. This increase in current account deficit is attributable to the rise in the goods deficit as well as the reduction of the service surplus and primary income, while the secondary income balance marked an increase.
The financial sector continues to be characterized by high stability, assessed on the basis of the level of performance indicators and financial health.

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

Banking sector

The banking sector continued to have the main contribution to expanding the activity of the financial system in the country, followed by the microfinance sector.
The expansion of banking and microfinance activity continues to be mainly driven by deposits, in external sector borrowings (various credit lines). Banking sector loans, as a major contributor to the growth of the financial system's activity, have been characterized by a significant annual growth during 2018. Banking sector loans amounted to 2.76 billion Euros in 2018, marking an annual growth of 10.9 percent.
Positive impact on the growth of active loans during 2018 had new loans issued both to enterprises and households. The most favorable banking offers, expressed through improving lending conditions for both enterprises and households, resulted in the growth of the entire portfolio of active loans by the end of the period.

Also, the increase in the demand for loans from both categories resulted in a general increase in lending activity throughout the 2018 quarters.
Some of the factors positively impacting lending growth have also been the positive developments in non-bank structural factors such as the launch of the Kosovo Trust Guarantee Fund in 2016, private bailiffs, notary services, etc.
Loan interest rates continued to decline, reaching the lowest historical level, to 6.6 percent from 6.8 percent in the same period last year, indicating the continued ease of access to banking financing.
The main source of banking sector activity financing continues to be deposits, the value of which during this period amounted to 3.2 billion Euros, representing an annual growth of 6.9 percent.
The stability of deposit growth was largely contributed by the growth of household deposits, which are considered as the most stable source of financing in relation to other financing channels.

Average deposit interest rates followed the upward trend over the four quarters of 2018 compared to 2017.

The average interest rates on loans and deposits in the Kosovo banking sector are already at an approximate level with the regional interest rate averages.
Financial health indicators continued to show a high level of sustainability of this sector in all aspects.
The banking sector is continuing to be characterized by a decline in the level of non-performing loans and improvement of their coverage by provisions. The level of non-performing loans at the end of 2018 stood at 2.7 percent, which marked a further fall compared to last year when it was 3.6 percent, representing a decrease of 0.4 percent..

Source:
Central Bank of the Republic of Kosovo
- Financial Stability Report.

The position of Banka Ekonomike
in the Kosovo banking market

In 2018, Banka Ekonomike managed to maintain its position in the market, following the trend of the banking market, which continues to increase. The banking market growth in total assets of 8.2 percent was followed closely by Banka Ekonomike, which has increased in total assets of 17.5 percent.

In real numbers at the end of 2018, the assets of Banka Ekonomike increased to 281 million Euros compared to 239 million Euros at the end of 2017.

Participation in loans

The share of Banka Ekonomike in total market loans, as of December 31, 2018, was 6.51 percent of the general banking sector.

Participation in deposits

The share of Banka Ekonomike in total market deposits, as of December 31, 2018, was 7.57 percent of the total banking sector in Kosovo.

% in the volume of loans

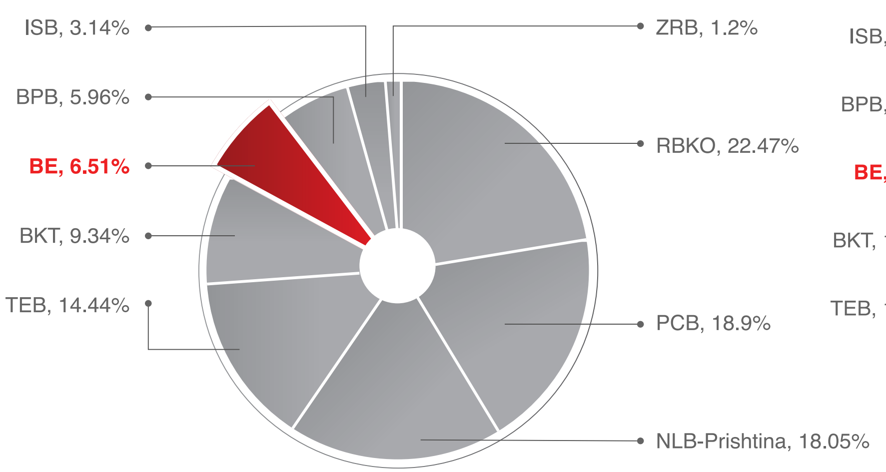


Figure 1: Banks' participation in general loans, December 31, 2018

% in deposit volumes

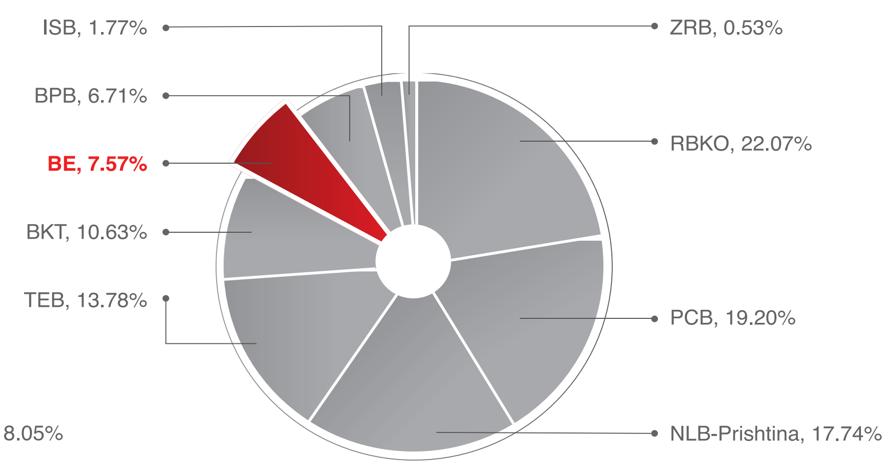


Figure 2: Banks' participation in deposits, December 31, 2018

Statement of financial position

(Amounts in EUR thousand)	As at 31 December 2018	As at 31 December 2017
Assets		
Cash on hand and at banks	20,759	16,887
Balances with the Central Bank of Kosovo	55,869	30,554
Loans to customers	170,721	157,851
Investments in securities	25,496	26,456
Property and equipment	6,210	6,360
Intangible assets	568	514
Other assets	1,490	703
Total assets	**281,113**	**239,325**
Liabilities		
Due to customers	248,181	209,447
Due to banks	2,091	2,048
Subordinated debt	1,050	1,050
Current tax liability	76	156
Other liabilities	354	463
Total liabilities	**251,752**	**213,164**
Equity and reserves		
Share capital	24,543	21,337
Revaluation reserve	100	118
Retained earnings	4,718	4,706
Total equity and reserves	**29,361**	**26,161**
Total liabilities, equity and reserves	**281,113**	**239,325**

Statement of profit or loss and other comprehensive income

(Amounts in EUR thousand)	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest income	18	14,738	14,284
Interest expense	18	(2,296)	(2,175)
Net interest income		**12,442**	**12,109**
Fee and commission income	19	2,642	2,536
Fee and commission expense	19	(755)	(752)
Net fee and commission income		**1,887**	**1,784**
Other operating income	20	34	80
Net foreign exchange gains / (losses)		31	34
Revenue		**14,394**	**14,007**
Other operating expenses	21	(9,115)	(8,965)
Net impairment losses on loans	8	(29)	204
Total operating expenses		**(9,144)**	**(8,761)**
Profit before tax	22	5,250	5,246
Income tax		(532)	(540)
Net profit for the year		**4,718**	**4,706**
Other comprehensive income			
Revaluation of securities (Note 17)		(18)	16
Total comprehensive income for the year		**4,700**	**4,722**

Performance of **Banka Ekonomike**

Banka Ekonomike attaches particular importance to the maintenance of a stable capital base against the risks assumed. It has maintained a healthy capital base, marking an increase in the capital adequacy ratio for 1.51 percent; from 15.33 percent in 2017 to 15.56 percent in 2018.
Banka Ekonomike remains committed to delivering its long-term strategic plans, in order to continue to carry on operations with ever-increasing success.

Continuing the tradition of enhancing and maintaining customer satisfaction, working constantly to achieve the financial performance targets, Banka Ekonomike has made progress in most of the financial indicators in 2018, closing the year with profit before tax of 5.249 million.
Net revenues from fees and commissions recorded an increase of 8.2 percent, and net interest income increased compared to last year by 0.62%.

Bank assets

Commitment to values, performance goals and ongoing commitment to expanding the bank's network and infrastructure has resulted in increased bank assets for the fifth consecutive year. This year, the growth of the credit portfolio has also played an important role in the growth of assets. Banka Ekonomike closed the year 2018 with 281,113 euros, unlike 2017, when it had 239,325 euro assets. This has created a good basis for asset growth in 2019.

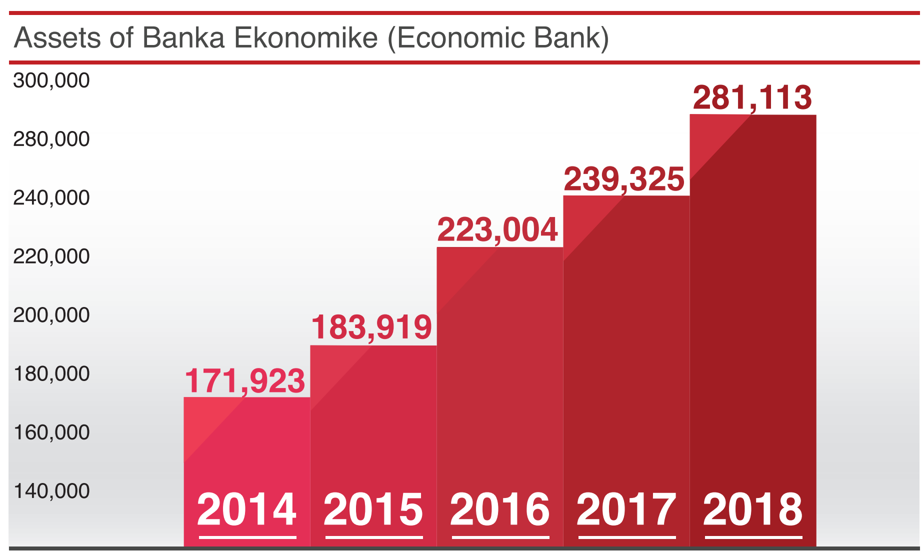


Figure 3: Assets of Banka Ekonomike (Economic Bank), 2014 - 2018; All figures are in '000 Euros.

Credit performance

Proper portfolios management and balanced risk management have influenced this year to continue the growth trend, and Banka Ekonomike has a remarkable increase in the portfolio of loans, including the private and business sectors. During 2018 the loan portfolio has increased from 166,099 million Euro to 178,159 million Euro.
It is worth noting that the weighted average market rate dropped from 6.6% in 2017 to 6.3% in 2018. The same downward trend was followed by the Economic Bank, where it dropped from 7.3% in 2017 to 7.2 % in 2018

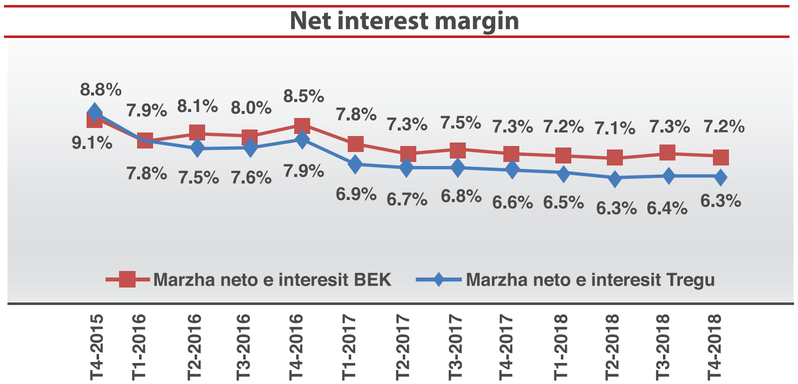


Figure 4: Net interest margin of loans Banka Ekonomike in relation to the market, 2015 - 2018;

Banka Ekonomike has consistently promoted its best lending products with marketing campaigns.

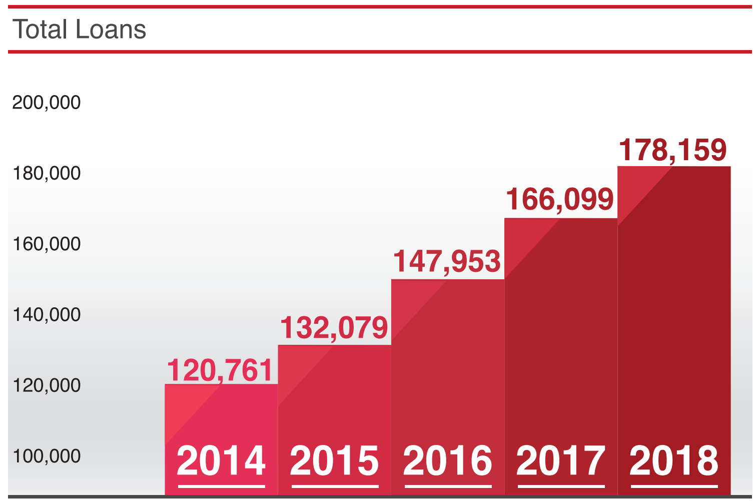


Figure 5: Credit Portfolio, 2014 - 2018;
All figures are in '000 Euros.

Deposit performance

Annual growth of deposits is an indicator of the continued growth of customer confidence in the services of Banka Ekonomike. The year 2018 has increased deposits to 250,272 million Euro from 211,495 million Euro as it was in the previous year.

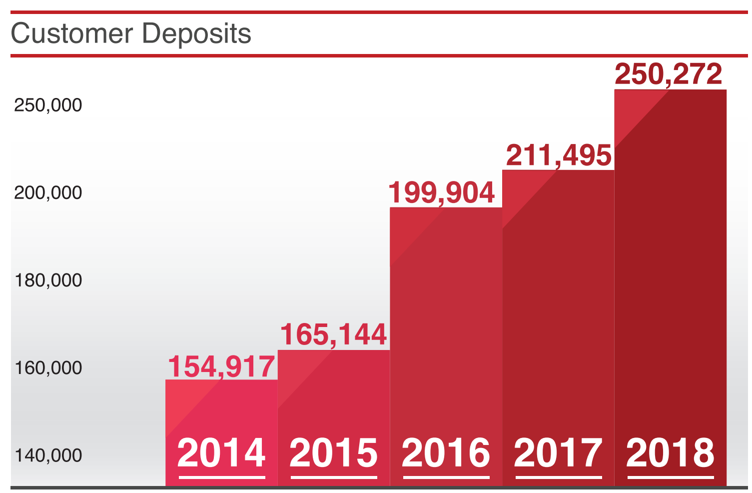


Figure 6: Customer Deposits, 2014 - 2018;
All figures are in '000 Euros.

Income from interest
and non-interest

Euro '000	2014	2015	2016	2017	2018
Income from interest	13,552	13,571	13,450	13,845	14,503
Deposit costs	4,116	2,896	2,273	2,175	2,296
Net interest income	**9,436**	**10,675**	**11,177**	**11,670**	**12,208**
Net income from commissions and fees	**1,307**	**1,260**	**1,248**	**1,375**	**1,420**

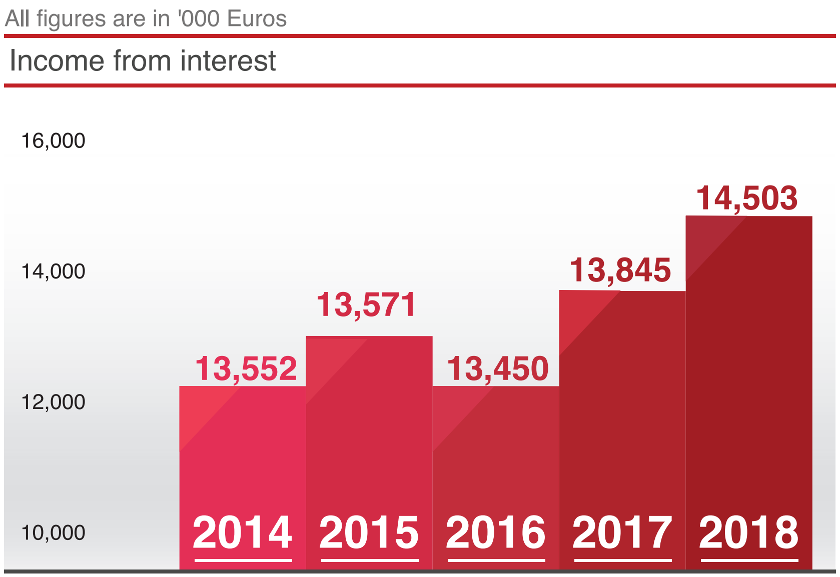


Figure 7: Net Interest Income, 2014 - 2018; All figures are in '000 Euros.

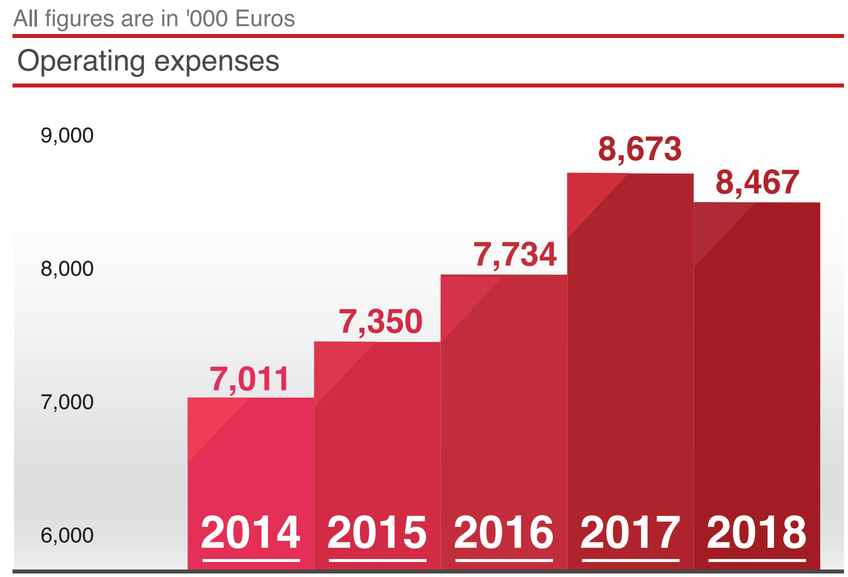


Figure 8: Operating Expenditures, 2014 - 2018; All figures are in '000 Euros.

Euro '000	2014	2015	2016	2017	2018
Administrative costs	3,481	3,718	4,081	4,730	4,406
Personnel expenses	2,520	2,787	2,793	3,109	3,198
Cost of evaluation	1,010	845	859	834	863
Total operating expenses	**7,011**	**7,350**	**7,734**	**8,673**	**8,467**

The rationalization and careful management of the operating costs of Banka Ekonomike has resulted in a decrease in expenditures for 2018 compared to the previous year.
Review of operating expenses has been a priority and has included reviewing all spending categories and planning such management so that the bank develops its activity at the highest professional level but at the same time ensure that the costs and the grow of costs is at a slower pace than revenue. One of the categories affected by spending review is the number of staff since 2017 was 342 while at the end of 2018 it was reduced to 331.

Business Development

During 2018, Banka Ekonomike continued to focus on improving and advancing services and products. The vast majority of development projects are related to the improvement of bank processes, always investing in staff training and capacity building.
The Bank has continued with various trainings for employees, both internally and internationally, which are considered as necessary for sustainable, long-term, long-term growth, business development. During 2017, the Bank held 3.01 days of training for staff, while in 2018 this number increased to 4.29 days of staff training.
In addition to staff investment, the bank has also paid particular attention to its image, investing in branch re-enactment, creating conditions and better environment for customers.
The Bank introduced promotional campaigns that were focused and tailored to meet customer preferences, needs and desires. They were really well received by the public and this confirmed that Banka Ekonomike is their chosen partner to find financial solutions.
The business department faced the challenges of competition over the past year but closed the end of the year in the context of long-term objectives.

In this case, despite the price movements in the market, Banka Ekonomike managed to secure a small increase in its portfolio by maintaining price margins. In order to be closer to the customers and to better identify their needs, Banka Ekonomike intends to divide the business development department into two units in the future: a department for corporations on one side and a department for small and medium enterprises on the other side.
As part of further development and advancement, Banka Ekonomike in 2018 has also added the leasing product. It is noteworthy that the Economic Bank is the first in the country, which offers this product as the domestic product of the bank.
During this year, the bank has reached a cooperation agreement with all auto industry importers in the country. All this was established and developed within the leasing law, approved in the Assembly of the Republic of Kosovo, making it much easier for every citizen to buy a car.

Total **loans**

The results of prudent portfolio management, proper risk management, consistent with the bank's strategy, and the provision of professional services while maintaining customer satisfaction, have also brought about a steady growth performance of the loan portfolio in 2018.
During 2018 the total value of loans at Banka Ekonomike amounted to 178,159 million Euros, or about 12 million Euros more than in the previous year.
Banka Ekonomike has also launched a series of initiatives aimed at improving the current lending processes. Some of these initiatives are contract automation, centralization of disbursements, optimization of loan operators and corporate centralization. These initiatives are expected to have positive effects in the future, thus contributing to facilitating processes and increasing efficiency, while at the same time having a positive effect also on relationships with bank customers.

Credit exposure '000	2014		2015		2016		2017		2018	
	Exposure	%	Exposure	%	Exposure	%	Exposure	%	Exposure	%
Over 500 thousand Euros	38,105	31.55%	36,819	27.90%	41,788	28.24%	48,563	29.24%	41,924	23.53%
101 to 500 thousand Euros	30,498	25.25%	29,925	22.68%	28,430	19.22%	29,042	17.49%	36,318	20.39%
Up to 100 thousand Euros	23,083	19.11%	24,651	18.68%	28,172	19.04%	29,913	18.01%	30,970	17.38%
Segments for Individuals	**29,105**	**24.10%**	**40,567**	**30.74%**	**49,564**	**33.50%**	**58,581**	**35.27%**	**68,943**	**38.7%**
Total Exposure	**120,791**	**100%**	**131,962**	**100%**	**147,954**	**100%**	**166,099**	**100%**	**178,158**	**100%**

Micro **businesses**

The micro business sector represents an important segment for Banka Ekonomike and the same is characterized by a special dynamic. Banka Ekonomike has supported micro businesses with products and services designed to best serve the customers of this segment and has constantly invested in improving services and knowledge.

Banka Ekonomike continued to focus on this segment and managed to have 23.2 million Euro allowances, resulting in an increase in the segment's total portfolio of 3.5 % to reach 30.9 million Euro.

In the development of this portfolio, the segment of agriculture has also played an important role, which the bank has targeted with special conditions campaigns that take into account the specifics of this segment. Consequently, the number of creditors has also increased.

During 2018, the bank has used the “Kosovo Trust Fund Guarantee” to credit clients who have profitable business but lack collateral. Last year, talks were held on the bank's membership in the agro-window, which will provide special conditions for the agricultural segment, which is considered a very important segment by Banka Ekonomike.

Small and medium enterprises

Small and medium enterprises account for about 98% of all enterprises in Kosovo and have the potential to play an important role in the country's economic growth. Being a bank with 100% local capital, Banka Ekonomike has a special focus on financing these enterprises, offering products designed in full compliance with market changes in order to meet and support the demands of these businesses, and consequently positively affect the country's economic development.

mall and medium enterprises remain part of the development strategy of Banka Ekonomike and during 2018 there was a significant activity in this segment. Total permits totaled 29.9 million Euro, while total portfolio amounted to 36.3 million Euro.

The continued success of this segment is closely related to dedicated customer treatment by providing high quality products and services, which has ensured a close and long-lasting partnership.

Individual Clients

One of the most important priorities of Banka Ekonomike remains the segment for individuals. The primary and most important goal of the department for individuals is to maintain and increase the high level of customer satisfaction through the continuous advancement of the quality of banking services.

Another important issue is the improvement and expansion of the types of products and services offered to individual customers.

The year 2018 is characterized by the offering of special products that have distinguished us in the market and presented to clients through launched campaigns for loans and deposits.

Through these quality banking products, which have met the needs of a wide range of stakeholders, Banka Ekonomike has managed to increase the number of new customers. It has also been worked on analyzing and understanding the characteristics of clients and towards fulfilling the conditions and standard of living.

The Bank's emphasis on the growth and growth of the segment for individuals has shown its results in the increase of the total portfolio participation from 3.43%, respectively 38.70% in total compared to the previous year.

The development of the segment for individuals has been crucial both in the growth of the loan portfolio for 16.72% compared to the previous year and the growth of deposits at 14.44%. These are important indicators that demonstrate the impact of this segment on the overall bank profitability balance.

Social Responsibility **of the Corporate**

Taking care of the society where it works and acting is an obligation of every business, not just an area of activity that needs to be met. Social responsibility is no longer just funding, but it also implies the adoption of good practices of doing business and the awareness that it contributes to a better society.
Commitment and continued contribution to improve welfare in Kosovo society remains one of the main goals of Banka Ekonomike. Therefore, this contribution is a highly accountable and highly fulfilled responsibility through activities that have been developed in different fields.
Continued support of society, culture and education in Kosovo, like every other year, continued in also during 2018.

Support **Sports**

Sport encourages the development of important values such as loyalty, perseverance, friendship, collegiality, and solidarity. Sport, in addition to affecting physical health, also affects mental health. According to many thinkers, sport has a decisive influence on the character of a society. Having this in mind, Banka Ekonomike (has been constantly supporting domestic sports. So in 2018, Banka Ekonomike has supported the Women's Football Club "Hajvalia", which was established in 2015 and has competed in all local competitions and aspires to participate in international competitions.
Through this, Banka Ekonomike has shown that through sport, women and girls can be supported and strengthened even more.
The successful girls of' ''KFF Hajvalia" testified that support to them is appropriate, as they were twice championed and won the cup of Kosovo.
Also, the bank has supported the handball club KH Vëllaznimi from Gjakova, as well as the FC Prishtina football club. In addition to support for activities aimed at promoting and developing sports, Banka Ekonomike has also supported the organization of the Charity Tour, organized by the American Chamber of Commerce. Sport remains one of the most preferred areas of the Banka Ekonomike (Economic Bank) corporate social responsibility aspect.

Support **women entrepreneurs**

Under the motto "Empowering Entrepreneurship Women", Banka Ekonomike has joined the Global Mentoring Global Movement of Global Vital Voices held in 2018.
This first-ever organized event was supported by Banka Ekonomike in order to contribute to the empowerment of women entrepreneurs. The Global Mentoring Day Walk takes place every year worldwide for the celebration of the International Women's Day. On this day thousands of women, girls, men and boys from all over the world gather to take part in the walk. In 2017, over 133 leading women in the "Vital Voices" network, organized 126 walks in 60 countries, bringing together 13,000 people.

Marketing

Developing marketing means knowing the client well and creating the product and service that best suits her/him.
During 2018, Banka Ekonomike launched several campaigns for individual loans, loans for micro businesses, agro loans and also for other banking products and services.
The continued existence of Banka Ekonomike has resulted in public information on the bank and banking services and has also been successful in sales, achievement of bank's objectives and positive image creation.

Distribution Channels

Branch network

Technology and digitalization of business operations are a requirement of the time that everyone is trying to follow, but closeness to the client should not be neglected because the machine will never be able to replace human contact.
Therefore, in order to be always closer to its customers, Banka Ekonomike has a total of 30 branches, which are divided into 7 main branches and 23 sub-branches. According to statistics from the general bank report, Banka Ekonomike ranks 3rd according to its presence in the Kosovo banking market.

This proves once again that the purpose of Banka Ekonomike is to be present in every corner of the country.
To keep pace with the latest developments in providing more quality services to the domestic banking market, Banka Ekonomike has paid particular attention to the bank branch network. During 2018, branches were refurbished in order to provide faster and easier services to customers. The bank branches in Klina, Hajvali and Drenas have been moved to modern facilities and the branch in Prizren has been remodeled.

The number of branches in the banking market

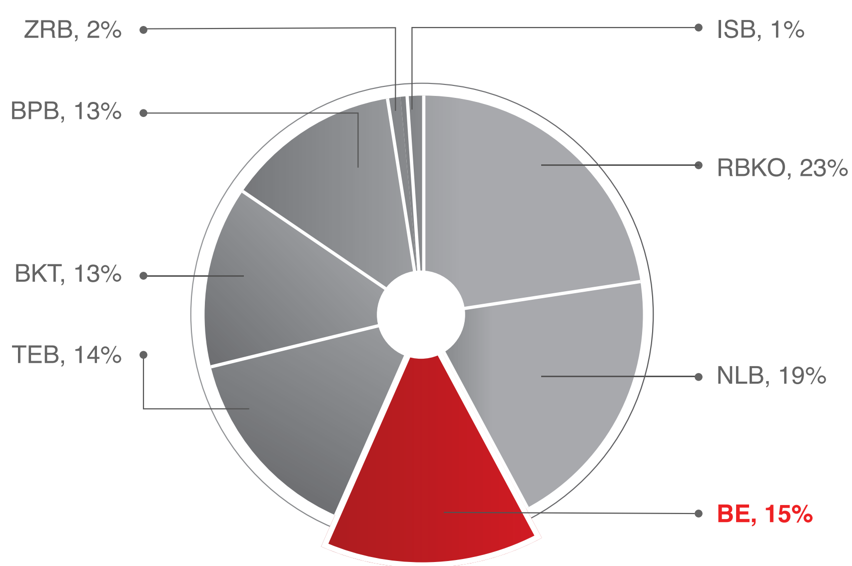


Figure 9. Banka Ekonomike (BE) participation in the number of branches in the banking market in percentage.

Number of branches in the banking market

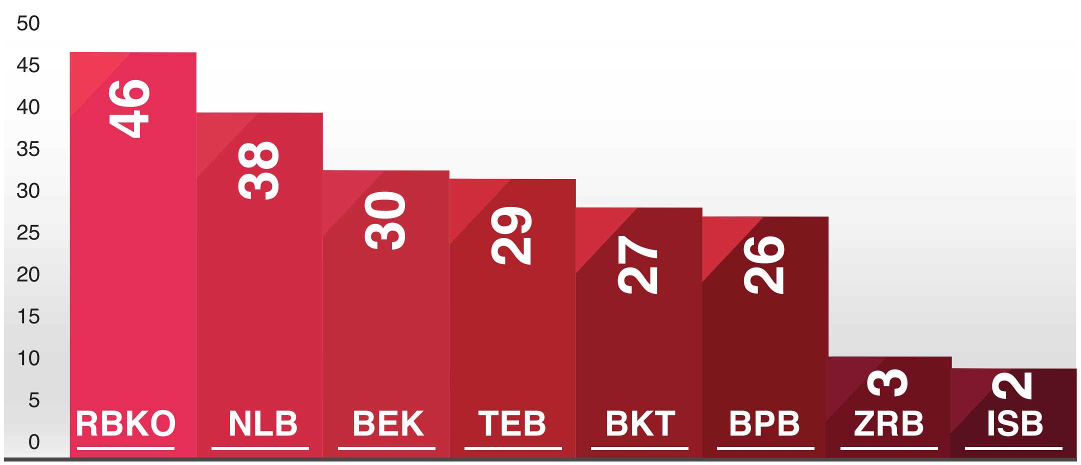


Figure 10. Participation of Banka Ekonomike on the number of branches in the banking market.

Alternative distribution channels

The call center, as an alternative and important customer service channel, has also played an important role in enhancing service delivery over the past year. Through the call center, Banka Ekonomike has received requests from customers and has provided clarifications and guidance on the Bank's products and offers.
The focus during 2018 was to provide professional services, support business activity, and increase customer confidence by developing long-term relationships with customers. Along with the call center, the Economic Bank has also provided support and care to its customers through social networks, the most important and used channel.

Banka Ekonomike has also invested and has continuously worked on providing services at any time to the customer through 50 ATMs spread throughout the country.

In the banking market, the participation was 10% in the number of ATMs. Starting from the development of technology and dynamic life and focus on service delivery at all times through ATMs for Banka Ekonomike has been one of the top priorities. This is evidenced by the up-time level of customer service, which in 2018 was 98%, while the total number of transactions was 726,000 or 12% more than in the previous year. In 2018, depositing funds at ATMs is higher than in the previous year. The year 2018 has increased for 103% in the number of deposits, while 93% has increased in value compared to the previous year.

Value and number of transactions deposited at ATMs

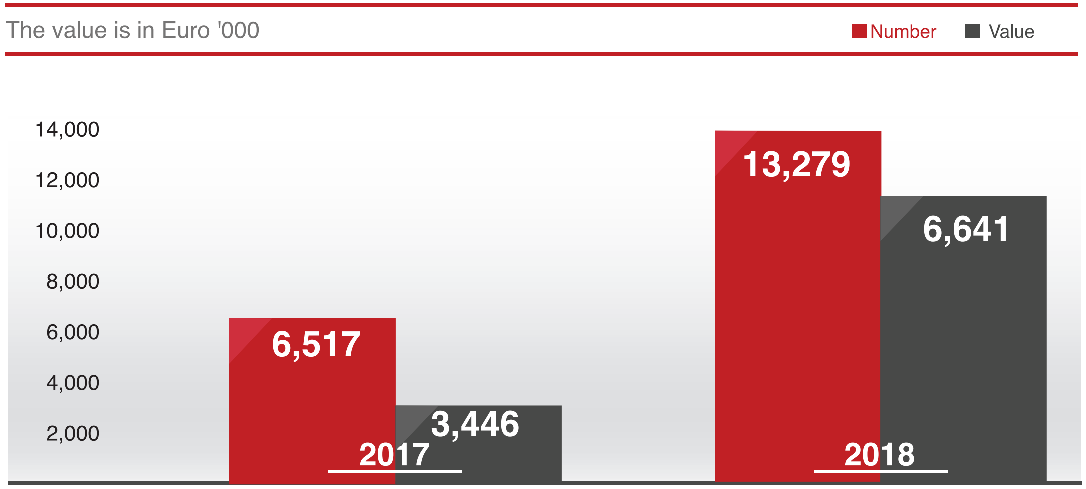


Figure 11. Value and number of transactions deposited at ATMs

In general, all types of card transactions (depositing, withdrawal and purchasing) at ATMs and point of sale (POS) increased in both number and value.

In 2018, the number of transactions increased by 14%, while the number of transactions increased by 22% compared to the previous year.

Value and total number of all types of card transactions

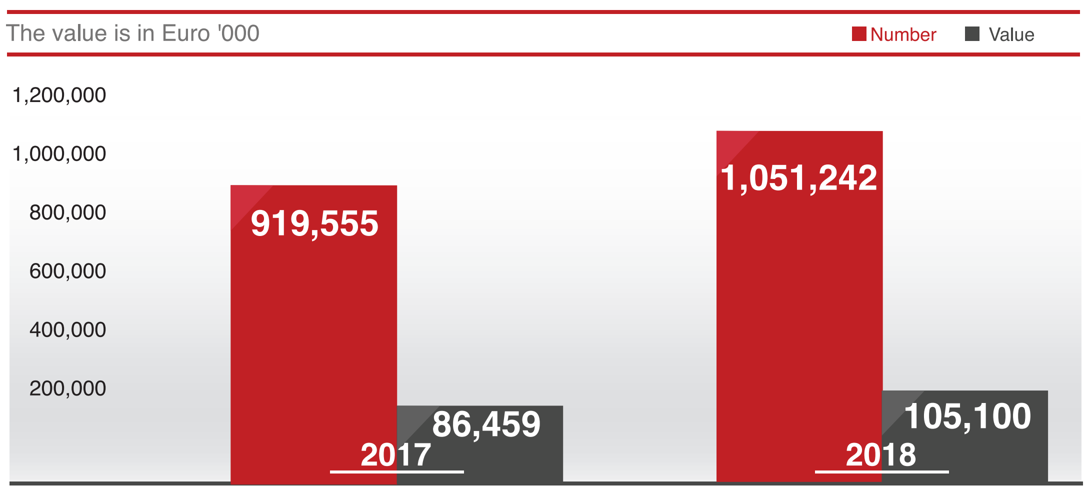


Figure 12. Value and total number of all types of card transactions

In a step with the development of the banking market towards digitalization of service delivery, during 2018, Banka Ekonomike created a self-service space 24/7 in Ferizaj, with the aim of facilitating access to customer services at any time during the 24 hours.
Banka Ekonomike is actively working on the new version of e-banking as well as on the successful implementation of m-banking during 2019.
In order to complete the provision of quality services to customers, Banka Ekonomike has a dedicated team in each branch that ensures that every service is provided properly and every customer request is addressed with care.

Customer care

Customers are the most important part of Banka Ekonomike, so taking care of them is an indisputable obligation. Customer care is ongoing and growing. Customer thoughts and suggestions play a very important role for the bank to recognize customer expectations and to develop products that suit them. Banka Ekonomike has continued to pay special attention to every customer, aiming to make their Bank experience unique, professional and enjoyable. The complaints handling unit has been looked after to serve as an important center of support, where any request or
suggestion is dealt with with great dedication, as a guide to improving the services provided.
The Department of Distribution Channels ie the Customer Care Unit, in collaboration with the Marketing and Human Resources Department, has engaged in 2018 “mysterious buyers”, whereby it has resulted that the level of service of the staff has exceeded the expectations of the bank in providing quality and professional services.

Product Knowledge (%)

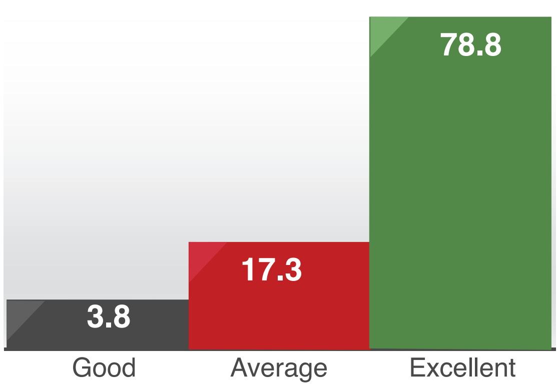


Figure 13. Percentage Product Knowledge.

Understanding the purpose of the meeting (%)

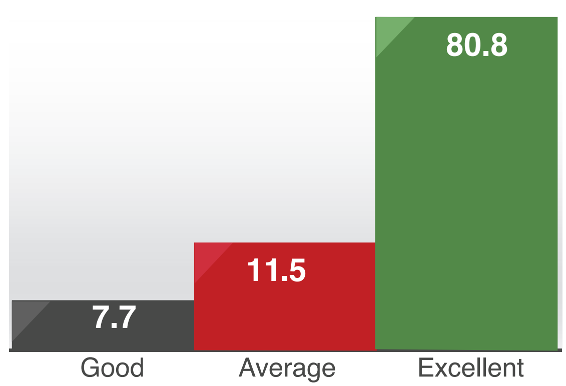


Figure 14. Understanding the purpose of the meeting with a percentage.

Understanding customer needs (%)

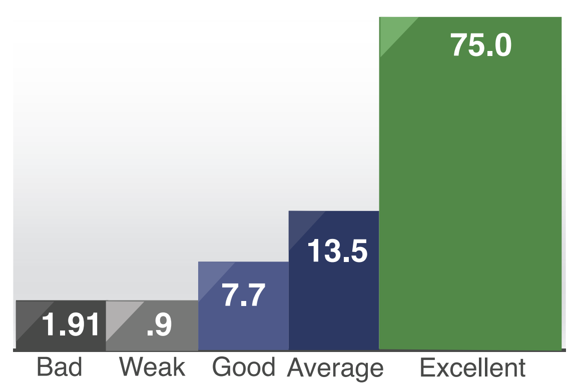


Figure 15. Understanding customer needs by percentage

Risk Management

The primary objective of the risk management function is to identify, analyze, measure and manage risks. The most difficult role is to determine the risk appetite individually against the loan, operational, market, liquidity risk, investment risk, or other lesser known risks, so that these risks are transferred as an added value and to balance the risk and return ratios.

Key Risk Indicators for Banka Ekonomike (Economic Bank) throughout the period were within the compliance limits set by the Central Bank where the capital adequacy ratio (CAR) reached the rate of 15.56%, which is significantly higher than the minimum rate of 12%.

In order to ensure business continuity, stress tests are undertaken to cope with the potential shocks to the quality of the credit portfolio and the level of capitalization that may follow as a result of some hypothetical scenarios, such as: raising the rate of non-performing loans, the opposite effects of reducing or raising interest rates on assets or liabilities, and the failure of larger borrowers or other scenarios.

Performed stress tests have successfully exceeded the most conservative parameters with the purpose of predicting events that may occur in the future and the results are taken into account to assess and limit the effects of potential scenarios in times of crisis.

Loan risk

Credit risk has continued to play the main role, during which time actions have been taken to reduce the level of non-performing loans, diversification of household loans compared to those of enterprises, diversification of portfolio not exceeding 10% of first class capital to a client or a related group, further advancement of capital requirements in accordance with the highest capital standards, or full compliance with all legal and regulatory requirements. In addition, in accordance with the new International Financial Reporting Standards (IFRS 9), a complete system for measuring, classifying or recognizing expected losses (provisions).

The level of non-performing loans is a very important indicator, expressing the ratio of non-performing loans to total credit exposures and this rate has a downward trend. The level of nonperforming loans is at the lowest levels in the years to 3.3%, which has positively impacted on the growth of regulatory capital, sufficient to cope with the effect of the negative fluctuations under all stress scenarios of the loan risk test.

Operational risk

Operational risk is of great importance at all levels of the bank. It includes the risk of losses occurring by internal processes, by people or systems, also by external factors, fraud including legal risk, divided into categories by Basel. Our bank has managed to develop key indicators to prevent the risk of potential incidents. The standard methods used by the bank to manage operational risk are the data obtained from incident databases and management of policies and procedures that by improving processes and reporting, reduce the number of operational losses and reduce the impact from potential risks.

To create a more effective control over operational risk, it is necessary to assess the existing risk profile of the bank through the categorization of these incidents in the database, including events that point to operational risk.

Market Risk and Liquidity Management

Changes in market prices such as interest rates, equity prices, foreign exchange rates and credit margins (which are not related to changes in the debtor/ creditor's status) that may have an impact on the profits of the bank or the value of holding financial instruments result in market risk.
Liquidity management also plays an important role in the banking sector. Its risk is defined as the inability to fulfill timely and future obligations in time. Given that customer deposits are the main source of bank financing, the bank should have available funds to meet these liabilities in potential circumstances.
Throughout the period, the limits set by the regulator for the ratio of 25% of liquid assets to short-term liabilities were maintained, and on regular basis key liquidity indicators.

Risk-based supervision

The Bank, according to the draft regulation on the process of internal capital adequacy assessment (ICAAP), is building a system for assessing these risks. This document is being drafted in accordance with draft regulatory requirements, which are expected to come into force next year and set the criteria for internal bank assessment of capital requirements according to the second pillar risks and according to the newest standards of capital.

Operations

In 2018, a number of development projects had have to do with the improvement of bank processes and the fulfillment of legal requirements.
Regarding developments in the improvement of bank processes, it is worth mentioning the automatic application for debit cards, where it is possible that cards that have been active in the last three months and are close to expiration, to be reproduced in advance in order to be available to our clients as soon as they expire. This service is important to our customers, that they never remain without valid cards. Another project that brings benefits to bank customers is the implementation of KESCO payments through the E-Banking service, which enables Banka Ekonomike customers to make electricity payments and bills online.
Also, regarding the fulfillment of legal requirements, there are two projects during 2018. The Bank has implemented the ABU (Automatic Billing Updater) project, which in cases where customers change the card status (shutdown or expiration), the system can update the data of Mastercard to online merchants or otherwise called e-commerce. Whereas, the VISA PIN management project, enables the PIN to be changed at ATMs of Banka Ekonomike.

National transfers

National transfers in 2018 compared to the previous year have increased. If we take the total value of incoming and outgoing transfers from 877,748 in 2017 it has increased to 894,758 in 2018, it is an increase of about 2%.

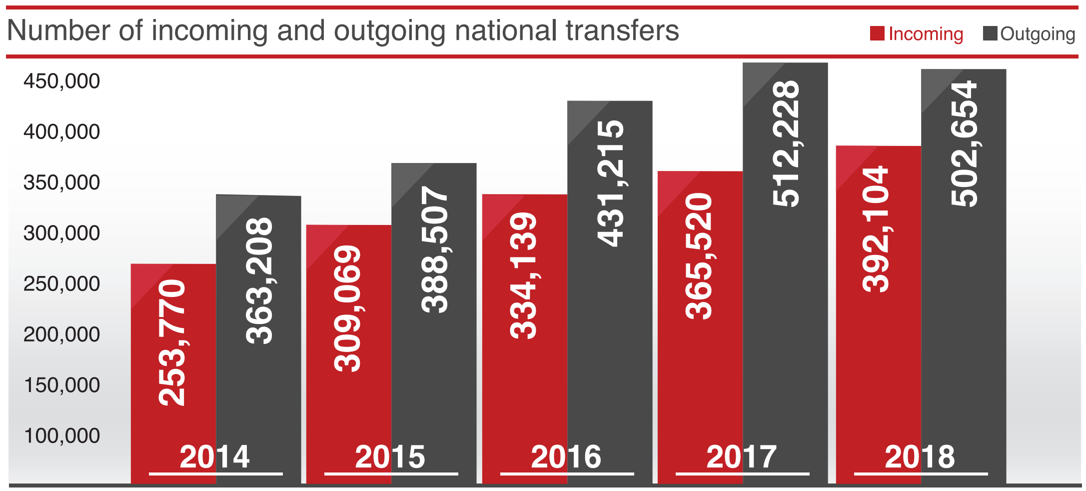


Figure 16. National transfers, incoming and outgoing;
All figures are in '000Euro.

International transfers

International transfers in 2018 compared to the previous year have increased. If we take the total number of incoming and outgoing transfers from 13,337 in 2017 it has increased to 15,910 in 2018, so it is an increase of about 19%.

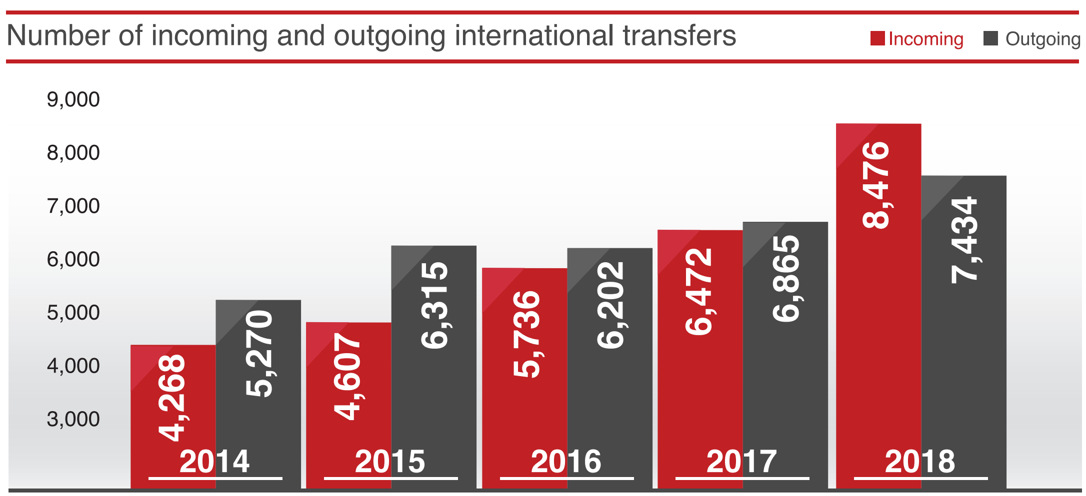


Figure 17. International, incoming and outgoing transfers;

Bank cards

Banka Ekonomike in cooperation with its partners Master Card and Visa offers clients debit and credit cards for the delivery of services within and outside the country, such as ATMs, POS points and online payments. Compared to last year, the number of debit cards has increased by nearly 10% or 4,304 debit cards, while the number of credit cards has increased by 11% or 499 more credit cards.

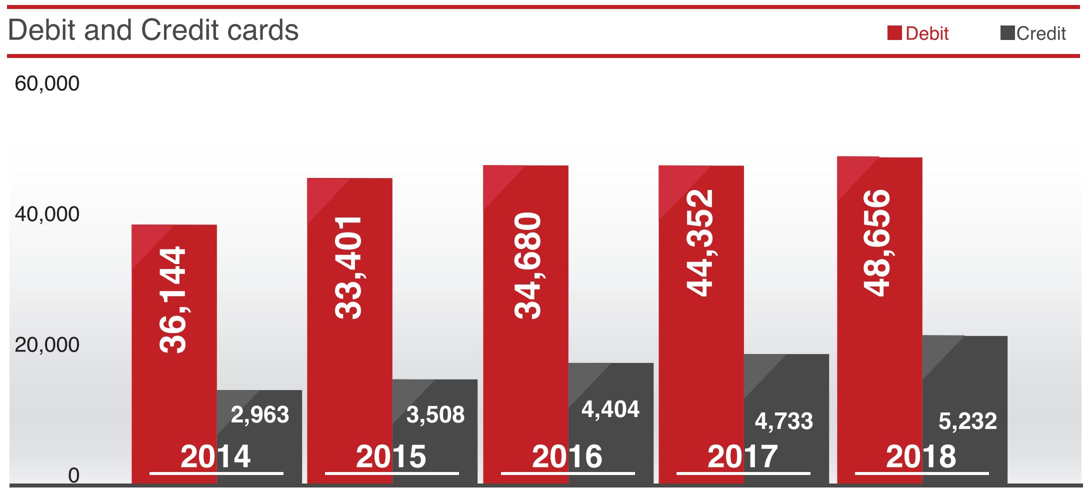


Figure 18. Number of debit and credit cards over the years

Information Technology

During 2018 IT technology projects have been completed and have met the bank's legal requirements and service improvements. Work has been done on implementing the 3-year strategy of the IT department, where projects have been categorized into regulatory ones, business requirements or improvements.

At the beginning of the year, we worked on the reconsolidation of the IT department whereby it was achieved through the reorganization of processes and the contracting of a range of services as the best option for resource optimization. Moreover, the core banking software infrastructure has been modernized. These services have been effective in improving and expediting customer services and internal needs. The project under implementation in the framework of digitalization of communication is the project for virtual communication and cooperation. This project will enable high-quality distance meetings. Online meetings will be needed so that our employees do not waste time and energy on the journey but on concrete work.

The use of the mobile phone has largely made us commit ourselves to the development of mobile banking in order to put the mobile in the center of customer communication. The introduction of mobile banking at the epicenter is the newest banking model where customers can make payments, transfers and many other services.

Another feature of this year was the agreement on changing the entire underlying banking system. Its purpose was to improve the current services, as well as to implement the projects faster in the future. Upon completion of this project, Banka Ekonomike will be in step with the latest technological trends in the world.

Management and staff **training**

The Human Resources Department has an important role in our bank. In addition to helping to develop and achieve business goals, it also takes care of the professional upgrading of workers, training that helps employees develop and helps in the organization of internal and external trainings. During 2018, dozens of internal trainings have been organized, some of which include information security, operational risk, money laundering prevention and terrorist financing training, financial analysis, customer service trainings, cross selling, other sales training and so on.

A total of 6,348 hours were used for internal training, including all bank staff. Also, dozens of trainings have been organized for external training. External trainings during 2018 have reached 5,150 hours. During 2017, the Bank held 3.01 days of training for staff, while in 2018 this number increased to 4.29 days of staff training. The trainings are mainly focused on training on sales & customer care, training on money laundering prevention and financing of terrorism.

In this year, as in previous years, the bank cares about organizing and motivating employees. We have organized meetings, events, parties so that the workers are closer to each other. It is worth mentioning the gifts for the 8th of March for women, the weekend in Albania for all the staff and the end of the year part.

Human resources have made the measurement to see the level of staff satisfaction during 2018. According to statistics, overall satisfaction level has increased, in 2017 by 2.7 increased to 3.1 in 2018. In the “Satisfied” rating from 26.1% in 2017, this percentage has risen to 52% in 2018, which is a doubling of satisfaction over the previous year.

The number of employees in this year was 331, of which 175 are female and 156 are male. The average age of the Bank’s staff is 31 to 40 years and 90% of the staff are mainly economists.

Like every year, the Bank has organized practical work this year as well, where a total of 53 people have completed the intern work at our bank. Out of this number, 5 interns were employed in branches in different positions.

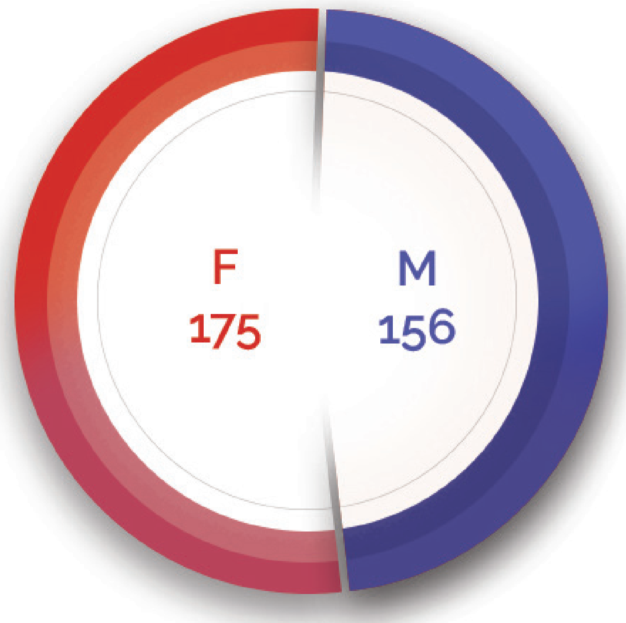


Figure 19. Number of employees by gender

The journey **continues**

The mission and values of Banka Ekonomike are observed in each branch of the Bank. These values will always be preserved so that customers will always be tracked only the most quality products in the banking market. Being the only 100% local equity bank, Banka Ekonomike will continue to contribute and work tirelessly for a better society and place. We will continue to work on the development of diversified banking products, raising value for clients, employees and shareholders.
With its approach, Banka Ekonomike aims not only to bring quality banking products to customers, but also to build common social values and to be an example of doing business in Kosovo.
Proudly we can say that Banka Ekonomike will continue its successful journey, always thinking of consumers.

BANKA EKONOMIKE SH.A.

Financial Statements prepared in accordance with the accounting rules and regulations of the Central Bank of the Republic of Kosovo for the year ended 31 December 2018

(with Independent Auditor’s report thereon)

Content

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Banka Ekonomike Sh.a.

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the Rules and Regulations of the Central Bank of the Republic of Kosova as detailed in Note 2 to the financial statements.

Basis for Opinion

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

Other matter

The financial statements of Banka Ekonomike Sh.a. as of and for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 13 April 2018.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Rules and Regulations of the Central Bank of the Republic of Kosova as detailed in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent Auditor's Report (continued)

To the Shareholders of Banka Ekonomike Sh.a. (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Grant Thornton LLC
Prishtinë,
April 11,2019

Suzana Stavrikj
Statutory Auditor

Statement of Financial Position

(Amounts in EUR thousand)	Note	As at 31 December 2018	As at 31 December 2017
Assets			
Cash on hand and at banks	6	20,759	16,887
Balances with the Central Bank of Kosovo	7	55,869	30,554
Loans to customers	8	170,721	157,851
Investments in securities	9	25,496	26,456
Property and equipment	10	6,210	6,360
Intangible assets	11	568	514
Other assets	12	1,490	703
Total assets		**281,113**	**239,325**
Liabilities			
Due to customers	13	248,181	209,447
Due to banks	14	2,091	2,048
Subordinated debt	15	1,050	1,050
Current tax liability		76	156
Other liabilities	16	354	463
Total liabilities		**251,752**	**213,164**
Equity and reserves			
Share capital	17	24,543	21,337
Revaluation reserve	17	100	118
Retained earnings		4,718	4,706
Total equity and reserves		**29,361**	**26,161**
Total liabilities, equity and reserves		**281,113**	**239,325**

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 42.

These financial statements have been approved by the Board of Directors of the Bank and signed on 10 April 2019, on its behalf by:

Z. Fatos Krasniqi
Kryeshef Ekzekutiv

Z. Fitim Rexhepaj
Zyrtar Kryesor për Financa

Statement of Profit or Loss and Other Comprehensive Income

(Amounts in EUR thousand)	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest income	18	14,738	14,284
Interest expense	18	(2,296)	(2,175)
Net interest income		**12,442**	**12,109**
Fee and commission income	19	2,642	2,536
Fee and commission expense	19	(755)	(752)
Net fee and commission income		**1,887**	**1,784**
Other operating income	20	34	80
Net foreign exchange gains / (losses)		31	34
Revenue		**14,394**	**14,007**
Other operating expenses	21	(9,115)	(8,965)
Net impairment losses on loans	8	(29)	204
Total operating expenses		**(9,144)**	**(8,761)**
Profit before tax	22	5,250	5,246
Income tax		(532)	(540)
Net profit for the year		**4,718**	**4,706**
Other comprehensive income			
Revaluation of securities (Note 17)		(18)	16
Total comprehensive income for the year		**4,700**	**4,722**

The Statement of Profit or Loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 42.

Statement of Changes in Equity

	Share capital	Revaluation reserve	Retained earnings	Total equity and reserves
At 1 January 2017	**16,777**	**102**	**4,560**	**21,439**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners	4,560	-	(4,560)	**-**
Total transactions with owners recorded in equity	**4,560**	-	**(4,560)**	**-**
Profit for the year	-	-	4,706	**4,706**
Other comprehensive income for the year				
Revaluation of securities	-	16	-	**16**
Total comprehensive income for the year	-	**16**	**4,706**	**4,722**
At 31 December 2017	**21,337**	**118**	**4,706**	**26,161**
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners (Note 17)	3,206	-	(3,206)	**-**
Dividend distribution (Note 17)	-	-	(1,500)	**(1,500)**
Total transactions with owners recorded in equity	**3,206**	-	**(4,706)**	**(1,500)**
Profit for the year	**-**	-	4,718	**4,718**
Other comprehensive income for the year				
Revaluation of securities (Note 17)	**-**	(18)	-	**(18)**
Total comprehensive income for the year	**-**	**(18)**	4,718	**4,700**
At 31 December 2018	**24,543**	**100**	4,718	**29,361**

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 42.

Statement of Cash Flows

(Amounts in EUR thousand)	Note	For the year ended December 31, 2018	For the year ended December 31, 2017
Operating activities			
Profit before taxation	22	5,250	5,246
Adjustment for:			
Amortization and depreciation	10,11	863	834
Net impairment loss on loans to customers	8	29	(204)
Charge/(release) of provision for guarantees	20	5	(7)
Loss on assets written off	21	39	9
Interest income	18	(14,738)	(14,284)
Interest expense	18	2,296	2,175
Loss before changes in operating assets and liabilities		**(6,256)**	**(6,231)**
Changes in operating assets and liabilities			
Statutory reserves with CBK	6	(529)	(1,365)
Loans to customers	8	(13,331)	(19,660)
Other assets	12	(787)	131
Due to customers	13	38,734	11,739
Due to banks	13	43	(148)
Other liabilities	16	(114)	31
		17,760	(15,503)
Interests paid		(1,883)	(2,096)
Interests received		14,757	14,197
Income tax paid		(612)	(540)
Net cash generated from/(used in) operating activities		**30,022**	**(3,942)**
Investment activities			
Purchase of property and equipment and intangible assets	10,11	(806)	(1,234)
Purchases of investment securities		(32,095)	(35,174)
Redemptions of securities		33,037	33,446
Net cash generated from / (used in) investing activities		**136**	**(2,962)**
Financial activities			
Dividends paid		(1,500)	-
Net cash (used in) financial activities		**(1,500)**	**-**
Net increase/(decrease) in cash and cash equivalents		**28,658**	**(6,904)**
Cash and cash equivalents, beginning of the year		31,268	38,172
Cash and cash equivalents, end of the year		**59,926**	**31,268**

The Statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 48 to 87.

Notes to the financial statements for the year ended 31 December 2018

(Amounts in thousands of EUR, unless otherwise stated)

1. Introduction

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

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

2. Basis of preparation

(a) Statement of compliance

These financial statements are prepared in accordance with Article 53 of the Law No. 04/L-093, dated 11 May 2012, "Law on banks, microfinance institutions and non-bank financial institutions" (the "Banking Law"). These financial statements are prepared for regulatory purposes and reflect the accounting rules and regulations of the Central Bank of the Republic of Kosovo ("CBK Rules"). CBK Rules are based on the relevant legal decision defining the mandatory application of International Financial Reporting Standards ("IFRS") in Kosovo, but CBK rules also specifically require the application of certain accounting treatments, which are not in accordance with the specific requirements of IFRS. Consequently, these financial statements should be read as being prepared in accordance with the accounting standards and regulations prevailing in Kosovo as disclosed in the significant accounting policies set out in Note 3 below.

(b) Basis of preparation

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

(c) Functional and presentation currency

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

(d) Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.
Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 4, 5 and 25.

3. Significant accounting policies

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

(a) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.
The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

3. Significant accounting policies (continued)

(a) Interest (continued)

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

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

(b) Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.
Other fees and commission income, including account servicing fees, fund transfer fees, sales commission and placement fees are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.
Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(c) Lease payments

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

(d) Tax expense

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

(i) Current tax

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

(ii) Deferred tax

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

that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.
Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.
Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.
A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Significant accounting policies (continued)

(d) Tax expense (continued)

(iii) Tax exposures

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

(e) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot rate exchange rate at that date.
The foreign currency gain or loss on monetary items is the difference between amortised costs in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.
Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(f)Financial assets and financial liabilities
(i) Recognition

The Bank initially recognises loans and advances, held-to-maturity and available-for sale investments, deposits and subordinated debt on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.
A financial asset or financial liability is measured initially at fair value corrected by the transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Bank classifies its financial assets into one of the following categories:
- loans and receivables;
- held-to-maturity;
- available-for-sale.

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

Financial liabilities

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

Financial assets

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

Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

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

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.
Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortised cost measurement

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

(vi) Fair value measurement

"Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.
When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.
The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.
If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a

bid price and liabilities and short positions at an ask price.
The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.
The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment

Loans and advances to customers are reported net of impairment (or net of provisions for loan losses). At each reporting date the Bank assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset.
In addition, provisions for loan losses include possible future losses estimated by the management in relation to existing loans, which may become uncollectible due to the economic conditions, credit quality, inherent risks in the loan portfolio and other relevant factors.
Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers, or economic conditions that correlate with defaults in the Bank.
Provisions for loan losses are created pursuant to the Regulation "Credit Risk Management", which was approved by CBK on 26 April 2013. The regulation requires the Bank to classify exposures into five risk categories. The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level.
For each risk category, the following minimum rates of specific provision are applied:

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

Provisions created for possible losses on loans classified as standard and watch are classified as general provisions. In accordance with the internal provisioning policies of the Bank, the rate that is applied for the standard and watch categories is 1.2% (2017: 1.2%).
Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. The loans are written off after reasonable collection measures have been taken in accordance with the Bank's established policy. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment of available-for-sale financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for - sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

3. Significant accounting policies (continued)

(g) Cash and cash equivalents

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

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

(h) Investments held-to-maturity

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

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

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

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

(i) Available for sale investments

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

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

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

(j) Loans and receivables

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances to banks, loans and advances to customers and other assets are classified as loans and receivables.

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

3. Significant accounting policies (continued)

(k) Deposits, subordinated debt and other liabilities

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

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

(l) Property and equipment

(i) Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

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

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

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

	Useful life 2018	Useful life 2017
Buildings	40 years	40 years
Computers and related equipment	5 years	5 years
Motor vehicles	5 years	5 years
Furniture, fixtures and equipment	5 years	5 years

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

(m) Intangible assets

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

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

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

3. Significant accounting policies (continued)

(n) Impairment of non-financial assets

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

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

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

(o) Provisions

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

(p) Employee benefits

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

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

(q) Financial guarantees and loan commitments

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

(r) Dividends

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

4. Use of estimates and judgments

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

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

(a) Impairment

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

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

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

The Bank determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(b) Determining fair values

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

The Bank measures fair values using the following hierarchy of methods:
- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments. The estimation of the fair value is disclosed in note 5.

5. Disclosure and estimation of fair value

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

Financial instruments measured at fair value – fair value hierarchy

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

Available for sale financial assets	Carrying amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
31 December 2018	20,715	-	20,715	-
31 December 2017	24,628	-	24,628	-
Total Assets	**45,343**	**-**	**45,343**	**-**

Treasury Bills available-for-sale

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

Financial instruments not measured at fair value – fair value hierarchy

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

	Carrying value		Fair value	
			Level 2	Level 2
Assets	**2018**	**2017**	**2018**	**2017**
Cash on hand and at banks	20,759	16,887	20,759	16,887
Balance with CBK	55,869	30,554	55,869	30,554
Loans to customers	170,721	157,851	170,721	157,851
Investments in held-to-maturity securities	4,781	1,828	4,781	1,828
Liabilities				
Due to customers	248,181	209,447	248,181	209,447
Due to banks	2,091	2,048	2,091	2,048
Subordinated Debt	1,050	1,050	1,050	1,050

5. Disclosure and estimation of fair value (continued)

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

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

Balances with banks

Due from other banks include inter-bank placements and accounts. As balances with banks are short term, their fair value is considered to equate to their carrying amount.

Treasury Bills held to maturity

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

Bonds held-to-maturity

Bonds held-to-maturity include treasury bonds issued by the Government of Kosovo which are bought with the intention to hold till maturity. Quoted prices in active markets were not available for these securities. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs and using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Loans and advances to customers

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics. There are no cases of loans that are valued based on observable inputs.

Due to customers and subordinated debt

The fair value of subordinated debt and balances due to customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits and subordinated debt of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date. The deposits have an estimated fair value which approximates the carrying amount due either to their short term nature or to underlying interest rates which approximate market rates. The majority of deposits is subject to re-pricing within a year.

6. Cash on hand and at banks

	As at December 31, 2018	As at December 31, 2017
Cash on hand	8,593	9,862
Current accounts with banks	12,166	7,025
Total Assets	**20,759**	**16,887**

Cash and cash equivalents comprise the following:

	As at December 31, 2018	As at December 31, 2017
Cash on hand and at banks	20,759	16,887
Balances with the CBK (Note 7)	55,869	30,554
Statutory reserves with CBK	(16,702)	(16,173)
	59,926	**31,268**

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

The assets with which the Bank may satisfy its liquidity requirement are deposits in EUR with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base.

7. Balances with the Central Bank of Kosovo

	As at December 31, 2018	As at December 31, 2017
Statutory reserves with CBK	16,702	16,173
Current accounts	39,167	14,381
	55,869	**30,554**

8. Loans to customers

	As at December 31, 2018	As at December 31, 2017
Loans	149,846	137,927
Overdraft facilities	28,338	28,034
	178,184	**165,961**
Accrued interest	832	917
Deferred disbursement fees	(857)	(779)
	178,159	**166,099**
Allowance for impairment	(7,438)	(8,248)
Loans to customers	**170,721**	**157,851**

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

Maturities of long-term loans are in the range of 1 to 30 years (2017: 1 to 30 years). In 2018, the interest rates on loans to customers ranged from 2.50% to 24% p.a (2017: 2.45% to 24% p.a). The Bank has granted few loans covered by cash collaterals with interest rates at the minimum limit shown above.

	2018	31, 2017
Allowance for impairment at 1 January	8,248	10,028
Loans written off	(2,434)	(2,435)
Recoveries of loans previously written off	1,595	859
Charge / (Release) for the year, net	29	(204)
Allowance for impairment at 31 December	**7,438**	**8,248**

8. Loans to customers (continued)

	2018			2017		
Category	**At amortized cost**	**Allowance for impairment**	**Net balance**	**At amortized cost**	**Allowance for impairment**	**Net balance**
Standard	167,080	2,135	164,945	155,409	2,051	153,358
Watch	4,325	71	4,254	1,677	20	1,657
Sub-standard	863	173	690	3,003	665	2,338
Doubtful	1,674	842	832	1,018	520	498
Loss	4,217	4,217	-	4,992	4,992	-
Total	**178,159**	**7,438**	**170,721**	**166,099**	**8,248**	**157,851**

9. Investments in securities

	As at December 31, 2018	As at December 31, 2017
Held-to-maturity		
Government Treasury bills	-	-
Government Bonds	4,743	1,814
Accrued Interest	38	14
Total securities held-to-maturity	**4,781**	**1,828**
Available-for-sale (“AFS”)		
Government Treasury bills	5,477	10,566
Government Bonds	15,180	14,017
Accrued Interest	58	45
Total securities available-for-sale	**20,715**	**24,628**
Total Investments in Securities	**25,496**	**26,456**

The following table provides for the movement of AFS investments during 2018 and 2017:

	AFS investments
At 01 January 2018	**24,583**
Additions	32,095
Disposal/matured	(36,003)
Unrealized gain/(loss)	(18)
At 31 December 2018	**20,657**
At 01 January 2017	**21,857**
Additions	35,174
Disposal/matured	(32,464)
Unrealized gain/(loss)	16
At 31 December 2017	**24,583**

10. Property and equipment

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Motor vehicles	Total
Cost						
At 1 January 2017	**5,634**	**807**	**3,279**	**1,478**	**542**	**11,740**
Additions	-	220	398	293	59	970
Disposals	-	(71)	(135)	(49)	-	(255)
At 31 December 2017	**5,634**	**956**	**3,542**	**1,722**	**601**	**12,455**
Additions	-	72	280	162	94	608
Disposals	-	(242)	(469)	(518)	(123)	(1,352)
At 31 December 2018	**5,634**	**786**	**3,353**	**1,366**	**572**	**11,711**
Accumulated depreciation						
At 1 January 2017	**987**	**578**	**2,740**	**929**	**417**	**5,651**
Charge for the year	141	63	259	175	52	690
Disposals	-	(71)	(129)	(46)	-	(246)
At 31 December 2017	**1,128**	**570**	**2,870**	**1,058**	**469**	**6,095**
Charge for the year	141	95	210	220	53	719
Disposals	-	(267)	(449)	(474)	(123)	(1,313)
At 31 December 2018	**1,269**	**398**	**2,631**	**804**	**399**	**5,501**
Carrying amount						
At 1 January 2017	**4,647**	**229**	**539**	**549**	**125**	**6,089**
At 31 December 2017	**4,506**	**386**	**672**	**664**	**132**	**6,360**
At 31 December 2018	**4,365**	**388**	**722**	**562**	**173**	**6,210**

During year 2018 tha Bank disposed off assets with net carrying amount of EUR 39 thousand (2017: EUR 9 thousand) which were recognized in other operating expenses (refer to Note 21).
As at 31 December 2018 and 2017 the Bank does not have, any property or equipment pledged as collateral.
The carrying amount of property and equipment and intangible assets of the Bank at 31 December 2018 was EUR 6,778 thousand representing 24.52% of Tier 1 capital (2017: EUR 6,874 thousand representing 27.72% of Tier 1 capital). The maximum regulatory limit of property and equipment and intangible assets is 50% of Tier 1 capital. No breach of such ratio was reported in 2017, nor in 2018.

11. Intangible assets

	Software
At 1 January 2017	**1,075**
Additions during the year	264
Disposals	-
At 31 December 2017	**1,339**
Additions for the year	198
Disposals	-
At 31 December 2018	**1,537**
Accumulated amortization	
At 1 January 2017	**681**
Charge for the year	144
At 31 December 2017	**825**
Charge for the year	144
At 31 December 2018	**969**
Carrying amount	
At 1 January 2017	**394**
At 31 December 2017	**514**
At 31 December 2018	**568**

12. Other assets

	As at December 31, 2018	As at December 31, 2017
Prepayments	746	333
Other	744	370
Total	**1,490**	**703**

13. Due to Customers

	As at December 31, 2018	As at December 31, 2017
Time Deposits	129,627	102,185
Current accounts	92,844	82,316
Savings accounts	14,724	13,172
Flexi deposits	6,557	8,200
Blocked accounts	2,506	2,064
Accrued interest	1,923	1,510
Total	**248,181**	**209,447**

Current accounts are non-interest bearing.
The average effective interest rates for time deposits during 2018 and 2017 were as follows:

Year	1 month	3 months	6 months	1 year	18 months	2 -5 years
2018	0.10%	1.24%	1.36%	1.35%	1.86%	2.31%
2017	0.09%	2.24%	1.87%	1.80%	1.70%	2.39%

14. Due to banks

Balances due to banks amounting EUR 2,091 thousand (2017: EUR 2,048 thousand) represent current accounts from local banks.

15. Subordinated debt

	2018	2017
Subordinated Debt	1,000	1,000
Accrued Interest	50	50
Total	**1,050**	**1,050**

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

16. Other liabilities

	As at December 31, 2018	As at December 31, 2017
Accrued expenses	195	203
Other taxes payable	65	64
Pension and social assistance charges	23	24
Provisions for litigations	-	43
Other provisions	-	79
Other deferred income	52	36
Provision for losses from guarantees	19	14
Total	**354**	**463**

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

	2018	2017
Provisions as at 1 January	14	21
Charge/(release) for the year (Note 20)	5	(7)
Provisions as at 31 December	**19**	**14**

17. Share Capital and reserves

The authorised and paid up share capital of the Bank comprises 95,873 ordinary shares (2017: 83,348 ordinary shares) with par value of EUR 256 each (2017: 256). The shareholding structure of the Bank is as follows:

	As at December 31, 2018		As at December 31, 2017	
	%	Amount	%	Amount
Behgjet Pacolli	35	8,547	35	7,431
Afrim Pacolli	-	-	33	7,031
Immobiliare Red Llc	29	7,009	-	-
Selim Pacolli	18	4,471	14	2,950
Xhabir Kajtazi	12	2,905	12	2,525
Ismet Gjoshi	3	824	3	716
Hasan Hajdari	1	248	1	215
Zyhra Hajdari	1	238	1	206
Others with less than 1%	1	301	1	301
	100	**24,543**	**100**	**21,337**

Distribution of profit and dividend declared

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share. All shares rank equally with regard to the Bank's residual assets.
During the year based on a decision for distribution of profit, the Bank declared a dividend in cash in amount of EUR 1,500 thousand. The rest was allocated to the share capital as dividend in shares in amount of EUR 3,206 thousand with additional increase for 12,525 shares.
In accordance with Law no. 04/L-093 on "Banks, Microfinance Institutions and Non-Bank Financial Institutions", the minimum paid-in capital for domestic banks operating in Kosovo is EUR 7 million.

The movement in revaluation reserve is as follows:

	December 31, 2018	December 31, 2017
Revaluation reserve as at January 1	118	102
Revaluation of AFS	(18)	16
Balance as of December 31	**100**	**118**

18. Net Interest income

	Year ended December 31, 2018	Year ended December 31, 2017
Interest income		
Loans to customers	14,210	13,650
Deposits and balances with banks	29	19
Investments in securities	499	615
Total Interest income	**14,738**	**14,284**
Interest expense		
Due to customers	**(2,221)**	**(2,100)**
Subordinated debt	**(75)**	**(75)**
Total Interest expense	**(2,296)**	**(2,175)**
Net interest income	**12,442**	**12,109**

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

19. Net fee and commission income

	Year ended December 31, 2018	Year ended December 31, 2017
Banking services	2,600	2,462
Guarantees	42	74
Fee and commission income	**2,642**	**2,536**
Swift expenses	(749)	(741)
License and other regulatory fees	(6)	(11)
Fee and commission expenses	**(755)**	**(752)**
Net fee and commission income	**1,887**	**1,784**

20. Other operating income

	Year ended December 31, 2018	Year ended December 31, 2017
Charge/(release) of provisions from guarantees	(5)	7
Other income	39	73
Total	**34**	**80**

21. Other operating expenses

	Year ended December 31, 2018	Year ended December 31, 2017
Personnel (see below)	3,199	3,125
Security	1,112	1,114
Rent	806	742
Depreciation	719	690
IT services	466	345
Master card operational expenses	446	429
Repair and maintenance	425	385
Deposit insurance fees	407	325
Advertising and marketing	274	341
Utilities and fuel	226	253
Professional charges and legal fees	180	125
Amortization	144	144
Credit collection services	122	144
Communication	91	115
Other assets written off	39	9
Office materials	38	34
Printing	7	5
Travel	6	5
Other	408	635
Total	**9,115**	**8,965**

The number of employees as at 31 December 2018 is 332 (2017: 343).

	Year ended December 31, 2018	Year ended December 31, 2017
Wages and salaries	2,978	2,906
Pension contributions	153	144
Other compensations	68	75
Total	**3,199**	**3,125**

22. Income tax

Income tax in Kosovo is assessed at the rate of 10% (2017: 10%) of taxable income.

	Year ended December 31, 2018	Year ended December 31, 2017
Current tax charge	532	540
Total	**532**	**540**

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

	Year ended December 31, 2018	Year ended December 31, 2017
Profit before income tax		
Tax at the rate of 10%	5,250	5,246
Adjusted for:	525	525
Non-deductible expenses		
Additional tax deductible interest expenses	14	82
Exempt Income	43	(5)
Income tax expense for the year	**(50)**	**(62)**
	532	**540**

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

23. Commitments and Contingencies

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted to customers. Based on management's estimate, no material losses related to guarantees outstanding at 31 December 2018 and 2017 will be incurred.

	Year ended December 31, 2018	Year ended December 31, 2017
Guarantees		
Secured by cash deposits	2,295	729
Secured by other collateral	1,462	1,036
	3,757	**1,765**
Credit Commitments		
Approved but not disbursed loans	4,426	2,318
Overdrafts	6,983	7,241
Credit cards	1,884	1,752
	13,293	**11,311**

Other collaterals pledged for guarantees, include mainly pledge and real estate properties.
Commitments represent the undrawn balances of loans, overdraft and card limits granted to the customers.

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

	Year ended December 31,2018	Year ended December 31, 2017
Within one year	641	560
	641	**560**

23. Commitments and Contingencies (continued)

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

A further disclosure with regard to the rent agreements as at December 31, 2018 and 2017 is given below (next page):

31 December 2018

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

31 December 2017

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

Litigations

As at 31 December 2018, there are certain legal proceedings raised against the Bank. The Bank has paid amount of EUR 62 thousand (31 December 2017: EUR 43 thousand), regarding legal proceedings at the reporting date. Various legal actions and claims may be asserted in the future against the Bank from litigations and claims incident to the ordinary course of business. Related risks have been analyzed by management as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes that no additional material liabilities are likely to result.

24. Related party transactions

In accordance with IAS 24 “Related Party Disclosures”, a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.
Related party transactions were made on terms equivalent to those that prevail in arm’s length transactions.
In the course of conducting its banking business, the Bank entered into various business transactions with related parties and the balances with the shareholders and affiliated individuals and entities at 31 December 2018 and 2017 are as follows:

	Board of Directors		Key management		Major shareholders and other parties related to them		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Loans to customers								
Loans to customers, gross	-	4	187	188	4,014	4,143	**4,201**	**4,335**
Allowance for impairment	-	-	(2)	(2)	(16)	(11)	**(18)**	**(13)**
Loans to customers, net	**-**	**4**	**185**	**186**	**3,998**	**4,132**	**4,183**	**4,322**
Cash collateral	-	(20)	(396)	(188)	(13,843)	(10,689)	**(14,239)**	**(10,897)**
Net exposure	**-**	**(16)**	**(211)**	**2**	**(9,845)**	**(6,557)**	**(10,056)**	**(6,575)**
Guarantees	-	-	-	-	112	455	**112**	**455**
Cash collateral	-	-	-	-	(1,782)	(455)	**(1,782)**	**(455)**
Net exposure	**-**	**-**	**-**	**-**	**(1,669)**	**-**	**(1,670)**	**-**
Due to customers	72	31	108	54	16,207	15,566	**16,387**	**15,651**
Subordinated debt	-	-		-	1,050	1,050	**1,050**	**1,050**

The total estimated value of collateral obtained from related parties at 31 December 2018 amounted to EUR 15,817,445 (31 December 2017: amounted to EUR 11,124,350.

The unused credit commitments with related parties as at 31 December 2018 are EUR 350,180 (2017: EUR 633,157).

24. Related party transactions (continued)

Due to related parties represent 6.6% (2017: 7.5%) of total balances due to customers.
Transactions with related parties during 2018 and 2017 are as follows:

	Board of Directors		Key management		Major shareholders and other parties related to them		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Interest income	-	1	7	9	232	182	**239**	**192**
Fee and commission income	-	-	-	-	34	32	**34**	**32**
Interest expense	-	-	-	-	(239)	(190)	**(239)**	**(190)**

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

	2018	2017
Short-term employee benefits for Board of Directors	73	70
Short-term employee benefits for key management	223	215
	296	**285**

25. Financial risk management

(a) Introduction and overview

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

- market risk
- credit risk
- liquidity risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

The Bank has the following categories of financial instruments:

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

Risk management framework

The Board of Directors ("the Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee ("ALCO"), Liquidity Committee Credit Committee, Audit Committee, and Risk Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.
The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

25. Financial risk management (continued)

(a) Introduction and overview (continued)

The Bank aims to develop a constructive control environment, in which all employees understand their roles and obligations.
The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted by the Internal Audit Department. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.
The Bank operates in the condition of a dynamically developing global financial and economic crisis. Its further extension might result in negative implications on the financial position of the Bank. The management of the Bank performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets. Based on this, the management analyses profitability, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis. In this way, the Bank responds to the challenges of the market environment, maintaining an adequate capital and liquidity position.

(b) Credit risk

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

Management of credit risk

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

25. Financial risk management (continued)

(b) Credit risk (continued)

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

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2018 and 2017, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	Loans to customers		Investments in securities		Balances with banks and with CBK		Financial guarantees	
	2018	2017	2018	2017	2018	2017	2018	2017
Maximum exposure to credit risk								
Carrying amount	170,721	157,851	25,496	26,456	68,035	37,579	-	-
Amount committed / guaranteed	13,293	11,311	-	-	-	-	3,757	1,765
	184,014	169,162	25,496	26,456	68,035	37,579	3,757	1,765
At amortized cost								
Standard	167,080	155,409	25,496	26,456	68,035	37,579	-	-
Watch	4,325	1,677	-	-	-	-	-	-
Substandard	863	3,003	-	-	-	-	-	-
Doubtful	1,674	1,018	-	-	-	-	-	-
Loss	4,217	4,992	-	-	-	-	-	-
Total	**178,159**	**166,099**	**25,496**	**26,456**	**68,035**	**37,579**	**-**	**-**
Allowance for impairment (individual and collective)	(7,438)	(8,248)	-	-	-	-	-	-
Net carrying amount	**170,721**	**157,851**	**25,496**	**26,456**	**68,035**	**37,579**	**-**	**-**
Off balance: maximum exposure								
Financial guarantees: Low - fair risk	13,293	11,311	-	-	-	-	3,757	1,765
Total committed/guaranteed	**13,293**	**11,311**	**-**	**-**	**-**	**-**	**3,757**	**1,765**
Provisions recognized as liabilities		-	-	-	-	-	(19)	(14)
Total exposure	**13,293**	**11,311**	**-**	**-**	**-**	**-**	**3,738**	**1,751**

25. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality (continued)

	2018				2017			
Loans and advances to customers	**Individuals**	**Micro**	**Corporate**	**Total Loans**	**Individuals**	**Micro**	**Corporate**	**Total Loans**
Total gross amount	68,944	29,383	79,382	**178,159**	59,164	27,555	79,380	**166,099**
Allowance for impairment (individual and collective)	(1,893)	(1,528)	(4,017)	**(7,438)**	(1,892)	(1,698)	(4,658)	**(8,248)**
Net carrying amount	**67,051**	**27,855**	**75,815**	**170,721**	**57,272**	**25,857**	**74,722**	**157,851**
At amortised cost								
Standard	66,793	27,059	73,228	167,080	57,133	25,007	73,269	155,409
Watch	792	720	2,813	4,325	561	791	325	1,677
Substandard	113	325	425	863	121	322	2,560	3,003
Doubtful	376	308	990	1,674	334	229	455	1,018
Loss	870	971	2,376	4,217	1,015	1,206	2,771	4,992
Total Gross	**68,944**	**29,383**	**79,832**	**178,159**	**59,164**	**27,555**	**79,380**	**166,099**
Less: allowance for individually impaired loans	(1,085)	(1,193)	(2,953)	(5,231)	(1,210)	(1,389)	(3,579)	(6,178)
Less: allowance for collectively impaired loans	(808)	(335)	(1,064)	(2,207)	(682)	(309)	(1,079)	(2,070)
Total Allowance for impairment	**(1,893)**	**(1,528)**	**(4,017)**	**(7,438)**	**(1,892)**	**(1,698)**	**(4,658)**	**(8,248)**
Loans with renegotiated terms								
Carrying amount	318	456	4,022	4,796	307	559	3,478	4,344
Allowance for impairment	(99)	(208)	(1,877)	(2,184)	(153)	(292)	(1,984)	(2,429)
Net carrying amount	**219**	**248**	**2,145**	**2,612**	**154**	**267**	**1,494**	**1,915**
Loans by past due days								
Not past due	65,287	25,609	70,919	161,815	55,397	23,261	66,728	145,386
Past due 1-30 days	1,966	1,690	5,120	8,776	2,109	2,119	8,196	12,424
Past due 31 - 90 days	761	889	1,848	3,498	588	811	1,682	3,081
Past due 91 – 365 days	442	790	1,425	2,657	534	500	595	1,629
Past due over 365 days	488	405	520	1,413	536	864	2,179	3,579
	68,944	**29,383**	**79,832**	**178,159**	**59,164**	**27,555**	**79,380**	**166,099**

25. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality (continued)

Impairment and provisioning

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

The Bank assesses the probability of default of the counterparties, using internal rating tools tailored to the various categories of counterparties. Such tools combine statistical analysis and judgment and are validated, where appropriate, by comparison with externally available data. Counterparties are segmented into five rating classes and the Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. Exposures migrate between classes as the assessment of their probability of default changes. The rating tools are continuously reviewed, upgraded and validated by the Bank.

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

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

The Bank reports the classification of its borrowers to the CBK and the Credit Register of Kosovo.
The provisioning policy for these loans is detailed in Note 3. (f) (vii).

Individual and collective assessment of loan portfolio

For internal management purpose, the Bank segregates the loans into loans that are assessed individually for impairment: these are loans that are classified as substandard-list or lower. All other loans are analysed collectively for impairment assessment purposes.
The Bank's policy requires the review of individual loans and advances to customers that are above materiality thresholds of EUR 50 thousand (2017: EUR 50 thousand) at least quarterly when individual circumstances demand it.

Past due but not impaired loans

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

Loans with renegotiated terms

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

Write-off policy

The Bank writes off a loan (and any related allowances for impairment) with the decision of the Board of Directors, in accordance with the regulations of Central Bank of Kosovo. The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The total amount written off during 2018 is EUR 2,434 thousand (2017: EUR 2,435 thousand).

25. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality (continued)

Due from banks

Interbank exposures are closely monitored on a daily basis by risk management and the Treasury Department. The Bank limits its deposits and other banking transactions to sound local or international banks. Before a business relationship is initiated with a given bank, the management and the Risk Department carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's.

In accordance to the new regulation on large exposures of the Central Bank of Republic of Kosovo, banks shall not have any aggregate credit risk exposure to related counterparties exceeding 15% of Tier 1 Regulatory Capital.

Loans and advances to banks are granted without collateral. The table below presents the Bank's current accounts and time deposits with corresponding banks by credit ratings:

At 31 December	2018	2017
AAA+ to BBB-	4,936	3,475
A+ to A-	177	168
BB+ to B-	54	1,349
BBB+ to B-	447	515
Not Rated	192	313
Local Banks	6,360	1,205
	12,166	**7,025**

Investments in securities

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

Lending commitments and financial guarantees

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

Risk limit control and mitigation policies

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

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

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

25. Financial risk management (continued)

(b) Credit risk (continued)

Risk limit control and mitigation policies

Collateral held and other credit enhancements, and their financial effect

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property and other movable assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over loans and advances to banks. An estimate of the fair value of collateral and other security enhancements held against loans is shown below:

	2018		2017	
	Loans and advances to customers	FV of collateral	Loans and advances to customers	FV of collateral
Mortgages	48,012	45,128	43,881	41,535
Cash collateral	3,837	3,686	4,810	4,769
Pledge	81,434	60,532	71,557	54,533
Mixed (mortgages and pledge)	39,132	37,037	40,220	37,029
Not collateralised	5,744	-	5,631	-
Total	**178,159**	**146,383**	**166,099**	**137,866**

Concentration of credit risk

As at 31 December 2018, the Bank does not have any exposure that exceeds 10% of Tier 1 capital. The highest exposure was at 8.30% (2017: one exposure that exceed 10% of Tier 1 capital represent 1.39%) of the total loans portfolio. The exposures to related parties at 31 December 2018, represent 16.87% (2017: 21.58%) of the Tier 1 Capital. The majority of the exposures to related parties are covered by cash collateral representing 11.83% (2017:16.30%) of the Tier 1 Capital.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Loans to customers		Investments in securities		Balances with banks and CBK		Financial guarantees	
	2018	2017	2018	2017	2018	2017	2018	2017
Concentration by sector								
Corporate	75,814	74,722	-	-	-	-	3,193	1,281
Government	-	-	25,496	26,456	-	-	-	-
Banks	-	-	-	-	68,035	37,579	-	-
Individuals	67,051	57,272	-	-	-	-	-	-
Micro-enterprises	27,856	25,857	-	-	-	-	564	484
Total	**170,721**	**157,851**	**25,496**	**26,456**	**68,035**	**37,579**	**3,757**	**1,765**
Concentration by location								
EU countries	-	-	-	-	5,629	5,653	-	-
Republic of Kosovo	170,721	157,851	25,496	26,456	62,406	31,926	3,757	1,765
Total	**170,721**	**157,851**	**25,496**	**26,456**	**68,035**	**37,579**	**3,757**	**1,765**

25. Financial risk management (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

Interest rate risk is comprised of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The assets and customer term deposits of the Bank carry fixed interest rates.
The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-bearing assets and liabilities mature or reprice at different times or in differing amounts. The Bank attempts to mitigate this risk by monitoring the repricing dates of its assets and liabilities. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.
Bank's exposures are based on Kosovo marked interest rates and the Bank faces only repricing risk.

On quarterly basis are held the Operational Risk Management Meetings, where are discussed the following issues:
- The report on the Operational Risk- the report is prepared from the Department of Risk
- The report on the Liquidity and Market Risk- the report is prepared from the Department of Risk
- The report on Interest rate risk - the report is prepared from the Department of Risk. The report details the interest rates of the Bank in comparison to the market interest rates and gives details of the changes in the interest rates in the market, any unusual fluctuations etc.

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

Exposure to interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate, LIBOR and different types of interest. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In decreasing interest rate environments, margins earned will narrow as liabilities interest rates will decrease with a lower percentage compared to assets' interest rates. However, the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

25. Financial risk management (continued)

(c) Market risk (continued)

Exposure to interest rate risk (continued)

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2018 and 2017 are as follows:

	USD		EUR		CHF	
	2018	2017	2018	2017	2018	2017
Assets						
Cash on hand and at banks	0.31	0.07	(0.16)	0.08	0.29	(0.27)
Balances with CBK	-	-	(0.40)	(0.40)	-	-
Loans to customers	-	-	7.97	8.44	-	-
Investment securities held-to-maturity	-	-	3.21	2.95	-	-
Investment securities available for sale	-	-	1.11	0.66	-	-
Liabilities	-	-	-		-	-
Customer deposits		0.28	0.93	0.97	-	-
Subordinated debt	0.28	-	7.50	7.50	-	-

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

25. Financial risk management (continued)

(c) Market risk (continued)

Exposure to interest rate risk (continued)

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

Estimated Profit (loss) effect	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp	100 bp	100 bp	100 bp
	Increase	Decrease	Increase	Decrease
2018	(45)	32	169	(173)
2017	(37)	30	36	(38)

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

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

25. Financial risk management (continued)

(c) Market risk (continued)

Exposure to interest rate risk (continued)

31 December 2017	Up to 1 month	1-3 month	3-6 month	6-12 month	1-5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash on hand and at banks	1,349	-	-	-	-	-	15,538	**16,887**
Balances with CBK	30,554	-	-	-	-	-	-	**30,554**
Investments in securities - fixed rate	-	-	8,731	2,854	14,871	-	-	**26,456**
Loans to customers - fixed rate	4,430	5,832	8,207	18,107	77,364	43,911	-	**157,851**
Other assets	-	-	-	-	-	-	370	**370**
Total	**36,333**	**5,832**	**16,938**	**20,961**	**92,235**	**43,911**	**15,908**	**232,118**
Liabilities								
Due to Customers – fixed rate	112,119	5,511	7,623	34,924	49,270	-	-	**209,447**
Due to Banks	2,048	-	-	-	-	-	-	**2,048**
Subordinated debt – fixed rate	-	-	-	-	1,050	-	-	**1,050**
Other liabilities	-	-	-	-	-	-	291	**291**
Total	**114,167**	**5,511**	**7,623**	**34,924**	**50,320**	**-**	**291**	**212,836**
Gap	**(77,834)**	**321**	**9,315**	**(13,963)**	**41,915**	**43,911**	**15,617**	**19,282**
Cumulative gap	**(77,834)**	**(77,513)**	**(68,198)**	**(82,161)**	**(40,246)**	**(3,665)**	**19,282**	**-**

25. Financial risk management (continued)

(c) Market risk (continued)

Exposure to currency risk (continued)

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short-term balances.
The currency risk is not significant, as the majority of transactions of the Bank are in local currency. The foreign currencies the Bank deals with are predominantly United States Dollars (USD) and Swiss Franc (CHF). The rates used for translation as at 31 December 2018 and 2017 are as follows:

	2018	2017
Currency	**Euro**	**Euro**
1 USD	1.1450	1.1993
1 CHF	1.1269	1.1702
1 GBP	0.8945	0.88723

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

	USD		CHF		GBP	
	2018	2017	2018	2017	2018	2017
Sensitivity rates	5%	5%	5%	5%	5%	5%
Profit or loss						
+5% of Euro	(0.20)	0.05	0.15	0.05	0.25	0.05
- 5% of Euro	0.20	(0.05)	(0.15)	(0.05)	(0.25)	(0.05)

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

31 dhjetor 2018	EUR	USD	CHF	GBP	Totali
Assets					
Cash on hand and at banks	13,618	2,622	4,200	319	20,759
Balances with CBK	55,869	-	-	-	55,869
Investments in securities	25,496	-	-	-	25,496
Loans to customers	170,721	-	-	-	170,721
Other assets	744	-	-	-	744
	266,448	**2,622**	**4,200**	**319**	**273,589**
Liabilities					
Due to customers	241,044	2,626	4,197	314	248,181
Due to banks	2,091	-	-	-	2,091
Subordinated debt	1,050	-	-	-	1,050
Other liabilities	283	-	-	-	283
	244,468	**2,626**	**4,197**	**314**	**251,606**
Net foreign currency position	**21,981**	**(4)**	**3**	**5**	**21,984**

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

25. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.
The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.
The Bank monitors its liquidity on a daily basis in order to manage its obligations as and when they fall due.

Exposure to liquidity risk
Funds are raised using a range of instruments including customers' deposits, subordinated debt and share capital.
Flexibility limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Management of liquidity risk
Residual contractual maturities of financial assets and liabilities
The following tables show the discounted cash flows of the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The Bank's expected cash flows of these instruments vary significantly from this analysis. For example, demand accounts are expected to maintain a stable or increasing balance.

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

25. Financial risk management (continued)

(d) Liquidity risk (continued)

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

(e) Capital risk management

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

Regulatory capital

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

Risk-Weighted Assets (RWAs)

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

	2018	2017
Total risk weighted assets	174,797	160,864
Total risk weighted assets for operational risk	17,127	15,488
Total	**191,924**	**176,352**
Regulatory capital (Total Capital)	29,860	27,032
Capital adequacy ratio (Total Capital)	**15.56%**	**15.33%**

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

25. Financial risk management (continued)

(e) Capital risk management (continued)

Gearing ratio

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

The leverage ratio at the year ended was as follows:

	2018	2017
Total Assets	281,113	239,325
Total Equity	29,361	26,161
Leverage ratio	**10.44%**	**10.93%**

26. Subsequent events

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

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