Banka Ekonomike

ANNUAL REPORT

2020

ANNUAL REPORT 2020

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Coins of King Monunius - 280 BC

MESSAGE FROM THE BOARD OF DIRECTORS

Dear customers, shareholders and employees,

First of all, we hope to continue to overcome the COVID-19 situation and to work in a normal environment and activity conditions, focusing all of our efforts to improve quality and banking services during 2021.

However, above all, our goal in 2021 is to take care of our employees and customers in order to protect them from Covid-19, as well as continue providing all banking services without interruption.

In terms of financial results and business indicators, the Board of Directors is pleased to present positive results achieved by Banka Ekonomike for year 2020, despite the economic downturn in the country due to the pandemic. The results achieved show the increased performance of the Bank and the ability of our employees to implement the strategy efficiently in a highly competitive and challenging market.

During 2020, the Board of Directors has held scheduled and extraordinary meetings as needed, in order to follow the oversight of policies and the implementation of the Bank's strategy. Also, in the meetings of the Board of Directors, other topics related to management in general, corporate culture in the bank, coordination and control, implementation of CBK regulations issued during the pandemic, compensation and compliance systems were discussed and decided on. Reports were provided to us as the Board of Directors on regular bases on business development, financial development, financial statements, bank risk, liquidity and capital management, appropriate technical and organizational resources and other issues of importance to the Bank. As the Board of Directors, in cooperation with the Executive and Senior Management, we have approved policies and decisions of crucial importance to the Bank.

In the meetings of the Board of Directors, sufficient time and attention has been allocated to the Department of General Compliance as a direct reporting function to the Board of Directors, in order to address new regulatory requirements, handle cases to prevent fraud and implementation of the code of conduct. Also, as another direct reporting function to the Board of Directors, special attention was given to the Compliance Department for the Prevention of Money Laundering, where the status and developments in this department were discussed, as well as process automation and management of "KYC - know your client".

The Audit Committee, as a special committee, has reported on a regular basis in the meetings of the Board of Directors, addressing various issues according to the audit reports that have been completed during the reporting periods. These reports have been treated with the utmost seriousness in order to continuously improve the Bank's processes.

The Risk Management Committee has held regular meetings with relevant agendas according to the regulations in force. The Chief Risk Officer has reported and drafted the Bank's risk management strategies and policies and these, in consultation with the Risk Management Committee, have been reviewed and approved at the Board of Directors meetings.

The Board of Directors would like to thank all the employees of the Banka Ekonomike for their commitment and achievement of the set objectives for 2020. A special thanks goes to our customers and shareholders for the support and trust.

On behalf of the Board of Directors,
Lirim Shulina
Chair

MESSAGE FROM THE EXECUTIVE MANAGEMENT

Dear colleagues, clients, associates and shareholders of the Banka Ekonomike,

We have the special pleasure, on behalf of the Executive Management to share with you our achievements and challenges during 2020.

Year 2020 was not an ordinary year. The COVID-19 pandemic has challenged the whole world and consequently has affected our country and our institution, making the operation and achievement of objectives according to our plans much more challenging. The challenges created by the pandemic required a quick, careful and professional approach to address them, and thanks to the extraordinary commitment of all our employees, we have managed to continue to provide uninterrupted services to our customers, of course by undertaking necessary measures to protect our employees exposed to the risk of infection with COVID-19, and with special care we have implemented all the recommendations of the institutions responsible for pandemic management and protection of public health.

Our Bank extends its gratitude to and is thankfull to all public institutions which were directly responsible for protecting the public health and fighting the pandemic, and a special thanks goes to the Central Bank of the Republic of Kosovo for the support and measures taken during this period.

The macroeconomic environment in Kosovo has had a slowdown and a declining trend as a result of dealing with the COVID-19 pandemic and measures taken by institutions to close and restrict economic activity. Restrictive measures taken resulted in an average decline of 5.6 percent in economic activity in the first nine months of 2020. Aplicable to GDP, the net investment and exports components decreased by 6.5 and 6.4 percentage points, respectively. On the other hand, economic activity was supported by the positive contribution of consumption by 7.4 percentage points.

Despite the challenges with the COVID-19 pandemic, our Bank has continued to show resilience and deliver positive financial and operational results. In a very competitive and at the same time challenging market, the Bank has continued to implement the strategy efficiently, continuing the uninterrupted lending to customers, as well as the further modernization of products and services according to the needs and requirements of our customers and market development.

The pre-tax profit of Banka Ekonomike for 2020 is EUR 4.48 million. Despite such an extremely challenging environment, these results were made possible thanks to our customers trust in our products and services and the commitment of our employees for efficiently implementing the bank's strategy. During this year, by employing a prudent and careful approach, we managed to increase the loan portfolio by EUR 41.4 million (↑ 19.20 percent), while our portfolio continues to be qualitative at the level of non-performing loans with only 2.46 percent.

Customer trust in Banka Ekonomike continues to grow from year to year, and this is best attested by deposits, which reached the highest level ever, at EUR 330.3 million (↑ 16.84 percent). The total assets of Banka Ekonomike increased to EUR 367.9 million, compared to EUR 322.5 million at the end of 2019.

Continuous improvement of customer service remained an important priority even in 2020, and we as always are focused on improving customer satisfaction with all our products and services and at the same time we have continued to modernize our network, reallocating and renovating some of our branches, in order to provide a more convenient and accessible environment for all our customers and employees. We believe that branches and physical presence play an important role in terms of providing the most qualitative service possible to the customers.

We have also continued to invest in employee training and technological developments as part of our commitment to consistently exceed our customers' expectations and increase the efficiency and quality of services.

In addition to operating in the financial system, during 2020 we have paid special attention to investments in the field of Information Technology and Information Security in order to increase the level of security. Also, in line with our strategy, we have paid special attention to corporate social responsibility activities, as this year we have supported health workers and various institutions in the fight against the COVID-19 pandemic, as well as continued support in the field of education, culture, sports and social welfare.

Finally, on behalf of the Executive Management, we would like to thank all employees of Banka Ekonomike for the commitment and achievement of the objectives for 2020, despite the circumstances our society has faced. A special thanks goes to our customers and shareholders for their support and trust.

We hope that in 2021 we will leave the pandemic behind and return to full normality!

Executive Management of Banka Ekonomike

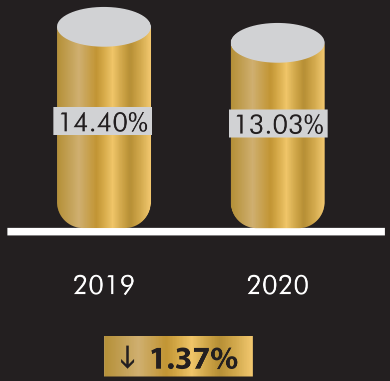
Shpend Luzha
Acting Chief Executive Officer

Hamide Pacolli Gashi
Deputy Chief Executive Officer

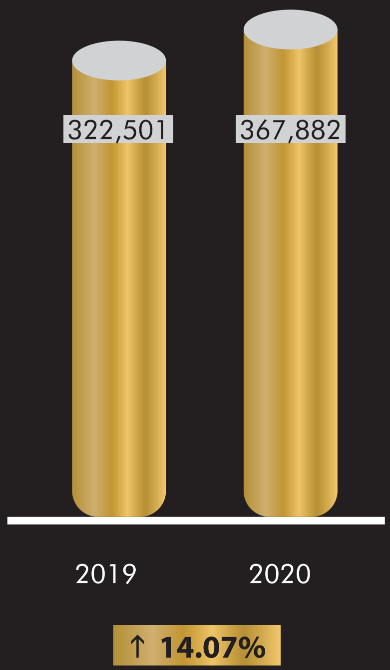
Arijan Haxhibeqiri
Deputy Chief Executive Officer


Banka Ekonomike
ISHTINA
ÜRO PRISHTINA
QEBAPTORE
NORA GRILL
Banka
Ekonomike

Capital adequacy ratio

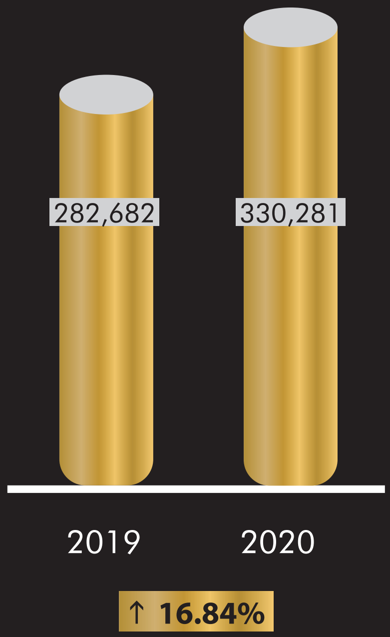


Assets
(in EUR million)

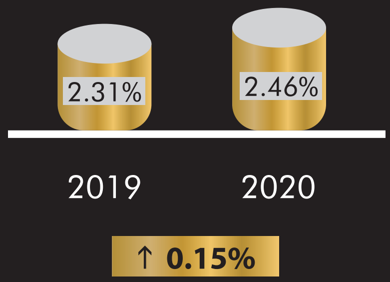


Loans
(in EUR million)

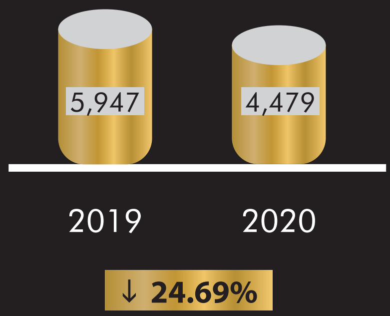
Deposits
(in EUR million)

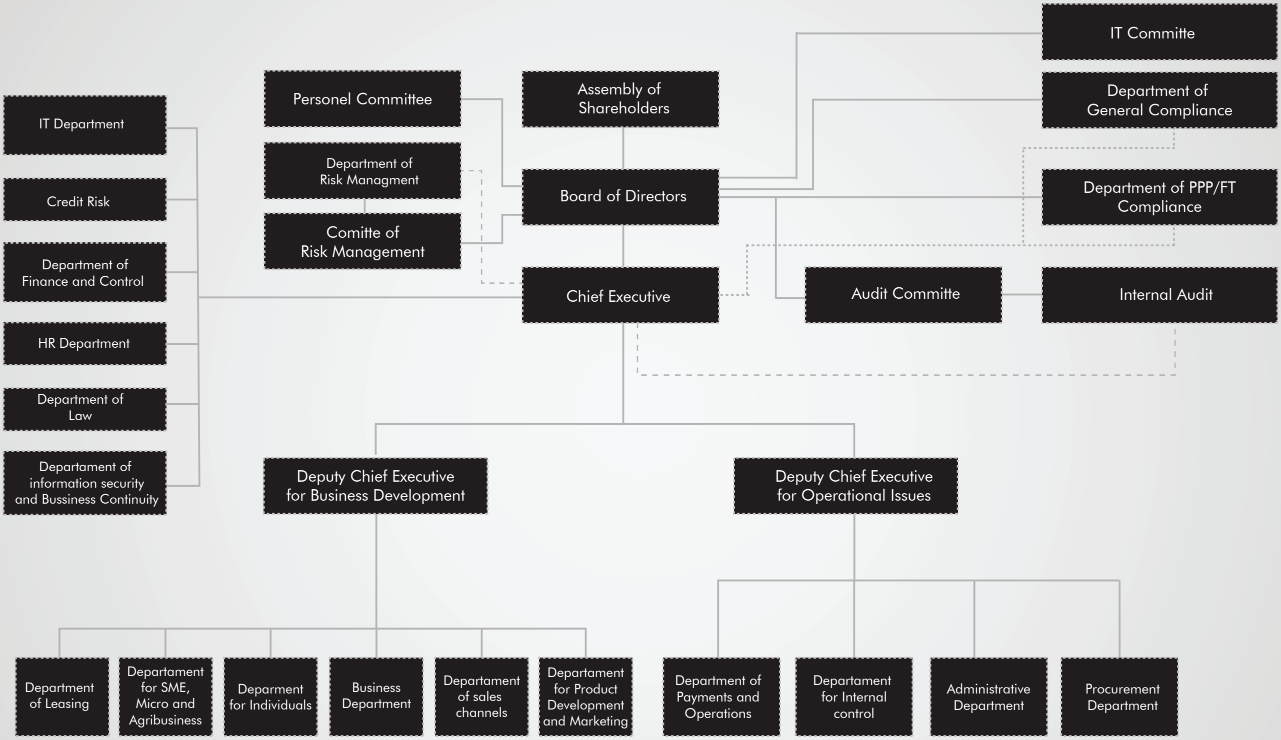


Non-performing loans
(NPL)



Profit before tax
(in EUR million)




IT Committe
Assembly of Shareholders
Personel Committee
Department of General Compliance
IT Department
Department of Risk Managment
Board of Directors
Department of PPP/FT Compliance
Credit Risk
Comitte of Risk Management
Department of Finance and Control
Chief Executive
Audit Committe
Internal Audit
HR Department
Department of Law
Departament of information security and Bussiness Continuity
Deputy Chief Executive for Business Development
Deputy Chief Executive for Operational Issues
Department of Leasing
Departament for SME, Micro and Agribusiness
Deparment for Individuals
Business Department
Departament of sales channels
Departament for Product Development and Marketing
Department of Payments and Operations
Departament for Internal control
Administrative Department
Procurement Department

VISION

- Bank oriented towards sustainable and quality growth, quality services and high professional standards.

MISIONI

- Profiled as a bank of individual and SME customers through the business model, range of products and services and marketing strategy;
- Providing services with specific design for the client through concepts such as VIP, Leasing and Agro Business;
- Bank for professional staff development through training, planning and career guidance programs
- Providing 24/7 services through alternative channels in a sophisticated environment and design
- Digitalization of financial services and processes through technological advancement

OUR VALUES

We are characterized by TEAMWORK, through which we meet the needs of our customers. Teamwork brings mutual respect, better interpersonal relationships and empowerment towards achieving our common goals.

We are characterized by RESPECT for each other and RESPECT for customers.

We are characterized by and committed to high ETHICAL and professional standards, demonstrating honesty, professional and ethical behavior in our relationships with colleagues, clients and society.

Epirote coin from the time of King Pyrrhus

MACROECONOMIC ENVIRONMENT

The Covid-19 pandemic situation and the worsening of the health crisis as a result of the new wave of virus spread prompted the Eurozone countries to take measures to restrict movement and activities, which resulted in a contraction of economic activity of 5.0 percent in Q4 2020.

Among the key Eurozone countries, Germany and France reported declining economic activity, with Germany marking a decline of 3.9 percent and France of 5.0 percent, while Italy and Spain recorded even higher declines in economic activity of 6.6 percent and 9.1 percent, respectively.

On the other hand, lending and deposit activity in the Eurozone has continued to grow. This increase has been evidenced in both enterprises and households. Loans to enterprises increased by 6.4 percent during Q4 2020, while loans to households increased by 3.5 percent. Deposits were also characterized by high growth, where enterprise deposits increased by 20.7 percent, while household deposits increased by 8.7 percent.

The countries of the Western Balkans were also hit by the Covid-19 pandemic, plunging into a deep recession. According to national data, the highest economic decline was recorded in Q2 2020 (average 12.2 percent), while in Q3 2020 economic activity in the Western Balkans was characterized by an average decline of 8.5 percent.

Kosovo also marked a significant decline in economic activity, mainly due to the decline in visits from the diaspora due to restrictions on movement imposed in the main eurozone countries where the diaspora is more concentrated.

Restrictive measures taken resulted in an average decline in economic activity of 5.6 percent in the first nine months of 2020. Within GDP, the components of net investment and exports decreased by 6.5 and 6.4 percentage points, respectively. On the other hand, economic activity was supported by the positive contribution of consumption by 7.4 percentage points.

The consumer price index marked a slower growth of 0.2 percent in 2020 (2.7 percent increase in 2019). Starting from July, KAS reported a decline in prices, while the average deflation in Q4 2020 was 0.1 percent.

Public debt in Q4 2020 has reached 1.5 billion euros, which is 23.9 percent higher compared to Q4 2019. As a percentage of GDP, public debt has reached 21.8 percent, from 17.5 percent in Q4 2019. Growth of public debt is attributed to the increase of domestic debt of 21.5 percent (which reached 961.9 million euros), as well as the increase of public external debt of 28.6 percent (which reached 525.8 million euros).

On a quarterly basis, financial system assets increased by euro 236.8 million, mainly affected by the activity of the banking sector and the insurance sector.

The external sector was characterized by an increase in the current account deficit in 2020 by 7.5 percent and reached the value of euro 429.4 million. In relation to GDP, the current account deficit reached 6.4 percent from 5.6 percent in 2019.

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

BANKING SECTOR

The banking sector was the main contributor to the growth of financial system assets, the value of assets at the end of 2020 was 5.35 billion euros, marking an annual increase of 12.4 percent (13.7 percent in the previous period). While the pension sector, as the second sector in terms of weight in the financial system, accounts for 25.3 percent of total financial system assets.

As a result of the pandemic situation, for the first time in the last five years, lending activity was characterized by a slowdown in growth dynamics from double-digit to single-digit growth.

The value of total active loans at the end of Q4 2020 reached 3.25 billion euros, which represents an annual increase of 7.1 percent (increase of 10.0 percent at the end of Q4 2019).

Loans to nonfinancial corporations, accounting for 63.3 percent of total loans, slowed to 7.2 percent from 9.8 percent at the end of December 2019. Similarly, loans to households slowed their annual growth rate to 7.1 percent from 10.4 percent a year ago.

Total loans are 3,246.4 million euros, with loans to enterprises accounting for 63.5 percent and loans to individuals 36.3 percent. Most of these loans are absorbed by the enterprise sector (46.3 percent of enterprise loans), while loans issued to the industrial sector (including mining, manufacturing, energy and construction) account for 25.8 percent of total enterprise loans. The agricultural sector represents 2.7 percent of total loans.

During 2020, the Central Bank of Kosovo (CBK) enabled the restructuring of loans as a mitigation measure for clients / borrowers affected by the crisis caused by the Covid-19 pandemic. As a result, during the period March-December 2020, on average about 38.0 percent of the total stock of loans were reprogrammed loans and their level has historically had an average of 1.0 percent. Also, another process in this regard was the postponement of credit installments payment by removing the penalty interest and preserving the credit history of customers.

Deposits in the banking sector recorded an annual increase of 11.5 percent, reaching 4,358.8 billion euros. Deposits in the banking sector consist of household deposits, which account for 67.4 percent of total deposits, while deposits of private sector enterprises account for 25.0 percent of total deposits.

Non-performing loans, although marking an increase compared to previous quarters, their level to total loans continues to be low. The non-performing loan ratio to total loans in December 2020 stood at 2.7 percent (2.0 percent at the end of December 2019).

The banking sector has a total of 3,391 employees.

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

THE POSITION OF BANKA EKONOMIKE IN THE KOSOVO BANKING SECTOR

The position of Banka Ekonomike in the Kosovo banking sector

In 2020, our Bank has managed to maintain its position in the market, following the trend of the banking market, which continues to grow. The growth of the banking market in all assets of 12.59 percent was also influenced by our Bank, which recorded an increase in all assets of 14.08 percent, respectively 2 percent more than the market growth.

In real numbers, at the end of 2020, the total assets of the Banka Ekonimike increased to euro 367.9 million compared to euro 322.5 million at the end of 2019.

Figure 1. Share of Banka Ekonomike in the overall growth of market assets, 31 December 2020

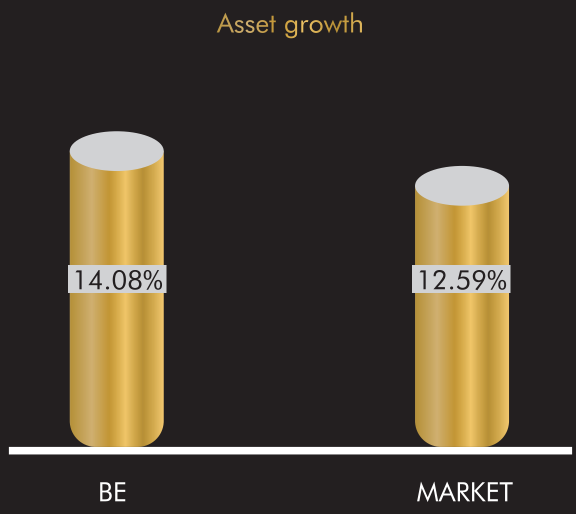
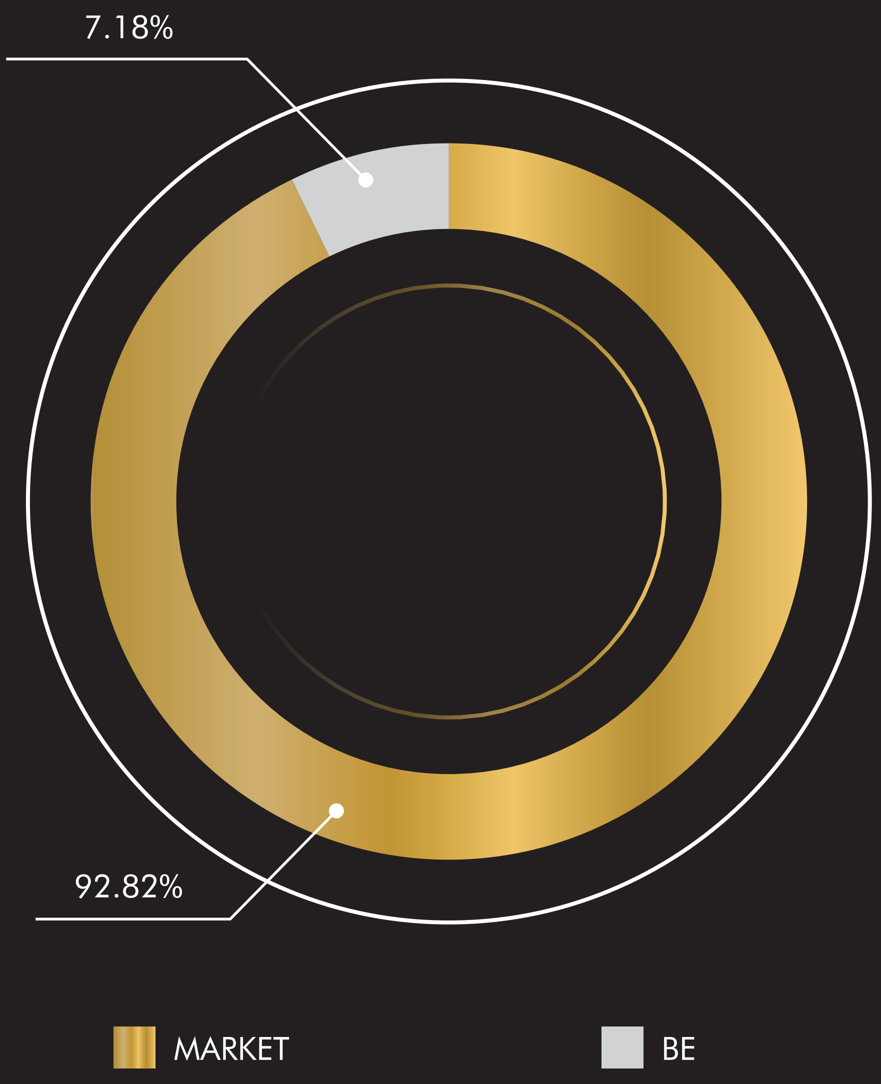


Figure 2. Share of Banka Ekonomike in the overall growth of total market assets, 31 December 2020.



MARKET SHARE - LOAN PORTFOLIO

The share of Banka Ekonomike in total loan portfolio in the market, on 31 December 2020, stood at 7.94 percent of the total banking sector.

During 2020, our Bank marked an increase of 19.20 percent in loans, compared to the market which has marked an increase of 7.39 percent.

Figure 3: The growth of the Economic Bank in total loans in relation to the market, 31 December 2020;

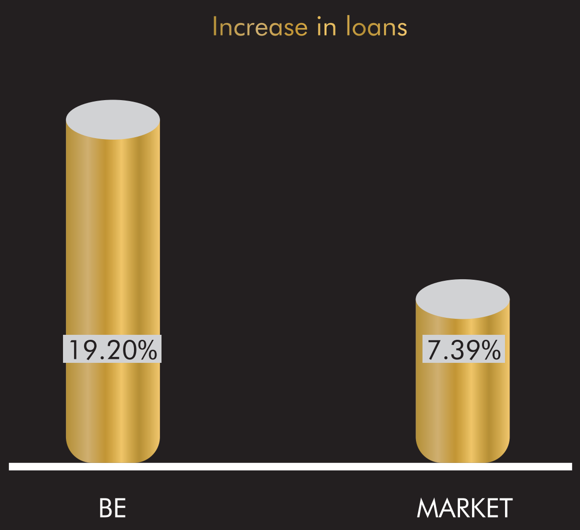
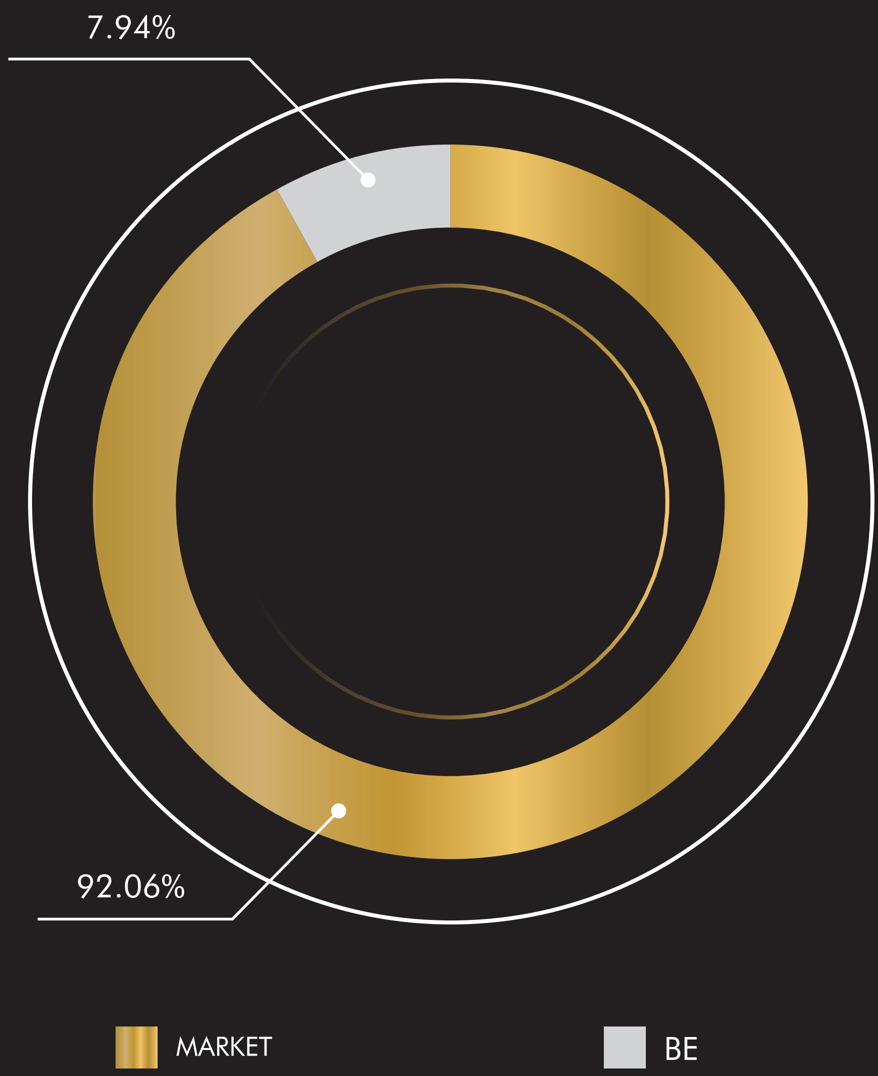


Figure4. Share of the Economic Bank in the volume of loans in relation to the market, 31 December 2020;



MARKET SHARE - DEPOSITS

The share of Banka Ekonomike in the total market deposits, as of 31 December 2020, was 7.78 percent of the total banking sector in Kosovo.

During 2020, our Bank marked an increase of 16.71 percent in deposits, compared to the market which has marked an increase of 11.30 percent.

Figure 5. Share of Banka Ekonomike in deposits in relation to the market, 31 December 2020;

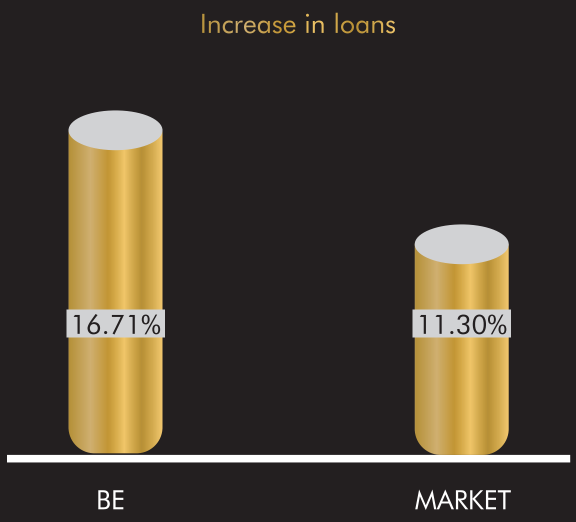
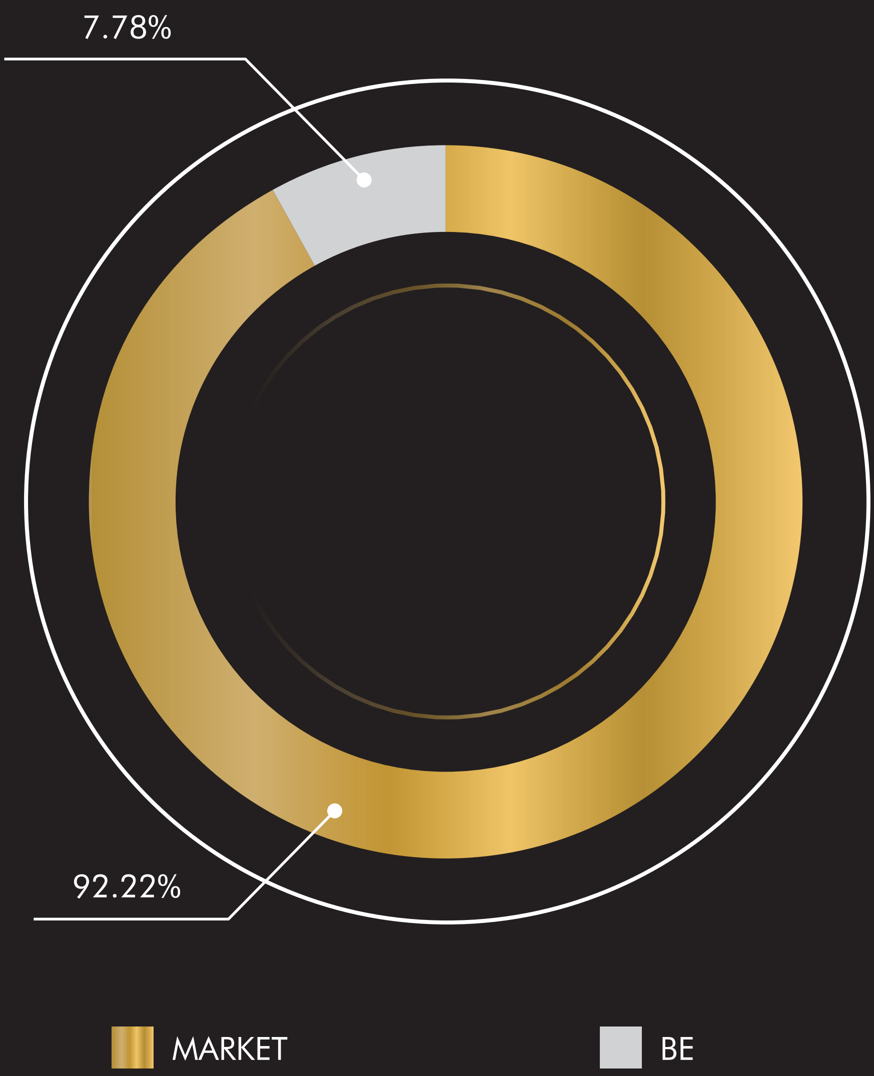


Figure 6. Share of Banka Ekonomike on deposit volumes in relation to the market, 31 December 2020;



STATEMENT OF FINANCIAL POSITION

Balance sheet on: 31.12. 2020	Euro '000
	31/12/2020
Assets	
Cash and balance with the CBK	69,657
Due from banks	12,733
Investments in securities	25,365
Net loan and advances to customers	247,123
Real estate and equipment	8,767
Intangible assets	2,813
Tax assets, deferred	
Other assets	1,423
Total assets	**367,882**
Liabilities	
Customer deposits	330,281
Due to banks	2,080
Other borrowed funds	0
Tax liabilities, deferred	6
Other liabilities	2,184
Total liabilities	334,550

Shareholder's Equity	
Share capital	29,422
Capital reserves	-99
Retained Earnings/(loss) from the previous years	0
Profit / loss of the current year	4,009
Other components of equity	0
Total Shareholder's Equity	33,332
Total liabilities and Shareholder's Equity	367,882

Epirote coin from the time of King Pyrrhus

Income statement on: 31.12. 2020	Euro '000
	31/12/2020
Interest Income	17,966
Interest expenses	(2,640)
Net interest income	**15,326**
Fee and commission income	2,774
Fee and commission expense	(1,478)
Net fee and commission income	**1,296**
Net trading revenue	165
Net revenues from other financial instruments	49
Staff expenses	(3,466)
Other administrative and operating expenses	(4,463)
Depreciation/amortization costs	(2,277)
Other Net operating income (expenses)	983
Total revenue	**7,612**
Loan loss provisioning	(3,133)
Profit / loss before tax	4,479
Profit tax expenses	(470)
Net profit (loss)	**4,009**
Other comprehensive income	(309)
Total comprehensive income	**3,700**

PERFORMANCE OF BANKA EKONOMIKE

Continuing the tradition of increasing and maintaining customer satisfaction, working continuously to achieve financial performance targets, our Bank has made progress in most financial indicators in 2020 as well, closing the year with a profit before tax of 4.48 million euros.

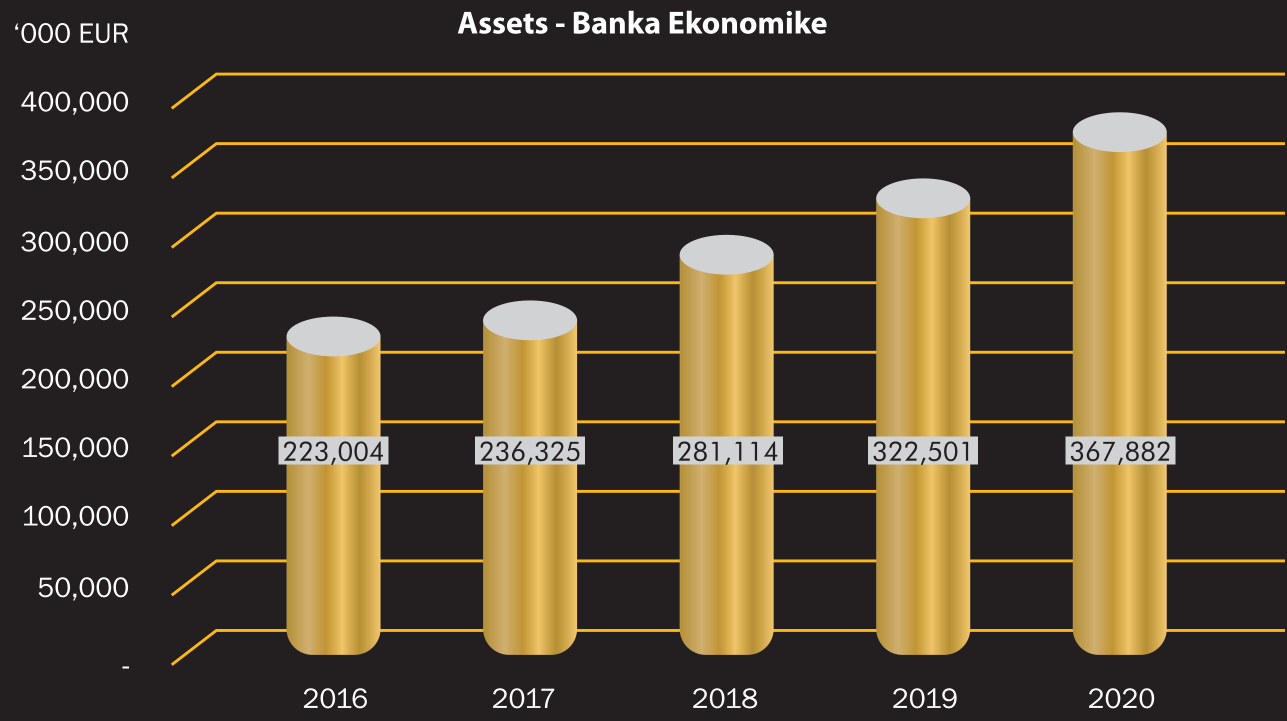
Net interest income has increased compared to last year by 13.4 percent, while net income from commissions has decreased by 6.1 percent.

Our bank remains committed to implement its long-term strategic plans in order to continue to carry out successful operations always on the rise.

Bank Assets

Commitment to values, performance targets, and continued commitment to expanding the bank’s network and infrastructure has resulted in increased bank assets for the fifth year in a row. This year, loan portfolio growth has also played an important role in the outcome of asset growth. Our bank closed 2020 with 368 million euros, compared to 2019 when it had 323 million euros in assets.

Figure 7. Assets of Banka Ekonomike, 2016-2020;

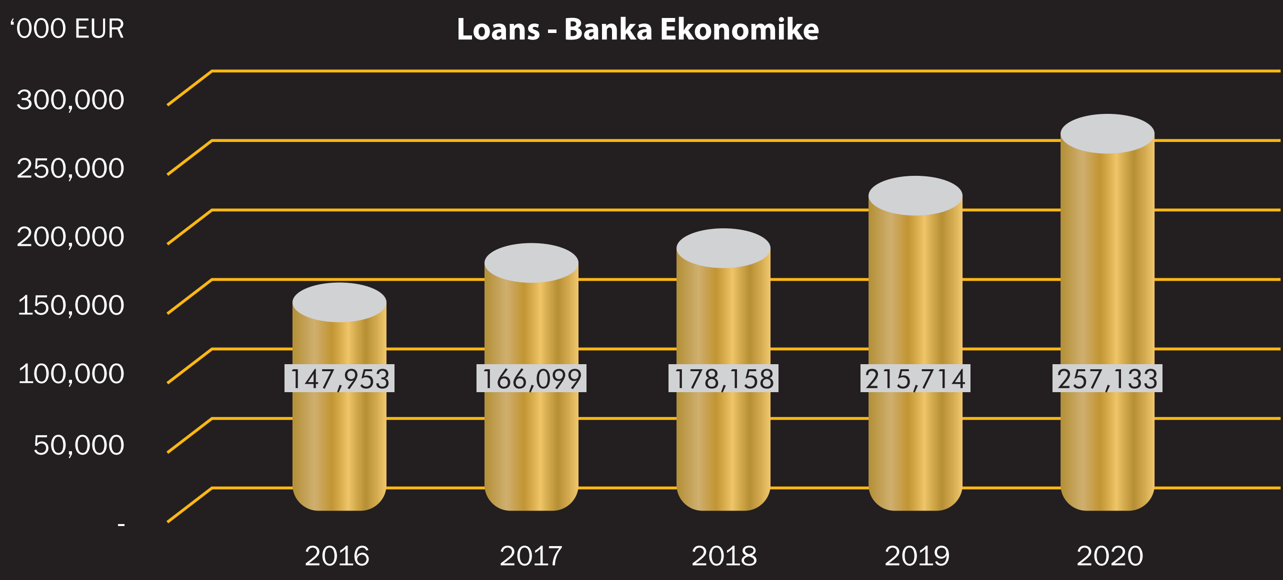


All figures are in ‘000 EUR.

Loan portfolio

Proper portfolio management and balanced risk management have influenced the growth trend to continue this year and our Bank to have significant growth in the loan portfolio, including the private and business sectors. During 2020, the loan portfolio increased from 216 million euros to 257 million euros.

Figure 8. Loan portfolio, 2016-2020;



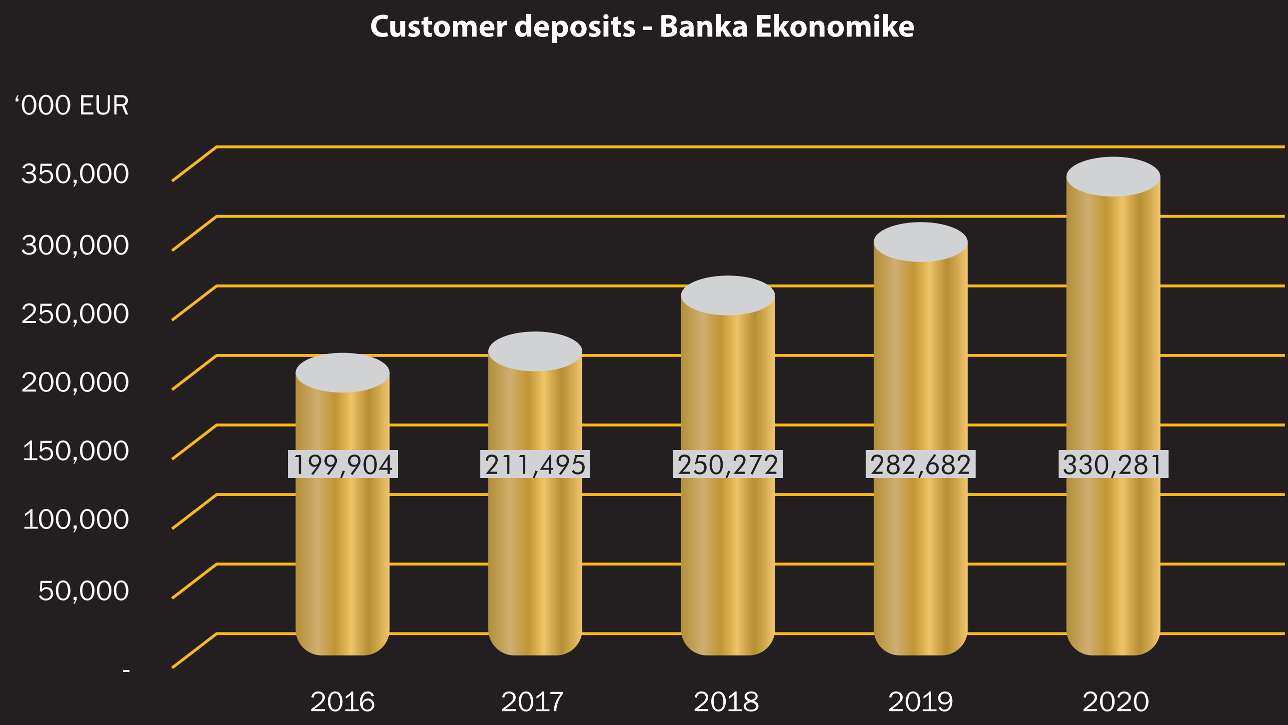
All figures are in '000 Euro.

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

Deposits

Constant increase in deposits is one more indicator in the continuous increase of customers' trust on the services of Banka Ekonomike. 2020 marked an increase in deposits to 330 million euro from 285 million euros in the previous year.

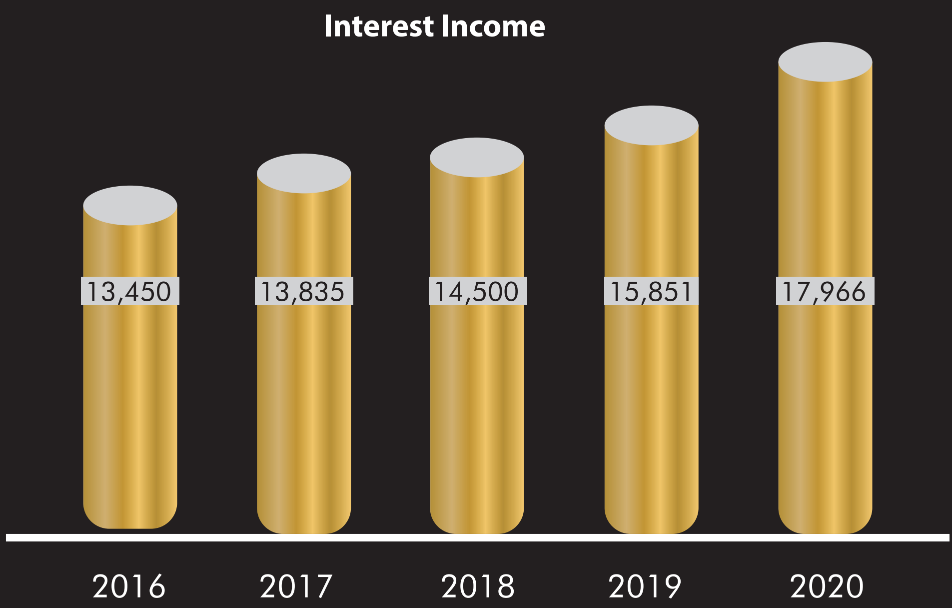
Figure 9. Customer deposits, 2016-2020;



All figures are in '000 Euro.

Euro '000	2016	2017	2018	2019	2020
Interest Income	13,450	13,835	14,500	15,841	17,965
Deposit costs	2,273	2,192	2,316	2,415	2,729
NET Interest Income	11,177	11,643	12,184	13,426	15,236
Net revenues from commissions and fees	1,673	1,876	1,931	2,162	2,030

Figure 10. Interest Income, 2016-2020;



All figures are in '000 Euro.

Operating costs

Euro '000	2016	2017	2018	2019	2020
Administrative costs	4,081	4,730	4,406	3,767	4,463
Staff costs	2,793	3,109	3,198	3,274	3,466
Depreciation costs	859	834	863	1827	2277
Total operating costs	7,733	8,673	8,467	8,868	10,206

Figure 11. Operating costs, 2016-2020;

All figures are in '000 Euro.

During 2020, our country like all other countries has faced the Covid-19 pandemic. This pandemic is also reflected in the banking sector, which has affected the increase of operating expenses at the Bank level, in order to implement the measures of public institutions for the protection of our customers and employees, ensuring continuous provision of services in the branches of our bank.
All these have increased the bank's operating expenses during 2020.
Despite the pandemic situation, our Bank has paid special attention to investments in branches and infrastructure, investments in information technology but at the same time in the development and training of staff. These have led to an increase in the bank's total operating expenses and an increase in asset depreciation expenses compared to the previous year. Among other things, our bank has paid special attention to donations for the affected sections of society in order to make it a little easier to overcome the pandemic in these difficult times.
However, the review of operating expenses this year has been a priority and has included increasing efficiency and effectiveness, always being in compliance with laws and regulations to best meet the requirements and needs of our customers.

Epirote coin from the time of King Pyrrhus

BUSINESS DEVELOPMENT

During 2020, our Bank has paid extra attention to the proper consolidation of the departments that are responsible for business development. In this regard, the focus has been on meeting the requests and needs of the institutional clients. These requests were handled within the Corporate Department.

Considering the circumstances created by the pandemic, in order to provide facilities for our customers, in accordance with the recommendations of the CBK, we have temporarily postponed the payment of credit installments for individuals and businesses who due to the situation created had difficulty in regular payment of credit installments, without punitive interest.
As part of the Bank's strategy, despite the challenges and circumstances created as a result of the Covid-19 pandemic, the Department for Individuals has continued with a series of campaigns and initiatives that support customer needs towards the achievement of their investment plans. In this regard, with specialized employees for customer service with different categories of income and assets, we have managed to achieve our strategic goals of increasing loans and deposits, as well as maintaining the level of non-performing loans, despite the difficulties created by the pandemic.

Throughout 2020, products and services were reviewed, offering corporate clients both classic financial services and a wide range of services, according to the requirements and specifications they need. Given the importance of this customer segment, the Bank will continue to develop and adapt its products and services to support these businesses.

While, in terms of small and medium businesses, in an uncertain environment created by the pandemic, our Bank demonstrated confidence in the capacity of businesses and maintained their lending. In addition, it continued with the segmentation initiatives started in 2019 where during 2020 the Agro department was profiled thus increasing the specialized resources in the Agro sector. In doing business, the use of the guarantee fund was intensified as an instrument to increase access to finance for businesses and thus overcome the limitations for clients who had difficulty securing collateral. All these developments combined with specific campaigns contributed to an increase in credit exposure of 10.2 million euros, despite the economic downturn in the country, always maintaining non-performing loan rates applied before the pandemic.

In 2020, the Leasing Department was established, which in 2019 was a unit within the business development. Seeing the potential and possibility of expanding the range of banking products as well as meeting the requirements of the bank's customers, in addition to meeting the requirements of existing bank customers, this product has also brought new customers to the bank. At the end of 2020 the number of active product contracts was 492 and the active portfolio at the end of 2020 was 7.1 million Euros.

TOTAL LOAN PORTFOLIO

During 2020, our Bank managed to have a satisfactory performance of all loan segments. The increase of the portfolio base and its quality are indicators that our Bank has the right business model and in the future, according to the strategy, it will increase the resources in this direction. The loan portfolio growth was distributed to all business segments, where we have the largest portfolio growth, from 216 million in 2019 to 257 million in 2020.

Segment	Credit Exposure 2019 in '000	Share percentage in 2019	Credit Exposure 2020 in '000	Share percentage in 2020
SME	52,440	24.31%	62,560	24.33%
Leasing	4,155	1.93%	7,858	3.06%
Corporate	79,170	36.70%	93,609	36.41%
Individuals	79,949	37.06%	93,098	36.21%
Total	215,714	100.00%	257,125	100.00%

CORPORATE

During 2020, the Bank has continued to be a reliable partner for customers of all segments, despite the challenges with the pandemic and the measures set by the government. However, seeing the ever-increasing demands of corporate and their requirements for better quality and professional products and services, we have expanded the staff of the Corporate Department to respond to the needs of this segment with simple and flexible solutions.

In this regard, during 2020 centralization of institutional client treatment (public enterprises, NGOs, financial institutions, insurance companies, etc.) has been done, where this group of clients has been dealt with exclusively by the Corporate Department, which proves that the bank continues to be a close partner of both private businesses and all legal entities within the territory of Kosovo.

In 2020, the business within the Corporate Department has recorded a large increase in loan portfolio, increasing net loans by 14.4 million euros or 18.15 percent compared to the previous year. Consequently, during 2020 there was also an improvement in the quality of assets resulting in non-performing loans, which accounted for only 1.82 percent of the loan portfolio, down 9 percent (or 0.18 percentage points) compared to the previous year, which has been achieved by close monitoring of the loan portfolio, especially by maintaining the quality of loans.

Last but not least, additional attention has been paid to ensuring full compliance with regulatory requirements.

SMALL AND MEDIUM ENTERPRISES

From a business perspective, 2020 is a difficult year to define as it is a year where the business model was maximally tested as a result of the pandemic and as never before the adaptation requirements were maximal. Despite these circumstances, based on customer trust strategies and the economy, the business department managed to successfully increase the number of resources across branches, reorganize them with a focus on Agro, record credit portfolio growth and maintain portfolio quality.

Seeing the role and potential of the companies from SME segment in the Kosovo economy, Banka Ekonomike decided to increase its share in this market by increasing the number of analysts who develop and serve this segment from 35 to 45. This decision to expand was taken with the objective for the Bank to be competitive and increase customer base especially in the micro and agro segments. Moreover, with the increase of resources, the Bank decided to profile the Agro segment as a unit with special processes and needs. Having this in mind, the allocation of 9 analysts dealing specifically with Agro was done, thus completely covering the territory of Kosovo. Through these restructuring and re-positioning of resources, we believe that the foundations have been laid for a healthy and long-term growth of this segment.

In terms of performance, as a result of developments during the year and the challenges posed by the pandemic, the department focused on managing postponement of liabilities based on CBK guidelines on the one hand and developing a loan portfolio on the other. In this regard, we can conclude that the year was extremely successful in managing objectives where the postponement of installments in two phases was achieved and despite the challenges of doing business we achieved an increase in the loan portfolio of 10.2 million euros or 19.29 percent. With this data, we proved once again that as a bank we stay close to our customers and are committed to serving their requirements.

Despite the fact that a short time has passed since the beginning of the pandemic and the postponement of liabilities, the first signals in terms of loan performance are positive. In this regard, when comparing the annual data of non-performing loans, we have maintenance of 2019 levels where the percentage reaches 4.58 percent. As an institution, we believe that the measures taken by the responsible institutions and the economic recovery package have provided sufficient liquidity for the positive recovery trend to continue. As a bank, we will continue to support our clients' business development projects through 2021, just like we did in 2020.

INDIVIDUALS

Within the bank's strategy, individual customers remain the category with a strong focus in terms of meeting their needs through the provision of quality services and competitive products aligned with their requirements. In line with this, 2020 ended with very satisfactory progress in terms of achieving and implementing the set objectives. Despite the ongoing challenges associated with global events of the pandemic situation, the segment of individuals introduced to the market a series of individual loan campaigns which focused on customers and their preferences in terms of meeting short-term and long-term investment needs, which contributed to the growth of the loan portfolio and customer base.

In the context of increasing the level of customer satisfaction, despite the austerity measures imposed in terms of limiting the number of staff due to the pandemic, we have continued to provide and strengthen quality customer service by the sales staff located in all branches in Kosovo, which was welcomed by customers and at the same time was considered as added value.

Furthermore, deposits are very important strategic objectives for the development of business in the bank. Our focus on maintaining the projected level of liquidity has proven to be successful, where over the past year, despite the aforementioned challenges, individual customer deposits have marked an increase of about 20 million euros in total deposits. This commitment crowned with this growth, in addition to meeting our strategic objectives, proves the trust of customers in the Banka Ekonomike, as well.

All the efforts and commitments over the past year, despite the challenges of doing business, have translated into tremendous successes, where we have the highest growth over the years so far, worth 13.5 million or 16.90 percent in percentage points, which at the same time is 11.30 percent higher than the market level, respectively 5.50 percentage points.

LEASING

For the purpose of expanding the range of banking products and services for our customers, we have continued to further consolidate the leasing service, continuing to finance the needs of customers through leasing.

As a new Department, we have paid special attention to the expansion of our resources, including human and infrastructural resources, whereby through financing of our clients we have contributed to the growth of economic activity.

All these efforts throughout the year proved to be appropriate and successful, yielding satisfactory results despite the challenges of 2020. Through leasing, the bank managed to generate new customers, new limits and growth of credit exposure. Within this department and product, we managed to have 492 active contracts and a total active portfolio amounting to 7.1 million euros, while until the same period the total allowed value was 9.1 million euros.

Based on the performance so far and potential for further development, the bank will continue to increase resources and focus on the leasing service, including expanding the range of products offered by leasing.

Seeing it as a product with great potential and the growing demand for this product, in the coming years we will work on the growth and development of this department, its resources and proportionally with the portfolio and range of new products.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility has always been one of the fundamental principles of Banka Ekonomike, as one of the key values, combining financial success with socially responsible actions, which directly affect the increase of general well-being and awareness.

As a result of COVID-19 pandemic, 2020 was a very challenging year in every aspect. As a society we have faced with the need to stay close to each other like never before, highlighting even more the importance of supporting our employees, customers, citizens and most importantly health professionals and all institutions and actors who were in the front line struggling with COVID-19.

As a result of the pandemic, we have necessarily expanded our support for relevant health, educational institutions and not only that, we have not stopped in supporting other social, cultural, sports activities, not forgetting in the meantime the marginalized groups. Since we are the only bank with 100 percent local capital, Banka Ekonomike will continue to play a very important role in the recovery of our society.

Support for health

Given the constant risk that our health professionals and citizens face every day, and in order to continuously contribute to the fight against COVID-19, our bank has donated a “Disinfection/ Sanitization Tunnel” as a donation to the University Clinical Center of Kosovo (UCCK), which has been set up at the entrance of the Emergency Clinic, to be used by health employees and citizens.

This “Disinfection/Sanitization Tunnel” has been maintained by our bank throughout 2020.
We have also contributed through campaigns and calls for compliance with the measures imposed by the relevant institutions.

Support for pupils of Prishtina Municipality

Given the need for support following the circumstances created as a result of COVID-19 pandemic, our bank, in the framework of social responsibility, has decided to join the initiative of the Municipality of Prishtina to help pupils in need who could not be included in the online learning with their peers. On this occasion, our bank has donated certain number of tablets, as a donation to the Municipality of Prishtina, which will be distributed to the pupils of Prishtina.

Support for social activity

Banka Ekonomike, within its scope of social responsibility, continued to support various categories of our society, a mission in which we pay a special attention.
In this regard, our Bank has made a donation in computer equipment, necessary for the work of the committee of blind women in Kosovo. This donation will facilitate and assist functioning of the committee, further improving the work infrastructure, and this equipment will be used for training for women of the committee.

Support for the SOS Children’s Villages in Kosovo

Children are the most important asset of society, therefore social support and care are important components for the development and well-being. During 2020, considering the consequences of the COVID-19 pandemic, we have further increased the support for these social categories, in order to make it easier for them to overcome the consequences of COVID-19.

Banka Ekonomike, as in the past, has made a donation to the Foundation SOS Children’s Villages in Kosovo, which is a non-governmental social care organization supporting abandoned and needy children regardless of their ethnicity, nationality and religion.

Foundation SOS Children's Villages in Kosovo operates since 1999, and so far has provided care for over 1000 without parental care and needy children.

Support for the National Autism Association of Kosovo

Banka Ekonomike, in the scope of its social responsibility, continued to support social categories which are related to children, namely education and increasing their well-being.

In this regard, our bank has joined the #PërNjëriTjetrin campaign, initiated by the National Autism Association of Kosovo, making a donation to support the children affected by autism.

In April 2012, The National Autism Association of Kosovo (ANAK) started providing emergency services for children with autism, mainly on a voluntary basis, by professionals in the field of clinical psychology, child psychology, Department of Psychology and child psychiatry experts.

Support for the children with Down syndrome

Being aware of the challenges faced by children with Down syndrome, and the need for institutional support, especially after the even more difficult circumstances created by the COVID-19 pandemic, our bank, within its scope of social responsibility, as in previous years, also in 2020, continued to support "Down Syndrome Kosova" by making a donation through which it aims to directly contribute to further integration into society and continued access to therapeutic services for the children with Down syndrome.
The "Down Syndrome Kosova" association has over 980 members, and is spread in four regions: Prishtina, Prizren, Ferizaj and Mitrovica, where about 300 members receive necessary services in these centers.

Support for the Hendikos Association

Banka Ekonomike has continued to provide support to social categories that need special care, aiming to fulfil the mission of social responsibility. During 2020, our bank has made a donation to the Handikos Association.

This donation will create better opportunities for the people with disabilities, who, thanks to the commitment of the Hendikos professional staff, will be able to receive essential services, especially in the adjustment of wheelchairs according to the diagnosis of persons.

Support for sports

Sport is a source of recreation, which offers fun, physical activity and encourages the strengthening of team spirit. It can also create a sense of unity and a part of being something more than yourself. Therefore, given these considerations, Banka Ekonomike has consistently supported local sports.

During 2020, we have continued with our support towards further development of sports. Women's sports undoubtedly needs institutional support and promotion, therefore, with the aim at improving the conditions for the development of activities and massification of women's sports, Banka Ekonomike has decided to support the Volleyball Club "M-Technologie" through sponsorship.

While football is the most popular sport, without a doubt needs institutional support, and in this regard our bank has decided to support the project of the Football Club "Shkëndija" for further development, quality increase and massification.

Another sport to which we have paid attention is futsal, where we have supported FC Prishtina Futsall, who during 2020 were the champion of Kosovo.

Support for culture

The field of culture is another segment to which our Bank pays special attention. In this regard, during 2020 we have supported the newest project which is under development, the series "Kosovars". Through this film project, which will be a local production, designed by American screenwriter and director Darren Denison, will reflect the difficult journey of the Albanian people and the struggle of the Kosovo Liberation Army towards freedom and independence of our country.

This project aims to be broadcast to local and international audiences, in order to reflect the just war of the Kosovo Liberation Army.

DISTRIBUTION CHANNELS

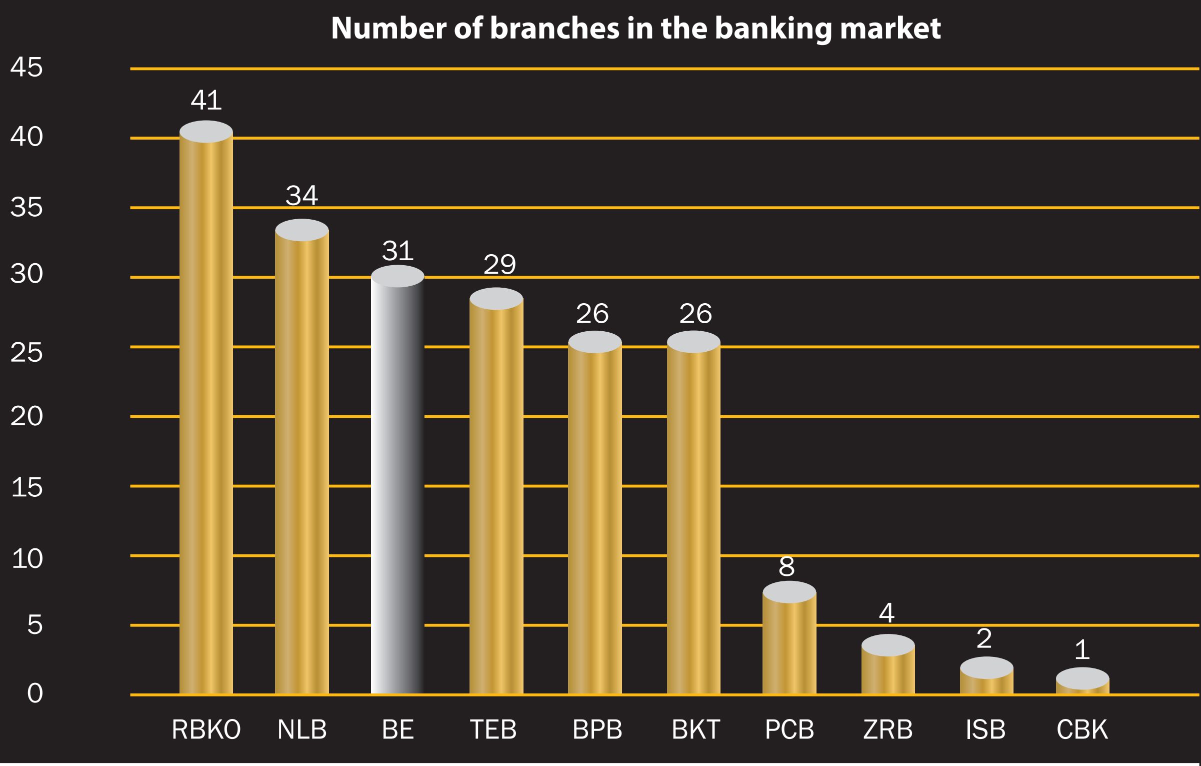
Branch Network

Technology and the digitalization of business operations are a requirement of the time, which everyone is trying to implement, but the closeness with the client should not be left out, because technology will never be able to replace human contact.

Therefore, according to our strategy to provide a more modern infrastructure, which would meet the needs and demands of our customers our bank, has a total of 30 branches, which are divided into 7 main branches and 23 sub-branches. According to statistics from the overall ratio of banks, Banka Ekonomike ranks 3rd in terms of presence in the banking market of Kosovo. This proves once again that the purpose of Banka Ekonomike is to serve each client in every corner of the country!

In order to keep pace with the latest developments in the provision of the highest quality services in the banking market in the country, Banka Ekonomike has paid special attention to the network of bank branches. Year 2020 was a year of difficulties and challenges for all due to the pandemic, but despite the circumstances, we can say that the bank has achieved the approximate targets for 2020, and has continued with the trend of reallocating branches in accordance with the new standard in order to provide services as fast and easy as possible to customers. In terms of improving the infrastructure of the branch network and self-service spaces, we have reallocated the sub-branch of Menza to the new location Mati 1 and the sub-branch in Podujeva, sub-branch in Vushtrri, which already provide a warm and modern ambient for customers.

Figure 12. Share of Banka Ekonomike in the number of branches in the banking market.



Alternative distribution channels

The Call Center, as an alternative and important customer service channel, also during the last year, has played an important role in increasing the provision of services and meeting the demands of customers 24 hours a day, 7 days a week. Year 2020 has been a challenge for all as a consequence of COVID-19 pandemic, given the restriction of movement and closure of institutions, regardless, the call center has never ceased operating, providing various services and information to bank's customers and to the potential ones.

Through the call center, Banka Ekonomike has received 11,483 requests from customers and provided clarifications and advisory instructions about the bank's products and offers.
In the framework of strengthening the direct banking, our bank will continue with the strengthening and qualitative increase of this service.

The focus during 2020 was to provide professional services, support business activity and increase customer confidence, developing long-term relationships with customers. In addition to the call center, Banka Ekonomike has provided customers with support and care through social networks, which already is a very important and practical channel.

In the framework of improving the service for our customers and better coverage of the entire territory of our country, to be as close as possible to our customers, we have invested in the network of ATMs, where through 51 ATMs throughout the country we offer a satisfactory service infrastructure, at all times.

Regarding the participation in the banking market, in terms of the number of ATMs we have participated with 11 percent of the market. Given the development of technology and the dynamic life, one of the main priorities for Banka Ekonomike was focusing on providing 24/7 services through ATMs.

Epirote coin from the era of King Pyrrhus

In 2020, the deposit of funds in ATMs is higher compared to the previous year. Year 2020 marked an increase of 64.41 percent in the number of deposits compared to the previous year.

During 2020, in general, all types of card transactions (deposit, withdrawal and purchase) in ATMs have increased both in number and value. In 2020, the number of withdrawals increased by 6.22 percent compared to the previous year.

In step with the development of the banking market towards the digitalization of service delivery, Banka Ekonomike, during 2020, has continued with the expansion of the network of self-service spaces, in order to access as easily as possible in performing services for customers, at any time over 24 hours. Our bank has 10 self-service spaces for our customers.

In order to complete the provision of quality services to customers, Banka Ekonomike has a dedicated team in every branch, ensuring that every service is provided properly and that every customer request is addressed carefully.

RISK MANAGEMENT

Year 2020 has been highlighted as a year with new challenges caused as a result of COVID-19 pandemic, with an impact on the bank's operations and the credit performance of the bank and the financial sector in general. As a result of the pandemic, Kosovo economy, but also the global one, has been negatively affected by creating a decrease in aggregate consumer demand, which as a result has negatively affected the level of investment at the national level. Also, the pandemic has exposed some of the most sensitive sectors that have been most affected as a result of measures taken to prevent the pandemic, while during this time the bank has been extra careful in lending to certain sectors.

On the other hand, the measures taken by the bank as a result of the decisions of the Central Bank of Kosovo and the possibility of applying for deferral of payments and providing rescheduling of loans to sectors / individuals affected by the pandemic, have had a positive effect in preventing the deterioration of credit indicators at the level of the Bank and at the level of the financial system in general.

Risk management process includes credit, operational, market, liquidity, investment or other risks to which the bank may be exposed at any given time. In order to achieve strategic goals, annual documents are drafted - individual strategies or policies to adapt to the situation created by the COVID-19 pandemic for any specific risk in order to maintain key risk indicators, to control and monitor on regular basis, always taking into consideration the available bank capital. The bank's performance and financial stability is stable, based on the key risk indicators:

Total capital to risk assets ratio	13.03%
The level of non-performing loans	2.46%
Loans to deposits ratio	77.37%
Reserves to non-performing loans	158%

During this year, compliance with regulatory and legal infrastructure has been implemented, adapting all requirements arising from either the requirements of the regulator or international standards. The calculation of losses (provisions) has been advanced in accordance with the new international financial reporting standards (IFRS), which includes the entire system for measuring, classifying or recognizing expected losses.

Credit risk management

Banka Ekonomike is exposed to credit risk which is among the main risks with the greatest impact on overall bank's performance. On the other hand, the bank is exposed to financial markets through treasury activities and mainly investments in securities of the Republic of Kosovo. The bank, as a regular process, identifies and assesses credit risk and has established mechanisms for credit risk management and monitoring. The bank also pays attention to the concentration of credit risk, taking into account the diversification of the loan portfolio across different industries and profiles, which may be due to macroeconomic changes or external factors. As a result of the credit policies approved by the bank, the maximum credit limit for a customer or related group of customers is always kept below the regulator limits, thus reducing the risk of credit concentration. Such limits are approved in advance by the Board of Directors and are regularly monitored and reported to the Risk Management Committee.

To this end, the bank has diversified the corporate loan portfolio and has allocated a portion of the loan portfolio to households, and has supported the growth of the financial leasing segment. The bank has also used the opportunity to transfer credit risk to third parties by using the possibility of financing through the Kosovo Credit Guarantee Fund, which is a very effective tool for mitigating credit risk, especially during the pandemic period.

Non-performing loan management at the end of the year slightly increased from 2.41 percent (December 2019) to 2.46 percent (December 2020). This trend was consistent, given the effects of the pandemic and the temporary measures to shut down the economy during the second quarter of the year.

Credit risk management is done through continuous assessment of borrowers' creditworthiness while credit exposures> 50,000 euros are monitored at least on an annual basis. The Credit Risk Department aims to manage the quality of the loan portfolio in accordance with CBK regulations, as well as policies and procedures approved by the Bank. The credit approval and monitoring process is decentralized to branches according to the limits set by the bank's management, while credit exposures> 10,000 euros are assessed by the Credit Risk Department in close cooperation with the Bank's business lines and management. In the delegation of credit authorities, the principle of "four eyes" is applied, while in credit committees decisions must be taken unanimously. One of the important components of corporate governance is the principle of control, which is carried out at the branch level, and processes dealing with crediting which are carried in due professional care.

Furthermore, the collateral unit has been functionalized, which deals with the treatment of movable and immovable property, the valuation and revaluation process, as well as their monitoring on a regular basis.

OPERATIONAL RISK

Operational risk is otherwise known as the risk of losses caused by inadequate or failed internal processes of people, systems and external events. The bank has a well-developed operational risk system that is tailored to the nature of the bank in terms of identifying key risk indicators and continuously controlling operational risk incidents, with the sole purpose of reducing the financial impact and frequency of incidents.

The bank continues to be exposed to various operational risks, as a result of technological advances in the field of financial services, among other things, have made this risk more significant caused by inadequate or failed internal processes of people, external systems and events.

Creating a more effective control over operational risk requires the ability to assess the bank's existing risk profile by categorizing these incidents into the database, including events leading to operational risk. Furthermore, the bank has installed strict operational risk monitoring standards versus reporting and provides ongoing operational risk training to all employees, especially those responsible for reporting operational risk incidents and new employees. Through standardized approaches to operational risk management we have achieved significant improvement in the quality of data as a key point in decision making in relation to incidents presented in operational risk committees in higher management frameworks.

Therefore, despite the continued increase in exposure to operational risk, the management of this risk was adequate, isolating its consequences as a result of activities divided according to Basel. The bank has managed to take steps against the most effective controls on operational risk management, fully implementing the assessment of the existing bank risk profile.

LIQUIDITY AND MARKET RISK

Liquidity risk arises when there are insufficient funds to meet financing requirements in a timely manner. It can also happen when open positions cannot be closed on time at reasonable prices. On the other hand, it appears as part of market risk when a Bank asset may be impaired due to a change in the interest rate.

The main source of financing of activity and business continues to be represented by short-term deposits which increased, mainly by households in relation to deposits of legal entities, thus creating a stabile liquidity for the bank. There is a structural mismatch of tenures between loans and deposits, more noticeable at tenures over one year. Maturity deposits 'up to 1 year' dominated the structure of time deposits. For the same purpose, the model of depositing stresses for long-term stability in the bank has been developed. Ratios between deposits and credit exposures continue to be disproportionate and risky, especially in the area of interest on long-term credit exposures, so the variable interest rate product has been implemented in order to manage gaps and competition in terms of interest rate movements.

The main investments during this period were characterized by investments in securities and treasury bills of the Republic of Kosovo. The table below presents the exposure to securities of the Republic of Kosovo.

000 euro	2019	2020
T-Bonds of the Republic of Kosovo	25,005	25,285
T-Bills of the Republic of Kosovo	5,201	-

Liquidity reserves continue to be at high levels, exceeding the mandatory reserve held in the CBK by 35.7 percent, compared to the legal requirement of 25 percent. The bank is liquid because it easily and on time fulfils current and future liabilities. Throughout the period, the limits set by the regulator have been maintained, and key liquidity indicators have been monitored on a regular basis. Leading liquidity indicators provide positive signals for overall bank stability. On the other hand, as part of Basel III, the Bank calculates on a regular basis the liquidity coverage ratio ensuring that the Bank is keeping the LCR ratio >100 percent.

Internal capital adequacy assessment process

The bank has drafted a document which, as a concept, aims to identify, assess and manage all risks according to the second pillar of the Basel standards for capital adequacy. This standardized internal assessment process is important for planning the minimum capital requirements to which the bank is exposed or may be exposed in order to proceed with regular business operations. Individual risks arising from the model or strategy during the duration of the business plan, concentration of loan portfolio, collateral, operational, liquidity, interest rate, etc, determine the need for capital planning for these risks.

Risk Management Committee (RMC)

On a regular basis all activities undertaken for risk management are discussed and reported to the RMC at the level of the Board of Directors. The RMC is the highest body in terms of overseeing the Bank's risk activities. All policies for the management of any specific risk, limits, and risk indicators are analysed, evaluated and pre-validated by the RIC and finally recommended for approval to the Board of Directors of the Bank.

OPERATIONS AND PAYMENTS

Although 2020 has been a year of pandemic and a year of challenges as a result of COVID-19 pandemic, Banka Ekonomike continued to focus on customer service and stability of operational functions by developing and implementing a number of development projects related to improvement of bank processes and meeting local and international legal requirements.

Banka Ekonomike continues to be competitive in the market, being oriented towards further improving the infrastructure if services to our customers.
We have implemented the “web service” platform of the Regional Water Company (RWC) of Prishtina, through which it is possible to make online payments for the payment of water bills.

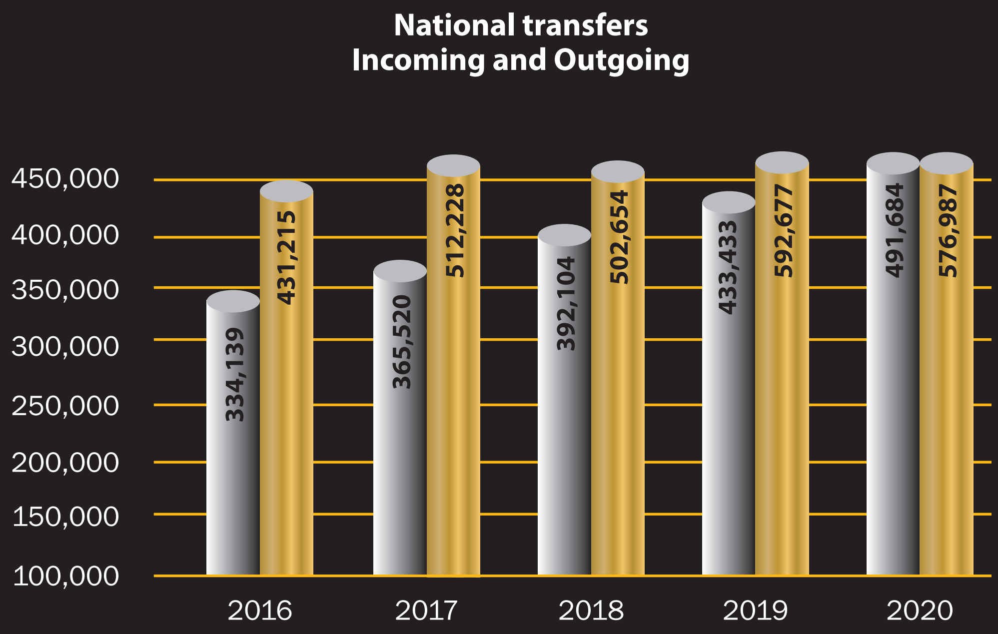
SWIFT GPI - a new standard applied for international transfers through SWIFT, whereby Banka Ekonomike enables full and fast management of incoming and outgoing transfers of its customers from the initiation to the receipt of payment.

Also during 2020, Banka Ekonomike continued the process of the process of personalization of customer cards within Kosovo for the category of retirees. We have also invested in increasing the efficiency of card production from application to card delivery to the customers.

NATIONAL TRANSFERS

The total value of the incoming and outgoing transfers from 1.02 billion in 2019 increased to 1.07 billion in 2020, recording an increase of about 4 percent, as presented in the table below. Incoming transfers have increased by 13 percent, while as a result of the slowdown in economic activity during 2020 the national outgoing transfers made at the counters have decreased by 3 percent compared to the previous year. As part of our bank's strategy for further advancement of the automation process and use of alternative channels, the utilisation of the E-Banking platform has increased by 13 percent.

Figure 13. National incoming and outgoing transfers



All figures are in '000 Euros

INTERNATIONAL TRANSFERS

The international transfers in 2020 have increased compared to the previous year. The total number of incoming and outgoing transfers has increased for about 19 percent, from 18 thousand in 2019 to 22 thousand in 2020.

The total value of these transactions recorded an increase by 15 percent in 2020, compared to the previous year, where in total the value of incoming and outgoing transfers from 275 million in 2019 has increased to 317 million in 2020, as presented in the table below.

Figure 14. International incoming and outgoing transfers

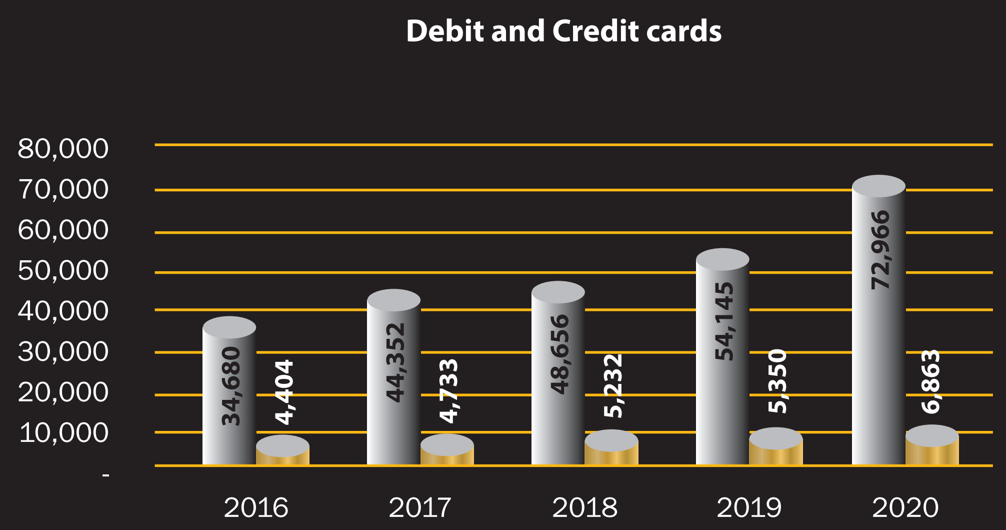
All figures are in '000 Euros

CARDS

Banka Ekonomike, in cooperation with its partners Master Card and Visa, offers customers debit and credit cards for performing services inside and outside the country, such as ATMs, POS terminals and online payments. Also this year, the bank has launched local debit cards for the category of retirees who are enabled the process of withdrawing funds at the ATMs of the Economic Bank.

Compared to last year, the number of debit cards has reached 73 thousand and has increased by 35 percent or 18,821 debit cards more than the previous year, while the number of credit cards has reached 6,863 thousand or an increase by 28 percent or 1,513 credit cards more.
During 2020, the trust of customers to our Bank has been proven once again, where we have over 11,000 new customers who have opened accounts in our Bank.

Figure 15. Number of debit and credit cards over the years



All figures are in '000 Euros

INFORMATION SECURITY AND INFORMATION TECHNOLOGY

Year 2020 was one of the most challenging years for everyone, as the COVID-19 pandemic had a global spread and greatly affected our country as well. In order for the bank to continue its daily operations and be accessible to customers even in unusual circumstances, organizing business continuity was very important, working with reduced staff and additional security measures for our customers and employees. Also, in order to maintain health, our bank is focused on operating 24/7 by applying remote work strategies, including online workshops at all levels of the bank. In 2020, in addition to the pandemic, cybercrime activities have been increasing globally, as we as a bank have made large investments in the field of cyber and modernization of information technology infrastructure to be up to date in both cyber security but also in providing technological services to the bank's employees but also to its customers.

Also, the Department of Information Technology, despite all the challenges it has faced, has implemented a number of projects, ranging from legal requirements to improvements in technological infrastructure for better and more accurate service delivery.

Also, the working team for the implementation of the new banking system has continued intensive work in order to achieve the implementation of the system according to the strategy and deadlines set.

HR AND TRAINING

Year 2020 was a challenging year, not only for our clients in terms of the continuity of their businesses, but also for the institution, for our employees and for the continuation of the current strategy and practices of the Human Resources Department. The challenges were even greater in the financial services sector, due to the critical nature of the work, which requires direct involvement in customer relations.

We managed to transfer a large portion of the critical operations performed at the Head Office in the form of work from home. For a large portion of the employees, online work was an experience that was happening for the first time.

The role of Human Resources had to be translated into new strategies to adapt to everyday situations. One of the key elements that accompanied this strategy was the uninterrupted and continuous communication of the Human Resources Department with each employee, to understand the challenges, to help and support this communication between the respective Departments / Branches.

The Department of Human Resources faced various challenges from day one, challenges which required commitment of all parties, continuous coordination to support by increasing capacity of each link of the functions, processes, branches, etc., whether through communications, providing problem solving solutions and various virtual trainings.

Learning from the challenges of working from home and courageously challenging the unfamiliar situations that the year 2020 brought confirmed the values of our team and the main pillars on which the quality of service and professional and responsible relationship with the customers who have selected it are based our staff as financial advisors for their business.

Some of the key factors that supported the successful overcoming of the aforementioned challenges are:

Trust in employees

One of the biggest challenges and the essential element was the readiness of the Bank to believe that our employees would give results even in the new operating conditions. The concept of distance work was immediately developed based on the trust of employees and Management.

Dealing with the unknown offers some possibilities of solutions available, but choosing the right solutions was confirmed by our ability to adapt to changes through sustainable steps towards achieving goals. Throughout 2020, the Human Resources Department engaged in the role of advisor to the reorganization of leadership as needed as well as the recruitment process of new staff, which was not interrupted despite the conditions dictated.

The Human Resources Department successfully conducted Introductory Trainings for New Employees. The year 2020 marks the addition of a new element, namely that of the culture of working from home, which was adapted and managed to become a reality successfully only through sustainable structures of the bank under the direction of Human Resources Department and Management. This culture was achieved through virtual communications of the Human Resources Department and beyond, as well as through the organization of meetings on various platforms with the main purpose of maintaining close contact with all employees.

The training materials had added elements of dealing of examples with new situations. The Human Resources Department organized the following trainings:

Business
• Good conduct in business
• Handling customer complaints
Operations
• Training for the technical part in the system
• Training in the CIF program

Only with this approach, we have enabled our customers and employees to be accessible to all associates and vice versa, as well as to maintain high levels of security of the institution and information.

The Human Resources Department continued with the annual training plan with physical and virtual participation. The operations were very important and for this reason, the Department of Human Resources focused on the organization of trainings on this topic, highlighting the new elements in accordance with the situation created.

The fight against money laundering, Information Security and Operational Risk Management were not left out of the Department's attention. These trainings were not only conducted according to the culture of distance work, but it is also very important to raise the awareness of each employee on this issue, especially during the pandemic.

Despite the obstacles, increased dynamics and expanded access to the virtual platform, the Bank staff, together with the Human Resources Department, successfully completed a series of trainings and technical programs offered by our colleagues as well as by external professional parties.

COMPLIANCE DEPARTMENT

Year 2020 has been full of challenges and news for the entire sector considering the COVID-19 pandemic, and these challenges have certainly affected the compliance function within the Bank.

Our bank, during this year and during the pandemic period, has been committed to complying with regulators and applicable laws and new guidelines issued by the CBK as a result of COVID-19.

From the beginning of the pandemic, our Bank has activated the pandemic management team within the bank, where the Department of Compliance also participated, and followed and implemented the recommendations. This is in order to deal as effectively as possible with the situation created, where actions are coordinated with all departments and functions within the bank, the CBK and the Association of Banks as a banking sector.

The Department of Compliance has followed all regulatory changes and guidelines issued during 2020 and analyzed their impact on the Bank. Relevant parties within the Bank have been informed of these changes and have been involved in their implementation.

Also, the Department of Compliance was a participant in the crisis management group established by the CBK regarding the pandemic, where they discussed the effects of the instructions of the Government of the Republic of Kosovo and the ways for their implementation.

Although most of the time since the beginning of the pandemic we have been working with reduced staff, the Bank has fully implemented the system of internal controls and has been able to report any possible violations that could occur especially during this sensitive period of the pandemic.

We have taken care to constantly remind the obligations arising from the Bank's Code of Conduct to each of the Bank's employees regardless of position. This has been very important knowing that regardless of the pandemic situation we, as a bank, have an obligation to respect the rules and laws and we must not allow this situation to affect the distraction of employees.

In 2020, as always, Banka Ekonomike has paid special attention to customer care and handling their complaints, especially in this period of pandemic. Certainly, the credit moratorium period, due to the pandemic and according to the instructions of the CBK, has raised the attention of customers to be interested in this process. For each customer complaint and request, regardless of reduced staffing, the Bank has managed to communicate with each customer and address their requests in time.

This management regarding customer care and handling of complaints, together with other functions in the Bank regarding the restructuring of loans, as a result of COVID-19, in two phases during 2020, has been completed without creating uncertainty and panic among customers.

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 2020 (with Independent Auditor's report thereon)

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GrantThornton

Independent Auditor’s Report

To the Shareholders of
Banka Ekonomike Sh.A.

Opinion

We have audited the financial statements of Banka Ekonomike Sh.a. (the “Bank”), which comprise the statement of financial position as at 31 December 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Bank as at 31 December 2020, as well as its financial performance and cash flow for the year ended, in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Emphasis of matter

As disclosed in Note 17 to the accompanying financial statements, as at 31 December 2020, the total share capital of the Bank registered with the Kosovo Business Registration Agency is in the amount of EUR 24,543,669.93. The share capital of the Bank presented in its books and accompanying financial statements is in the amount of EUR 29,422,189 and is not equal to the share capital registered in the Kosovo Business Registration Agency.

our opinion is not modified in respect of this matter.

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 Kosovo, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with those charged with governance of Banka Ekonomike Sh.a. 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	/Signed/
Prishtina,	Suzana Stavrik
19 April 2021	Statutory auditor

Statement of Financial Position

(Amounts in thousands of EUR, unless otherwise stated)

	Note	As at 31 December 2020	As at 31 December 2019
Assets			
Cash on hand and at banks	6	24,860	24,309
Balances with the Central Bank of Kosovo	7	57,530	41,844
Loans to customers	8	247,123	208,434
Investments in securities	9	25,365	35,101
Property and equipment and right-of-use assets	10	8,768	9,925
Intangible assets	11	2,813	565
Other assets	12	1,423	2,187
Total assets		**367,882**	**322,365**
Liabilities			
Due to customers	13	330,281	282,683
Due to banks	14	2,080	2,100
Subordinated debt	15	-	1,050
Current tax liability		6	151
Other liabilities	16	2,183	3,056
Deferred tax liability	23	-	435
Total liabilities		**334,550**	**289,475**
Equity and reserves			
Share capital	17	29,422	27,761
Revaluation and other reserves	17	63	372
Retained earnings		3,847	4,757
Total equity and reserves		**33,332**	**32,890**
Total liabilities, equity and reserves		**367,882**	**322,365**

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 86.

These financial statements have been approved by the Board of Directors of the Bank and signed on 17.04.2021, on its behalf by:

Mr. Shpend Luzha
Chief Executive Officer

Mr. Fitim Rexhepaj
Chief Finance Officer

Statement of Profit or Loss and Other Comprehensive Income

(Amounts in thousands of EUR, unless otherwise stated)

	Note	For the year ended December 31, 2020	For the year ended December 31, 2019
Interest income calculated using the effective interest method	18	18,130	16,020
Interest expense calculated using the effective interest method	18	(2,640)	(2,371)
Net interest income		**15,490**	**13,649**
Fee and commission income	19	2,748	2,928
Fee and commission expense	19	(825)	(905)
Net fee and commission income		**1,923**	**2,023**
Other operating income	20	952	950
Net foreign exchange gains/(losses)		49	44
Revenue		**18,414**	**16,666**
Personnel expenses	21	(3,466)	(3,275)
Depreciation of property and equipment and ROU	10	(1,975)	(1,615)
Amortisation of intangible assets	11	(302)	(211)
Other expenses	22	(5,059)	(4,300)
Net impairment losses on loans	8	(3,133)	(1,004)
Total operating expenses		**(13,935)**	**(10,405)**
Profit before tax		**4,479**	**6,261**
Income tax	23	(470)	(763)
Net profit for the year		**4,009**	**5,498**
Other comprehensive income			
Release of provisions for ECL for debt securities		-	-
Revaluation of securities (Note 17)		(309)	222
Total comprehensive income for the year		**3,700**	**5,720**

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 86.

Statement of Changes in Equity

(Amounts in thousands of EUR, unless otherwise stated)

	Share capital	Revaluation reserve	Provisions for ECL	Retained earnings	Total equity and reserves
At 1 January 2019	**24,543**	**102**	**48**	**3,977**	**28,670**
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners	3,218	-	-	(3,218)	-
Dividend distribution	-	-	-	(1,500)	(1,500)
Total transactions with owners recorded in equity	**3,218**	**-**	**-**	**(4,718)**	**(1,500)**
Profit for the year	-	-	-	5,498	**5,498**
Other comprehensive income for the year					
Revaluation of securities	-	222	-	-	**222**
Total comprehensive income for the year	-	**222**	**-**	**5,498**	**5,720**
At December 2019	**27,761**	**324**	**48**	**4,757**	**32,890**
At 1 January 2020	**27,761**	**324**	**48**	**4,757**	**32,890**
Effect from transition from CBK reporting to IFRS reporting according to CBK requirements (note 17)	-	-	-	442	442
Balance as at 1 January 2020 with the effect of transition from CBK reporting to IFRS (restated)	**27,761**	**324**	**48**	**5,199**	**33,332**
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners	3,361	-	-	(3,361)	-
Dividend distribution	-	-	-	(2,000)	(2,000)
Withdrawn of share capital	(1,700)	-	-	-	(1,700)
Total transactions with owners recorded in equity	**1,661**	**-**	**-**	**(5,361)**	**(3,700)**

Profit for the year	-	-	-	4,009	**4,009**
Other comprehensive income for the year					
Revaluation of securities	-	(309)	-	-	(309)
Total comprehensive income for the year	-	**(309)**	-	**4,009**	**3,700**
At 31 December 2020	**29,422**	**15**	**48**	**3,847**	**33,332**

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 86.

Statement of Cash Flows

(Shumat në mijë euro, përveç nëse shprehet ndryshe)

	Note	For the year ended 31 December 2020	For the year ended 31 December 2019
Operating activities			
Profit before taxation		4,479	6,260
Adjustment for:			
Amortization and depreciation	10,11	2,277	1,826
Net impairment loss on loans to customers	8	3,133	1,004
Charge/(release) of provision for guarantees and securities	20	(3)	(1)
Interest income	18	(18,130)	(16,020)
Interest expense	18	2,640	2,371
Loss before changes in operating activities		**(5,604)**	**(4,560)**
Changes in operating assets and liabilities			
Statutory reserves with the CBK	6	(3,147)	(2,871)
Loans to customers	8	(40,619)	(39,185)
Other assets	12	764	(697)
Due to customers	13	47,599	34,510
Due to banks	14	(20)	9
Other liabilities	16	(145)	3,583
		(1,172)	**(9,211)**
Interests paid		(2,208)	(2,265)
Interests received		16,681	15,871
Income tax paid		(866)	(512)
Net cash flow generated from/ (used in) operating activities		**12,435**	**3,828**
Investment activities			
Purchase of property and equipment and intangible assets	10,11	(3,223)	(5,538)
Purchases of investment securities		(27,039)	(33,907)
Redemptions of securities		36,395	24,581
Net cash flow generated from / (used in) investing activities		**6,133**	**(14,864)**

Financial activities			
Repayment of debt		(1,050)	-
Repayment of Lease liability		(727)	(865)
Dividends paid		(2,000)	(1,500)
Withdrawal of share capital		(1,700)	-
Net cash flow (used in) financial activities		**(5,477)**	**(2,365)**
Net increase/(decrease) in cash and cash equivalents		**13,091**	**(13,346)**
Cash and cash equivalents, beginning of the year	6	46,580	59,926
Cash and cash equivalents, end of the year	**6**	**59,671**	**46,580**

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 7 to 86.

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 International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB).

(b) Significant events in the reporting period
Covid 19 Commentary

The year 2020 has been highlighted as a year with new challenges caused as a result of Covid 19 with an impact on the bank's operations, creating uncertainty in the credit performance of the Bank and the financial sector in general. As a result of the pandemic, the Kosovar economy has been negatively affected by creating a decrease in aggregate consumer demand, and as a result has had a negative impact on exports and investments at the national level. Also, the pandemic has exposed some of the most sensitive sectors that have been most affected as a result of the measures taken to prevent the pandemic, while the Bank has been taking extra care during this time in lending to certain sectors.

The pandemic has affected the banks income by lowering it for 5.7% therefore banks expenses have increased during 2020. The banks net profit has decreased by 24.8% compared to 2019. Bank has maintained its capital legal requirement during liquidity requirements during 2020.

On the other hand, the measures taken by the Bank as a result of decisions by the Central Bank of Kosovo and the possibility to apply for deferrals and provide reprogramming of loans for sectors / individuals affected by the pandemic have had a positive effect in preventing the deterioration of indicators of creditors at the level of the Bank and at the level of the financial system in general.

The Western Balkans region entered a recession during 2020, where all countries experienced negative economic activity due to the impacts of COVID-19. On the other hand, according to the World Bank report, Kosovo's economy has shrink by 4.5% by the end of 2020 with negative effects on exports, consumption and investment. Without remittances from the diaspora and limited direct financial support from the government, the recession would be even deeper. Recovery will be slow, as it is expected to reach pre-Covid levels only at the end of 2021. As tax collection has declined, the government is expanding its spending to respond to the reduction through additional public debt finance and utilization of other agency funds. On the other hand, public spending increased, meanwhile, government budget revenues decreased in all categories.

The consumption-based economy has exposed the fragility of Kosovo's economy in times of crisis such as Covid 19. For the first half of 2020, in the tax administration about 11% of the total income statement of companies has fallen with the highest negative impact from construction sector decreased by 47% and accommodation and restaurant sector by 25% in total revenues. Other sectors that were negatively affected during the first half of 2020 are the export of services,

2. Basis of preparation (continued)

(b) Significant events in the reporting period
Covid 19 Commentary (continued)

especially transport, which is related to the restriction of cross-border traffic and the non-arrival of the Kosovar diaspora. On the other hand, real growth was recorded in sectors such as: extractive industry, processing, electricity and water supply, with 19.8% growth, IT with 29.6%, public administration, education and health with 4.7%.

Public debt is still low at only about 20% of GDP (1.35 billion Eur) while more than 69% of debt is issued domestically with an average maturity of 36 months. In terms of domestic debt, about 46% of total domestic debt is from the pension fund (430 million euros) and 28% is from Commercial Banks (262 million euros).

As bad as this situation is, it would have been much worse had governments not taken swift measures from the outset of the crisis. According to the report, all six countries in the region were quick to introduce policies to protect lives and livelihoods. To cushion the impact of the pandemic, the Government of Kosovo has countercyclical expanded current spending by mobilizing significant concessional financing from donors and International Financial Institutions, raising domestic debt, and using government deposits accumulated before the crisis.

(c) New and amended standards and interpretations adopted by the Bank
Standards and amendments that are effective for the first time in 2020 are applicable to the Bank are:

• Definition of a Business (Amendments to IFRS 3)
In October 2018, the International Accounting Standards Board issued Definition of a Business (Amendments to IFRS 3). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

• Definition of Material (Amendments to IAS 1 and IAS 8)
In October 2018, the IASB issued amendments to IAS 1 Financial Statement Presentation and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to clarify the definition of 'material' in the context of applying IFRS. As the concept of what is and is not material is crucial in preparing financial statements in accordance with IFRS, a change in the definition may fundamentally affect how preparers make judgments in preparing financial statements.

• Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
The International Accounting Standards Board ("IASB") published Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 representing the finalisation of Phase II of the project on 27 August 2020 to address issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate, i.e. replacement issues. The accounting issues arising before

an existing interest rate benchmark is replaced with an alternative risk free rate, i.e. pre-replacement issues, have been considered previously by the IASB and were addressed in Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), published in September 2019 ("Phase I amendments"). These Phase I amendments provide temporary exceptions to specific hedge accounting requirements, to avoid entities having to discontinue hedging relationships solely due to the uncertainty arising from the reform.

• Amendments to Refences to the Conceptual Framework (Various Standards)

2. Basis of preparation (continued)
(c) New and amended standards and interpretations adopted by the Bank (continued)

The IASB decided to revise the Conceptual Framework because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

- a new chapter on measurement;
- guidance on reporting financial performance;
- improved definitions of an asset and a liability, and guidance supporting these definitions; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

• COVID-19 Rent Related Concessions (Amendments to IFRS 16)
The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.

These amendments do not have a significant impact on the Bank's Financial Statements and therefore the disclosures have not been made.

(d)New standards and interpretations not yet adopted by the Bank

Other Standards and amendments that are not yet effective and have not been adopted early by the Bank include:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

These amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made.

(e) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the financial assets listed below, which are measured at fair value:

➢ Debt instruments held under the business model held to collect and sale.

(f) 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.

2. Basis of preparation (continued)

(g) 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 26.

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 estimated future cash payments or receipts through the expected life of the financial instrument (or, where appropriate, a shorter period) to:
– the gross carrying amount of the financial asset; or
– the amortised cost of the 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. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected 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. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.
However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.
For financial assets that were credit-impaired on initial recognition, interest income is calculated by apply-

ing the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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 debt instruments measured at FVOCI calculated on an effective interest basis.

3. Significant accounting policies (continued)

(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 (see (a)).

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.

(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.

3. Significant accounting policies (continued)

(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 amortized 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 recognized in profit or loss.

(f) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued, borrowings and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets are classified as measured at amortised cost or at FVOCI.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within

that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Bank does not hold Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities
The Bank classifies its financial liabilities as measured at amortised cost.
(iii) Derecognition

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

3. Significant accounting policies (continued)
(f) Financial assets and financial liabilities (continued)

Financial assets (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 enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.
When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.
In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.
In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The

transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

(iv) Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

(v) 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.

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

Financial liabilities (continued)

(vi) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

(vii) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date 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.

(viii) Identification and measurement of impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

– loans and advances to customers;
– financial assets that are debt instruments; and
– loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

3. Significant accounting policies (continued)
(f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)
The Bank recognises loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:
– debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
– loans and debt investment securities for which credit risk has not increased significantly since initial recognition.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses and is measured as follows:
– financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
– financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
– undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
– financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Definition of default
Under IFRS 9, the Bank considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
– the borrower is more than 90 days past due on any material credit obligation to the Bank.

This definition is largely consistent with the definition used for regulatory purposes for loans classified as doubtful or lost.

In assessing whether a borrower is in default, the Bank consider indicators that are consistent with the risk regulatory requirements for classification of loans as doubtful or lost:
– qualitative: e.g. breaches of contractual covenant;
– quantitative: e.g. overdue status and non-payment of another obligation of the same borrower to the Bank; and
– regulatory risk classification of the same borrowers in other banks.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on requirements set forth by Credit Risk Management regulation by using qualitative and quantitative factors that are indicative of the risk of default. In addition to the risk classes introduced for regulatory purposes, the Bank identifies and monitors separately standard loans in past due from standard loans not in past due.

Each exposure it is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

3. Significant accounting policies (continued)
(f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Determining whether credit risk has increased significantly

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank primarily identifies whether a significant increase in credit risk has occurred for an exposure that changes the regulatory risk classification from standard to watch assessed in line with the Bank's policy for regulatory risk classification. All loans showing significant increase in credit risk are classified in Stage 2.

As a backstop, and as required by IFRS 9, the Bank presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable; and
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the Bank considers whether the asset's credit risk has increased significantly by analysing quantitative and qualitative factors affecting risk of default.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and business loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit.

Following forbearance, a customer needs to demonstrate consistently good payment behavior over eight months before the exposure is measured at an amount equal to 12-month ECLs.

3. Significant accounting policies (continued)
(f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)
Inputs into measurement of ECLs
The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:
− probability of default (PD);
− loss given default (LGD); and
− exposure at default (EAD).

These parameters derived from internally developed statistical models and other historical data that leverage regulatory models. PDs have been adjusted to reflect forward-looking information as described below. Credit risk grades are primary input into the determination of the term structure of PD for exposures. The Bank employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.
This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro- economic indicators are likely to include GDP growth, interest rates and unemployment. The Bank's approach to incorporating forward-looking information into this assessment is discussed below.
LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models considers the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD.
LGD estimates are calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.
EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset ware the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well

as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts.

The Bank measures ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For retail overdrafts and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Bank measures ECLs over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period will be estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

3. Significant accounting policies (continued)
(f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be recognized on the basis of shared risk characteristics that include:

– instrument type; and
– credit risk grading.

The recognition are subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

For investments in debt securities in respect of which the Bank has limited historical data, external benchmark information published by recognised external credit rating agencies such as Moody's are used to supplement the internally available data.

Forward-looking information

Under IFRS 9, the Bank has incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank formulates a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on advice from the Bank Risk Committee and economic experts and consideration of a variety of external actual and forecast information.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the Organisation for Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

The base case represents a most-likely outcome and be aligned with information used by the Bank for other purposes, such as strategic planning and budgeting. The other scenarios represents more optimistic and more pessimistic outcomes. The Bank also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include interest rates, unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 years.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

3. Significant accounting policies (continued)

(f)Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(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) Investment securities

The 'investment securities' caption in the statement of financial position includes debt securities measured at amortised cost and at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

− interest revenue using the effective interest method;

− ECL and reversals; and

− foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

(i) **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.

(j) 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.

3. Significant accounting policies (continued)

(j) Property and equipment (continued)

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 2020	Useful life 2019
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.

(k) Leased property and equipment

IFRS 16 applicable for the reporting periods after 01 January 2019 specifies how an IFRS reporter will recognize, measure, present and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases of low value assets. The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.
The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16.
The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.
The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.
The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3. Significant accounting policies (continued)
(k) Leased property and equipment (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and lease liabilities in "other liabilities" in the statement of financial position (note 10).

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.77%.

The Bank uses one or more of the following practical expedients according to IFRS 16.C10, applying it on a lease -by-lease basis:

- Using a single discount rate to a portfolio of leases with similar characteristics;
- Adjusting the right-of-use asset for any recognized onerous lease provisions, in-stead of performing an impairment review;

- Applying a recognition exemption for leases for which the lease term ends within 12 months of the date of initial application and leases of low-value assets (For this purpose the bank has chosen a threshold of around € 5,000). The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term;
- Excluding initial direct costs from the measurement of the right-of-use asset;
- Using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

3. Significant accounting policies (continued)
(k) Leased property and equipment (continued)

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
- the Bank has the right to operate the asset; or
- the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.
At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

3. Significant accounting policies (continued)

(l) 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.

(m) 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.

(n) Provisions

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

(o) **Employee benefits**

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Bank makes 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.

3. Significant accounting policies (continued)

(p) **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.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

The Bank has issued no loan commitment that are measured at FVTPL.

For other loan commitments the Bank recognises loss allowance.

(q) 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 28).

(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 financial assets measured at fair value through other comprehensive income 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.

Carrying amounts of the financial assets as at 31 December 2020, and their sensitivity to the assumptions and impairment methods is presented below:

Financial assets	Carrying amount	Impairment	Net amount
Loans to customers	257,133	(10,010)	247,123
Investment securities measured at FVOCI	20,581	-	20,581

The Bank recognises loss allowance for expected credit losses for Investment securities measured at FVOCI which at initial recognition is recognized in other comprehensive income. 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, the value of the Investment securities measured at FVOCI that resulted after impairment value approximated the carrying amount.

(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.

4. Use of estimates and judgments (continued)

(b) Determining fair values (continued)

- 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.

Investment securities	Carrying amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
31 December 2020	20,581	-	20,581	-
31 December 2019	30,319	-	30,319	-

Investment securities measured at FVOCI as at 31 December 2020 include Government bonds issued by the Government of Kosovo (2019: treasury bills issued by the Government of Kosovo and Government bonds issued by the Government of Kosovo) which are bought either to be sold or will be held till maturity depending on liquidity needs of bank. We as a bank in our financial investment portfolio have Government Bonds starting from 2 year up to 5 year maturity denominated in EUR.

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	**2020**	**2019**	**2020**	**2019**
Cash on hand and at banks	24,860	24,309	24,860	24,309
Balance with CBK	57,530	41,844	57,530	41,844
Loans to customers	247,123	208,434	247,123	208,434
Investments securities at amortised cost	4,784	4,783	4,784	4,783
Liabilities				
Due to customers	330,281	282,682	330,281	282,682
Due to banks	2,080	2,100	2,080	2,100
Subordinated Debt	-	1,050	-	1,050

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

5. Disclosure and estimation of fair value (continued)

Balances with banks

Due from other banks include inter-bank placements and items in the course of collection. As balances with banks are short term, their fair value is considered to equate to their carrying amount.

Investment securities at amortised cost

Investment securities at amortised cost include government bonds issued by the Government of Kosovo. 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 31 December 2020	As at 31 December 2019
Cash on hand	12,127	10,146
Current accounts with banks	12,733	14,163
	24,860	**24,309**

Cash and cash equivalents for the purposes of cash flow statement comprise the following:

	As at 31 December 2020	As at 31 December 2019
Cash on hand and at banks	24,860	24,309
Balances with the CBK (Note 7)	57,530	41,844
Statutory reserves with the CBK	(22,719)	(19,573)
	59,671	**46,580**

6. Cash on hand and at banks (continued)

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

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

7. Balances with the Central Bank of Kosovo

	As at 31 December 2020	As at 31 December 2019
Statutory reserves with the CBK	22,720	19,573
Current accounts	34,810	22,271
	57,530	**41,844**

Loans to customers

	As at 31 December 2020	As at **31 December 2019**
Loans	215,978	180,884
Overdraft facilities	40,890	34,892
	256,868	**215,776**
Accrued interest	1,138	901
Deferred disbursement fees	(873)	(963)
	257,133	**215,714**
Allowance for impairment	(10,010)	(7,280)
Loans to customers	**247,123**	**208,434**

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 (2019: 1 to 30 years). In 2020, the interest rates on loans to customers ranged from 2.50% to 24% p.a (2019: 2.70% to 24% p.a).
The Bank has granted few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals.

The movements in the allowance for impairment are as follows:

	2020	2019
Allowance for impairment at 1 January	7,280	7,870
Loans written off	(403)	(1,594)
Charge / (Release) for the year, net	3,133	1,004
Allowance for impairment at 31 December	**10,010**	**7,280**

8. Loans to customers (continued)

The following table sets out the gross carrying amount and loss allowance of loans to customers at amortised cost:

31 December 2020

	Stage 1	Stage 2	Stage 3	POCI	
Assets to be measured at Amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased or originated credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying value per asset type					
Business	142,167	2,420	3,565	409	**148,561**
Mortgage	23,842	176	342	-	**24,360**
Consumer	66,825	583	1,187	-	**68,595**
Agro	6,084	110	344	-	**6,538**
Credit Cards	1,739	85	277	-	**2,101**
Other	6,495	5	213	-	**6,713**
Total gross carrying value	**247,152**	**3,379**	**5,928**	**409**	**256,868**
Loss allowance per per asset type					
Business	(1,028)	(74)	(3,234)	(409)	**(4,745)**

Mortgage	(391)	(0)	(315)	-	**(706)**
Consumer	(2,366)	(105)	(984)	-	**(3,455)**
Agro	(144)	(12)	(248)	-	**(404)**
Credit Cards	(114)	(24)	(248)	-	**(386)**
Other	(109)	(1)	(204)	-	**(314)**
Total loss allowance	**(4,152)**	**(216)**	**(5,233)**	**(409)**	**(10,010)**

8. Loans to customers (continued)

The following table sets out the gross carrying amount and loss allowance of loans to customers at amortised cost:

31 December 2019

	Stage 1	Stage 2	Stage 3	POCI	
Assets to be measured at Amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased or originated credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying value per asset type					
Business	106,562	4,600	2,872	418	**114,452**
Mortgage	21,776	1,240	169	-	**23,185**
Consumer	59,946	1,054	751	-	**61,752**
Agro	5,221	121	207	-	**5,549**
Credit Cards	1,523	129	211	-	**1,864**
Other	8,591	114	269	-	**8,974**
Total gross carrying value	**203,620**	**7,259**	**4,479**	**418**	**215,776**
Loss allowance per per asset type					
Business	(694)	(105)	(1,945)	(418)	**(3,162)**
Mortgage	(391)	(80)	(158)	-	**(629)**
Consumer	(1,868)	(96)	(599)	-	**(2,563)**

Agro	(139)	(11)	(177)	-	**(327)**
Credit Cards	(89)	(12)	(180)	-	**(281)**
Other	(179)	(5)	(134)	-	**(318)**
Total loss allowance	**(3,360)**	**(309)**	**(3,192)**	**(418)**	**(7,280)**

8. Loans to customers (continued)

The following table sets out the changes in allowance of Business loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
BUSINESS	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2020	**694**	**105**	**1,945**	**418**	**3,162**
Movements with impact in P&L					
Transfers:					
Transfer from Stage 1 to Stage 2	(41)	41	-	-	-
Transfer from Stage 1 to Stage 3	(400)	-	400	-	-
Transfer from Stage 2 to Stage 1	10	(10)	-	-	-
Transfer from Stage 2 to Stage 3	-	(148)	148	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial assets originated or purchased	836	63	562	-	1,461
Changes in Risk Parameters (PD/LGD/EAD)	(71)	23	535	(9)	478
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	(246)	-	(246)
FX and other movements	-	-	-	-	-

Net provision value for the period	**334**	**(31)**	**1,399**	**(9)**	**1,693**
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2020	**1,028**	**74**	**3,344**	**409**	**4,855**

8. Loans to customers (continued)

The following table sets out the changes in gross carrying amount of Business loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
BUSINESS	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2020	**106,562**	**4,600**	**2,872**	**418**	**114,452**
Transfers:					
Transfer from Stage 1 to Stage 2	(572)	572	-	-	-
Transfer from Stage 1 to Stage 3	(509)	-	509	-	-
Transfer from Stage 2 to Stage 1	2,416	(2,416)	-	-	-
Transfer from Stage 2 to Stage 3	-	(206)	206	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	100	(100)	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
New financial assets originated or purchased	37,436	750	20	(9)	38,197
Modification of contractual cash flows	(3,166)	(980)	414	-	(3,732)
Write-offs	-	-	(356)	-	(356)
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2020	**142,167**	**2,420**	**3,565**	**409**	**148,561**

8. Loans to customers (continued)

The following table sets out the changes in allowance of Mortgage loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
MORTGAGE	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2020	**391**	**80**	**158**	**-**	**629**
Movements with impact in P&L					
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	(9)	-	9	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(166)	166	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial assets originated or purchased	90	-	-	-	90
Changes in Risk Parameters (PD/LGD/EAD)	(81)	86	(18)	-	(13)
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net provision value for the period	**-**	**(80)**	**157**	**-**	**77**
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2020	**391**	-	**315**	-	**706**

8. Loans to customers (continued)

The following table sets out the changes in gross carrying amount of Mortgage loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
MORTGAGE	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2020	**21,776**	**1,240**	**169**	**-**	**23,185**
Transfers:					
Transfer from Stage 1 to Stage 2	(145)	145	-	-	-
Transfer from Stage 1 to Stage 3	(12)	-	12	-	-
Transfer from Stage 2 to Stage 1	384	(384)	-	-	-
Transfer from Stage 2 to Stage 3	-	(188)	188	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
New financial assets originated or purchased	5,874	-	-	-	5,874
Modification of contractual cash flows	(4,035)	(637)	(27)	-	(4,699)
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2020	**23,842**	**176**	**342**	-	**24,360**

8. Loans to customers (continued)

The following table sets out the changes in allowance of Consumer loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
CONSUMER	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2020	**1,868**	**96**	**599**	**-**	**2,563**
Movements with impact in P&L					
Transfers:	-	-	-	-	-
Transfer from Stage 1 to Stage 2	(90)	90	-	-	-
Transfer from Stage 1 to Stage 3	(290)	-	290	-	-
Transfer from Stage 2 to Stage 1	14	(14)	-	-	-
Transfer from Stage 2 to Stage 3	-	(91)	91	-	-
Transfer from Stage 3 to Stage 1	2	-	(2)	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial assets originated or purchased	375	5	16	-	396
Changes in Risk Parameters (PD/LGD/EAD)	487	19	4	-	510
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	(14)	-	(14)
FX and other movements	-	-	-	-	-
Net provision value for the period	**498**	**9**	**385**	**-**	**892**
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2020	**2,366**	**105**	**984**	-	**3,455**

8. Loans to customers (continued)

The following table sets out the changes in gross carrying amount of Consumer loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
CONSUMER	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2020	**59,946**	**1,055**	**751**	-	**61,752**
Transfers:					
Transfer from Stage 1 to Stage 2	(479)	479	-	-	-
Transfer from Stage 1 to Stage 3	(414)	-	414	-	-
Transfer from Stage 2 to Stage 1	674	(674)	-	-	-
Transfer from Stage 2 to Stage 3	-	113	(113)	-	-
Transfer from Stage 3 to Stage 1	44	-	(44)	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
New financial assets originated or purchased	10,590	47	27	-	10,664
Modification of contractual cash flows	(3,536)	(437)	166	-	(3,807)
Write-offs	-	-	(14)	-	(14)
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2020	**66,825**	**583**	**1,187**	-	**68,595**

8. Loans to customers (continued)

The following table sets out the changes in allowance of Agro loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
AGRO	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2020	**139**	**11**	**177**	**-**	**327**
Movements with impact in P&L					
Transfers:					
Transfer from Stage 1 to Stage 2	(10)	10	-	-	-
Transfer from Stage 1 to Stage 3	(41)	-	41	-	-
Transfer from Stage 2 to Stage 1	1	(1)	-	-	-
Transfer from Stage 2 to Stage 3	-	(11)	11	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial assets originated or purchased	46	-	-	-	46
Changes in Risk Parameters (PD/LGD/EAD)	9	3	25	-	37
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	(6)	-	(6)
FX and other movements	-	-	-	-	-
Net provision value for the period	**5**	**1**	**71**	**-**	**77**
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2020	**144**	**12**	**248**	**-**	**404**

8. Loans to customers (continued)

The following table sets out the changes in gross carrying amount of Agro loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
AGRO	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2020	**5,221**	**121**	**207**	**-**	**5,549**
Transfers:					
Transfer from Stage 1 to Stage 2	(78)	78	-	-	-
Transfer from Stage 1 to Stage 3	(125)	-	125	-	-
Transfer from Stage 2 to Stage 1	101	(101)	-	-	-
Transfer from Stage 2 to Stage 3	-	(14)	14	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
New financial assets originated or purchased	1,763	-	-	-	1,763
Modification of contractual cash flows	(798)	26	4	-	(768)
Write-offs	-	-	(6)	-	(6)
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2020	**6,084**	**110**	**344**	-	**6,538**

8. Loans to customers (continued)

The following table sets out the changes in allowance of Credit Cards at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
CREDIT CARDS	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2020	**89**	**12**	**180**	-	**281**
Movements with impact in P&L					
Transfers:					
Transfer from Stage 1 to Stage 2	(18)	18	-	-	-
Transfer from Stage 1 to Stage 3	(84)	-	84	-	-
Transfer from Stage 2 to Stage 1	1	(1)	-	-	-
Transfer from Stage 2 to Stage 3	-	(38)	38	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	1	(1)	-	-
New financial assets originated or purchased	13	1	2	-	16
Changes in Risk Parameters (PD/LGD/EAD)	113	31	(39)	-	105
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	(16)	-	(16)
FX and other movements	-	-	-	-	-
Net provision value for the period	**25**	**12**	**68**	-	**105**
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2020	**114**	**24**	**248**	-	**386**

8. Loans to customers (continued)

The following table sets out the changes in gross carrying amount of Credit Cards at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
CREDIT CARDS	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2020	**1,523**	**129**	**211**	-	**1,863**
Transfers:					
Transfer from Stage 1 to Stage 2	(62)	62	-	-	-
Transfer from Stage 1 to Stage 3	(100)	-	100	-	-
Transfer from Stage 2 to Stage 1	27	(27)	-	-	-
Transfer from Stage 2 to Stage 3	-	(42)	42	-	-
Transfer from Stage 3 to Stage 1	8	-	(8)	-	-
Transfer from Stage 3 to Stage 2	-	2	(2)	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
New financial assets originated or purchased	132	4	4	-	140
Modification of contractual cash flows	211	(43)	(54)	-	114
Write-offs	-	-	(16)	-	(16)
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2020	**1,739**	**85**	**277**	**-**	**2,101**

8. Loans to customers (continued)

The following table sets out the changes in allowance of Other loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
OTHER	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2020	**96**	**3**	**98**	**-**	**197**
Movements with impact ne P&L					
Transfers:					
Transfer from Stage 1 to Stage 2	(1)	1	-	-	-
Transfer from Stage 1 to Stage 3	(7)	-	7	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	**-**
New financial assets originated or purchased	10	-	-	-	**10**
Changes in Risk Parameters (PD/ LGD/EAD)	11	(3)	(11)	-	**(3)**
Changes in Models	-	-	-	-	**-**
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net provision value for the period	**13**	**(2)**	**(4)**	-	**7**
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2020	**109**	**1**	**94**	-	**204**

8.Loans to customers (continued)

The following table sets out the changes in gross carrying amount of Other loans at amortized cost, which includes Staff and OVD:

	Stage 1	Stage 2	Stage 3	POCI	
OTHER	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2020	**4,450**	**44**	**160**	**-**	**4,654**
Transfers:					
Transfer from Stage 1 to Stage 2	(3)	3	-	-	-
Transfer from Stage 1 to Stage 3	(11)	-	11	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	2	(2)	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
New financial assets originated or purchased	2,935	-	-	-	2,935
Modification of contractual cash flows	(876)	(44)	44	-	(876)
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2020	**6,495**	**5**	**213**	-	**6,713**

8. Loans to customers (continued)

The Bank monitors closely the collaterals held for the damaged loans, because it is likely that it will initiate procedures for the re-disposal and sale of collateral to reduce the expected losses. Below is the value of gross / net exposure versus collateral value:

2020	Gross carrying amount	Expected Losses	Net Exposure	Fair Value of the Collaterals
Credit-impaired assets (stage 3)	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Loans to individuals:	**2,019**	**(1,751)**	**268**	**6,952**
- Consumer	1,187	(984)	203	2,096
- Credit cards	277	(248)	29	500
- Mortgages	342	(315)	27	905
- Other	213	(204)	9	3451
Loans to corporate entities:	**3,909**	**(3,482)**	**427**	**25,868**
- Agro	344	(248)	96	1,444
- Business	3,565	(3,234)	331	24,424
Total credit-impaired assets	**5,928**	**(5,233)**	**695**	**32,820**

8. Loans to customers (continued)

The following table contains an analysis of exposure to credit risk for financial instruments for which expected losses have been realized. The gross value below represents the entity's maximum exposure to credit risk.

	December 2020					December 2019
	Stage 1	Stage 2	Stage 3	POCI		
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased credit-impaired	Total	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Credit Risk Grade						
A0	230,561	-	-	-	230,561	3,875
A1	16,591	-	-	-	16,591	200,602
B	-	2,753	-	-	2,753	5,122
C	-	626	-	-	626	1,146
DEFAULT	-	-	5,928	409	6,337	5,030
Gross Carrying amount	**247,152**	**3,379**	**5,928**	**409**	**256,868**	**215,776**
Loss Allowance	(4,152)	(216)	(5,233)	(409)	(10,010)	7,280
Net Exposure	**243,000**	**3,163**	**695**	**-**	**246,858**	**208,496**

8. Loans to customers (continued)

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

	Stage 1	Stage 2	Stage 3	POCI	
BUSINESS	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2019	**161**	**1,475**	**1,676**	**-**	**3,312**
Movements with impact in P&L					
Transfers:					
Transfer from Stage 1 to Stage 2	(11)	11	-	-	-
Transfer from Stage 1 to Stage 3	(4)	-	4	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 2 to Stage 1	455	(455)	-	-	-
Transfer from Stage 2 to Stage 3	-	(327)	327	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial assets originated or purchased	478	77	406	418	1,379
Changes in Risk Parameters(PD/ LGD/EAD)	(386)	(676)	891	-	(171)
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	(1,359)	-	(1,359)
FX and other movements	-	-	-	-	-
Net provision value for the period	532	(1,370)	269	418	(151)
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2019	**694**	**105**	**1,945**	**418**	**3,162**

8. Loans to customers (continued)

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

	Stage 1	Stage 2	Stage 3	POCI	
BUSINESS	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2019	**26,978**	**63,325**	**2,889**	**-**	**93,192**
Transfers:					
Transfer from Stage 1 to Stage 2	(1,634)	1,634	-	-	-
Transfer from Stage 1 to Stage 3	(701)	-	701	-	-
Transfer from Stage 2 to Stage 1	30,281	(30,281)	-	-	-
Transfer from Stage 2 to Stage 3	-	(1,045)	1,045	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	(11,260)	(29,901)	(260)	(24)	(41,445)
New financial assets originated or purchased	75,018	1,633	467	442	77,560
Modification of contractual cash flows	(11,427)	(766)	(725)	-	(12,918)
Write-offs	-	-	(1,244)	-	(1,244)
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2019	**106,562**	**4,600**	**2,872**	**418**	**114,452**

8. Loans to customers (continued)

The following table sets out the changes in allowance of Mortgage loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
MORTGAGE	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2019	**123**	**807**	**170**	-	**1,100**
Movements with impact in P&L					
Transfers:					
Transfer from Stage 1 to Stage 2	(6)	6	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 1	4	-	(4)	-	-
Transfer from Stage 2 to Stage 1	563	(563)	-	-	-
Transfer from Stage 2 to Stage 3	-	(24)	24	-	-
Transfer from Stage 3 to Stage 2	-	23	(23)	-	-
New financial assets originated or purchased	179	1	-	-	180
Changes in Risk Parameters (PD/LGD/EAD)	(473)	(169)	40	-	(601)
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	(49)	-	(49)
FX and other movements	-	-	-	-	-
Net provision value for the period	**267**	**(726)**	**(12)**	**-**	**(471)**
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2019	**391**	**80**	**158**	**-**	**629**

8. Loans to customers (continued)

The following table sets out the changes in gross carrying amount of Mortgage loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
MORTGAGE	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2019	**7,475**	**12,875**	**258**	**-**	**20,608**
Transfers:					
Transfer from Stage 1 to Stage 2	(251)	251	-	-	-
Transfer from Stage 1 to Stage 3	(1)	-	1	-	-
Transfer from Stage 2 to Stage 1	7,896	(7,896)	-	-	-
Transfer from Stage 2 to Stage 3	-	(67)	67	-	-
Transfer from Stage 3 to Stage 1	7	-	(7)	-	-
Transfer from Stage 3 to Stage 2	-	38	(38)	-	-
Financial assets derecognised during the period other than write-offs	(1,453)	(3,890)	(12)	-	(5,355)
New financial assets originated or purchased	9,415	11	-	-	9,426
Modification of contractual cash flows	(1,312)	(82)	(31)	-	(1,425)
Write-offs	-	-	(69)	-	(69)
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2019	**21,776**	**1,240**	**169**		**23,185**

8. Loans to customers (continued)

The following table sets out the changes in allowance of Consumer loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
CONSUMER	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2019	**394**	**2,016**	**342**	**-**	**2,752**
Movements with impact in P&L					
Transfers:					
Transfer from Stage 1 to Stage 2	(9)	9	-	-	-
Transfer from Stage 1 to Stage 3	(3)	-	3	-	-
Transfer from Stage 3 to Stage 1	41	-	(41)	-	-
Transfer from Stage 2 to Stage 1	1,387	(1,387)	-	-	-
Transfer from Stage 2 to Stage 3	-	(147)	147	-	-
Transfer from Stage 3 to Stage 2	-	11	(11)	-	-
New financial assets originated or purchased	896	42	22	-	960
Changes in Risk Parameters (PD/LGD/EAD)	(838)	(439)	237	-	(1,040)
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	(9)	(101)	-	(110)
FX and other movements	-	-	-	-	-
Net provision value for the period	**1,474**	**(1,920)**	**256**	**-**	**(190)**
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2019	**1,868**	**96**	**599**	**-**	**2,563**

8. Loans to customers (continued)

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

	Stage 1	Stage 2	Stage 3	POCI	
CONSUMER	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2019	**21,849**	**28,561**	**514**		**50,924**
Transfers:					
Transfer from Stage 1 to Stage 2	(327)	327	-	-	-
Transfer from Stage 1 to Stage 3	(127)	-	127	-	-
Transfer from Stage 2 to Stage 1	20,737	(20,737)	-	-	-
Transfer from Stage 2 to Stage 3	-	(406)	406	-	-
Transfer from Stage 3 to Stage 1	57	-	(57)	-	-
Transfer from Stage 3 to Stage 2	-	15	(15)	-	-
Financial assets derecognised during the period other than write-offs	(5,726)	(6,862)	(35)	-	(12,623)
New financial assets originated or purchased	30,560	331	32	-	30,923
Modification of contractual cash flows	(6,348)	(157)	(78)	-	(6,583)
Write-offs	(35)	(18)	(144)	-	(197)
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2019	**59,946**	**1,054**	**751**		**61,752**

8. Loans to customers (continued)

The following table sets out the changes in allowance of Agro loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
AGRO	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2019	**12**	**67**	**111**	**-**	**190**
Movements with impact in P&L					
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	20	(20)	-	-
Transfer from Stage 2 to Stage 1	30	(30)	-	-	-
Transfer from Stage 2 to Stage 3	-	(22)	22	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial assets originated or purchased	78	3	-	-	82
Changes in Risk Parameters (PD/LGD/EAD)	19	(29)	106	-	96
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	(41)	-	(41)
FX and other movements	-	-	-	-	-
Net provision value for the period	126	(57)	67	-	136
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2019	**139**	**11**	**177**	**-**	**327**

8. Loans to customers (continued)

The following table sets out the changes in gross carrying amount of Agro loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
AGRO	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2019	**2,247**	**3,230**	**204**	**-**	**5,681**
Transfers:					
Transfer from Stage 1 to Stage 2	(36)	36	-	-	-
Transfer from Stage 1 to Stage 3	(16)	-	16	-	-
Transfer from Stage 2 to Stage 1	2,337	(2,337)	-	-	-
Transfer from Stage 2 to Stage 3	-	(138)	138	-	-
Transfer from Stage 3 to Stage 1	40	-	(40)	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	(765)	(644)	(6)	-	(1,415)
New financial assets originated or purchased	2,582	37	1	-	2,620
Modification of contractual cash flows	(1,168)	(63)	(34)	-	(1,265)
Write-offs	-	-	(72)	-	(72)
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2019	**5,221**	**121**	**207**	**-**	**5,549**

8. Loans to customers (continued)

The following table sets out the changes in allowance of Credit Cards at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
CREDIT CARDS	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2019	**9**	**133**	**89**	**-**	**231**
Movements with impact in P&L					
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	(1)	-	1	-	-
Transfer from Stage 3 to Stage 1	13	-	(13)	-	-
Transfer from Stage 2 to Stage 1	79	(79)	-	-	-
Transfer from Stage 2 to Stage 3	-	(31)	31	-	-
Transfer from Stage 3 to Stage 2	-	3	(3)	-	-
New financial assets originated or purchased	18	1	2	-	21
Changes in Risk Parameters(PD/LGD/EAD)	(28)	(11)	102	-	63
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	(5)	(29)	-	(34)
FX and other movements	-	-	-	-	-
Net provision value for the period	81	(122)	91	-	50
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2019	**89**	**12**	**180**	**-**	**281**

8. Loans to customers (continued)

The following table sets out the changes in gross carrying amount of Credit Cards at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
CREDIT CARDS	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2019	**479**	**1,133**	**138**	**-**	**1,750**
Transfers:					
Transfer from Stage 1 to Stage 2	(25)	25	-	-	-
Transfer from Stage 1 to Stage 3	(22)	-	22	-	-
Transfer from Stage 2 to Stage 1	863	(863)	-	-	-
Transfer from Stage 2 to Stage 3	-	(108)	108	-	-
Transfer from Stage 3 to Stage 1	18	-	(18)	-	-
Transfer from Stage 3 to Stage 2	-	4	(4)	-	-
Financial assets derecognised during the period other than write-offs	17	75	36	-	127
New financial assets originated or purchased	203	7	4	-	214
Modification of contractual cash flows	(10)	(137)	(42)	-	(189)
Write-offs	-	(7)	(32)	-	(39)
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2019	**1,523**	**129**	**211**		**1,864**

8. Loans to customers (continued)

The following table sets out the changes in allowance of Other loans at amortised cost:

	Stage 1	Stage 2	Stage 3	POCI	
OTHER	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Amount of the provision as at 1 January 2019	**39**	**232**	**33**	**-**	**304**
Movements with impact ne P&L					
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 1	5	-	(5)	-	-
Transfer from Stage 2 to Stage 1	151	(151)	-	-	-
Transfer from Stage 2 to Stage 3	-	(41)	41	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial assets originated or purchased	123	2	12	-	137
Changes in Risk Parameters(PD/LGD/EAD)	(139)	(37)	54	-	(122)
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	(1)	-	(1)
FX and other movements	-	-	-	-	-
Net provision value for the period	140	(227)	101	-	14
Other movements without impact on P&L	-	-	-	-	-
Derecognition Instruments	-	-	-	-	-
Amount of the provision as at 31 December 2019	**179**	**5**	**134**	**-**	**318**

8. Loans to customers (continued)

The following table sets out the changes in gross carrying amount of Other loans at amortized cost, which includes Staff and OVD:

	Stage 1	Stage 2	Stage 3	POCI	
OTHER	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Gross carrying amount as at 1 January 2019	**5,182**	**4,542**	**54**	**-**	**9,778**
Transfers:					
Transfer from Stage 1 to Stage 2	(22)	22	-	-	-
Transfer from Stage 1 to Stage 3	(106)	-	106	-	-
Transfer from Stage 2 to Stage 1	2,737	(2,737)	-	-	-
Transfer from Stage 2 to Stage 3	-	(114)	114	-	-
Transfer from Stage 3 to Stage 1	8	-	(8)	-	-
Transfer from Stage 3 to Stage 2	-	1	(1)	-	-
Financial assets derecognised during the period other than write-offs	(3,349)	(1,633)	(1)	-	(4,983)
New financial assets originated or purchased	5,204	47	12	-	5,263
Modification of contractual cash flows	(1,063)	(14)	(6)	-	(1,083)
Write-offs	-	-	(1)	-	(1)
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2019	**8,591**	**114**	**269**	**-**	**8,974**

8. Loans to customers (continued)

The Bank monitors closely the collaterals held for the damaged loans, because it is likely that it will initiate procedures for the re-disposal and sale of collateral to reduce the expected losses. Below is the value of gross / net exposure versus collateral value:

2019	Gross carrying amount	Expected Losses	Net Exposure	Fair Value of the Collaterals
Credit-impaired assets (stage 3)	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Loans to individuals:	**1,027**	**804**	**223**	**3,370**
- Consumer	624	457	167	204
- Credit cards	211	170	41	183
- Mortgages	168	158	10	753
- Other	25	20	5	2,230
Loans to corporate entities:	**3,994**	**2,807**	**1,187**	**14,057**
- Agro	273	199	74	385
- Business	3,613	2,572	1,041	13,271
- LG	108	36	72	401
Total credit-impaired assets	**5,022**	**3,612**	**1,410**	**17,427**

8. Loans to customers (continued)

The following table contains an analysis of exposure to credit risk for financial instruments for which expected losses have been realized. The gross value below represents the entity's maximum exposure to credit risk.

	December 2019					December 2018
	Stage 1	Stage 2	Stage 3	POCI		
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased credit-impaired	Total	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Credit Risk Grade						
A0	3,875	-	-	-	3,875	163,263
A1	199,945	657	-	-	200,602	7,646
B	-	5,122	-	-	5,122	4,281
C	-	1,146	-	-	1,146	848
DEFAULT	-	-	4,612	418	5,030	5,896
Gross Carrying amount	**203,820**	**6,925**	**4,612**	**418**	**215,776**	**181,933**
Loss Allowance	(3,359)	(309)	(3,194)	(418)	7,280	7,891
Net Exposure	**207,179**	**7,234**	**7,807**	**-**	**208,496**	**174,042**

8. Investments in securities

	As at 31 December 2020	As at **31 December 2019**
Investment securities - at amortised cost		
Government Bonds	4,743	4,743
Accrued Interest	41	38
	4,784	**4,781**
Investments securities – at FVOCI		
Government treasury bills	-	5,201
Government bonds	20,542	25,005
Accrued Interest	39	112
	20,581	**30,318**
Total Investments in Securities	**25,365**	**35,101**

Investments in securities represents three month to-five year treasury bills and bonds denominated in EUR. Bank investment portfolio is classified into two parts at amortised cost and FVOCI, and all of these investments are invested in securities issued by the Government of Kosovo. The average interest of the investments recognised at amortized cost is 3.21% (2019: 3.20%) while maturity is up to 5 years (2019: 5 years).

The Bank does not hold Treasury Bills as of December 2020. Government Bonds are classified in FVOCI, the average of maturity for these bonds is 3 years (2019: 2 years) and average of interest is 1.26% (2019:1.23%). The following table provides for the movement of investment securities measured at FVOCI during 2020 and 2019:

	Investments at FVOCI
At 01 January 2020	**30,206**
Additions	27,040
Disposal/matured	(36,395)
Unrealized gain/(loss)	(309)
At 31 December 2020	**20,542**
At 01 January 2019	**20,657**
Additions	33,908
Disposal	(24,581)
Unrealized gain/(loss)	222
At 31 December 2019	**30,206**

2. Property equipment and right-of use-assets

The following is a breakdown of property and equipment owned and leased:

	2020	2019
Property, plant and equipment owned	6,849	7,275
Right-of-use assets (ROU) IFRS 16	1,919	2,650
Property, Plant and Equipment and right-of use-assets	**8,768**	**9,925**

The Bank leases many buildings. Information about leases for which the Bank is a lessee is presented below.

	2020	2019
	Property	**Property**
Balance at 1 January	**2,650**	**-**
Introduction of IFRS 16	-	2,714
Additions in current year	551	771
Disposals / terminated contracts	(403)	-
Depreciation charge for the year	(879)	(835)
Balance at 31 December	**1,919**	**2,650**

The following table presents the maturity analysis – contractual undiscounted cash flows of the lease liability:

	2020	2019
Short term Lease Liability	823	638
Long Term Lease Liability	3,730	3,077
Total undiscounted lease liabilities at 31 December	**4,553**	**3,715**
Lease liabilities included in Note 16 as at 31 December (Discounted amounts)	**1,954**	**2,681**

Amounts recognized in the profit or loss of the Bank for the years ended 31 December 2020 and 2019:

Interest on lease liabilities IFRS 16	(74)	(77)
Depreciation of ROU	(879)	(835)
Total expenses from leases	**(953)**	**(912)**

10. Property and equipment and right-of use-assets (continued)

Cost	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Motor vehicles	Total
At 1 January 2019	5,634	786	3,353	1,366	572	**11,711**
Additions	-	447	1,090	167	141	**1,845**
Disposals	-	-	(1)	(1)	(38)	**(40)**
At 31 December 2019	**5,634**	**1,233**	**4,442**	**1,532**	**675**	**13,516**
Additions	-	229	202	145	97	**673**
Disposals	-	-	(710)	-	-	**(710)**
At 31 December 2020	**5,634**	**1,462**	**3,934**	**1,677**	**772**	**13,479**
Accumulated depreciation						
At 1 January 2019	1,269	398	2,631	804	399	**5,501**
Charge for the year	141	128	235	206	70	**780**
Disposals	-	-	(1)	(1)	(38)	**(40)**
At 31 December 2019	**1,410**	**526**	**2,865**	**1,009**	**431**	**6,241**
Charge for the year	141	216	427	227	85	**1,096**
Disposals	-	-	(707)	-	-	**(707)**
At 31 December 2020	**1,551**	**742**	**2,585**	**1,236**	**516**	**6,630**
Carrying amount						
At 1 January 2019	**4,365**	**388**	**722**	**562**	**173**	**6,210**
At 31 December 2019	**4,224**	**707**	**1,577**	**523**	**244**	**7,275**
At 31 December 2020	**4,083**	**720**	**1,349**	**441**	**256**	**6,849**

During year 2020 the Bank disposed off assets with gross carrying amount of EUR 710 thousand (2019: EUR 40 thousand).

As at 31 December 2020 and 2019 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 2020 was EUR 7,514 thousand representing 26.39% of Tier 1 capital (2019: EUR 7,840 thousand representing 25.02% 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 2020, nor in 2019.

11. Intangible assets

Cost	Software	Intangible assets in progress	Total
At 1 January 2019	**1,537**	**-**	**1,537**
Additions during the year	208	-	208
Disposals	-	-	-
At 31 December 2019	**1,745**	**-**	**1,745**
Additions for the year	402	2,148	2,550
Disposals	-	-	-
At 31 December 2020	**2,147**	**2,148**	**4,295**
Accumulated amortization			
At 1 January 2019	969	-	969
Charge for the year	211	-	211
At 31 December 2019	**1,180**	**-**	**1,180**
Charge for the year	302	-	302
At 31 December 2020	**1,482**	**-**	**1,482**
Carrying amount		-	
At 1 January 2019	**568**	**-**	**568**
At 31 December 2019	**565**	**-**	**565**
At 31 December 2020	**665**	**2,148**	**2,813**

The bank has signed a new contract on November 2018 for the development of new core banking system which it is under development. The project will be finished on October 2023.
As at 31 December 2020 and 2019 the Bank does not have intangible assets pledged as collateral.

12. Other assets

	As at 31 December 2020	As at 31 December 2019
Prepayments	507	1,502
Other	916	685
Total	**1,423**	**2,187**

Due to Customers

	As at 31 December 2020	As at **31 December 2019**
Current accounts	153,504	117,112
Blocked accounts	5,986	4,504
Flexi deposits	5,679	6,133
Savings accounts	19,552	17,037
	184,721	144,786
Add: Current maturity of long-term customer deposits	82,593	56,401
Total short-term customer deposits	**267,314**	**201,187**
Time Deposits	142,907	135,727
	142,907	**135,727**
Less: Current maturity of long-term customer deposits	(82,593)	(56,401)
Total long-term customer deposits	**60,314**	**79,326**
Accrued interest	2,653	2,170
Total	**330,281**	**282,683**

Current accounts are non-interest bearing.

13. Due to Customers (continued)

The average effective interest rates for time deposits during 2020 and 2019 were as follows:

Year	1 month	3 months	6 months	1 year	18 months	2 -5 years
2020	0.04%	1.47%	1.39%	1.68%	1.96%	2.39%
2019	0.06%	1.76%	1.41%	1.29%	1.91%	2.30%

Due to banks

Balances due to banks amounting EUR 2,080 thousand (2019: EUR 2,100 thousand) represent current accounts from local banks.

14. Subordinated debt

	As at 31 December 2020	As at **31 December 2019**
Subordinated Debt	-	1,000
Accrued Interest	-	50
Total	**-**	**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. Subordinated debt was repaid on 30 April 2020 as per agreement.

15. Other liabilities

	As at 31 December 2020	As at 31 December 2019
Accrued expenses	45	191
Other taxes payable	52	75
Pension and social assistance charges	38	38
Other deferred income	77	58
Provision for losses from guarantees	12	6
Lease liabilities (Note 10)	1,954	2,681
Provisions for litigations	5	7
Total	**2,183**	**3,056**

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

_	2020	2019
Provisions as at 1 January	6	21
Charge/(release) for the year (Note 20)	6	(15)
Provisions as at 31 December	**12**	**6**

16. Share Capital and reserves

The authorised and paid up share capital of the Bank comprises 114,930 ordinary shares (2019: 108,442 ordinary shares) with par value of EUR 256 each (2019: 256). The shareholding structure of the Bank is as follows:

	As at December 31, 2020		As at December 31, 2019	
	%	Amount	%	Amount
Behgjet Pacolli	35	10,246	35	9,668
Immobiliare Red Llc	29	8,402	29	7,927
Selim Pacolli	18	5,360	18	5,058
Xhabir Kajtazi	12	3,482	12	3,285
Ismet Gjoshi	3	987	3	932
Hasan Hajdari	1	297	1	280
Zyhra Hajdari	1	285	1	269
Others with less than 1%	1	363	1	342
	100	**29,422**	**100**	**27,761**

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 ended at 31 December 2020, the Bank allocated to the share capital as dividends in shares the amount of EUR 3,361 thousand (2019: EUR 3,218 thousand). In addition, during 2020, based on the Bank’s decision for distribution of profit and based on a Decision from CBK dated 16 December 2020 for “Approval of the request of the Economic Bank for the payment of the dividend and the withdrawal of share capital”, the Bank paid dividends in the amount of EUR 2,000,000 from retained earnings, whereas the amount of EUR 1,700,000 were withdrawn from share capital. As at 31 December, the Bank did not register the withdrawal of capital in the Business Registration Agency within the Ministry of Trade and Industry in Kosovo. Thus, the share capital in Business Registration Agency as at 31 December 2020 and as of the date of issuing these financial statements amounts to EUR 24,543,669.93.

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.

Revaluation reserves

The movement in revaluation reserve is as follows:

	December 31, 2020	December 31, 2019
Revaluation reserve as at January 1	324	102
Revaluation reserve of investment securities measured at FVOCI	(309)	222
Balance as of December 31	**15**	**324**

Other Reserves

During the year ended at 31 December 2020, the Central Bank of Kosovo (CBK) changed its regulatory reporting framework and discontinued the requirement for issuing statutory financial statements prepared based on a reporting framework different than IFRS, which resulted on a one-time effect of EUR 442 thousand. This amount may not be distributed as dividend payment or any other form of distribution, until further instructions or approval received by CBK.

17. Net Interest income calculated using the effective interest method

Interest income	Year ended December 31, 2020	Year ended December 31, 2019
Loans to customers	17,331	15,315
Deposits and balances with banks	17	45
Investments in securities	782	660
Total Interest income	**18,130**	**16,020**
Interest expense		
Due to customers	(2,616)	(2,296)
Subordinated debt	(24)	(75)
Total Interest expense	**(2,640)**	**(2,371)**
Net interest income	**15,490**	**13,649**

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

18. Net fee and commission income

	Year ended December 31, 2020	Year ended December 31, 2019
Banking services	2,667	2,829
Guarantees	81	99
Fee and commission income	**2,748**	**2,928**
Swift expenses	(825)	(903)
License and other regulatory fees	-	(2)
Fee and commission expenses	**(825)**	**(905)**
Net fee and commission income	**1,923**	**2,023**

Other income

	Year ended December 31, 2020	Year ended December 31, 2019
Recoveries from loans previously written off	865	765
Charge/(release) of provisions from guarantees	(6)	15
Other income	93	177
	952	**957**

19. Personnel expenses

	Year ended December 31, 2020	Year ended December 31, 2019
Wages and salaries	3,221	3,041
Pension contributions	163	154
Other compensations	82	80
Total	**3,466**	**3,275**

The number of employees as at 31 December 2020 is 341 (2019: 347).

20. Other expenses

	Year ended December 31, 2020	Year ended December 31, 2019
Security	1,133	1,070
Master card operational expenses	475	520
Repair and maintenance	641	482
Deposit insurance fees	510	463
IT services	435	371
Utilities and fuel	316	236
Advertising and marketing	201	220
Professional charges and legal fees	149	183
Credit collection services	53	108
Communication	93	86
Interest on lease liabilities IFRS 16	74	77
Office materials	45	28
Printing	15	11
Travel	6	6
Other	913	439
Total	**5,059**	**4,300**

21. Income tax

Income tax in Kosovo is assessed at the rate of 10% (2019: 10%) of taxable income.

	2020	2019
Current tax charge	470	587
Deferred tax expense/(income)	-	176
Total	**470**	**763**

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

	2020	2019
Profit before income tax	4,479	6,260
Tax at the rate of 10%	448	626
Adjusted for:		
Non-deductible expenses	220	43
Additional tax deductible interest expenses	(15)	11
Exempted income	(78)	(66)
Allowance for loans	(175)	(58)
Add allowable interest expenses	70	31
Income tax expense for the year	**470**	**587**
Effective tax rate	*10.5%*	*9.4%*

23. Income tax (continued)

The composition of deferred taxes as of 31 December 2020 and 2019 is as follows:

	2020	2019
Liability as at January 1	435	259
Effect from transition from CBK reporting to IFRS reporting according to CBK requirements	(435)	-
Charge for the period	-	176
Liability as at December 31	**-**	**435**

The calculation of deferred tax as of 31 December 2020 and 2019 is presented as follows:

	2020	2019
Allowance for impairment (difference between IFRS and CBK) * 10%	-	30
Depreciation (difference between IFRS and TAK) * 10%	-	115
Deferred interest expenses * 10%	-	31
	-	**176**

Deferred tax accumulated during the years on IFRS financial statements in amount of 435 it is not accepted by Tax Authority. The changes on reporting standards from CBK to IFRS it is not reflected on tax law, therefore calculated deferred tax and other changes incurred during the transition from CBK to IFRS are reflected through equity statement.

22. 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 2020 and 2019 will be incurred.

Guarantees	**2020**	**2019**
Secured by cash deposits	405	350
Secured by other collateral	1,889	1,804
	2,294	**2,154**
Credit Commitments		
Approved but not disbursed loans	1,085	4,334
Overdrafts	12,783	9,956
Credit cards	1,699	1,521
Unused credit card facilities	**15,567**	**15,811**

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.

Capital commitments

As at 31 December 2020, the amount of contracted commitment related to intangible assets in progress that is still not executed and paid is 2,808 thousand Eur.

24. Commitments and Contingencies (continued)

Operating Lease commitments

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

	2020	2019
Within one year	823	638
	823	**638**

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 rent 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, 2020 and 2019 is given below:

31 December 2020

Branch	Operating lease amount	Base for tax on rent	Tax on rent	Minimum lease payments	Sublease payments	Contingent rents
Branch of Prishtina	546	475	42	546	8	538
Branch of Gjakova	47	41	4	47	39	8
Branch of Peja	96	88	8	96	59	37
Branch of Prizren	41	41	4	41	-	41
Branch of Mitrovica	58	57	5	58	(17)	75
Branch of Gjilan	86	76	7	86	15	71
Branch of Ferizaj	59	57	5	59	12	47
Headquarters	51	44	4	51	45	6
Total	**984**	**879**	**79**	**984**	**161**	**823**

31 December 2019

Branch	Operating lease amount	Base for tax on rent	Tax on rent	Minimum lease payments	Sublease payments	Contingent rents
Branch of Prishtina	395	348	31	395	85	310
Branch of Gjakova	47	41	4	47	2	45
Branch of Peja	96	88	8	96	22	74
Branch of Prizren	41	42	4	41	14	27
Branch of Mitrovica	53	53	5	53	2	51
Branch of Gjilan	87	77	7	87	42	45
Branch of Ferizaj	68	66	6	68	18	50
Headquarters	83	71	6	83	47	36
Total	**870**	**786**	**71**	**870**	**232**	**638**

Litigations

As at 31 December 2020, there are certain legal proceedings raised against the Bank. The Bank has paid amount EUR 8 thousand (31 December 2019 EUR 90 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.

23. 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 2020 and 2019 are as follows:

	Board of Directors		Key management		Major shareholders and other parties related to them		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Loans to customers								
Loans to customers, gross	-	-	82	187	6,396	3,496	6,478	3,683
Prepayment – BV	-	-	-	-	2,147	1,156	2,147	1,156
Allowance for impairment	-	-	(2)	(2)	(32)	(15)	(34)	(17)
Loans to customers, net	**-**	**-**	**80**	**185**	**8,511**	**4,637**	**8,591**	**4,822**
Cash collateral	-	-	(223)	(519)	(18,862)	(12,487)	(19,085)	(13,006)
Net exposure	**-**	**-**	**(143)**	**(334)**	**(10,351)**	**(7,850)**	**(10,494)**	**(8,184)**
Guarantees	-	-	-	-	198	174	198	174
Cash collateral	**-**	**-**	-	**-**	(4,580)	(215)	(4,580)	(215)
Net exposure	**-**	**-**		**-**	**(4,382)**	**(41)**	**(4,382)**	**(41)**
Due to customers	16	16	79	98	19,916	12,570	20,010	12,683
Subordinated debt	-	-	-	-	-	1,050	-	1,050

The total estimated value of collateral obtained from related parties at 31 December 2020 amounted to EUR 23,710 thousand Eur (31 December 2019: amounted to EUR 19,762 thousand Eur).
The unused credit commitments with related parties as at 31 December 2020 are EUR 358 thousand Eur (2019: EUR 629 thousand Eur).

Due to related parties represent 6.02% (2019: 4.5%) of total balances due to customers.
Transactions with related parties during 2020 and 2019 are as follows:

	Board of Directors		Key management		Major shareholders and other parties related to them		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Interest income	-	-	6	8	283	193	289	201
Fee and commission income	-	-	-	-	37	31	38	32
Interest expense	-	-	-	-	(20)	(230)	(20)	(230)
Implementation expense-BV	-	-	-	-	(354)	(356)	(354)	(356)

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

	2020	2019
Short-term employee benefits for Board of Directors	77	71
Short-term employee benefits for key management	232	205
	309	**276**

26. 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

Risk management framework
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 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 commit-

tees 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.

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.

26. Financial risk management (continued)
(b) Credit risk (continued)

Analysis of credit quality

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

The table below represents a maximum exposure to credit risk exposure of the Bank at 31 December 2020 and 2019, 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 and advances to customers		Investments in securities		Current accounts with banks and CBK		Financial guarantees	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Maximum exposure to credit risk								
Carrying amount	247,123	208,434	25,365	35,101	70,263	56,007	-	-
	247,123	**208,434**	**25,365**	**35,101**	**70,263**	**56,007**	**-**	**-**
At amortized cost	**257,133**	**215,714**	**25,365**	**35,101**	**70,263**	**56,007**	**-**	**-**
Allowance for impairment	(10,010)	(7,280)	-	-	-	-	-	-
Net carrying amount	**247,123**	**208,434**	**25,365**	**35,101**	**70,263**	**56,007**	**-**	**-**
							-	-
Off balance: maximum exposure							**-**	
Credit commitments: Low - fair risk	15,567	15,811	-	-	**-**	**-**	2,294	2,154
Total committed/guaranteed	**15,567**	**15,811**	**-**	**-**	**-**	**-**	**2,294**	**2,154**
Provisions recognized as liabilities	-	-	**-**	**-**	**-**	**-**	(13)	(13)
Total exposure	**15,567**	**15,811**	**-**	**-**	**-**	**-**	**2,281**	**2,141**

26. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality (continued)

			2020				2019	
Loans and advances to customers	**Individ-uals**	**Micro**	**Corporate**	**Total Loans**	**Individ-uals**	**Micro**	**Corpo-rate**	**Total Loans**
Total gross amount	93,536	68,499	95,098	257,133	80,117	55,291	80,306	215,714
Allowance for impairment	(4,479)	(3,630)	(1,901)	(10,010)	(3,310)	(2,838)	(1,132)	(7,280)
Net carrying amount	**89,057**	**64,869**	**93,197**	**247,123**	**76,807**	**52,453**	**79,174**	**208,434**
At amortised cost								
Standard	91,057	64,751	91,231	247,039	77,465	50,811	75,763	204,039
Watch	355	494	1,938	2,787	1,363	1,794	2,344	5,501
Substandard	441	335	195	972	190	382	618	1,190
Doubtful	536	942	131	1,608	352	674	302	1,328
Loss	1,147	1,977	1,603	4,727	747	1,630	1,279	3,656
Total Gross	**93,536**	**68,499**	**95,098**	**257,133**	**80,117**	**55,291**	**80,306**	**215,714**
Total Allowance for impairment	**(4,479)**	**(3,630)**	**(1,901)**	**(10,010)**	**(3,310)**	**(2,838)**	**(1,132)**	**(7,280)**
Loans with renegotiated terms								
Carrying amount	402	1,217	2,237	3,856	299	1,296	2,256	3,851
Allowance for impairment	(173)	(975)	(420)	(1,568)	(96)	(863)	(490)	(1,449)
Net carrying amount	**229**	**241**	**1,817**	**2,288**	**203**	**433**	**1,766**	**2,402**
Loans by past due days								
Not past due	88,855	60,697	88,392	237,944	75,715	48,276	72,559	196,550
Past due 1-30 days	2,850	4,626	4,438	11,915	2,115	3,404	5,080	10,599
Past due 31 - 90 days	424	627	619	1,670	1,434	1,762	1,131	4,327
Past due 91 – 365 days	604	744	141	1,489	382	672	768	1,822
Past due over 365 days	802	1,805	1,508	4,115	471	1,177	768	2,416
	93,536	68,499	95,098	257,133	80,117	55,291	80,306	215,714

26. Financial risk management (continued)
(b) Credit risk (continued)

Impairment and provisioning

The total allowances that are required by the IFRS on 'Credit Risk Management' (see 3. (f) (vii), include losses that have been incurred at the reporting date (the 'incurred loss model') and expected credit 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 impairment 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 analyzed collectively for impairment assessment purposes.

26. Financial risk management (continued)
(b) Credit risk (continued)

Analysis of credit quality (continued)

The Bank assesses ECL (expected credit losses) on individual basis for outstanding exposures EUR >100 thousand that are classified in stage 3 on monthly basis while discounting the projected cash inflow with NEI. Moreover, such exposures are closely monitored by the Bank and reported due to their size and potential impact on the Bank's profit or loss. (2020: EUR 100 thousand at least once a month 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 2020, is EUR 392 thousand (2019: EUR 1,594 thousand).

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 I 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	2020	2019
AAA+ to BBB-	8,316	6,143
A+ to A-	168	183
BB+ to B-	118	-
BBB+ to B-	701	613
Not Rated	435	376
Local Banks	2,995	6,848
	12,733	**14,163**

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.

26. Financial risk management (continued)

(b) Credit risk (continued)

Analysis of credit quality (continued)

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 recognized 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.

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:

	2020		2019	
	Loans and advances to customers	**FV of collateral**	**Loans and advances to customers**	**FV of collateral**
Mortgages	71,941	69,023	57,982	54,467
Cash collateral	7,316	7,316	2,402	2,401
Pledge	112,486	80,099	98,134	72,757
Mixed (mortgages and pledge)	57,958	55,972	50,731	48,868
Not collateralised	7,432	-	6,465	-
Total	**257,133**	**212,410**	**215,714**	**178,493**

Concentration of credit risk

As at 31 December 2020, the Bank has had exposure that exceeds 10% of Tier 1 capital. The highest exposure was at 13.13% (2019 The highest exposure was at 10.19%). The exposures to related parties at 31 December 2020, represent 23.38% (2019: 14.38%) of the Tier 1 Capital. The majority of the exposures to related parties are covered by cash collateral representing 8.76% (2019: 7.71%) 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:

26. Financial risk management (continued)
(b) Credit risk (continued)

Analysis of credit quality (continued)
Concentration of credit risk (continued)

	Loans and advances to customers		Investments in securities		Current accounts with banks and CBK		Financial guarantees	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Concentration by sector								
Corporate	93,197	79,174	-	-	-	-	1,484	1,499
Government	-	-	25,365	35,101	-	-	-	-
Banks	-	-	-	-	70,263	56,007	-	-
Individuals	89,057	76,807	-	-	-	-	-	-
Micro entities	64,869	52,453	-	-	-	-	810	655
Total	**247,123**	**208,434**	**25,365**	**35,101**	**70,263**	**56,007**	**2,294**	**2,154**
Concentration by location								
EU countries	-	-	-	-	9,638	6,318	-	-
Republic of Kosovo	247,123	208,434	25,365	35,101	60,625	49,689	2,294	2,154
Total	**247,123**	**208,434**	**25,365**	**35,101**	**70,263**	**56,007**	**2,294**	**2,154**

(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.

26. Financial risk management (continued)
(c) Market risk (continued)
Interest rate risk (continued)

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.

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.

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.

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2020 and 2019 are as follows:

	USD		*EUR*		*CHF*	
Assets	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Cash on hand and at banks	0.88	1.17	(0.2)	(0.2)	(1.55)	(1.78)
Balances with CBK	-	-	(0.6)	(0.6)	-	-
Loans to customers	-	-	7.1	7.41	-	-
Investment securities at amortised cost	-	-	3.3	3.21	-	-
Investment securities at FVOCI	-	-	1.3	0.03	-	-
Liabilities						
Customer deposits	-	0.28	0.8	0.86	-	-
Subordinated debt	-	-	7.5	7.5	-	-

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.

26. 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
2020	(70)	40	207	(216)
2019	(46)	28	190	(200)

The following table shows the interest bearing and non-interest bearing financial instruments by maturity date. Increase / decrease is not symmetrical because the savings asset has rates 0,25% and in case of increase for 100pb they reach 1.25%, while in case of decrease for 100bp, they reach down to 0%. The same is with placements; their rate is 0% and in case of increase by 100bp the reach 1.00%, and in case of decrease they reach 0%. These assets are short term, hence they have affected only the part up to 1 year. There are not long term assets, hence they do not affect in the part over 1 year.

31 December 2020	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	-	-	-	-	-	-	24,860	24,860
Balances with CBK	57,530	-	-	-	-	-	-	57,530
Investments in securities	-	1,519	-	553	23,294	-	-	25,365
Loans to customers - Fixed rate	5,149	6,296	11,017	24,132	118,232	82,296	-	247,123
Other assets	-	-	-	-	-	-	916	916
Total	**62,679**	**7,815**	**11,017**	**24,685**	**141,526**	**82,296**	**25,776**	**355,795**
Liabilities								
Due to Customers – Fixed rate	191,406	8,082	9,222	60,291	60,642	639	-	330,281
Due to Banks	2,080	-	-	-	-	-	-	2,080
Other liabilities	-	-	-	-	-	-	2,094	2,094
Total	**193,486**	**8,082**	**9,222**	**60,291**	**60,642**	**639**	**2,094**	**334,455**
Gap	**(130,807)**	**(267)**	**1,795**	**(35,606)**	**80,884**	**81,657**	**23,683**	**21,340**
Cumulative gap	**(130,807)**	**(131,074)**	**(129,278)**	**(164,884)**	**(84,000)**	**(2,343)**	**21,340**	**-**

26. Financial risk management (continued)

(c) Market risk (continued)

Exposure to interest rate risk (continued)

31 December 2019	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	-	-	-	-	-	-	24,309	**24,309**
Balances with CBK	41,844	-	-	-	-	-	-	**41,844**
Investments in securities	-	5,016	2,004	11,052	17,029	-	-	**35,101**
Loans to customers - Fixed rate	1,861	6,284	10,522	19,072	117,450	53,245	-	**208,434**
Other assets	-	-	-	-	-	-	685	**685**
Total	**43,705**	**11,300**	**12,526**	**30,124**	**134,479**	**53,245**	**24,994**	**310,373**
Liabilities								
Due to Customers – Fixed rate	152,012	11,256	6,716	32,153	80,408	138	-	**282,683**
Due to Banks	2,100	-	-	-	-	-	-	**2,100**
Subordinated debt – Fixed rate	-	-	1,050	-	-	-	-	**1,050**
Other liabilities	-	-	-	-	-	-	2,978	**2,978**
Total	**154,112**	**11,256**	**7,766**	**32,153**	**80,408**	**138**	**2,978**	**288,811**
Gap	**(110,407)**	**44**	**4,760**	**(2,029)**	**54,071**	**53,107**	**22,016**	**21,562**
Cumulative gap	**(110,407)**	**(110,363)**	**(105,603)**	**(107,632)**	**(53,561)**	**(453)**	**21,562**	**-**

Exposure to currency risk

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 2020 and 2019 are as follows:

	2020	2019
Currency	**EUR**	**EUR**
1 USD	1.2271	1.1234
1 CHF	1.0802	1.0854
1 GBP	0.8990	0.8508

26. Financial risk management (continued)
(c) Market risk (continued)

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

	USD		CHF		GBP	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Sensitivity rates	5%	5%	5%	5%	5%	5%
Profit or loss						
+5% of Euro	0.93	0.35	14.16	0.13	0.11	0.12
- 5% of Euro	(0.93)	(0.35)	(14.16)	(0.13)	(0.11)	(0.12)

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

31 December 2020	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Assets					
Cash on hand and at banks	16,368	3,182	4,869	441	**24,860**
Balances with CBK	57,530	-	-	-	**57,530**
Investments in securities	25,365	-	-	-	**25,365**
Loans to customers	247,123	-	-	-	**247,123**
Other assets	916	-	-	-	**916**
	347,302	**3,182**	**4,869**	**441**	**355,795**
Liabilities					
Due to customers	322,092	3,164	4,586	439	**330,281**
Due to banks	2,080	-	-	-	**2,080**
Other liabilities	2,094	-	-	-	**2,094**
	326,266	**3,164**	**4,586**	**439**	**334,455**
Net foreign currency position	**21,036**	**19**	**283**	**2**	**21,340**
31 December 2019	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Assets					
Cash on hand and at banks	16,895	2,030	5,046	338	**24,309**
Balances with CBK	41,844	-	-	-	**41,844**
Investments in securities	35,101	-	-	-	**35,101**
Loans to customers	208,434	-	-	-	**208,434**
Other assets	685	-	-	-	**685**
	302,959	**2,030**	**5,046**	**338**	**310,373**
Liabilities					
Due to customers	275,281	2,023	5,043	336	**282,683**
Due to banks	2,100	-	0.40	-	**2,100**
Subordinated Debt	1,050	-	-	-	**1,050**
Other liabilities	2,978	-	-	-	**2,978**
	281,409	**2,023**	**5,043**	**336**	**288,811**
Net foreign currency position	**21,550**	**7**	**3**	**2**	**21,562**

26. 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.
The Bank has a liquidity reserve in the Central Bank of Republic of Kosovo that is calculated based on the liquidity needs of the Bank and that is available in cases of liquidity problems. The amount of the reserve for the year ended December 31, 2020 amounted to EUR 22,720 thousand (as at December 31, 2019: EUR 19,573 thousand).
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 assets and liabilities on the basis of their earliest residual 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.

26. Financial risk management (continued)
(d) Liquidity risk (continued)

Management of liquidity risk (continued)

31 December 2020	Up to 1 month	1-3 months	3-6 Months	6-12 months	1-5 years	Over 5 years	Total
Assets							
Cash on hand and at banks	24,860	-	-	-	-	-	24,860
Balances with CBK	57,530	-	-	-	-	-	57,530
Investments in securities	-	1,519	-	553	23,294	-	25,365
Loans to customers	5,150	6,296	11,017	24,132	118,232	82,296	247,123
Other assets	916	-	-	-	-	-	916
Total	**88,456**	**7,815**	**11,017**	**24,685**	**141,526**	**82,296**	**355,795**
Liabilities							
Due to customers	191,406	8,082	9,222	60,291	60,642	639	330,281
Due to banks	2,080						2,080
Other liabilities	135	1	17	15	888	1,037	2,094
Total	**193,621**	**8,082**	**9,239**	**60,306**	**61,530**	**1,676**	**334,455**
Liquidity gap	**(105,165)**	**(268)**	**1,778**	**(35,621)**	**79,996**	**80,620**	**21,340**
Cumulative gap	**(105,165)**	**(105,433)**	**(103,655)**	**(139,276)**	**(59,280)**	**21,340**	

26. Financial risk management (continued)
(d) Liquidity risk (continued)

31 December 2019	Up to 1 month	1-3 months	3-6 Months	6-12 months	1-5 years	Over 5 years	Total
Assets							
Cash on hand and at banks	24,309	-	-	-	-	-	**24,309**
Balances with CBK	41,844	-	-	-	-	-	**41,844**
Investments in securities	-	5,016	2,004	11,052	17,029	-	**35,101**
Loans to customers	1,861	6,284	10,522	19,072	117,450	53,245	**208,434**
Other assets	685	-	-	-	-	-	**685**
Total	**68,699**	**11,300**	**12,526**	**30,124**	**134,479**	**53,245**	**310,373**
Liabilities							
Due to customers	152,012	11,256	6,716	32,153	80,408	138	**282,683**
Due to banks	2,100						**2,100**
Subordinated Debt	-	-	1,050	-	-	-	**1,050**
Other liabilities	372	150	223	217	2,016	-	**2,978**
Total	**154,484**	**11,406**	**7,989**	**32,370**	**82,424**	**138**	**288,811**
Liquidity gap	**(85,785)**	**(106)**	**4,537**	**(2,246)**	**52,055**	**53,107**	**21,562**
Cumulative gap	**(85,785)**	**(85,891)**	**(81,354)**	**(83,600)**	**(31,545)**	**21,562**	**-**

26. Financial risk management (continued)
(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 carry a 100% risk weighting, meaning that it must be supported by capital (Tier 1) equal to 8% in 2019 of the carrying amount, while in 2020 Tier 1 Capital Ratio+CCB should be Over 9%. 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.

	2020	2019
Total risk weighted assets	219,890	216,022
Total risk weighted assets for operational risk	19,788	18,668
Total	**239,678**	**234,690**
Regulatory capital (Total Capital)	31,219	33,789
Capital adequacy ratio (Total Capital)	**13.03%**	**14.40%**

CBK Regulation on bank capital adequacy ratio entered into force on 01.01.2020 and for this reason there has been a change of a financial assets with RWA 100% where some of these assets has been calculated with 75% RWA.

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 3%.

The leverage ratio at the year ended was as follows:

	2020	2019
Total Assets	367,882	322,365
Total Equity	33,332	32,890
Leverage ratio	**9.06%**	**10.20%**

27. Subsequent events

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