TEB

BNP PARIBAS JOINT VENTURE

Annual Report
2020

Expanding

Focusing on the future: we will strive to further increase our customers' satisfaction.

Your World

The best service for both individual clients and enterprises - that is what drives TEB Sh.A.and ethical business practice is central to that service and our mission. That is why today our number one asset is the relationship of trust we have built up with our customers over time.

Our Values

Honest and trustworthy

Leading, pioneering and innovative

Customer-oriented with a strong focus on high quality

Respectful of society, human rights and the environment

Transparent

Table of Contents

1.1 Corporate profile

Expanding your world...

Our aim is to define the road to innovation and growth for the years to come!

TEB Sh.A. (TEB) has been operating in Kosovo for 13 years, and during this time it has become one of the main leaders in the banking sector, with a worthy reputation for excellent service. Guided by our purpose: "Bank for a changing world", we help our customers, their families and their communities achieve success through a broad range of advice, products and services, including personal, private and business banking (commercial and corporate).

Regardless of the major dynamic changes around the world, TEB has provided continuous support for its customers and employees. Such performance is made possible by TEB's capacity as a member of TEB Group, which was formed through a joint venture between one of the world's strongest financial institutions, BNP Paribas, and one of the most reputable banks in Turkey, Turk Ekonomi Bankasi.

Corporate social responsibility (CSR) is one of the main pillars that contributes to our economic mission. Therefore, to better improve our excellence, innovation, and responsibility in our services to our customers, we engage in different projects which aim to improve areas such as culture and sports for Kosovo.

Our focus defines who we are and what we strive for, how we work together and what we want to achieve.

Value, Service, Excellence...

Our bank focuses on creating quality service, while putting the customer at the center. We value our customers, so we have designed special products and services for them, to satisfy the needs, for example, of entrepreneurs and senior citizens, employees and students.
We believe that the systematic, year-on-yeargrowth of the number of our customers, our service network, transaction volumes, as well as our personnel, is recognition of our efforts to:

- Continually expand the range of non-branch banking products and services and add functionality to our innovative multi-channel banking network. We offer all types of quality-focused banking products and services that people need at different stages in their lives - all through our extensive and multi-channel delivery network.
- Offer optimal financial solutions to private banking customers based on 'personalized service'.
- Outperform the industry in terms of growth in credit cards, growth that is continuously enhanced by new products and services, as well as through specific card campaigns organized with another customer group, respectively our merchant members. Through the segmentation of the card business, we identify specific groups, serving them with products such as the She Card for Ladies, the Woman Entrepreneurship Credit Card, and the Business Card for owners of SMEs.
- Maintain our strong position in retail cash management services.
- Provide the commercial banking support that is a key driver in the roadmap to future economic growth in Kosovo. Each year, we reinforce our already strong focus on supporting TEB's multitude of commercial and SME customers as they play an increasingly important role in the economic development.

Real, Smart, Value...

As a member of two strong international financial groups – TEB A.Ş., a highly reputable and leading financial institution in the Turkish banking sector, and BNP Paribas, one of the Eurozone's top banks with an extensive and international network – TEB benefits from the Group's experience, solidity and range. This enables us to generate the best outcomes for our clients.

Based on these solid foundations, TEB continues to progress by enhancing the quality of its services and by developing products tailored to customer's expectations. In line with rapid advances in technology, we systematically improve our innovative multi-channel banking network (such as Internet and Mobile Banking, Call Center, SMS Services, ATMs, POS), thus allowing customers to utilize the most suitable distribution channel for their banking transactions - conveniently, quickly and reliably.

More commitment for the community ...

Since 2008, when TEB was established, we have had a pioneering role While offering valued service, we focus on meeting customers' demands for financial services. During these years, we have managed to put our corporate competencies and vision to work effectively, creating added value for both customers and shareholders. In 2020, we maintained a balanced and healthy growth, while also bolstering our market position as a financial institution leader.

Corporate social responsibility plays a significant role; hence our policy is to contribute to Kosovo's social development. We have continued to work with various local and international Chambers of Commerce and developed initiatives that cater to our social responsibility as a corporation.

Exceeding your expectations...

At the core of TEB's success is its staff, whose hard work and persistence have been an exemplar representation for the institution. The dedicated and vigorous employees of TEB have brought to the bank an innovative and proactive approach which has also been transmitted to our customers. Our goal is to help people and businesses build their future, reach their ambitions and help manage their financial risks. TEB's purpose is be a place where customers feel welcomed and comfortable when considering their financial choices.

1.2 Our Vision, Mission and Strategy

Our Vision

Our vision is to be the best customer experience bank in Kosovo.

Our Mission

To constantly create and increase outstanding value for our customers, shareholders, employees and society.

Our Strategy

In line with our vision and mission, our strategy is to provide an outstanding and efficient banking experience for all our customers, and to offer an excellent customer experience in TEB by putting the customer at the center. We achieve this by offering innovative and practical products and services to achieve continuous and sustainable growth. TEB's offering is always rooted in our commitment to be a responsible bank. This commitment is embedded in all our values and is reflected in our business, through the way we develop products and services and how we deliver on our goals and promises.

1.3 Our Core Values

Customer-centricity

Our success is based on complete commitment to our customers at all times, earning their trust and the loyalty of our customer base. We maintain this trust by always placing our customers at the heart of everything we do. Customer needs and expectations are our drivers,with a fast, proactive approach and response to rapidly evolving requirements. This enables us to create and deliver true value, as we serve our customers with innovative, above-expectation, customized and trend-setting products and services.

Integrity

We have embraced the highest standards of integrity in everything we say and do, in addition we commit to create added value for our customers, shareholders and employees by always doing more than just what is right. We communicate openly and honestly; we invite and appreciate challenging views aimed at generating better ideas and reaching more appropriate and balanced decisions.

We know and do what is right.*BE COMMITTED:* We set high standards for our behavior and adhere to them even in difficult situations.
BE COURAGEOUS: We stand up for what we believe is just and good. *BE HONEST:* We choose words and actions that are sincere, not misleading. *BE DISCIPLINED:* We remain dedicated and self-controlled, even when challenged.
BE RESILIENT: We learn from mistakes and losses; seize the opportunity to improve.

Innovation

We aspire to innovations that matter.TEB values the enthusiasm and intellectual curiosity of our staff, as they continuously seek to create products that will facilitate our customers' success and provide suitable solutions for their needs. Innovation is crucial to our corporation's success as it gives us a competitive edge in penetrating markets faster. As we continue to foster mutually beneficial relations with entrepreneurs and the entire ecosystem, we remain at the forefront of innovation and continue to contribute to its development.

Operational Efficiency

We build processes and products that are user-friendly, easy to access and designed to add value. We strive to ensure that offered services are priced in a manner that fairly equates to the actual cost of their provision. Enhancing operational efficiency starts with process refinement. Processes are at the core of operations.

Discipline

We think and act like owners of the Bank, consequently, we protect its resources and focus on common rather than individual goals. We are proud of TEB's successes and the value we have created and continue to create for our shareholders and customers. Every one of our 594 employees feel responsible for a possible failure in meeting our customer expectations and we are all accountable for delivering on our promises – without exception. We strive for operational excellence by successful performance first time round.

Competent Staff

With regard to our objective to strengthen our position as an employer of choice, we strive to create a culture that attracts talented individuals, fosters diverse yet responsible and agile collaborative teamwork, nurtures and invests in the best talent, and enforces management based on merit and equal opportunity. Critical areas of knowledge include risk and strategic business management, workforce planning, and HR technology.

Partnership

We pursue lasting and mutually beneficial customer-employee relationships, where value created is shared fairly. Besides being responsible partners of all our stakeholders and regulators, we also serve our society.

Strong distribution channels

Strong distribution channels are the chain of businesses or intermediaries through which a good or service passes until it reaches the final buyer or the end consumer. Distribution channels can include wholesalers, retailers, distributors, and even the Internet. Distribution channels, also known as placements, are part of a company's marketing strategy, which also includes the product, promotion, and price.

1.4 Shareholder Structure

TEB Bank's share capital is €24,000,000 based on 2,400,000 issued shares, each with a par value of €10.

The number of shares reffers to ordinary shares.

Shareholder as of December 31,2020	Share Ownership Paid in Capital (C)	Share
TEB HOLDING A.S.*	24,000.000	100%

*The Bank is controlled by TEB Holding A.S. which is a company incorporated in Turkey (the "Parent Company") and owns 100% of the shares of the Bank. The shareholders of TEB Holding A.S. are BNP Paribas and Çolakoĝlu Group, each of them owning 50% of the shares. BNP Paribas is the ultimate controlling party of the Parent Company and the Bank.

2.1. Message from Chairman

With the worsening of the COVID-19 pandemic, 2020 was a highly challenging year for TEB SH.A., as it was for most institutions and people in Kosovo.

Since the beginning of the year, as the economy began to contract, our priorities were clear:

Firstly, we needed to ensure the safety and well-being of our employees and customers and the stability of our operational and financial integrity. This has been achieved.

Secondly, TEB SH.A. had wanted to remain close to its clients and to support those who suffered most during the crisis. We took substantial actions to relieve their financial pressure by waiving several fees, interest and charges and extended payments obligations in close cooperation with the regulator.

All this was made possible thanks to the commitment of our staff and the management of the Bank.

Many colleagues remarkably adapted to change by working from home, while some key employees still worked in branches and head office to offer uninterrupted services to our customers while maintaining a safe environment. This has also been achieved. Many thanks to all.

Despite this difficult year, where gross income was under pressure, thanks to an effective cost control and a low cost of risk, TEB SH.A. demonstrated a good resilience in terms of profitability and delivered a return on equity of 19.3% and a capital adequacy ratio of 17,1%.

Our Bank remains very liquid with a strong balance sheet; hence we are preparing ourselves for the perspective of a forthcoming rebound in Kosovo.

We will continue to enhance our digital platforms and streamline to our processes to offer our customers a more efficient service base as well as new products.

On behalf of the Board, I want to extend my warmest thanks to everyone involved our customers and clients for their loyalty, our shareholders for their support and not least to our management and employees for their positive actions and their continuous commitment to the Bank.

Jacques Roger Jean Marie Rinino
Chairman of the Board of Directors

2.2. Message from the CEO

The year 2020 was a year unlike any others. The entire world was pushed into a quick transformation and learned to cope with a "new normal" with lockdowns, economic and health crisis, social distancing and movement restrictions.

As the world came to a standstill, aware of the importance to render uninterrupted services for our customers and clients, the bank management had to move fast to adjust our operating model to these new circumstances and preserve the financial and operational integrity of our bank. Our model became nimbler and focused on management disruption risks. Through rigorous analysis, we prepared for a range of scenarios and outcomes of COVID-19 and made decisions accordingly. In particular, we remained complaint with the changing landscape of prudential requirements, supervisory expectations, and new approaches to stress testing

During March, in a matter of days, a major workforce transformation was executed; migrating more than half of our employees to a remote modality, while also adapting the working environment to better protect and slow down the spread of the virus. In line with government guidance, we instigated the gradual return to office working with the safety and well-being of the people as our first priority. As a company, we are deeply grateful to the exemplary work and dedication shown by our employees working both remote and in-office, who persisted to give best quality services to our customers and clients. We are fortunate that we maintained employee and remuneration levels the same as at the beginning of the year, but above all else, we are thankful that we did not lose any colleagues in the battle with the virus. For the families of those affected, I extend my deepest sympathy for your loss.

We had to make sure that we stand behind our clients when they needed our support the most to navigate and bridge this difficult period. Our clients in financial duress were given the opportunity to pause or reschedule their credit facilities with no penalties or even having various fees and interest payments waiver.

While the world economy growth was cut in half and several companies plunged into recessions and the local economy dropped by 3.9%, the banking sector remained well-managed with strong capital, liquidity buffers and low levels of non-performing loans.

Despite the extreme contraction of the economy and the other events that are associated with 2020, our operating model demonstrated its capacity to deliver resilient performance, preserve our financial integrity and maintain its solvency and profitability throughout the year. The total assets reached 662.1 MIO Eur, a 9.7% YOY increase and 71.6 MIO Eur above projections. The gross loan portfolio increased by 4.6% compared to FY 2019 and comprised 64% of the total assets. By the end of the year, total customer deposits reached 561.4 MIO Eur, a 49.1 MIO Eur increase or 9.6% compared to 2019. While managing our risk appropriately and taking significant provisions for potential future credit losses, we have increased our impairment provisioning. In 2020, we recorded a 13.4 MIO Eur profit after tax.

The impact of COVID-19 on the society has amplified a number of existing trends in consumer preferences and behavior. As a consequence of lower spending and growth in precautionary saving, cash reserves have increased. In the last 12 months, we have witnessed a further shift away from cash usage, leaning more and more towards card payments - specifically contactless and online transactions, as they offer a safer mode of operation to respond to the pandemic. Parallel to this, we have noticed our customers looking for self-service options instead of the regular branch visits. This has given rise to shifts in our strategy to add new business opportunities based on digital engagement and efficiency through digital channels.

Although COVID-19 continues to have significant health and economic implications to the wider society and our day-to-day lives, throughout the year, we have had the opportunity to learn a good amount about resilience and our capacities to operate in the face of adversity. We will apply this knowledge as we gradually roll out our business model to adapt to the post-pandemic conditions. Our principal near-term challenge is to sustain our financial and operational integrity. We remain fully committed to helping our clients bounce back and in turn reinvigorate the local economy.

We will remain focused at restoring our strong and sustained profitability and address our cost base. We will specifically target customers that have generated loss in the past and diversify our current customer portfolio. I am inspired by the progress made thus far and I am confident that we will continue to build upon this progress.

In particular, I would like to thank our employees - our performance throughout this difficult year would not have been possible without their commitment and dedication. In 2021, we will remain committed to investing in capacity building and creating an even more inclusive environment. We remain dedicated to providing training programs, growth opportunities and competitions to reward outstanding performance. In return, we expect that our colleagues challenge themselves in fulfilling their potential and talent, while remaining committed to offering excellent customer service.
Iamexpressing our highest gratitude to all our customers and business partners for their continued trust and loyalty, as we look forward to strengthening our relationships with them in the future. I would also like to thank our Board members and shareholders for their ongoing support.

Orçun Özdemir
Managing Director

3.1. TEB SH.A in Figures

	2020	2019	Increase/ (Decrease)	Percentage
Balance Sheet Indicators (000 EUR)				
Total Assets	662,118	603,797	58,321	9.7%
Total Loans (Gross)	423,358	404,875	18,483	4.6%
Deposits	561,400	512,263	49,137	9.6%
Shareholders' Equity	85,570	72,191	13,379	18.5%
NPL / Total Loans	1.54%	1.47%	0.07PP	
Loans / Total Assets	63.9%	67.1%	(3.1PP)	
NPL Coverage Ratio	67.1%	57.0%	10.1PP	
Income Statement Indicators				
Net Interest Income	27,751	29,003	(1,252)	(4.3%)
Net Non-InterestIncome	5,928	4,163	1,765	42.4%
Cost / Income Ratio	53.4%	57.3%	(3.9 PP)	
Net Banking Income	33,679	33,166	513	1.5%
Net Profit for the Year	13,377	15,473	(2,096)	(13.5%)
Profitability Ratios				
Return on Equity	19.3%	23.2%	(4.0 PP)	
Return on Assets	2.0%	2.6%	(0.5 PP)	
Net Interest / Average Interest Earning Assets	5.5%	6.1%	(0.6 PP)	
Solvency & Liquidity Ratios				
Capital Adequacy Ratio	17.1%	14.8%	2.4 PP	
Liquid Assets / Total Assets	33.7%	28.1%	5.6 PP	
Risk Weighted Assets	428,104	486,582	(58,478)	(12.0%)
Other Indicators				
Branches	29	29	0	0.0%
Employees	594	595	(1)	(0.2%)

3.2. Key Financial Indicators

Despite the challenges that Covid-19 outbreak brought for all the businesses, the overall outcome of prudent portfolio and risk management, risk conscious growth strategy and customer focus resulted in steady loan portfolio growth, significant increase in deposits, total assets and solid profit figures.

At year-end 2020, the Bank's total assets reached €662.1 million, increasing by €58.3 million or 9.7% compared to 2019 which represents higher than projected volume by € 71.6 million. The gross loan portfolio increased to €423.4 million, an increase by 4.6% or a volume increase by €18.5 million compared to 2019. Gross loans now comprise 64% of total Bank assets.

The Non-Performing Loan (NPL) ratio (Stage 3) at the end of 2020 was 1.54% compared to 1.47% in 2019, which represent a small increase by 0.07 basis points. Taking into account the difficult environment caused by the pandemic, this low ratio is yet another indication of our prudent risk management practices. Total customers' deposits at the end of 2020 reached €561.4 million, an increase of € 49.1 million or 9.6% compared to the end of 2019.

Decreasing margins were the main cause for the slight decrease in Income statement indicators compared to the previous year. Net interest income for 2020 was €27.8 million, a decrease by € 1.3 million or 4.3% compared to 2019. Net non-interest income amounted to €5.9 million, an increase by € 1.8 million or 42.4%.

Net banking income at year-end was €33.7 million compared to the €33.1 million realized in 2019 which presents an increase by € 0.5 million or 1.5%. The Bank managed to decrease also the general and administrative expenses which enabled the Bank to have better gross banking income compared to 2019.

The Bank ended the year with €13.4 million profit after tax. The decrease in Net profit resulted primarily from the higher costs of risk coming due to COVID 19 outbreak and its effect on the economy.

In terms of profitability indicators, at the end of 2020 the Bank generated a Return on Equity (ROE) of 19.3%, which dropped from 23.2% in 2019, while Return on Assets (ROA) dropped at 2.0% compared to 2.6% in 2019. The Net Interest over Average Interest Earning Assets ratio was 5.5% compared to 6.1% in the previous year mainly as a result of lower interest rates but also higher amount of placements in the structure of interest earning assets. The Bank's Capital Adequacy Ratio (CAR) at year end was 17.1%, way above the Central Bank of Kosovo (CBK) minimum requirement of 12%, and increase from 14.8% at the end of 2019.

The Liquid Assets to Total Assets ratio increased at 33.7% at the end of 2020 compared to 28.1% in 2019. The main reason for higher liquidity comes due to the increase in the deposit base. Risk Weighted Assets (RWA) at €428.1 million are down from €486.6 million in the previous year as a result of the new Central Bank regulation on Capital Adequacy of Banks.

As of the end of 2020, the Bank has 29 branches ensuring solid banking coverage while the number of employees of 594 in 2020 remained in the same levels (595 in 2019).

4.1 Retail Banking

Retail Banking is a major area of TEB Bank activity. The segment offers comprehensive and diverse range of retail products across deposits, loans, payments and cards and is committed to provide enhanced and everlasting customer relationship. Retail Banking continuously works towards fulfilling the banking needs of customers.

In 2020, our focus was to drive topline growth by utilizing our recognized capabilities to acquire new customers and deepen our existing customer relationships. Our retail loan book continues to grow strongly along with the deposit base. The Retail Banking segment continues to be one of the key drivers of the Bank's overall growth strategy by combining sustainable growth and potentials and providing cutting edge products.

Regardless of the extraordinary environment created by the pandemic, 2020 was a good year for Retail and Private Banking.
During this period, we have invested in customer service and growth, which helped us win new customers, increase deposits, and grow lending in our market, particularly in consumer lending.

Customer base

The customer acquisition targets progressed in accordance with strategic assumptions. In 2020, the customer base of Retail Banking increased by 7.8% compared to the previous year, with 26 thousand new customers almost totaling 366 thousand customers. Alongside these acquisitions, we have increased our active customer base by 17 thousand new customers. In 2020, despite pandemic situation the Division has achieved to maintain the base of salary receivers, where we increasedby 1,662 new salary receivers with a net growth of 3% and maintaining the market share at 20%.

Deposits

Despite the unfavorable market environment with pandemic situation and low interest rate, Retail Division managed to take advantage of the funds of individual customers growing in the market. Effective fund management strategy and focus on low-cost deposits were the key ingredients for increasing the retail deposit base. The amount of deposits of retail customers, including new acquisitions, increased by 21 million and our market share remained at 14 %.

Loans

In the beginning of 2020, the Bank's retail lending activity had a very effective start, but after March 2020 the effect of the pandemic was felt and the financing with individual loans had a stoppage for a period of almost 3 months. After June 2020, retail lending activity continued to increase which was a result of the competitive product offerings and attractive promotions targeting new customers and selected market segments. As a result, retail loans have been increased by 10.7 million and we have maintained our market shareof 18%. To further increase the range of lending offers for individual customers, we will continue to broaden our partnerships with construction companies for mortgage financing, authorized automobile dealers, technology merchants, and educational institutions.

NPL Management

The year 2020 was full of challenges in the management of the Non-Performing Loans. However, NPL level remained intact in particular to individual loans.

While achieving loan growth, we also managed to decrease NPL by 14%. By well diversified risk coupled with advanced sales practices we aim to maintain this trend. We anticipate certainty in individual loan market in the period ahead in terms of NPL Management, which was one of the most important parts of 2020 story.

Our business model is focused on developing new digital opportunities, expanding product ranges, optimizing internal processes, and better serving our customers. Digital banking will continue to remain at the center of our focus with innovative digital and multichannel banking services.

To streamline new banking practices, we are making significant investment to digital channels in order to accelerate our new and cost-effective banking standards.

Our core objective is to increase market penetration by offering value added and unique banking services and products. Market potential drives us to strengthen our position in retail segment and to further increase our market shares by maintaining existing credit quality.

In addition, to our sales strategies loan growth strategies will also include digital opportunities to enhance lending, using CRM to originate new sales leads and partnerships with the EBRD on green financing facility, construction companies for mortgage financing, authorized dealers of the auto industry, and educational institutions to broaden the range of lending offers for individual customers.

The year 2020 was another successful one, confirming that our strategy is well-suited to the retail banking market and the customers with whom we work. Our strategy is to continue our investment in digital solutions, but maintain human interaction with personal bankers.

4.2 Card Business

As per each line of business,2020 proved to be a challenging year with unprecedented circumstances and measures. The measures taken had a great effect in Card & POS Business, especially in the first few months when we were still learning to adapt to the new environment (in April there was a 35% decrease in POS volumes comparing to the previous year).

In these difficult times, we remained focused at-supporting our customers and easing their purchases. As a means, we introduced the Interest Free Installment Shifting Campaign, where installments for all payments made with individual Starcards from March 18th through May 31st were shifted by 3 months. This initiative was well received byStarcard users, where they continuously showed their appreciation through social media channels. More than 40,000 Starcard clients benefited from this campaign and more than 5 million Eur Interest free have been shifted.

During the year, Card & POS Business Division launched several other campaigns, such as Bonus Campaigns or Extra Installment Campaigns, which promoted the easiness and safety of purchase transactions. As such, more than 350,000€ worth of bonuses were awarded to our Starcard clients in 2020.

Another important campaign was the Contactless feature of POS purchase using our cards. The feature provided for a safe measure against the situation we were facing. To further promote this feature, we increased the limit of Contactlesspayments from 15€ to 40€ respectively 50€. Due to large POS fleet with contactless feature and most contactless cards in the market, this campaign proved to be very successful as we witnessed a volume increase of 438% in 2020 compared to 2019.

In terms POS Turnover, we recorded our best month in December, 18.5 MIO Eur Volume and a 2% decrease in total turnover compared to 2019. Our market share is at 42% and we continue to be a leading bank in business acquisition.

As the pandemic shifted the attention of customers to e-commerce purchases, our TEB Payment Gateway increased in volume by of 200% compared to the previous year, making TEB the biggest Payment Gateway acquisition in the country. It is important to note that, despite the fact that TEB introduced latest payment gateway solution in the country, our position as the biggest card issuer in the country and the only bank to offer payment gateway with installments, made us the most desirable partner for Kosovar merchants.

Debit Card

In terms of acquisitions, our Debit Card had a volume growth of 10% in year-on-year comparison. Whereas in terms of issuance,it grew by12% compared to 2019. The contactless feature, which extended to our entire portfolio (Visa and MasterCard), enabled our users to use it our own POS Network of even worldwide. Through their TEB POS Terminal Network purchases, for the first time, our debit card usersearned more than 100,000€ in Bonus throughout the year.

Credit Card – Starcard

Starcard continues to be the most sought-out Credit Card in the market, for the twelfth year in the row. Starcard has proven that when the times get tough, our clients can rely on our product.

With a dedicated team on the field and office-and our customer centric approach, we are continually taking actions based on client's needs and offering top-of-the-line card products to the market.

TEB Sh.A. was chosen as "The Best Promotional Campaign in 2020" by Visa.
To bring the best experience to our clients we have been providing three different types of individual Credit Cards: Classic Starcard, Premium Starcard and SheCard.

Premium Starcard is being offered to clients who have a credit card limit of 1,500 EUR or above. With our Premium Starcard, our clients can earn up to 20% Bonus points at our Premium Merchants. Premium Merchants are selected carefully from each sector and we currently have more than 40 Premium Merchants around the country, with offerings ranging from 5% up to 20% Bonus points after each purchase.

SheCard was designed to target female clients, providing them with a Credit Card where they can earn up to 20% Bonus points at 27 SheCard Merchants. Merchants were selected after analyzing women's purchasing behavior and incentives were based on so we could merchants visited most by this target group.

POS

To support our card portfolio, we have the biggest Merchant network in the country!We have invested in brand new POS models Ingenico Tetra Move 3500, updating our POS fleet so our clients and merchants can get the best of their cards and our devices.For the first time in our market, a self-serve POS was installed by TEB Sh.A. at a fuel dealer in the country. A special promotion and campaign was organized to promote this new method of payment, offering 0.05 Eur discount for all customers. After a successful launch, numerous companies that have shown interest in the self-serve POS, such as international fast-food chains (drive through and in shop kiosk), public parking lots, post office box and more.

Priorities of 2021 for Card and POS Business

With the trends and dynamic changes in 2020, we are excepting the new year to exceed all as our country's economy is recovering from the pandemics, we are expecting to have one of the best years to date.

For the first time in our market, we are introducing the vertical design for our Debit Card also branded as "Starcash". Starcash will come with 2 neat designs, that will be segmented into two target groups.First target group will be clients from 18 to 25 years old and the second group will be older than 25 with features like, cash back bonus per each purchase (on TEB POS Terminal Network), contactless, 3D Secure for online payments. We are expecting Starcash to be the most versatile Debit Card in the market!

To help our Credit Card customers in need, we are providing retention program for the clients who can pay their card debt with installments.
With the rapid growth of contactless payments, we will increase our presence in the market and replace the old POS Devices with the brand new models to offer better experiencesfor our clients.

As our client base portfolio is increasing, so is our ATM usage. We are continuously analyzing new locations for placing ATMs, to help our customers cash services. We plan to increase our ATM fleet by 30%, with brand new cash recycle and touch-screen models.

One of the biggest projects in 2021 for Card & POS Business will be cooperation with Agency of Information Society (AIS). This partnership will bring digitalization of all potentially all government payments and collectors through Payment Gateway.Our clients as well as other clients, domestic and international, will be able to pay their invoices through this platform using MasterCard and Visa cards.

4.3 SME Banking

The SME banking segment during 2020 has once again proven that it is a key contender in the industry even when facing challenges, such as the Global Pandemic COVID19. Throughout 2020, the SME department continued to support customers in their day-to-day business activities and helped them overcome these newfound hurdles. The measures taken by the bank varied depending on what the customer needed such as loan repayment pauses, moratoriums for existing customers and continued to provide financing to promising customers.

The SME lending portfolio during 2020 maintained a stable growth of €5.03 million or 3.8%. Parallel to this, a positive trend in deposits continued throughout the year, with a growth of €13.2 million or 14.4%. Despite the market challenges and global pandemic, SME banking managed to maintain its market share, while also focusing its attention to the quality of the portfolio which resulted with a NPL of 2.97%.

The SME banking segment's business model and strategy strive for high customer satisfaction, with a particular focus on client communication and fostering close relations with them. Through strategic collaborations with third-parties, the bank continues to offer products and services that meet the customers' both financial and non-financial needs. Partnerships with guarantee funds such as the Kosovo Credit Guarantee Fund, European Bank for Reconstruction and Development (EBRD), and International Finance Corporation (IFC) have eased the access to capital for SME customers and consequently contributed to boost employment rates and market competitiveness.

Activities in the Agro department were in lieu with the bank's goals and special attention was given to farmers with the challenges that arose during the year. Despite these challenges, TEB Sh.A. managed to maintain market share in this segment and offered tailored products to address any issues faced by Agro customers. The trust and sustainability exude by the bank in relation to its customers were determinant to addressing the market challenges and overall situation created in 2020.

The bank has been able to maintain this market position and relationship with the customers due to the efficient internal procedures and systems. As such, another goal for this department is to further develop the processes within and minimize the number of manual inputs. As internal processes continue to improve, so does the ease at which business activities such as client acquisitions and sales are performed by the staff. These improvements are applied swiftly and continuously and customer satisfaction continues to climb as products become easier to use and process times get shorter.

As the bank moves to a more digital pipeline of products and services, electronic banking continues to be a priority for the department. The circumstances created by the pandemic confirmed the necessity for such services and were ideal in boosting the overall usage of the alternative distribution channels. Customers were eager to switch to platforms such as TEB Mobile Business and E-Banking as they promised easy-of-use and lower costs

The Bank's objectives for 2021 are more ambitious as we are adapting with the new organization of life, coexistence with the pandemic, banks' stability and position in the market, staff experience and commitment to success. The Bank will offer better-designed finance solutions and channels with the goal to support customers in conjunction with business development and new market ideas.

Better and qualitative services, flexibility and banking based on customer needs are the main driving forces for the bank and the SME department. Ongoing and new efficiency projects are the backbone of this path.

These forces and strategy are what distinguishes us in this dynamic environment. TEB Sh.A. continues to confirm its capabilities, market awareness and most importantly, staff commitment towards these objectives.

4.4 Commercial and Corporate Banking

The Commercial and Corporate segment at TEB Sh.A. has developed a tailored approach toward its customer's needs. Our approach has enabled us to foster productive relations with all our clients, as well as strengthened our market position in the Commercial and Corporate segment. Although the segment is intricate, our department strategy focuses on offering customized solutions and advanced cash-management services that provide additional value to both the customers and the Bank.

In 2020, we were focused in growing our market share and overall profitability. Even when challenged by the market conditions such as declining interest rates, the department managed to maintain a proactive approach and commitment to the Bank's objectives.

Being associated with an international banking group has eased the process of onboarding a significant number of multinational foreign companies that operate in Kosova. Our diverse customer portfolio continues to grow steadily while covering a number of industries. Special attention was given to projects in the production and export sectors as they are considered with a high of potential for corporate growth as well as beneficial to the overall economy.

To a certain degree, our clients were also affected by the market changes caused by the global pandemic. During this time, we were in close contact with our clients and we helped navigate them with offerings such loan installment pause and moratorium. Despite of the global fluctuations, we were able to increase our portfolio by €4.83 million, or a 7% increase. The department achieved a €21 million growth in international outgoing transfers, or a 10% increase from the previous year. Our deposits also grew by €14.83 million, 23% increase. Positive results were also reached in the NPL, where the EOY decrease was from 1.21% to 0.78%.

Expanding alternative delivery channels and enhancing cash-management solutions is an important strategic approach for the coming years as the business market is seeking faster and more efficient solutions to their everyday banking. Throughout 2020, we have continued to enhance services such as drop box/cash collection, POS network and differentiated business-related debit and credit cards. For a select number of clients, we also offered services such CIT/cash in transit for daily cash collections.

Another important focus of the Bank's for the year was to deliver quick and efficient internal operations. This initiative proved to be quite successful as many clients were quick to adopt e-banking and TEB Mobile Business to their day-to-day business activities. Considerable time and effort was invested in promoting the vast range of options benefits that the alternative distribution channels can provide a business. As a result, 90% of total transactions were conducted using e-banking. This shift in customer behavior represents a significant achievement for the department as it also reduces the workload in branches and enables branch teams to spend more time in advisory and support roles to the customers. This shows that the scope of cooperation with corporate clients is constrained only by creativity and imagination as the opportunities are endless.

We are committed to bolstering our cooperation with the corporate segment and position ourselves as a strong market player. Our strategy for 2021 remains focused in growing our market share and profitability, as well as developing products that better fit our client's needs.

4.5 Trade Finance

We continued to support our customers by creating and adapting trade finance solutions for their business needs. Moreover, we worked consistently on expanding our networks, strengthening relationships with other banks, and further enhancing our high standards of professionalism and competence. Supported by the BNP Paribas and TEB A.Ş. global presence and expertise in international trade, we are continually broadening our geographic cover and product range.

We understand that international business in a globalized world is a challenge – a success that demands extensive professional knowledge and an effective network, and TEB has both of them.

Trade Finance products for documentary operations include import and export letters of credit, discount on letters of credit, national and international guarantees, stand-by letters of credit and collections. The agreement signed in 2011 with the International Finance Corporation's (IFC) trade facility program has provided us with a great opportunity and even more flexibility in responding to demand related to confirmed letters of credit and counter guarantees. During the reporting year, we have also further expanded our relationships with new correspondent banks.

TEB Sh.A. has maintained consistent support for its clients and it aims to always be the most reliable and preferred business partner in Kosovo, by continuing to share professionalism and expertise in trade finance products to its clients and also providing innovative solutions.

In 2021, we will continue to support our clients by providing a safe bridge to new opportunities. Professionalism and expertise will be our guidelines as we see these as differentiators in a fast-moving world.

4.6 Payment Systems

TEB pioneered the Direct Debiting System (DDS), a unique product in the Kosovo market that is designed to support B2B commercial cooperation. Its core function is to improve our business customers' financial liquidity by offering complete management control of their receivables and payables. The cutting-edge technology and interfaces of the system allows customers to authorize automatic debits from their accounts to settle monthly payments different vendors and companiesThe system requires only an authorization form (signed by the customer) and the related transaction will be performed automatically.

It is considered the most effective cash-flow management system as it is supported by cutting-edge technology and interfaces to facilitate complete and automatic invoice payment processing. This allows customers to authorize us to automatically debit (withdraw) funds directly from their bank account to make various monthly payments to different public and private companies.

DDS customers are provided with a dedicated credit line that facilitates payments to suppliers and guarantees that invoice payment terms are fully respected. The next step was the introduction of DDS discounting that guarantees receivables. By applying DDS discounting, the customer consolidates finances and benefits from early collection of receivables.

Our easy-to-use online e-banking service employs the most advanced security systems and gives access to secure, convenient and time-saving banking services 24/7. Our customers can transfer funds electronically to beneficiaries worldwide and process national payments, including utility and other regular debits (such as energy, water and telephone). Moreover, customers can also make their Tax Administration of Kosovo (TAK) payments automatically using e-banking. The RTGS – Real Time Gross Settlement System project was successfully completed in July 2016 and all national payments including the high value payments are now processed in real time.

Nowadays, rapid and safe international money transfers are of paramount importance to customers with cross-border ambitions. That is why we provide a service that is easy, fast and reliable for making international payments. Our extensive network of over 40 foreign correspondent relationships and 10 placement banks, allows for outgoing international payments to be executed to foreign beneficiaries worldwide. As a member of the SWIFT GPI (Global Payments Innovation), joined in December 2020, we can send and receive the funds quickly and securely anywhere in the world with full transparency. The new standard in global payments the SWIFT GPI allows the monitoring and tracking of all cross border payments from end to end in real time. The Tracker database gives end-to-end visibility on the status of a payment transaction from when it is sent and until it is confirmed. Thisenables all GPI banks to track cross payment instructions at all times including their own payment activity.

4.7 Treasury & ALM
(Asset and Liability Management)

Global pandemic brought the world economy to a standstill, cut the global economic growth in half and several countries plunged into recession in 2020.

Kosovo has been hit hard from pandemic. In 2020, economic activity dropped by 3.9% and it is projected to recover by 4.5% in 2021.

Despite the unfavorable conditions, banking sector remained strong and well managed with strong capital, liquidity buffers and low non-performing loans (average 2.7%).
In TEB Sh.A., we are more than aware that a strong and comprehensive ALM-T Department able to carry out prudent asset and liability management is essential for providing sustainable and secure financial services to customers. We have to be confident that our funding is solid and all indicators are in line with the risk management requirements.

ALM-T is responsible for managing the Bank's operational and structural liquidity risk, foreign-exchange risk and interest-rate risks in the balance sheet and protect the bank's reputation.
Our primary goal is to ensure that the bank has the required level of liquidity in all active currencies in order to meet with all our obligations on time with the minimum possible cost and to maximize risk-adjusted returns over the longer term. This is done by effective short term cash flow and long term liquidity management, by creating investment and funding strategies based on prevailing market conditions, interest rate and volume trends of the balance sheet items and risk parameters.

ALM-Treasury has a very strong risk awareness in conducting its businesses that is in line with the prudent approach of TEB Sh.A., Decisions are taken by continually analyzing potential risks and market opportunities within the framework of rules established by the Central Bank of Kosovo and in accordance with the risk reduction and mitigation principles set internally and externally.

The department enjoys the strong support of its both French and Turkish parent companies and exclusive access to national and international capital and money markets in controlling its risks and performing its duties.

What's next?

2020 was a successful year in terms of overall bank performance, assets reached over EUR 662.1 million as of EOY. Gross loans and deposit portfolio increased significantly compare to 2019 and retail clients remained as the main stable source of funding in 2020.

2021 will not be an easy year at all, high liquidity, negative interest rates in international markets, increased competition will affect and put pressure on prices.Uncertainty in global economy will remain high due to continuing pandemic and effective vaccination programs will be determinative on future prospects.

Complex political situation creates additional uncertainty. A succession of short-livedgovernments over 2019-20 have delayed approval of key legislations. Regardless the conditions, ALM-T will ensure that the bank will remain liquid and profitable with the highest risk awareness.

4.8 Human Resources

We all had a unique and challenging business year behind us. The COVID-19 pandemic has impacted all of us and has called for rapid and yet well-considered actions, especially in the area of HR. The health of our employees is our highest priority. At the same time, however, business continuity has to be ensured. We were able to build on flexible measures which we will be able to adapt in several contexts emerging in the context of "New Normal".

HR played a primary role in creating a temporary pandemic policy to cover the anticipated issues and questions resulting from the huge changes in the workplace made necessary by the pandemic. In addition to keeping up with state and local health advisories, HR continues to coordinate and assist all departments and branches.

During 2020 the HR team played a vital role in making sure that our bank achieves its growth and profitability targets and that we are able to navigate our way through a variety of different economic phases and challenges. We also see it as our responsibility to contribute to mastering the fundamental challenges facing society today.

Our employees are key to success. Strengthening a positive employee experience and thus achieving a high degree of engagement also means continuously developing and harboring good relationships with our employees and managers. A high level of enthusiasm, energy and motivation are essential in achieving greater job performance, creativity, productivity and innovation. Attaining this goal is our main objective and we strive to do it through initiatives that focus on our employee's long-term career development and well-being.

Career Development

At year-end 2020, the entire TEB team had 594 employees. A total of 64 banking and financial services professionals were recruited during the year. In line with objectives and the transparent communication principle of TEB, vacancies were published to all employees throughout the bank, including interns, which gave them equal opportunity to apply and grow within. As a result, 18 interns were given the chance to take the challenges and become part of our bank, while 17 employees were promoted.

Although we noticed our staff continue to grow professionally even in the face of adversity, we were not able to offer the trainings we had planned at the beginning of the year. We started off by organizing the Assessment Center Program for high performers and potential candidates for managerial position and Train the Trainer program, for our internal trainers. Even though we could not organize face to face training, we have been offering online training through the My Development platform, Coursera and the Kosovo Banking Association.

Change of Management

For any project with a specific change of management, the process is adopted and tailored to ensure ease of transition as well as sustainable and long-term embracement by all employees across the organization.

In 2020, change management activities were executed, aiming to change the mindset of our Managers and we have made them accountable for Agile Projects through:

- Development of Performance Management System
- Determination of correct Key Performance Indicators (KPI's)
- Linking Performance Measures with Rewarding and Succession System
- Transparent and consistent communication

Social Activities

We do care for our employees' happiness and their motivation. Besides working in synergy, we care that they have social activities to enhance their relations and think about how to rearrange their working environment to be friendlier.

Even though we have not been able to organize any social activities during 2020, we have found a way to celebrate religious holidays and Employee Appreciation Days to applaud each one of our employee's commitment.

What's next?

Human Resources team will continue to:

• Give full support to all employees and management on recruiting and retaining best performers. It will be focused on further development of employee skills and knowledge, and offer them new career paths and opportunities for internal mobility

• Coordinate and follow up continuously on in/out of house and e-trainings, to make sure that our staff development is in line with groups' requirements and standards

• Arrange different internship programs to create a potential pool of candidates for recruitment through close cooperation with Universities, which will target and engage best students who are in process of completion of their studies

• Organize staff activities / events to contribute to their motivation

The HR department remains focused in honing in on the relationships built with employees and will continue to boost employee satisfaction, which in turn will directly contribute to achieving the Bank's overall objectives.

4.9 Information Technology

Transforming our vision into technology is always a challenge, especially adapting for unique human behavior, and shaping the quality of the customer journey and the effectiveness of technology solutions. As an IT Department, our approach is to initiate simple change which is always a good approach to guide customers.

IT is a fast evolvingdepartment withinthe banking sector, working hard to support clients, and adopt their perspective to build better solutions that suit their understanding.

Providing services and products for our clients' security is one of our most important duties. As cyber-attacks continue to grow in volume and types in the entire sector, TEB Sh.A. remains determined to apply up-to-date security technologies and keep its information systems secure and under control.

IT Infrastructure

Despite the challenges that arose, the pandemic accelerated the transition from long-established operation and processes into newly adapted alternatives that offered a reliable solution for the new business modality.In a short amount of time, we were able to shift work loads and quickly implement a work-from-home system to meet the business demands. Our capacity of secure remote works was increased by 1200% with 70% remote working capability.

TEB Sh.A. was able toimplement next generation firewall solution providing more protection, visibility and control over applications, users and content within the firewall using a highly optimized hardware and software architecture.

TEB Sh.A. has ongoing project with BNPP to protect its services with group DDOS solution and actively work on NIST standards to be aligned with group including IT Continuity. We remain focused at strengthening the security of company with Advance Threat Prevention Project andimplementation up to date secure remote connection services and other upgrades.

Alignment with Central bank IT regulation also has been within the important projects.

What's next?

TEB Sh.A. will renew a notable amount of IT equipment's in its datacenter and end point locations. This will provide scalability, availability and performance for increasing business and IT demands for the incoming years.

Network equipment: Extensive investment has been done to renew network equipment for better security and improving service quality, changing old branch switches with more advanced switches, ATM routers with alternative connection types and routers for branches (a year-long project).

Core switch replacement is another major change for the organization, which provides increased capacity and throughput and supports automation and software defined network.

Core banking servers: Core application servers will be replaced with newer model of IBM machines, empowering organization core services and providing higher performance up to 70% with new features like power high availability covering our needs for the next five years.

Blade servers: TEB Sh.A. has 97% of its servers running in virtual platforms. Replacement of blade chassis will be initiated by the mid of the year due to incoming obsolesce of old equipment.

Backup systems improvement: Long term planning was done to improve backup systems performance, decrease backup and restore times, reaching RTO and RPO of IT and Business Continuity process, have better vision, security and integrity with other platforms.

Process improvement gives the most value to the business process management lifecycle. Given the variety of emerging digital technologies, our has a series of initiatives to digitize and improve processes such as the Procurement Purchase Platform and Document Management Platform and many more to come.

4.10 Information Security and Data Protection

Information Security

We are continuously and closely monitoring any security vulnerabilities, taking action to protect the Bank and our customers accordingly. Upgrades in our systems are completed to provide a secure infrastructure. Our aim is to provide the most secure services to our customers while maintaining serviceand alternative channel's quality.

During 2020, due to pandemic situation, we have applied a secure system for remote connections, in order for Bank staff to complete their job successfully.

The Bank is part of Group Cyber Security Program that is based on the NIST (National Institute of Standards and Technology) with the ambition to reinforce BNPP capabilities to counter cyber risks. A model is created based on the NIST referential that covers all Cyber Security topics and has been adapted with TEB and Group Cyber Security Strategy and policies. In order to increase the awareness about information security and to increase cyber culture, all employees completed e-learning and newcomers onsite training programs. These training programs were supported with email notifications as well as phishing campaigns.

The bank is performing regular penetration tests by third party company. This is an independent method of security assessment of banking systems.

Data Protection

Data protection is a fundamental right, protected by Data Protection law, and the General Data Protection regulation (GDPR). In order to protect and guarantee rights to data protection and privacy, the processing of personal data is subject to control by an independent authority, the Agency for Information and Privacy which is the independent data protection authority, tasked with ensuring that the institutions and bodies respect data protection law.

We carry out our functions in close cooperation with the data protection authority and our aim is to be as transparent as possible in our work, serving our clients' interests.We serve the interests of our clients and the institution by ensuring that the institution complies with data protection principles in practice. We contribute to wider policy as far as it affects data protection.

Using our expertise, authority and formal powers, we aim to build awareness of data protection as a fundamental right and as a vital part of the institution,

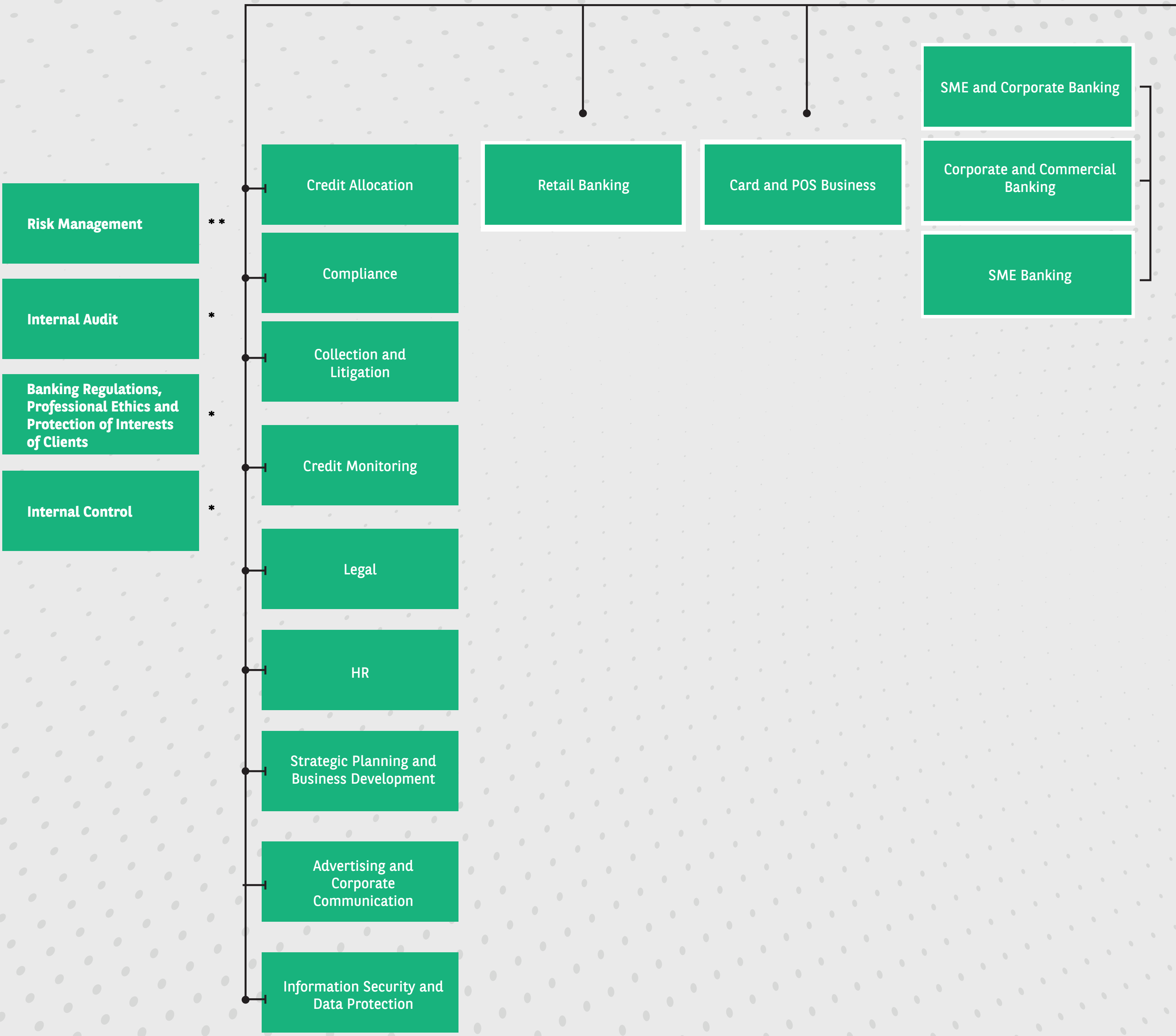
We focus our attention and efforts on areas of policy or administration that present the highest risk of non-compliance or the greatest impact on privacy. We act selectively and proportionately.

During 2020, the data protection unit with the support of management, approached data protection in a new way by improving technical and organizational measures against unauthorized or unlawful processing of data and against accidental loss, destruction or damage of data, by implementing different DLP (Data Loss Prevention) and Data Classification tools.

Also the bank has shown due care for the transfer of personal data to countries within and outside of the European Economic Area, by evaluating all contractual agreements for transfer of personal data.

Considering the rights of data subjects based on the Data Protection Law and GDPR, the institution has taken the necessary measures by publishing the right procedure, with necessary information and an approach toward the process.

5.1 TEB Sh.A. Organizational Structure



* Reports to the Audit Committee of Board of Directors
** Reports to the Risk Management Committee of Board of Directors

- **Information Systems**
  - IT Infrastructure and Quality
  - IT Business Solutions
  - Data Quality and IT Business Realations
- **ALM Treasury**
  - ALM Treasury
  - Correspondent Banking
- **Operations**
  - Banking Operations
  - Cards and ADC Operations
  - General Support Services and Procurement
  - Customer Care
  - Organization
  - Fraud Prevention
- **Financial Controlling and Accounting**

5.2 Board of Directors

TEB Sh. A. Board of Directors

Chairman: Jacques Roger Jean Marie Rinino
Vice-Chairman: Dr. İsmail Yanık / till 9th of March 2020
Vice-Chairman: Alp Yılmaz
Vice-Chairman: Ayşe Aşardağ
Member: Birol Deper
Member: Esra Peri Aydoğan
Member: Osman Durmuş
Member: Sabri Davaz / till 9th of March 2020
Member: Dr. Nilsen Altintaş
Member:Luc Delvaux / begin from 9th of March 2020
Member: Ayse Meral Cimenbicer/ begin from 9th of March 2020
Managing Director and Member: Orçun Özdemir

Governance

TEB Sh.A has a Board of Directors currently comprising ten members with extensive banking experience. The Board carries out its duties and responsibilities according to the requirements set out in the Bank's charter and pursuant to all relevant legislation and requirements imposed by the Central Bank of Kosovo (CBK) and regulators. The Board meets at least quarterly.

The role of the Board of Directors

Although the details are defined in Articles 26, 27 and 28 of the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions, the Board's primary task is to supervise the financial and business activities of the Bank. It is responsible for defining the Bank's strategy, organizational and administrative structure, its business policy including operational and administrative units, their sub-units and functions, supervisory positions and reporting relationships. Moreover, the Board is tasked with the supervision of senior management activities. The Board of Directors determines and establishes the Bank's banking structure and exposure levels, reviews and approves necessary adjustments and measures. Furthermore, the Board is responsible for adopting the report of senior management on business operations based on the semi-annual balance sheet, profit and loss statement, annual balance sheet and internal and external audit reports. Decisions taken by the Board require a majority vote from members who are either present or voting by proxy. who are either present or voting by proxy.

5.3 Committees

Committees of the TEB Sh. A. Board

In line with TEB Sh.A.'s Charter, regulations and the Bank's requirements, our Board appoints regular, all consisting of Board members with relevant experience and external experts. The Board can also establish ad hoc committees and determine their composition and tasks, where relevant and appropriate. As per Article 22 of the Charter of TEB Sh.A., dated 24 June 2013, Committees may be selected from the ranks of the Bank's shareholders, directors and employees, as well as from the ranks of other persons outside the bank, subject to restrictions provided in the Charter. Committees shall not take decisions in lieu of the Board shall act as advisors to it, by means of recommendations to approve items under their competence.

Audit Committee

Chairman: Luc Delvaux / begin from 9th of March 2020
Chairman: Sabri Davaz / till 9th of March 2020
Member: Ayşe Aşardağ
Member: Birol Deper
Member: Esra Peri Aydoğan
Member (external expert): Bashkim Uka

Duties and Responsibilities:

The Audit Committee serves as an independent and objective committee to monitor the integrity of the bank's financial reporting process. The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities by reviewing financial reporting and other financial information of the Bank, governance, risk management and control set-up ("GRC"). Further, it oversees and monitors the internal audit, internal control, compliance and regulatory compliance functions of the Bank by having them in compliance with applicable laws and regulations, internal policies and procedures.

The Audit Committee meets at least quarterly.

Upper Credit Committee (CRECOM)

Chairman: Osman Durmuş
Vice-Chairman: Haluk Kırcalı
Member: Alp Yılmaz
Member: Alp Özateşler

Duties and Responsibilities:
This committee is authorized to take credit decisions on amounts between €750,000 and €3.5 million.

Asset and Liability Management Committee (ALM)

Chairman: Alp Yılmaz/ begin from 9th of March 2020
Chairman: Dr İsmail Yanık / till 9th of March 2020
Vice-Chairman: Orçun Özdemir
Member: Serhan Özarslan
Member: Tolga Gürdem

Duties and Responsibilities:

- Monitoring financial markets, checking the situation, movements and changes in the Bank's balance sheet and taking decisions, all in accordance with the Bank's Policy and Procedures;
- Guiding and monitoring the ALM-T Department's operations on an ongoing basis and acting as the decision-making body as defined in the ALM committee by-laws;
- Supervising asset & liability management by the ALM-T Department in terms of the following criteria;
- Ensuring the observance of external (regulatory) ratios set by the Central Bank of Kosovo (CBK) and internal rules set by the Board or ALCO;
- Monitoring minimum requirement reserves set by the CBK.

The Asset & Liability Committee meets at least quarterly.

Risk Management Committee (RMC)

Chairman: Osman Durmuş
Vice-Chairman: Alp Yılmaz
Member: Jacques Roger Jean Marie Rinino
Member: Luc Delvaux / begin from 9th of March 2020

Duties and Responsibilities:

The objective of the Risk Management Committee (RMC) is to oversee the risk profile, approve and monitor the risk management framework of the Bank within the context of the risk reward strategy determined by the Board of Directors. As such, RMC is responsible for monitoring all risk-related components and functions derived from credit, market, liquidity, operational, reputational, and regulatory risks.

The Risk Management Committee meets on monthly basis.

Provisioning Committee (PC)

Chairman: Osman Durmuş
Vice-Chairman: Esra Peri Aydoğan
Member: Orçun Özdemir

Duties and Responsibilities:

The main responsibility of the Provisioning Committee is to evaluate overall loan impairment process in accordance with bank's internal policies and procedures, CBK requirements, IFRS and group standards. Moreover, the committee is responsible to validate the relevant provisions for legal litigations against the bank and the provisions related to operational risk incidents. The Committee has the authority to conduct or authorize reviews into any matters within its scope of responsibility.
The Provisioning Committee meets at least quarterly.

Remuneration Committee (RC)

Chairman: Alp Yılmaz
Member: Jacques Roger Jean Marie Rinino
Member: Dr. Nilsen Altintaş
Member: Orçun Özdemir

Duties and Responsibilities:

Remuneration Committee is established by the TEB SH.A. Board of Directors, and is responsible for the determination, monitoring and supervision of the remuneration policy implementation.
The Remuneration Committee meets at least twice in a year.

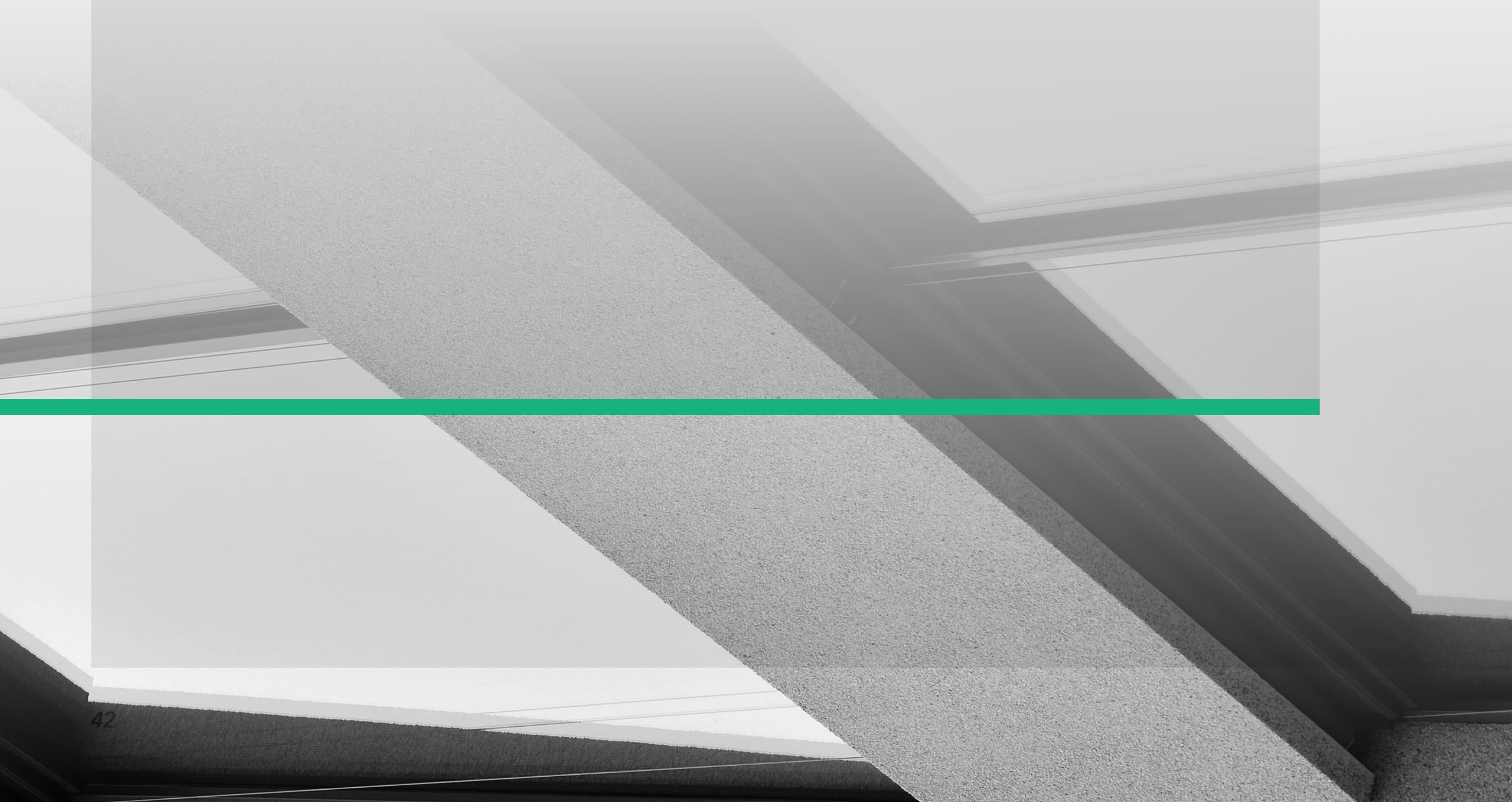
5.4 Internal Audit

Internal Audit

The Board of Directors of TEB Sh.A. established the Internal Audit Department as one of the key components in the Bank's governance structure. The Bank's Internal Audit Department is independent and as such reports directly to the Board of Directors, through the Audit Committee and on its own initiative if deemed necessary or appropriate.

Internal Audit Department is an assurance function, helping the Bank to accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of the control environment, including risk management, control and governance processes. It is Internal Audit's responsibility to assess whether the control environment ensures that risks, which could arise from the Bank's operations, are managed in a manner that enables an acceptable level of mitigation. Audit activities are carried out by the Internal Audit Department according to the audit plan, which is prepared at least on an annual basis using a risk-based approach consistent with the Bank's goals and objectives. Each audit plan is validated by the Bank's Audit Committee, and subsequently approved by the Board. The plan is updated whenever necessary to reflect changes inherent to the internal control system and to integrate new business lines.

The work of the Internal Audit Department is performed in compliance with the applicable laws and regulations in place, and International Standards for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors, which is the governing body for the internal audit profession worldwide, as well as in compliance with Group audit practices.



5.5 Risk Management

TEB Sh.A. is exposed to credit, market, liquidity and operational risk which are identified and monitored in line with group standards. TEB Sh.A. measures and monitors risk in a prudent and conservative manner. The Risk Management is the second level control and organized within the respective regulations.

The process of risk management is composed of risk identification, analysis, measurement and risk monitoring through sound policies and procedures which are understood at all levels.

TEB Sh.A. Risk Management works in cooperation with the Executive Management to ensure that the risks level is in accordance with group policies and in line with the risk appetite.

The Risk Management Department independently maintains daily functions as they report directly to the Board of Directors through the Risk Management Committee (RMC).

Credit Risk

Credit risk is the most common risk; the bank is exposed to considering the local market conditions. By general definition, credit risk is the loss that may be incurred if the counterpart in a loan relationship fails, partially or entirely, to fulfil its obligations as stipulated in the loan agreement. TEB Sh.A. is exposed to credit risk through its lending, trade finance and treasury activities, nevertheless, credit risk may arise in other circumstances as well. Credit risk management is conducted through regular analysis of the debtors' credit worthiness while all credit exposures are reviewed at least on annual basis, while large exposures are monitored on a regular basis by the monitoring department. The monitoring process considers cash-flow and sales performance, credit covenants, payment behaviour, profitability, liquidity, solvency and debt ratio.

The Board of Directors is the final authority in the allocation of loan facilities and approval of credit policies. The Upper Credit Committee and the Chief Executive Officer are authorized with certain conditions and limits. The exercise of these delegated powers is regularly monitored and reported by internal control, risk management and internal audit, as part of second and third line of defence respectively. On the other hand, the Risk Management Department reports on monthly basis to the Risk Management Committee about loan development by the portfolio level, including KRI summary, regulatory and BoD limits, loan delinquency, exposure by segment and industry, NPL trend, collection activities etc.

The Credit Allocation and Monitoring Division aims to manage the quality of the loan portfolio by expert teams in compliance with regulations and credit policies set by the Bank. Teams are responsible for carrying out all lending cycle, at loan applications, loan evaluation, monitoring and legal proceedings.

Credit allocation and monitoring activities are carried out by the Head Office in close cooperation with business lines and management. The four eyes principle is applied. Credit Committees decisions must be taken unanimously. Credit Allocation members are specialized in their respective fields to assesscredit proposals based on authorizations. Credit decision process is centralized and there is no branch level authorization.

Business credit proposals are processed in cooperation with respective segment (Corporate, Commercial, SME). In order to support credit assessment processes, in-house rating model is developed.

Retail Loan policies and strategies are determined according to analytically-driven and rational methods. Loan evaluation and intelligence processes are designed in a highly automated manner to ensure better risk management. In order tokeepquality, efficient portfolio management is performed using application and behavioural scorecards withextensive filtering capability.

The main strategy for collection is to collect as much as possible from delinquents and take preventive measures to keep NPL and arrears under control. Collection processes are managed efficiently with different sources (in-house and outsourced law firms) for different segments.

The Collection Department also coordinates the collection of loans transferred to prosecution. Collection performance is monitored and reported regularly to the Board and Board related committees.

Credit stress testing is another important component in understanding possible events or changes in the market that could impact the Bank’s balance sheet by simulating different default scenarios on the existing bank portfolio.

The Bank is implementing IFRS 9 principles for the assessment and calculation of expected credit loss and calculation of impairment for its financial assets.

Market Risk

Market risk involves possible losses a bank may incur as a result of the exposure of its balance sheet and off-balance sheet accounts to interest-rate risk, or exchange-rate risk, resulting from fluctuations in the financial markets.

TEB Sh.A. market risk management is designed to manage and control market-risk exposure in order to optimize returns while maintaining the Bank's conservative risk profile.

Interest-Rate Risk

TEB Sh.A. market risk management is designed to manage and control market-risk exposure in order to optimize returns while maintaining the Bank's conservative risk profile.

Interest-rate risk is determined by measuring the rate of sensitivity of assets, liabilities and off-balance sheet items providing 100/200 basis point +/- shock simulations over Net Banking Income on a monthly basis. IRR is monitored closely through gap and duration analyses. Possible negative effects of interest-rate fluctuations on financial position and cash flow are minimized by means of prompt decisions.

When determining short, medium and long-term pricing strategies, TEB Sh.A. Assets and Liabilities Committee managed the maturity of balance sheet positions and adopts the principle of working with positive balance-sheet margins as its pricing policy.

Exchange-Rate Risk

Exchange-rate risk is defined as a possible loss that a bank may incur with all of its currency assets and liabilities in the event of changes in exchange rates.

Position limits determined by the Board of Directors monitored on a daily basis as possible changes in the Bank's monetary positions as a result of routine foreign currency transactions may occurs.

Liquidity Risk

Liquidity risk occurs when there is insufficient cash or cash inflows to meet net funding requirements when due. Liquidity risk may also occur when open positions cannot be closed when it is due.

The Bank's policy is to have an asset structure that is sufficiently liquid to meet all kinds of liabilities as they fall due. The Board of Directors regularly monitors and determines liquidity ratios and the relevant standards for maintaining high liquidity at all times. TEB Sh.A. has in place an effective system for the timely reporting of the liquidity position to the Board of Directors, senior management and all related departments. Moreover, liquidity stress tests are another important tool to measure Bank's liquidity at different business assumptions.

Capital Adequacy

The Bank's aim is to ensure sufficient capital to cover the business activities. The Risk Management Department monitors and reports capital adequacy ratios to executive management and to the Board of Directors through the Risk Management Committee.

Operational Risk and Business Continuity

Operational risk is defined as the risk of loss, which may result from inadequate or failed internal processes, people and systems or from certain external events.

The Risk Management Department and Operational Risk Unit is responsible for monitoring operational risk events as defined by the Basel Committee. The Bank has in place a system appropriate to the nature and complexity of the Bank's business in order to effectively identify key risk indicators and assess, monitor and control operational risk events. The Operational Risk Unit implements methods to assist other departments in identifying, monitoring, controlling and mitigating potential operational incidents. Operational risk provides operational risk training for all staff, especially those who are responsible for reporting incidents to the Operational Risk and Business Continuity Unit, and assessing all processes in terms of operational risk and identifying risky processes.

Business Continuity, regardless of its type and reason, consists entirely of plans ensuring the continuity of the Bank's critical business functions in case of any business interruption arising from internal and external factors. The Operational Risk and Business Continuity Unit are constantly engaged in defining, measuring and reporting risk to the Chief Risk Officer. The results of Operational Risk and Business Continuity activities are reviewed and assessed on a monthly basis to the Board Level Risk Management Committee and on a quarterly basis to BoD.

Regarding the Covid-19 pandemic, Operational Risk Unit was involved in liaising with the Senior Management to take necessary measures in order to provide stable environment for continuation of banking operations without any interruptions.

RCSA (Risk Control Self-Assessment) is applied to identify and to evaluate operational risks and associated controls. It adds value by increasing an operating unit's involvement in designing and maintaining control and risk systems, identifying risk exposures and determining corrective action. The aim of RCSA is to integrate risk management practices and culture into the way staff undertake their jobs, and business units achieve their objectives.

5.6 Compliance

The Covid-19 pandemic has led to unprecedented global challenges which provide a favourable environment for financial security risks. Authorities worldwide such as Financial Actions Task Force, Bank for International Settlements, United Nations Office of Drugs and Crimes have responded with statements and by providing guidance to financial institutions to manage money laundering (ML) and terrorist financing (TF) risks. In all such statements, it was highlighted that there is a need for a special vigilance on new risks identified, close cooperation and sharing information between main actors. In the Covid-19 pandemic crisis new threats and vulnerabilities generate emerging ML and TF risks. According to Interpol there is an increase of cyber threats connected with malicious domains, malware and ransomware. Moreover, as per FATF assessment there is an increase in ML and TF risks arising from Covid-19-related crime, which could include but not limited to:

a) increased misuse of online financial services and virtual assets to move and conceal illicit funds and
b) a potential for corruption related to government funds as well international financial assistance.

At country level different statements from law enforcement agencies require to pay particular attention to cybercriminal activities directed at exploiting vulnerabilities in systems and remote tools.

The year 2020 was a challenging year due to Covid-19, however our bank enhanced the AML/CFT control framework in the response of new threats and vulnerabilities. Several actions were taken to accomplish this goal; improving the quality of AML alert analysis further and improving the set-up for Anti-bribery and Corruption. Moreover, the current set-up on cash transactions risk management framework is strengthened further in order to mitigate risks on cash.

The bank's code of conduct includes ethical business provisions that are aimed at managing preventing money laundering, terrorist financing and any other international financial sanctions as well as bribery and corruption.

Our bank applies the best principles on 'Know Your Customer' (KYC), re-certification, Customer Due Diligence, Enhanced Customer Due Diligence as well as risk-based approach principles. Furthermore, we have re-enforced our current set-up to be in line with new CBK Regulation on AML/CFT on updating customer data in order to mitigate money laundering and terrorist financing risks.

Considering the importance of the fight against money laundering and terrorist financing, international sanctions and embargoes, all bank staff receive training on regular basis.

In 2021 the main objectives are, but not limited to:

- focus on mitigating new threats and vulnerabilities identified during Covid-19,
- automatizing and enhancing the systems for online vigilance,
- re-balancing responsibilities between first level of defense and second level of defense,
- implementing projects in order to reinforce our IT infrastructure to prevent money laundering and terrorism financing,
- upgrading the IT system for aligning with new Global KYC processes,
- strengthening the AML risk culture within the bank,

Our Compliance Division is led by a Senior Manager and is independent from all other functions of the bank. He reports daily to the Managing Director and periodically to the Board of Directors.

5.7 Internal Control

The Internal Control Department aims to strengthen, support and maintain proper internal controls and improve control culture at every level of TEB Sh.A. It handles essential coordination and ensures that related activities are performed regularly, efficiently, effectively and in line with the Bank's management strategies and policies, as well as with applicable rules and regulations. At TEB, the Internal Control and Operational Risk functions are structured separately. The Internal Control Department is positioned as an integral part of the second level of defence and executes its duties accordingly.

Controls of activities at branches and Head Office departments are carried out by the Branch Control Unit, Central Control Unit and Credit Control Unit. Process reviews are included in the Department's regular controls as well. Moreover, the Internal Control Department likewise performs the majority of the BNP Paribas group controls in the Bank covering various domains.

Controls are designed to:

- Verify proper adherence to internal rules and procedures and the consistency of internal rules with legal regulations and compliance with them;
- Contribute to safeguarding assets;
- Assess the adequacy, effectiveness and efficiency of daily operations; and
- Contribute to the identification and assessment of risks related to the organization's current and proposed future business activities, including new products.

The Internal Control Department is an independent body reporting directly to the Board of Directors through the Audit Committee on a quarterly basis.

5.8 Legal

The Legal Department is responsible to manage all the legal risks of the bank. The department does this through a number of ways which include defining the bank's legal policy to ensure consistency, providing legal advice, managing the drafting and amendment of all contracts that are in use by the bank, through the regulatory watch process, representing the bank in the court and other institutions, and any other activity where legal input is necessary. The Legal Department also is part of the BNP Paribas LEGAL group whose aim is to provide a consistent service throughout the whole group.

The year 2020 was a challenging year for the sector, and that affected the work of the Legal Department as well. Managing the COVID-19 legal consequences of the financial sector was not an easy task. Our department was continually involved in liaising with the regulators to enable bank clients can have access to more services electronically, ensuring that agreements are amended as per the regulatory changes, with a reduced department staff in the office and others working from home.

The department was also involved in managing the implementation of the electronic registration of mortgages which was required by the Cadastral Agency of Kosovo. The LEGAL team was part of an internal working group in a complex task which involved many legal aspects, to ensure that loan agreements are properly secured with mortgages.

The past year the department was involved in implementing a couple of BNPP group requirements regarding the reporting and managing of legal risk. Our department regulated the reporting of all legal risks on a BNPP Group tool called SARA, which presents all significant legal risks for every entity to the Group's legal risk team. The department also implemented the permanent legal control plan, which entails making controls on the most important control points of the bank's legal function.

What’s next?

We continue our work in the digitalization project, to streamline the interactions the bank has with its clients. The ultimate goal is to mitigate as many legal risks as possible in providing our services while at the same time offer the convenience that our daily technological tools offer.

The department will also continue to implement the Group’s policies regarding legal risk management, and also implement the legislative changes that the Kosovo government may enact regarding the financial sector.

6. Auditor’s Report

TEB SH.A.

Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) as at and for the year ended 31 December 2020

TABLE OF CONTENTS

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of TEB SH.A.

Opinion

We have audited the financial statements of **TEB Sh.A. (**the "Bank"), which comprise the statement of financial position as at December 31, 2020, and the statement profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2020, and notes to the financial statements, including a summary of significant accounting policies.

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

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 International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Kosova, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

Financial statements of the Bank for the year ended December 31, 2019 have been audited by another auditor who issued an unmodified opinion on March 27, 2020.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank in accordance with the requirements of the Law No. 04/L-093. The Annual Report of the Bank is expected to be made available to us after the date of our audit report. Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Deloitte.

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

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

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

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

Deloitte Kosova sh.p.k.

Deloitte Kosova sh.p.k.
Str. Lidhja e Pejes, no. 177,
Prishtina, Republic of Kosova
Unique Identification No.: 810468373
March 10, 2021

Str. Lidhja e Pejës nr. 177
Deloitte
Kosova sh.p.k.
10000 Prishtinë, Kosovë

Engagement Partner
Arta Limani

TEB SH.A.
Statement of financial position

(All amounts are expressed in thousand EUR, unless otherwise stated)

	Note	31 December 2020	31 December 2019
ASSETS			
Cash and balances with banks	6	131,194	111,585
Loans and advances to banks	7	74,682	65,258
Investments in debt securities	8	25,928	14,167
Loans and advances to customers	9	414,694	397,311
Investment properties	10	1,649	1,590
Other financial assets	11	3,203	3,242
Other assets	12	1,373	818
Premises and equipment	13	3,528	3,505
Right-of-use-assets	14	3,388	3,951
Intangible assets	15	2,331	2,158
Deferred income tax asset	29	-	212
Corporate income tax prepayments		148	-
TOTAL ASSETS		**662,118**	**603,797**
LIABILITIES			
Due to customers	16	561,400	512,263
Other liabilities	20	448	443
Lease liabilities	14	3,471	4,065
Borrowings	17	5,145	8,981
Other financial liabilities	18	4,509	4,268
Provisions for liabilities and charges	19	1,531	1,004
Corporate income tax liability	29	44	582
TOTAL LIABILITIES		**576,548**	**531,606**
SHAREHOLDER'S EQUITY			
Share capital	21	24,000	24,000
Retained earnings		61,156	47,779
Other reserves		414	412
TOTAL SHAREHOLDER'S EQUITY		**85,570**	**72,191**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**662,118**	**603,797**

These financial statements have been approved by the Executive Management of the Bank on 10 March 2021 and signed on their behalf by:

Mr. Orçun Ozdemir
Managing Director

Mr. Rezak Fetai
Chief Financial Officer

The notes on pages 5 to 64 are an integral part of these financial statements.

(All amounts are expressed in thousand EUR, unless otherwise stated)

	Note	2020	2019
Interest income	22	29,097	30,650
Interest expense	23	(1,346)	(1,647)
Net margin on interest and similar income		**27,751**	**29,003**
Net impairment (loss)/release on loans and advances to customers	9	(948)	3,744
Net margin on interest and similar income after allowance for expected credit losses		**26,803**	**32,747**
Fee and commission income	24	11,160	11,138
Fee and commission expense	25	(4,358)	(4,277)
Gains less losses from financial derivatives		-	(27)
Gains less losses from foreign currencies revaluation		228	178
Gains less losses on revaluation of investment properties		59	-
Net (impairment)/release for credit related commitments		26	(121)
Other operating incomes		515	422
Other operating expenses		(1,301)	(1,159)
Other impairments and provisions	26	(520)	(2,151)
Personnel costs	27	(7,719)	(8,511)
Depreciation and amortisation	13,14,15	(4,734)	(4,468)
Administrative expenses	28	(5,531)	(6,010)
PROFIT BEFORE TAX		**14,628**	**17,761**
Income tax expense	29	(1,251)	(2,288)
PROFIT FOR THE YEAR		**13,377**	**15,473**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Debt securities at fair value through other comprehensive income:			
Gains less losses arising during the year, net of taxes	29	2	55
Items that will not be reclassified to profit or loss:			
Revaluation of investment property	10,29	-	351
Other comprehensive income / (loss) for the year		**2**	**406**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**13,379**	**15,879**

The notes on pages 5 to 64 are an integral part of these financial statements.

(All amounts are expressed in thousand EUR, unless otherwise stated)

	Share capital	Retained earnings	Other reserves	Total
Balance at 1 January 2019	**24,000**	**62,306**	**6**	**86,312**
Profit for the year	-	15,473	-	15,473
Other comprehensive income	-	-	406	406
Total comprehensive income	**-**	**15,473**	**406**	**15,879**
Dividend payment	-	(30,000)	-	(30,000)
Balance at 31 December 2019	**24,000**	**47,779**	**412**	**72,191**
Balance at 1 January 2020	**24,000**	**47,779**	**412**	**72,191**
Profit for the year	-	13,377	-	13,377
Other comprehensive income	-	-	2	2
Total comprehensive income	**-**	**13,377**	**2**	**13,379**
Dividend payment	-	-	-	-
Balance at 31 December 2020	**24,000**	**61,156**	**414**	**85,570**

The notes on pages 5 to 64 are an integral part of these financial statements.

TEB SH.A.
Statement of cash flows

(All amounts are expressed in thousand EUR, unless otherwise stated)

	Notes	2020	2019
Cash flows from operating activities			
Profit before tax		**14,628**	**17,761**
Adjustments for:			
Depreciation of property, plant and equipment	13	1,776	1,528
Depreciation of right-of-use-assets	14	1,238	1,242
Amortization of intangible assets	15	1,720	1,698
Gains on disposal of premises and equipment		2	15
Gain from sale of repossessed assets		(228)	(207)
Gain from fair value of investment property		(59)	-
Gains on investments in debt securities		(8)	(1)
Gains on derivative financial instruments		-	27
Loans expected credit losses	9	2,530	(1,982)
Expected credit losses of other financial assets	26	145	39
Miscellaneous provisions	26	375	2,112
Impairment/(release) for credit related commitments		(26)	121
Interest income	22	(29,097)	(30,650)
Interest expense	23	1,346	1,647
		(5,658)	**(6,650)**
Net decrease/(increase) in:			
Balances with CBK		(5,703)	(6,515)
Loans and advances to customers		(19,684)	(12,047)
Other financial assets		39	(143)
Other assets		(632)	(699)
Net increase/(decrease) in:			
Due to customers		49,158	56,897
Other financial liabilities		241	754
Provision for liabilities and charges		527	94
Other liabilities		5	54
		23,951	**38,395**
Interest received		28,762	30,620
Interest paid		(1,374)	(1,729)
Income taxes paid		(1,726)	(1,310)
Net cash from operating activities		**43,955**	**59,326**
Cash flows from investing activities			
Acquisition of debt securities at fair value through other comprehensive income		(23,070)	(10,262)
Proceeds from disposal of investments in debt securities		11,348	12,416
Proceeds from disposal of premises and equipment		11	1
Gain from sale of repossessed asset		211	222
Gains on investments in debt securities		8	-
Acquisition of premises and equipment	13	(1,817)	(834)
Acquisition of intangible assets	15	(1,897)	(1,765)
Net cash used in investing activities		**(15,206)**	**(222)**
Cash flow from financing activities			
Dividend payment		-	(30,000)
Proceeds from long term borrowings		-	2,000
Repayment of borrowings		(3,857)	(2,285)
Repayment of principal of lease liabilities		(1,420)	(1,170)
Net cash used in financing activities		**(5,277)**	**(31,455)**
Net increase in cash and cash equivalents		**23,472**	**27,649**
Cash and cash equivalents at 1 January		133,141	105,492
Cash and cash equivalents at 31 December	6	**156,613**	**133,141**

The notes on pages 5 to 64 are an integral part of these financial statements.

1. Introduction

TEB Sh.A. ("the Bank") was incorporated in the Republic of Kosovo on 19 December 2007 when it was granted a licence by the Central Bank of Kosovo ("CBK") for banking activities. The Bank commenced its operations in January 2008.

The Bank is controlled by TEB Holding AS which is a company incorporated in Turkey (the "Parent Company") and owns 100% of the shares of the Bank. The shareholders of TEB Holding AS are BNP Paribas and Çolakoĝlu Group, each of them owning 50% of the shares. BNP Paribas is the ultimate controlling party of the Parent Company and the Bank.

Registered address and places of business: The registered head office of the Bank is located in Preoc n.n. 7KM main road Prishtina - Ferizaj, Gracanica 10500, Republic of Kosovo.

Principal activity: The Bank operates as a fully-fledged bank in accordance with Law No.04/L-093 on Banks, Microfinance Institutions and non-bank financial institutions and provides services to all categories of customers in the Republic of Kosovo through its network of 29 (2019: 29) branches located in Prishtina, Gjakova, Peja, Prizren, Ferizaj, Mitrovica and Gjilan.

At 31 December 2020, the Board of Directors of the Bank is comprised of:

- Jacques Roger Jean Marie Rinino (Chair)
- Alp Yilmaz (Vice-Chair)
- Ayşe Aşardağ (Vice-Chair)
- Birol Deper (Member)
- Esra Peri Aydoğan (Member)
- Osman Durmus (Member)
- Nilsen Altintaş (Member)
- Luc Delvaux (Member)
- Ayse Meral Cimenbicer (Member)
- Orcun Ozdemir (Member & Managing Director)

2. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"), under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of investment properties and financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Functional and presentation currency

These financial statements are presented in EUR, which is the Bank's functional currency. Functional currency is the primary currency of the economic environment in which the Bank operates, being the Republic of Kosovo.

2. Summary of significant accounting policies (continued)

Abbreviations

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
CBK	Central Bank of Kosova
AC	Amortised Cost
EAD	Exposure at Default
ECL	Expected Credit Loss
LECL	Lifetime Expected Credit Loss
EIR	Effective interest rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX, Forex	Foreign Currency Exchange
IFRS	International Financial Reporting Standard
LGD	Loss Given Default
PD	Probability of Default
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
ROU asset	Right of use asset
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments’ cash flows represent Solely Payments of Principal and Interest

Financial instruments - key measurement terms

Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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.

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

2. Summary of significant accounting policies (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any expected credit loss allowance. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method.

Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate). The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

- For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.
- For financial assets for which there is an incurred credit loss (credit impaired assets in stage 3), the effective interest rate applies to the amortized cost of the instrument and not to its gross carrying amount.
- For financial liabilities the effective interest rate is the rate that discounts future estimated payments to the amortized cost of the financial liability.

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.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the expected life of the instrument.

Financial instruments – initial recognition.

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price the Bank accounts for that instrument at that date as follows:

a) A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.
b) In all other cases, the fair value measurement is adjusted to defer the difference. After initial recognition, the Bank recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

2. Summary of significant accounting policies (continued)

After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories.

The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 3 for critical judgements applied by the Bank in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 3 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

Financial assets – reclassification.

Financial assets are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Bank did not change its business model during the current and comparative period and did not make any reclassifications.

2. Summary of significant accounting policies (continued)

Financial assets impairment – expected credit loss allowance.

The Bank assesses the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL").

Refer to ***Significant increase in credit risk "SICR"*** paragraph for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit-impaired assets and definition of default is explained under ***Financial assets impairment*** paragraph. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Financial assets – write-off.

Financial assets are written-off, in whole or in part according to delinquency and collateral coverage as regulated with local regulation. On the other hand, when the Bank has exhausted all recovery efforts and has concluded that there is no reasonable expectation of recovery, it may decide to write off an asset before local requirements due date.

Financial assets – derecognition.

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

2. Summary of significant accounting policies (continued)

Financial assets – modification.

The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset significant change in interest rate, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties. If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank assesses whether the modification of the terms are substantial or not. If the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories.

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying amounts is attributed to a capital transaction with owners.

Cash and cash equivalents.

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all vault cash, interbank placements and mandatory reserves deposits with the CBK, with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

2. Summary of significant accounting policies (continued)

Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the CBK.

Mandatory cash balances with the CBK are carried at AC and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day-to-day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks (loans and advances to banks).

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Investments in debt securities.

Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss.

An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Loans and advances to customers.

Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

2. Summary of significant accounting policies (continued)

Repossessed collateral

Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Currently, all repossessed collateral is included in inventories within other assets. The Bank subsequently measures repossessed collateral at the lower between cost (amount initially recognised) and fair value less costs to sell. Repossessed collateral is written off in case they are not resold by the Bank within 5 years from repossession. Movable property is not recognised as an asset when repossessed. Any loss arising from the above re-measurement is recorded in profit or loss and can be reversed in the future. Gains or losses from the sale of these assets are recognized in the profit or loss.

Financial guarantees.

Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected credit loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Credit related commitments.

The Bank issues financial guarantees and commitments to provide loans. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Investment property

Investment property is property held by the Bank to earn rental income or for capital appreciation, or both and which is not occupied by the Bank. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period.

Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs.

2. Summary of significant accounting policies (continued)

The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Any resulting increase in the carrying amount of the property is recognized in profit or loss unless it relates to a transfer from owner-occupied property to investment property in which case the increase is recognised in other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognized in other comprehensive income, if any, with any remaining decrease charged to profit or loss for the year. In the absence of current prices in an active market, the Bank considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; and

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

(c) discounted cash flow projections based on reliable estimates of future cash flows by external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The fair value of the Bank's investment property is determined based on the report of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, where required. Historical cost includes expenditure that it is directly attributable to the acquisition of the items of property and equipment.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Each year, the Bank assesses whether there are indications that assets may be impaired. If any such indication exists, the recoverable amounts are estimated. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the profit or loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining the operating result for the period.

Land and construction in progress are not depreciated. Depreciation on other items of property and equipment is recognised in profit or loss using the straight-line method to allocate their cost over their estimated useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as presented below:

Category of assets	Depreciation rates used
Leasehold improvements	Shorter of useful life and the term of the underlying lease
Furniture, fixtures and equipment	3-5 years
Computers and related equipment	3-5 years
Motor vehicles	5 years

Intangible assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are entirely comprised of computer software and licenses, which are amortised using the straight-line method over their estimated useful life of up to five years. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

2. Summary of significant accounting policies (continued)

Right-of-use assets

The Bank leases various offices for its branches, ATMs and headquarters. Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives.

Impairment of non-financial assets

An impairment loss is recognised whenever the carrying value of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. The value in use of an asset is the present value of estimated future cash flows expected from the continuing use of an asset and from its disposal.

Due to other banks and customer accounts

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Other borrowed funds. Other borrowed funds include loans taken from EBRD. Funds borrowed are carried at Amortised Cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange currency and swaps are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting. Certain derivative instruments embedded in financial liabilities and other non-financial contracts are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in Other Comprehensive Income.

Income tax

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

2. Summary of significant accounting policies (continued)

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.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

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. 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 on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Tax exposures

In determining the amount of current and deferred tax, the Bank considers the impact of tax exposures, including 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 would impact tax expense in the period in which such a determination is made.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. Provisions are recorded when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a charge occurs, as identified by the legislation that triggers the obligation to pay the charge. If a charge is paid before the obligating event, it is recognised as a prepayment.

Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Bank uses the incremental borrowing rates calculated with from Treasury Department.

2. Summary of significant accounting policies (continued)

The Bank is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Employee benefits

The Bank pays contributions to the publicly administered pension plan (KPST) on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Kosovo legislation identifies the basis of distribution as the current year net profit.

Interest income and expense

Interest income and expense are recorded for all financial instruments measured at AC, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price less directly attributable transaction costs). As a result, the effective interest rate is credit-adjusted.

2. Summary of significant accounting policies (continued)

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fees and commissions

Fee and commission incomes and expenses are recognised as following:

Fees received that are an integral part of the effective interest rate of a financial instrument (origination fees such as fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents, etc.) are amortized according to the effective interest rate method over the effective life of the contracts.

Fees for which the performance obligation is satisfied at a point in time – these fees are recognised as revenue or expense when the performance obligation is satisfied (usually when the service is executed). Such fees and commission include fees from (for): international payments, domestic payments, SMS banking, credit card fees (merchant commissions, fees from customers of other banks that use Bank's POS and ATM terminals, VISA and Master fees etc.), account servicing fees (cash withdrawal fee, cash deposit fee, pin reset, closing account fees), fees from money transfers, etc.

Fees for which the performance obligation is satisfied over time – these fees are recognised as revenue or expense when performance obligation is satisfied over time (generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided). Such fees include credit card and account maintenance fees, fees for guarantees and letter of credits, etc.

Foreign currency translation

The functional currency of the Bank is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank is the Euro. Euro is the currency in which transactions are denominated in the economic environment in the Republic of Kosovo.

Monetary assets and liabilities in other currencies are translated into functional currency at the official exchange rate of Central Bank of Kosovo at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of CBK, are recognised in profit or loss for the year (as foreign exchange translation gains fewer losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Offsetting.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

3. Critical accounting estimates and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Expected Credit Loss (ECL) measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 33. The following components have a major impact on credit loss allowance: definition of default, criteria for Significant Increase in Credit Risk (SICR), probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"), as well as models of macro-economic scenarios. The bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Up-to-date, the Bank did not integrate any forward-looking information for measurement of ECL, primarily due to weak correlation between the default rates and macroeconomic indicators. Given the apparent lack of meaningful correlation between the default rates and available macroeconomic indicators for Kosovo, the Management does not believe there is any significant identified and measurable impact of forward-looking information in the Expected Credit Losses amount as of 31 December 2020 and 2019. Nevertheless, the bank will analyse forward looking assumptions, in annual basis, and in case there is any strong correlation of key macroeconomic variables with ECL level it will integrate those variables on its FWL model accordingly.

On the other hand, the Bank applied additional ECL (EUR 646 thousand) as an add- on factor for the customers that might have been effected negatively in the future due to COVID 19 pandemic. Based on management's assessment, the Expected Credit Loss recorded after the add –on factor is appropriate.

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts). For such assets, the Bank applies twelve-month maturity and ECL is applied. Based on the bank's internal procedures, such products are assessed on a yearly basis following a sound credit risk assessment and legally such limits are revocable and bank can cancel the undrawn commitment at any time.

A 10% increase or decrease in PD estimates at 31 December 2020 would result in an increase or decrease in total expected credit loss allowances of EUR 381 thousand (2019: EUR 391 thousand). A 10% increase or decrease in LGD estimates at 31 December 2020 would result in an increase or decrease in total expected credit loss allowances of EUR 480 thousand (2019: EUR 646 thousand).

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, besides minimum of 30 days past due (DpD) which is used as backstop criteria, the Bank uses other qualitative forward looking criteria defined by the bank to determine what should be considered as a significant increase in credit risk and thus compare the relative lifetime between the default risk at each observation date with the lifetime default at the origination date. If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

If ECL of 5% of loans and advances to customers that are currently in Stage 1 measured at 12-months ECL would be measured at lifetime ECL, the expected credit loss allowance amount would be increased by approximately EUR 2,167 thousand as of 31 December 2020 (2019: increased by approximately EUR 662 thousand).

3. Critical accounting estimates and judgments in applying accounting policies (continued)

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

On transition to IFRS 9, the Bank identified available for sale (AFS) securities as a liquidity portfolio and classified as held to collect and sell. The Bank assessed that its residential mortgage loan portfolio meets the criteria for held to collect business model determined that the past securitisation transactions were infrequent and therefore are not inconsistent with the held to collect business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months' interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument.

The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

3. Critical accounting estimates and judgments in applying accounting policies (continued)

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

• Change in currency of the loan;
• Introduction of an equity feature;
• Change in counterparty;
• If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Transfers to and valuation of investment properties. Investment property is stated at its fair value based on reports prepared by an independent, professionally qualified and licensed appraiser at the end of the reporting period.

The principal assumptions made and the impact on the aggregate valuations of reasonably possible changes in these assumptions, with all other variables held constant, are as follows:

- The fair value of the investment property as of 31 December 2020 was determined by using a combination of the three valuation techniques: Comparison Method, Development Method and Income Capitalization Method. The fair value was for the year ended 31 December 2019 was determined based on the market comparable approach that reflects recent prices for similar properties.
- A haircut of 20% was applied to reach to the comparison immediate value.

Impairment of PPE and Right of use Asset: The Bank has assessed the impact of COVID 19 pandemic in the impairment of its non-financial assets. Based on the impairment analyses, the pandemic has not significantly impacted the carrying amount of the Company's property, plant and equipment, right of use assets and intangible assets. No impairment indicators have been noted that are triggered from the COVID 19 pandemic.

Determining lease term. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate) the lease.
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate) the lease.

Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Extension and termination options. Extension and termination options are included in a number of property leases. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

3. Critical accounting estimates and judgments in applying accounting policies (continued)

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and equipment leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

4. Standards and interpretations effective in the current period

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **Amendments to IFRS 3 "Business Combinations" -** Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" -** Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" -** Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).
- **Amendments to IFRS 16 "Leases" -** Covid-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020).

5. Standards and interpretations not effective in the current period

Standards and interpretations not effective in the current period

At the date of authorisation of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 "Business Combinations" -** Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" -** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of Financial Statements" -** Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 "Property, Plant and Equipment" -** Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" -** Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" -** Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.),

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

(All amounts are expressed in EUR thousand, unless otherwise stated)

6. Cash and balances with banks

	2020	2019
Cash on hand	**29,956**	**28,502**
Cash at banks		
- Current accounts with banks	31,820	28,228
- Current account with Central Bank of Kosova ("CBK")	19,887	11,020
- Statutory reserve account with CBK	49,561	43,858
	101,268	**83,106**
Cash and balances with banks before credit loss allowance	**131,224**	**111,608**
Expected credit loss allowance	(30)	(23)
Total cash balances with banks	**131,194**	**111,585**

As at 31 December 2020 the Bank has recognized EUR 30 thousand (2019: 23 thousand) as credit loss allowance for cash, current accounts with banks and balances with Central Bank, according to bank's credit loss policy which has estimated a probability of default of 0.05% and loss given default of 45%.

In accordance with the CBK requirements, the Bank maintains a minimum of 10% of customer deposits with maturities up to one year as statutory reserves. The statutory reserve may be held in the form of 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. As of 31 December 2020 and 2019 statutory reserve is comprised of cash held at CBK.

Cash and cash equivalents in the statement of cash flows as at 31 December 2020 and 31 December 2019 comprise:

	2020	2019
Cash on hand and current accounts with banks	61,776	56,730
Unrestricted balance with the CBK	19,887	11,020
Loans and advances to banks (note 7)	74,950	65,391
Total	**156,613**	**133,141**
Credit loss allowance	(287)	(147)
Total	**156,326**	**132,994**

Credit quality. The following table presents the credit grade assigned by Moody's, Fitch and Standard and Poor's credit rating agencies. All balances with 7 counterparts (2019: 7) are performing in Stage 1.

Ratings	**2020**	**2019**
AAA	6,257	6,460
A+	215	519
A3	16,508	10,481
B+	10	2
BBB-	8,830	10,766
CBK balances – not rated	69,448	54,878
Total cash and balances with Central Bank (excluding cash on hand)	**101,268**	**83,106**
Expected credit loss allowance	(30)	(23)
Total cash on hand and at banks (carrying amount)	**101,238**	**83,083**

Although bonds of Government of the Republic of Kosovo are not rated, public debt currently is at levels below 24% of GDP and the projected growth in the medium term is expected to remain below 35% of GDP, ceiling which is considered as prudent for Kosovo[1]. Such level of public debt together with the overall budget stability that require any budget deficit to remain within the -5% of the GDP following IMF fiscal rule, are key factors in assessing Kosovo Government instruments as stable.

[1] *Source: Ministry of Finance / Budget of Republic of Kosovo*

(All amounts are expressed in EUR thousand, unless otherwise stated)

7. Loans and advances to banks

	2020	2019
Loans and advances to banks	74,950	65,391
Expected credit loss allowance	(268)	(133)
Total loans and advances to banks	**74,682**	**65,258**

Loans and advances to banks at 31 December 2020 and 31 December 2019 that have original maturities of less than 3 months and are included in cash equivalents.

The annual interest rates on time deposits with banks at the end of reporting period were as follows:

- EUR: 2020 – max I/R 0.90%, min I/R - 0.78% EUR: 2019 – max I/R 0.85%, min I/R - 2.00%
- USD: 2020 – max I/R 1.70%, min I/R 0.01% USD: 2019 – max I/R 1.70%, min 1.57 I/R %

Credit quality. Credit rating is assigned by Moody's, Fitch and Standard and Poor's credit rating agencies. For the purpose of ECL measurement, loans and advances to banks are performing in Stage 1. The carrying amount of due from other banks balances at 31 December 2020 below also represents the Bank's maximum exposure to credit risk on these assets:

	31 December 2020	31 December 2019
Aaa	3,423	3,400
Aa1	10,004	-
A2	-	10,804
Aa3	9,548	9,513
B+	-	3,000
B3	35,448	38,674
Unrated	16,527	-
Gross carrying amount	**74,950**	**65,391**
Expected credit loss allowance	(268)	(133)
Carrying amount	**74,682**	**65,258**

The changes in the credit loss allowance and gross carrying amount due from other banks between the beginning and the end of the annual period.

	Credit loss allowance				**Gross carrying amount**			
	Stage 1 (12 months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12 months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Loans and advances to banks								
At 1 January 2020	**(134)**	-	-	**(134)**	**65,391**	-	-	**65,391**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(268)	-	-	**(268)**	74,950	-	-	**74,950**
Derecognized during the period	134	-	-	**134**	(65,391)	-	-	**(65,391)**
Total movements with impact on credit loss allowance charge for the period	**(134)**	-	-	**(134)**	**9,559**	-	-	**9,559**
At 31 December 2020	**(268)**	-	-	**(268)**	**74,950**	-	-	**74,950**

(All amounts are expressed in EUR thousand, unless otherwise stated)

7. Loans and advances to banks (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12 months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12 months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Loans and advances to banks								
At 1 January 2019	**(102)**	**-**	**-**	**(102)**	**54,341**	**-**	**-**	**54,341**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(133)	-	-	**(133)**	65,391	-	-	**65,391**
Derecognized during the period	102	-	-	**102**	(54,341)	-	-	**(54,341)**
Total movements with impact on credit loss allowance charge for the period	**(31)**	**-**	**-**	**(31)**	**11,050**	**-**	**-**	**11,050**
At 31 December 2019	**(133)**	**-**	**-**	**(133)**	**65,391**	**-**	**-**	**65,391**

8. Investments in debt securities at fair value through other comprehensive income

	31 December 2020	31 December 2019
Kosovo Government treasury bills	-	499
Kosovo Government bonds	25,928	13,668
Total investments in debt securities	**25,928**	**14,167**

The yields for Government bonds and treasury bills at the end of reporting period were as follows:

- Bonds: 2020 – max yield 2.70%, min yield 0.88% 2019 – max yield 5.15%, min yield 0.50%
- Bills: 2020 – no T-Bills portfolio 2019 – max yield 0.70%, min yield 0.70%

Public debt in Kosovo is currently below 24% of GDP and the projected growth in the medium term is expected to remain below 35% of GDP. Such ceiling together with the overall budget stability that requires any deficit to remain within -5% of the GDP as mandated by the IMF fiscal rule, are key factors for assessing the instruments issued by the Government as stable.

Investment in debt securities at 31 December 2020 and 2019 are all measured at fair value through other comprehensive income.

The movement during the year in debt securities at fair value through other comprehensive income is presented as follows:

	2020	2019
Opening balance	14,167	16,254
Additions	23,070	10,262
Matured investments	(4,095)	(12,317)
Sold debt securities	(7,253)	(100)
Charge of accrued interest	37	5
Fair value change	2	63
Closing balance	**25,928**	**14,167**

(All amounts are expressed in EUR thousand, unless otherwise stated)

8. Investments in Debt Securities at fair value through other comprehensive income (continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2020. Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel minimum PD of 0.05% and LGD of 45%.

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Kosovo Government Treasury Bills				
Not rated	-	-	-	-
Gross carrying amount	-	-	-	-
Less credit loss allowance	-	-	-	**-**
Less fair value adjustment from AC to FVOCI	-	-	-	-
Net Kosovo Government Bills	**-**	**-**	**-**	**-**
Kosovo Government Bonds				
Not rated	25,858	-	-	**25,858**
Gross carrying amount	**25,858**	-	-	**25,858**
Less credit loss allowance	(6)	-	-	**(6)**
Less fair value adjustment from AC to FV	70	-	-	**70**
Net Kosovo Government Bonds	**25,922**	**-**	**-**	**25,922**
Total Carrying value (fair value)	**25,928**	**-**	**-**	**25,928**

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2019. Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel min PD of 0.05% and LGD of 45%.

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Kosovo Government Treasury Bills				
Not rated	497	-	-	**497**
Gross carrying amount	**497**	-	-	**497**
Less credit loss allowance	-	-	-	**-**
Less fair value adjustment from AC to FVOCI	2	-	-	**2**
Net Kosovo Government Bills	**499**	**-**	**-**	**499**
Kosovo Government Bonds				
Not rated	13,605	-	-	**13,605**
Gross carrying amount	**13,605**	-	-	**13,605**
Less credit loss allowance	(3)	-	-	**(3)**
Less fair value adjustment from AC to FV	66	-	-	**66**
Net Kosovo Government Bonds	**13,668**	**-**	**-**	**13,668**
Total Carrying value (fair value)	**14,167**	**-**	**-**	**14,167**

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers

	31 December 2020	31 December 2019
Gross carrying amount of loans and advances to customers at AC	423,358	404,875
Credit loss allowance	(8,664)	(7,564)
Total carrying amount of loans and advances to customers at AC	**414,694**	**397,311**

Portfolio of loans and advances to customers meet the SPPI criteria for measurement at AC. As a result, loans and advances are classified and measured at AC. The gross carrying amount presented in the statement of financial position best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers. Gross carrying amount and credit loss allowance of loans and advances to customers at AC by categories at 31 December 2020 and 31 December 2019 are summarised below:

	31 December 2020			31 December 2019		
	Gross carrying amount	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Loans to individuals	**223,642**	**(3,378)**	**220,264**	**215,706**	**(3,202)**	**212,504**
Standard lending	193,910	(2,458)	191,452	183,556	(2,435)	181,121
Overdrafts	1,493	(60)	1,433	2,175	(76)	2,099
Credit Cards	28,239	(860)	27,379	29,975	(691)	29,284
Loans to legal entities	**199,716**	**(5,286)**	**194,430**	**189,169**	**(4,362)**	**184,807**
Standard lending	166,109	(4,649)	161,460	157,459	(3,696)	153,763
Overdrafts	30,160	(489)	29,671	28,014	(558)	27,456
Credit Cards	3,447	(148)	3,299	3,696	(108)	3,588
Total loans and advances to customers at AC	**423,358**	**(8,664)**	**414,694**	**404,875**	**(7,564)**	**397,311**

The movement in the release of credit loss allowance is as follows:

	2020			2019		
	Individuals	**Legal Entities**	**Total**	**Individuals**	**Legal Entities**	**Total**
Balance at 1 January	3,202	4,362	7,564	4,259	7,624	11,883
(Release)/loss for the year	1,065	1,465	2,530	(15)	(1,967)	(1,982)
Loans written-off	(888)	(542)	(1,430)	(1,042)	(1,295)	(2,337)
Balance at 31 December	**3,379**	**5,285**	**8,664**	**3,202**	**4,362**	**7,564**

The credit loss recognized in profit or loss is as follows:

	2020			2019		
	Individuals	**Legal Entities**	**Total**	**Individuals**	**Legal Entities**	**Total**
Release/(charge) during the year	(1,065)	(1,465)	(2,530)	15	1,967	1,982
Recoveries from written off loans	761	821	1,582	738	1,024	1,762
	(304)	**(644)**	**(948)**	**753**	**2,991**	**3,744**

The release of ECL is directly related to the methodology implemented by the Bank which consists of an average of Default Rates (“DRs”) for the last five years. The Bank’s DR rates kept decreasing since 2015 and the quality of portfolio improving gradually. Currently, NPL is 1.5% of the total loan portfolio which is slightly better than the average of the banking market in Kosovo while in prior year the ECL model included DRs of 2014 which was one of the Bank’s worse years in terms of defaults.

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers (continued)

At 31 December 2020, the ten largest borrowers represent 5.62% (2019: 6.87%) of the total loans. Loans and advances to customers include accrued interest of EUR 2,198 thousand (2019: EUR 1,891 thousand) and deferred disbursement fee of EUR 1,191 thousand (2019: EUR 1,269 thousand).

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting and comparative periods.

	Credit loss allowance				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Standard lending								
At 1 January 2020	**2,480**	**960**	**2,691**	**6,131**	**323,802**	**12,555**	**4,658**	**341,015**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(23)	148	-	125	(2,081)	1,605	-	(476)
Transfer from Stage 1 to Stage 3	(86)	-	580	494	(1,318)	-	1,076	(242)
Transfer from Stage 2 to Stage 1	35	(174)	-	(139)	3,744	(5,527)	-	(1,783)
Transfer from Stage 2 to Stage 3	-	(422)	792	370	-	(1,565)	1,390	(175)
Transfer from Stage 3 to Stage 1	-	-	(4)	(4)	4	-	(7)	(3)
Transfer from Stage 3 to Stage 2	-	17	(39)	(22)	-	57	(83)	(26)
(Release-Repayment)/Increase from the same Stage	(617)	(15)	271	(361)	(65,231)	(745)	(380)	(66,356)
Fully repaid during the year	(521)	(207)	(95)	(823)	(77,742)	(3,413)	(703)	(81,858)
New originated	1,531	277	267	2,075	167,721	2,544	397	170,662
Total movements with impact on credit loss allowance charge for the period	**2,799**	**584**	**4,463**	**7,846**	**348,899**	**5,511**	**6,348**	**360,758**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(739)	(739)	-	-	(739)	(739)
At 31 December 2020	**2,799**	**584**	**3,724**	**7,107**	**348,899**	**5,511**	**5,609**	**360,019**

	Credit loss allowance				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Standard lending								
At 1 January 2019	**3,840**	**1,865**	**4,017**	**9,722**	**298,383**	**23,682**	**5,980**	**328,045**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(45)	164	-	119	(3,090)	2,220	-	(870)
Transfer from Stage 1 to Stage 3	(15)	-	219	204	(598)	-	452	(146)
Transfer from Stage 2 to Stage 3	-	(441)	613	172	-	(1,281)	1,028	(253)
Transfer from Stage 3 to Stage 2	-	68	(187)	(119)	-	217	(316)	(99)
Transfer from Stage 2 to Stage 1	52	(419)	-	(367)	6,598	(8,325)	-	(1,727)
Transfer from Stage 3 to Stage 1	-	-	(32)	(32)	39	-	(55)	(16)
(Release-Repayment)/Increase from the same Stage	(1,760)	(263)	(362)	(2,385)	(64,529)	(2,846)	(626)	(68,001)
Fully repaid during the year	(792)	(341)	(239)	(1,372)	(67,794)	(6,102)	(768)	(74,664)
New originated	1,200	327	403	1,930	154,793	4,990	704	160,487
Total movements with impact on credit loss allowance charge for the period	**2,480**	**960**	**4,432**	**7,872**	**323,802**	**12,555**	**6,399**	**342,756**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(1,741)	(1,741)	-	-	(1,741)	(1,741)
At 31 December 2019	**2,480**	**960**	**2,691**	**6,131**	**323,802**	**12,555**	**4,658**	**341,015**

Releases and/or repayments from the same stage, in the above disclosed tables, represent the amount of repayments during the year, for the loans that were active as of 1 January 2020 and 2019 and are still active loans as of 31 December 2020 and 2019, and whose Stage has remained unchanged during 2020 and 2019.

Loans fully repaid during the year, represent the loans that were active as of 1 January 2020 and 2019, but were fully repaid during the year and are not anymore active as of 31 December 2020 and 2019.

9. Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
In thousands of EUR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Overdrafts								
At 1 January 2020	**224**	**33**	**377**	**634**	**28,766**	**967**	**456**	**30,189**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(11)	60	-	**49**	(590)	578	-	**(12)**
Transfer from Stage 1 to Stage 3	(3)		109	**106**	(227)	-	175	**(52)**
Transfer from Stage 2 to Stage 1	6	(6)	-	**-**	640	(556)		**84**
Transfer from Stage 2 to Stage 2	-	(14)	36	**22**	-	(111)	80	**(31)**
Transfer from Stage 3 to Stage 1	-	-	-	**-**	-	-	-	**-**
Transfer from Stage 3 to Stage 2	-	-	-	**-**	-	-	-	**-**
(Release - Repayment)/Increase from the same Stage	31	3	9	**43**	302	(7)	(16)	**279**
Fully repaid during the year	(36)	(13)	(52)	**(101)**	(4,484)	(225)	(94)	**(4,803)**
New originated	39	3	4	**46**	5,863	380	6	**6,249**
Total movements with impact on credit loss allowance charge for the period	**250**	**66**	**483**	**799**	**30,270**	**1,026**	**607**	**31,903**
Movements without impact on credit loss allowance charge for the period:								
Write-offs			(250)	(250)			(250)	(250)
At 31 December 2020	**250**	**66**	**233**	**549**	**30,270**	**1,026**	**357**	**31,653**

	Credit loss allowance				Gross carrying amount			
In thousands of EUR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Overdrafts								
At 1 January 2019	**453**	**96**	**536**	**1,085**	**30,075**	**1,854**	**753**	**32,682**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(8)	19	-	**11**	(583)	449	-	**(134)**
Transfer from Stage 1 to Stage 3	(2)		58	**56**	(168)	-	94	**(74)**
Transfer from Stage 2 to Stage 3		(16)	32	**16**	-	(61)	47	**(14)**
Transfer from Stage 3 to Stage 2	-	-	-	**-**	-	1	-	**1**
Transfer from Stage 2 to Stage 1	7	(14)	-	**(7)**	727	(716)	-	**11**
Transfer from Stage 3 to Stage 1	-	-	-	**-**	-	-	-	**-**
(Release - Repayment)/Increase from the same Stage	(143)	-	(40)	**(183)**	1,973	(67)	(185)	**1,721**
Fully repaid during the year	(125)	(59)	(87)	**(271)**	(8,268)	(793)	(133)	**(9,194)**
New originated	42	7	13	**62**	5,010	300	15	**5,325**
Total movements with impact on credit loss allowance charge for the period	**224**	**33**	**512**	**769**	**28,766**	**967**	**591**	**30,324**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(135)	**(135)**	-	-	(135)	**(135)**
At 31 December 2019	**224**	**33**	**377**	**634**	**28,766**	**967**	**456**	**30,189**

Releases and/or repayments from the same stage, in the above disclosed table, represent the amount of repayments during the year, for the overdrafts that were active as of 1 January 2020 and 2019 and are still active overdrafts as of 31 December 2020 and 2019, and whose Stage has remained unchanged during 2020 and 2019.

Overdrafts fully repaid during the year, represent the overdrafts that were active as of 1 January 2020 and 2019, but were fully repaid during the year and are not anymore active as of 31 December 2020 and 2019.

9. Loans and advances to customers (continued)

	Expected credit loss allowance				**Gross carrying amount**			
In thousands of EUR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit Cards								
At 1 January 2020	**360**	**109**	**330**	**799**	**29,834**	**3,008**	**829**	**33,671**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(14)	133	-	**119**	(932)	859	-	**(73)**
Transfer from Stage 1 to Stage 3	(4)	-	122	**118**	(198)	-	171	**(27)**
Transfer from Stage 2 to Stage 1	19	(40)	-	**(21)**	1,406	(1,664)	-	**(258)**
Transfer from Stage 2 to Stage 3	-	(23)	166	**143**	-	(270)	233	**(37)**
Transfer from Stage 3 to Stage 1	-	-	(13)	**(13)**	8	-	(46)	**(38)**
Transfer from Stage 3 to Stage 2		6	(20)	**(14)**	-	14	(65)	**(51)**
(Release)/Increase from the same Stage	(34)	76	65	**107**	(1,099)	(106)	(37)	**(1,242)**
Fully repaid during the year	(62)	(15)	189	**112**	(5,060)	(402)	(123)	**(5,585)**
New originated	58	18	23	**99**	5,424	310	33	**5,767**
Total movements with impact on credit loss allowance charge for the period	**323**	**264**	**862**	**1,449**	**29,383**	**1,749**	**995**	**32,127**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(441)	(441)	-	-	(441)	(441)
At 31 December 2020	**323**	**264**	**421**	**1,008**	**29,383**	**1,749**	**554**	**31,686**

	Expected credit loss allowance				**Gross carrying amount**			
In thousands of EUR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit Cards								
At 1 January 2019	**623**	**142**	**311**	**1,076**	**30,535**	**3,160**	**768**	**34,463**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(22)	31	-	**9**	(772)	695	-	**(77)**
Transfer from Stage 1 to Stage 3	(186)	-	252	**66**	(254)		221	**(33)**
Transfer from Stage 2 to Stage 3	-	(69)	114	**45**		(278)	228	**(50)**
Transfer from Stage 3 to Stage 2	-	1	(13)	**(12)**		12	(38)	**(26)**
Transfer from Stage 2 to Stage 1	7	(22)	-	**(15)**	493	(571)		**(78)**
Transfer from Stage 3 to Stage 1	1	-	(7)	**(6)**		11	(21)	**(10)**
(Release)/Increase from the same Stage	(174)	(13)	35	**(152)**	(1,020)	(207)	(30)	**(1,257)**
Fully repaid during the year	(9)	(2)	(19)	**(30)**	(9,179)	(838)	(137)	**(10,154)**
New originated	120	41	118	**279**	10,031	1,024	299	**11,354**
Total movements with impact on credit loss allowance charge for the period	**360**	**109**	**791**	**1,260**	**29,834**	**3,008**	**1,290**	**34,132**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(461)	**(461)**	-	-	(461)	**(461)**
At 31 December 2019	**360**	**109**	**330**	**799**	**29,834**	**3,008**	**829**	**33,671**

Releases and/or repayments from the same stage, in the above disclosed table, represent the amount of repayments during the year, for the credit cards that were active as of 1 January 2020 and 2019 and are still active credit cards as of 31 December 2020 and 2019, and whose Stage has remained unchanged during 2020 and 2019. Credit cards fully repaid during the year, represent the credit cards that were active as of 1 January 2018, but were fully repaid during the year and are not anymore active as of 31 December 2020 and 2019.

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2020 and 31 December 2019 is as follows:

	2020			2019		
	Individuals	**Entities**	**Total**	**Individuals**	**Entities**	**Total**
Stage 1 and Stage 2						
0 days past due	220,162	194,025	414,187	211,495	183,447	394,942
1 to 30 days past due	824	641	1,465	1,236	1,350	2,586
31 to 90 days past due	563	551	1,114	539	865	1,404
Total Stage 1 and Stage 2 impaired loans	**221,549**	**195,217**	**416,766**	**213,270**	**185,662**	**398,932**
Stage 1 and Stage 2 Individually impaired loans						
0 days past due	-	19	19	-	-	-
1 to 30 days past due	-	-	-	-	-	-
31 to 90 days past due	-	53	53	-	-	-
Total Stage 1 and Stage 2 impaired loans	**-**	**72**	**72**	**-**	**-**	**-**
Stage 3 collectively impaired loans						
0 days past due	94	38	132	74	32	106
1 to 30 days past due	29	12	41	34	21	55
31 to 90 days past due	42	22	64	30	98	128
over 90 days past due	1,760	1,122	2,882	2,109	944	3,053
Total Stage 3 Collectively impaired loans	**1,925**	**1,194**	**3,119**	**2,247**	**1,095**	**3,342**
Stage 3 Individually impaired loans						
0 days past due	26	245	271	2	304	306
1 to 30 days past due	-	409	409	-	89	89
31 to 90 days past due	-	177	177	-	87	87
over 90 days past	142	2,402	2,544	187	1,932	2,119
Total Stage 3 Individually impaired loans	**168**	**3,233**	**3,401**	**189**	**2,412**	**2,601**
Total loans	**223,642**	**199,716**	**423,358**	**215,706**	**189,169**	**404,875**
Expected credit losses	(3,378)	(5,286)	(8,664)	(3,202)	(4,362)	(7,564)
Net loans	**220,264**	**194,430**	**414,694**	**212,504**	**184,807**	**397,311**

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. A decision to restructure is subject to the following:

- the restructuring increases the probability that the borrower will be able to repay the exposure;
- the new payment plan is in line with the actual and expected future payment capacity of the borrower;
- the borrower offers additional collateral, if possible and appropriate.

Loans with renegotiated terms	**2020**	**2019**
Stage 1	661	-
Stage 2	1,141	1,631
Stage 3	2,561	2,178
Total gross amount	**4,363**	**3,809**
Individual impairment	(1,447)	(896)
Collective impairment	(663)	(931)
Net	**2,253**	**1,982**

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers (continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2020		31 December 2019	
	Net loans	%	Net loans	%
Individuals	220,265	53.1%	212,505	53.5%
Electricity, gas, water	1,071	0.3%	510	0.1%
Industry	31,096	7.5%	27,439	6.9%
Agriculture	8,090	2.0%	7,697	1.9%
Services and other	13,794	3.3%	11,946	3.0%
Hotels and restaurants	11,757	2.8%	12,538	3.2%
Transport and communication	6,654	1.6%	5,283	1.3%
Construction	19,828	4.8%	21,942	5.5%
Trading	102,139	24.6%	97,451	24.5%
Net loans to banks and to customers	**414,694**	**100%**	**397,311**	**100%**

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

Information about collateral at 31 December 2020 and 2019 is as follows:

Types of collateral

	2020			2019		
	Individuals	Corporate	Total	Individuals	Corporate	Total
Mortgages	50,347	267,048	**317,395**	49,692	288,489	**338,181**
Cash collateral	2,194	3,889	**6,083**	4,053	7,762	**11,815**
Merchandise and equipment pledged	160,234	431,899	**592,133**	191,037	364,984	**556,021**
Cars pledged	14,193	42,994	**57,187**	12,352	39,226	**51,578**
Total	**226,968**	**745,830**	**972,798**	**257,134**	**700,461**	**957,595**

The fair value of collateral disclosed above is determined by the Bank's internal and external local certified appraisals and aims to represent the market value realisable by the legal owners of the assets. Due to local circumstances in Kosovo where the market is not active, the Bank seeks to adopt a prudent approach in determining the value of such collaterals. The Bank aims to use collaterals that could be converted into liquid assets within a reasonably short period of time.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2020:

	Over-collateralised assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to individuals	108,030	224,912	115,612	2,056
Loans to legal entities	186,643	741,777	13,073	4,053

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers (continued)

The effect of collateral at 31 December 2019:

	Over-collateralised assets		Under-collateralised Assets	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Loans to individuals	135,636	254,772	80,063	2,362
Loans to legal entities	171,284	693,650	17,892	6,811

The Bank obtains collateral valuation at the time of granting loans and generally updates it every year depending on the loan exposure and/or any market changes impacted by external factors. The fair value of collaterals disclosed above is determined by the Bank's internal and external local certified appraisals and aims to represent the market value realisable by the legal owners of the assets. Due to local circumstances in Kosovo where the market is not active, the Bank seeks to adopt a prudent approach in determining the value of such collaterals; therefore, the values of collateral considered in this disclosure are after a valuation haircut of [15-50%] depending on the liquidity and quality of the pledged assets. The Bank aims to use collaterals that could be converted into liquid assets within a reasonably short period of time

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2020 and 2019:

	31 December 2020	**31 December 2019**
Loans to corporate customers	**4,791**	**6,257**
Loans	4,106	5,387
Overdraft	561	835
Credit Card	124	35
Loans to individuals	**409**	**122**
Loans	343	100
Overdraft	16	2
Credit Card	50	20
Total	**5,200**	**6,379**

10. Investment properties

	31 December 2020	**31 December 2019**
Investment properties at fair value at 1 January	**1,590**	**-**
Transfer from owner-occupied properties	-	1,200
Increase in fair value from valuation	59	390
Investment properties at fair value at 31 December	**1,649**	**1,590**

Investment property of the Bank includes a construction land transferred from owner occupied property to investment property held for capital appreciation. Land was acquired in 2013, for purpose of utilizing it for building the new Bank headquarter. On 20 May 2019, the Bank's Executive Committee took a decision to abandon the plan for the headquarters complex in favour of the current long-term lease solution. Such decision resulted in the transfer of the asset to investment property. The Bank choose to measure the investment property at fair value.

Fair value measurement

Measurement of the investment property is classified in level 3 of the fair value hierarchy as inputs and assumptions used in arriving at the fair value are unobservable. In the absence of an active market, the fair value of the investment property as of 31 December 2020 was determined by using a combination of the three valuation techniques: Comparison Method, Development Method and Income Capitalization Method. The fair value was for the year ended 31 December 2019 was determined based on the Comparison Method.

(All amounts are expressed in EUR thousand, unless otherwise stated)

10. Investment properties (continued)

Valuation techniques	**Description of valuation technique**
Comparison method	Direct Comparison Method is based on comparison of prices for similar properties in the same market with a distance of less than 500m. Comparable sale prices were adjusted, where appropriate, by taking into account indexes for regulatory plans, location of property and access and infrastructure. The average price per m2 based on the comparison of bids with similar conditions, was adjusted with the offer factor minus -10%.
Development method	Development method takes into consideration all developments and construction costs to achieve the highest and best use and into determining the final value of the Investment Property.
Income Capitalization method	Direct Capitalization Method is based on the hypothetical terms as if the property was leased. Capitalization rate, taking into account the capitalization of rental income potential, nature of property and prevailing market conditions is 8%.

A haircut of 20% was applied to reach to the immediate sale value.

An increase/decrease in the immediate sale value by +/-10% would result in an increase/decrease of fair value by EUR 164 thousand.

The fair value of the Bank's investment property at initial recognition and subsequently as of 31 December 2020 and 2019 has been determined on the basis of valuations carried out at those dates by independent, professionally qualified appraisers who have recent experience in valuing similar properties in Kosovo and are not connected with the Bank.

11. Other financial assets

	2020	**2019**
Non-derivatives:		
Account maintenance and credit card fees receivable	1,306	1,535
Receivables from financial institutions	2,105	1,940
Other financial assets	73	305
Total other financial assets (gross amount)	**3,484**	**3,780**
Impairment allowance	(281)	(538)
Total other financial assets (carrying amount)	**3,203**	**3,242**

Receivables from financial institutions are related to withdrawals or payments performed with cards of other banks in the Bank's POSs or ATMs. The Bank assessed a provisions for other financial assets that are due for more 3 months (see note 19). As of 31 January 2021, EUR 1,948 thousand of total other financial assets booked at 31 December 2020 are collected.

(All amounts are expressed in EUR thousand, unless otherwise stated)

12. Other assets

	2020	2019
Repossessed assets	608	450
Prepaid expenses	702	157
Other	63	211
Total other assets	**1,373**	**818**

Movements in the repossessed assets during the year are shown below:

	2020	2019
At 1 January	**450**	**1,367**
Additions	414	264
Disposals	-	(108)
Write down to NRV	(256)	(1,073)
At 31 December	**608**	**450**

13. Premises and equipment

	Land	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Motor vehicles	Total
Cost						
As at 1 January 2019	**1,200**	**4,699**	**2,155**	**8,936**	**890**	**17,880**
Additions	**-**	482	60	292	-	**834**
Transfer to Investment Property	(1,200)	-	-	-	-	**(1,200)**
Disposals	-	(200)	(20)	(527)	-	**(747)**
As at 31 December 2019	**-**	**4,981**	**2,195**	**8,701**	**890**	**16,767**
Additions	**-**	83	70	1,511	153	**1,817**
Disposals	**-**	(7)	(170)	(89)	-	**(266)**
As at 31 December 2020	**-**	**5,057**	**2,095**	**10,123**	**1,043**	**18,318**
Accumulated depreciation						
As at 1 January 2019	**-**	**3,587**	**1,693**	**6,411**	**774**	**12,465**
Charge for the year	-	400	196	892	40	**1,528**
Disposals	-	(196)	(17)	(518)	-	**(731)**
As at 31 December 2019	**-**	**3,791**	**1,872**	**6,785**	**814**	**13,262**
Charge for the year	**-**	415	203	1,123	35	**1,776**
Disposals	**-**	-	(180)	(68)	-	**(248)**
As at 31 December 2020	**-**	**4,206**	**1,895**	**7,840**	**849**	**14,790**
Carrying amount						
As at 31 December 2019	**-**	**1,190**	**323**	**1,916**	**76**	**3,505**
As at 31 December 2020	**-**	**851**	**200**	**2,283**	**194**	**3,528**

Land was acquired in 2013, for purpose of utilizing it for building a new bank Head Quarter. As explained in Note 10, the land was transferred to investment property during the year because of a change in its intended use by the Executive Committee of the Bank.

(All amounts are expressed in EUR thousand, unless otherwise stated)

14. Right of use assets and lease liabilities

The Bank leases various office buildings and space for its ATMs. Rental contracts are typically made for fixed periods of 6 months to 5 years, but may have options to extend the lease for the same period of time set forth in the lease agreement.

The right of use assets by class of underlying items is analysed as follows:

	Office buildings	**ATM space**	**Total**
Carrying amount at 1 January 2019	**5,214**	**210**	**5,424**
Additions	102	70	**172**
Disposals	(131)	(30)	**(161)**
Depreciation charge	(1,116)	(126)	**(1,242)**
Other	(225)	(17)	**(242)**
Carrying amount at 31 December 2019	**3,844**	**107**	**3,951**
Additions	2,051	118	**2,169**
Disposals	(1,492)	(2)	**(1,494)**
Depreciation charge	(1,119)	(119)	**(1,238)**
Carrying amount at 31 December 2020	**3,284**	**104**	**3,388**

Lease liability analysed as per maturity is as follows:

Maturity analysis	**2020**	**2019**
Year 1	1,183	1,337
Year 2	910	1,134
Year 3	633	905
Year 4	355	483
Year 5	280	206
Onwards	110	-
Total	**3,471**	**4,065**
Analysed as:		
Current	1,183	1,337
Non-current	2,288	2,728
Total	**3,471**	**4,065**

Amounts recognized in profit and loss	**2020**	**2019**
Depreciation expense on right-of-use-assets	1,238	1,242
Interest expense on lease liabilities	88	121
Expense relating to short-term leases	110	84
Total	**1,436**	**1,447**

Total cash flow amount for leases amount to 1,420 thousand (2019: 1,170 thousand). All lease payments are fixed.

As of 31 December 2020 the Bank is committed for EUR 6.4 thousand (2019: 1.6 thousand) for short term leases.

(All amounts are expressed in EUR thousand, unless otherwise stated)

15. Intangible assets

	Software
Cost	
As at 1 January 2019	**10,365**
Additions	1,765
Disposals	-
As at 31 December 2019	**12,130**
Additions	1,897
Disposals	(4)
As at 31 December 2020	**14,023**
Accumulated amortization	
As at 1 January 2019	**8,274**
Charge for the year	1,698
Disposals	-
As at 31 December 2019	**9,972**
Charge for the year	1,720
Disposals	-
As at 31 December 2020	**11,692**
Carrying amount	
As at 31 December 2019	**2,158**
As at 31 December 2020	**2,331**

All intangible assets are acquired assets and are amortized during their useful life.

16. Due to customers

	31 December 2020	**31 December 2019**
Demand Deposits		
Individuals	352,372	298,349
Legal entities	139,614	112,802
	491,986	**411,151**
Term Deposits		
Individuals	51,684	60,189
Legal entities	17,730	40,923
	69,414	**101,112**
Total due to customers	**561,400**	**512,263**

As at 31 December 2020, customer accounts include accrued interest of EUR 722 thousand (2019: EUR 743 thousand).

Term deposits and current accounts by legal status as a portion of the total balance are as follows:

	2020	**2019**
Individuals	72%	70%
Legal entities	28%	30%
	100%	**100%**

(All amounts are expressed in EUR thousand, unless otherwise stated)

17. Borrowings

	31 December 2020	31 December 2019
Borrowings		
Loan	5,143	9,000
Deferred front-end fees	(27)	(55)
Interest accrued	29	36
Total borrowings	**5,145**	**8,981**

	2020	2019
Carrying amount at 1 January	8,981	9,242
Proceeds from borrowings	-	2,000
Repayment of borrowings	(3,857)	(2,285)
Change in Deferred front-end fees	28	30
Change in interest accrued	(7)	(6)
Total borrowings	**5,145**	**8,981**

In 2015 the Bank and EBRD entered into a borrowing agreement of EUR 3,000 thousand to support women entrepreneurs in the local context. The loan was disbursed in two separate tranches (EUR 1,000 thousand and EUR 2,000 thousand). The loan matured on May 2020.

In 2016 the Bank entered into a borrowing agreement with EBRD in amount of EUR 5,000 thousand to support women-led SMEs. The agreement will mature on May 2022.

In 2018 the Bank entered into a borrowing agreement with EBRD in amount of EUR 5,000 thousand divided into two tranches, Tranche A EUR 3,000 thousand and Tranche B EUR 2,000 thousand. Tranche A was disbursed on February 2018 and Tranche B was disbursed on December 2019. The purpose of these borrowings are to finance loans for Energy Efficiency. Both tranches will mature on January 2022.

18. Other financial liabilities

	31 December 2020	31 December 2019
Transfers of customers’ funds in transit	2,111	1,438
Due to suppliers	854	916
Credit cards bonuses payable	664	663
Staff bonuses	519	929
Other payables to customers for credit cards	175	198
SMS banking-mobile	186	124
Total other financial liabilities	**4,509**	**4,268**

Credit card bonuses payable represent liabilities to customers for transactions realised with credit cards within the TEB POS network, namely for each purchase made through TEB merchants network the customers are entitled to bonuses (star points) which can be used for further purchases from customers at any merchant where TEB POS is installed.

(All amounts are expressed in EUR thousand, unless otherwise stated)

19. Provisions for liabilities and other charges

	31 December 2020	31 December 2019
Provisions for:		
Tax Provision	546	-
Unused commitments	386	409
Legal cases	245	222
Unused holidays	34	31
Guarantees	26	29
Impairment for investment securities	6	-
Maintenance fees	-	11
Other	288	302
Total provisions for liabilities and other charges	**1,531**	**1,004**

20. Other liabilities

	31 December 2020	31 December 2019
Withholding tax	43	35
Social security	60	93
Personnel income tax	39	77
VAT and other taxes	105	58
Other	201	180
Total other liabilities	**448**	**443**

21. Share capital

The authorised and paid up share capital of the Bank as at 31 December 2020 and 2019 comprises 2,400 thousand ordinary shares with a nominal value of EUR 10 each.

Shareholder	As at 31 December 2020		As at 31 December 2019	
	Percentage ownership	Amount	Percentage ownership	Amount
TEB Holding A.S.	100%	24,000	100%	24,000
Total	**100%**	**24,000**	**100%**	**24,000**

The shares are ordinary in nature and have no preferences or restrictions attached thereto. All shares are fully paid. Holders of ordinary shares are entitled to cast one vote for each ordinary share they hold. In case of TEB SH.A. all shares belong to a single shareholder i.e. TEB Holding A.S.

22. Interest income

	2020	2019
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	28,729	30,023
Investments in debt securities at FVOCI	252	131
Due from other banks at AC	116	496
Total interest income	**29,097**	**30,650**

23. Interest expense

	2020	2019
Term deposits	754	1,165
Savings accounts	328	126
Borrowed funds	176	235
Interest expense on lease liabilities	88	121
Total interest expense	**1,346**	**1,647**

Interest rates for term deposits vary based on the maturity of the deposits. The annual interest rates on time deposits with clients at the end of reporting period were as follows:

- 2020 – max I/R 2.8%, min I/R 0.0%
- 2019 – max I/R 2.0%, min I/R 0.0%

(All amounts are expressed in EUR thousand, unless otherwise stated)

24. Fee and commission income

	2020	2019
Credit cards	6,398	6,883
Account service fees	2,285	2,009
International payments	1,520	1,349
SMS Banking	304	285
Domestic payments	174	220
Guarantees and letters of credit	131	133
Other fees	348	259
Total fee and commission income	**11,160**	**11,138**

Maintenance fees for credit cards and accounts, and fees for guarantees and letter of credits are recognized as income when performance obligations are performed over time (accrued over time as services are rendered). Based on the contractual terms the Bank has the right to payment for performance completed at each month end for account maintenance fees and at year end for Credit Card maintenance fees.
Regarding commissions for guarantees and letter of credits, clients can choose to pay the commission at the end of month, end of quarter or to pay in advance. Advance payments are recorded as unearned incomes and recorded as income on accrual bases by reference to completion of the service. As of year ended 31 December 2020 the unearned incomes from guarantees and letter of credits amount to EUR 19.6 thousand (2019: EUR 16.4 thousand).

For the year ended 31 December 2020, fees and commission incomes from individuals represent approximately 46% and fees and commission incomes from businesses represent approximately 54% of total fee and commission incomes.

25. Fee and commission expenses

	2020	2019
Credit cards	2,445	2,539
Central bank fees	418	407
International payments	445	337
Domestic payments	357	250
Accrued maintenance fee written off	286	497
Other fees	395	233
Guarantees and letters of credit	12	14
Total fee and commission expense	**4,358**	**4,277**

26. Other impairments and provisions

	2020	2019
Other Impairment and Provision (charges)/releases:		
Cash and cash equivalents	(7)	(7)
Loans and advances to other Banks	(135)	(32)
Investment securities	(3)	-
Legal cases and litigations	(35)	(161)
Other receivables and assets	466	(473)
Credit Card commissions	12	(118)
Unused annual leave	(3)	(2)
Various provisions for loans	-	(301)
Impairment for repossessed property	(256)	(1,071)
Taxes	(546)	-
Release of provisions for other financial assets (note 10)	(13)	13
Total other impairments and provisions	**(520)**	**(2,152)**

(All amounts are expressed in EUR thousand, unless otherwise stated)

27. Personnel costs

	2020	2019
Salaries and wages	6,471	6,584
Bonuses	696	1,346
Mandatory pension contributions	338	354
Health insurance	157	154
Staff training	49	52
Other costs	8	21
Total personnel costs	**7,719**	**8,511**

28. Administrative and other operating expenses

	2020	2019
Other expenses	1,006	677
Telecommunication	611	633
Security and insurance	565	787
Software maintenance fee	560	348
Repair and maintenance	455	410
Office supplies	362	295
Marketing and sponsorship	345	551
Consultancy and professional fees	341	347
Travel	233	386
Utilities	276	251
Service expenses, credit cards	174	175
Cleaning expenses	141	144
Legal, collateral execution, and audit fees	80	276
Business taxes and licenses	139	164
Representation	127	194
Operating lease expenses for premises	110	84
Other operational expenses	6	288
Total administrative and other operating expenses	**5,531**	**6,010**

As an exception allowed by IFRS 16 requirements, the Bank accounts for short-term leases and leases of low value assets by recognizing the lease payments as an operating expense on a straight line basis.

(All amounts are expressed in EUR thousand, unless otherwise stated)

29. Income taxes

a) Components of income tax expense

	2020	2019
Current tax expense	997	2,066
Deferred tax expense/(credit)	254	222
Total income taxes	**1,251**	**2,288**

b) Amounts recognised in Other comprehensive income

	2020			2019		
	Before Tax	**Tax charge**	**Net of tax**	**Before Tax**	**Tax charge**	**Net of tax**
Investment securities	61	(2)	**59**	61	(6)	**55**
Investment properties	-	-	**-**	390	(39)	**351**

c) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

Detailed below is the calculation of the effective tax rate and a reconciliation of the current income tax expense:

	2020	2019
Profit before taxation	**14,628**	**17,761**
Theoretical tax charge at statutory rate of 10%	1,463	1,776
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	152	525
- Non-taxable income	(23)	(13)
- Corporate income tax adjustment	(341)	-
Income tax expense for the year	**1,251**	**2,288**

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the reporting date. The tax rate on corporate income is 10% (2019: 10%).

(All amounts are expressed in EUR thousand, unless otherwise stated)

29. Income taxes (continued)

d) Movement in deferred tax balances

Differences between the IFRS financial statements and the Kosovo taxation regulations give rise to temporary differences between the carrying amount of loans and advances to customers for IFRS reporting purposes and for tax purposes. The tax effect of these temporary differences is calculated at the enacted rate of 10% (2019:10%).

The tax effect of the movements in the temporary differences in 2020 is detailed below.

	1-Jan-2020	Charged/ (credited) to profit or loss	Charged / (credited) directly to other comprehensive income	31-Dec-2020
Tax effect of deductible/(taxable) temporary differences				
Deferred tax for FTA of IFRS 9	583	-	-	583
Provision for loan impairment	(336)	(247)	-	(583)
Lease liabilities	406	(59)	-	347
Fair valuation of Investment properties	(39)	(6)	-	(45)
Right-of-use assets	(395)	56	-	(339)
Fair valuation of investments in debt securities	(7)	-	-	(7)
Net deferred tax asset/(liability)	**212**	**(256)**	**-**	**(44)**
Recognised deferred tax asset	**479**	**-**	**-**	**479**
Recognised deferred tax liability	**(267)**	**(256)**	**-**	**(523)**
Net deferred tax asset/(liability)	**212**	**(256)**	**-**	**(44)**

The tax effect of the movements in the temporary differences in 2019 is detailed below.

	31-Dec-2018	Adoption of new standard	1-Jan-2019 (re-stated)	Charged/ (credited) to profit or loss	Charged / (credited) directly to other comprehensive income	31-Dec-2019
Tax effect of deductible/(taxable) temporary differences						
Deferred tax for FTA of IFRS 9	583	-	583	-	-	583
Provision for loan impairment	(114)		(114)	(222)	-	(336)
Lease liabilities	-	553	553	(147)	-	406
Fair valuation of Investment properties	-	-	-		(39)	(39)
Right-of-use assets	-	(542)	(542)	147	-	(395)
Fair valuation of investments in debt securities	(1)	-	(1)		(6)	(7)
Net deferred tax asset/(liability)	**-**	**-**	**479**	**(222)**	**(45)**	**212**
Recognised deferred tax asset	**-**	**-**	**479**	**-**	**-**	**479**
Recognised deferred tax liability	-	-	-	**(222)**	**(45)**	**(267)**
Net deferred tax asset/(liability)	**-**	**-**	**479**	**(222)**	**(45)**	**212**

(All amounts are expressed in EUR thousand, unless otherwise stated)

30. Related party disclosures

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Bank is controlled by TEB Holding A.S incorporated in Turkey (Immediate Parent), which owns 100 % of the ordinary shares as at 31 December 2020 and 2019 (see Note 1). The following table summarizes the related party transactions and balances at 31 December 2020 and the related expenses for the year then ended. Loans and advances to banks with related parties are all current nostro accounts that have no interest rate. Commission expenses comprise of international correspondence commission and fees and operating expenses are consultancy expenses with related parties. Guarantees at year end comprise of guarantees issued by the Bank with the confirmation of the group banks. All transactions are conducted at arm's length.

At 31 December 2020, the outstanding balances with related parties were as follows:

	Ultimate parent company	Immediate parent company	Entities under common control	Key management personnel
Loans and advances to banks	7	-	218	-
Loans and advances to customers	-	-	-	118
Other financial liabilities	82	68	175	-

The income and expense items with related parties for 2020 were as follows:

	Ultimate parent company	Immediate parent company	Entities under common control
Interest income	-	-	1
Commission expenses	14	-	104
Operating expenses	-	255	-

At 31 December 2020, other rights and obligations with related parties were as follows:

	Immediate parent company	Immediate parent company	Entities under common control
Guarantees issued at the year end	698	-	3,575

At 31 December 2019, the outstanding balances with related parties were as follows:

	Ultimate parent company	Immediate parent company	Entities under common control	Key management personnel
Loans and advances to banks	12	-	509	-
Loans and advances to customers	-	-	-	105
Other financial liabilities	6	-	109	-

30. Related party disclosures (continued)

The income and expense items with related parties for 2019 were as follows:

In thousand EUR	**Ultimate parent company**	**Immediate parent company**	**Entities under common control**
Interest income	-	-	3
Commission expenses	37	-	83
Operating expenses	-	135	-

At 31 December 2019, other rights and obligations with related parties were as follows:

	Immediate parent company	**Immediate parent company**	**Entities under common control**
Guarantees issued at the year end	507	-	3,230

Key management compensation is presented below:

	2020	**2019**
Salaries	357	296
Bonus	124	254
Pension Contribution	18	25
Total key management compensation	**499**	**575**

(All amounts are expressed in EUR thousand, unless otherwise stated)

31. Commitments and contingencies

Guarantees and letters of credit

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The aggregate outstanding amounts of guarantees and letters of credit issued by the Bank are as follows:

	2020	**2019**
Financial guarantee	6,828	6,618
Letters of credit	2,025	1,640
Other guarantees	86	57
Total	**8,939**	**8,315**
Unused commitments for revolving facilities	88,136	83,110
Total credit related commitments	**97,075**	**91,425**
ECL for guarantees	(26)	(27)
ECL for revolving facilities	(386)	(410)
Total credit related commitments, net of ECL	**96,663**	**90,988**

Commitments by credit quality based on credit risk grades at 31 December 2020 is as follows.

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Financial guarantee	6,828	-	-	6,828
Letters of credit	2,025	-	-	2,025
Other guarantees	86	-	-	86
Total Guarantees and Letter of Credits	**8,939**	**-**	**-**	**8,939**
Loans commitments not yet disbursed	85,932	2,204		88,136
Total credit related commitments	**94,871**	**2,204**	**-**	**97,075**
Less: Provision for guarantees and Letter of Credits	(26)	-	-	(26)
Less: Provision for loan commitments	(342)	(44)	-	(386)
Total commitments	**94,503**	**2,160**	**-**	**96,663**

(All amounts are expressed in EUR thousand, unless otherwise stated)

31. Commitments and contingencies (continued)

Commitments by credit quality based on credit risk grades at 31 December 2019 is as follows.

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Financial guarantee	6,582	36	-	**6,618**
Letters of credit	1,640	-	-	**1,640**
Other guarantees	51	6	-	**57**
Total Guarantees and Letter of Credits	**8,273**	**42**	**-**	**8,315**
Loans commitments not yet disbursed	77,471	5,639	-	**83,110**
Total credit related commitments	**85,744**	**5,681**	**-**	**91,425**
Less: Provision for guarantees and Letter of Credits	(27)	-	-	**(27)**
Less: Provision for loan commitments	(352)	(58)	-	**(410)**
Total commitments	**85,365**	**5,623**	**-**	**90,988**

The Bank calculates ECL and LECL provision for guarantees and letter of credits by applying to underlying exposures based on the staging classification. In cases, when an individual assessment is applied, the specific provision forecast is considered for the final impairment. Refer to disclosure of impairment of loans and advances to customers for the provisioning rates.

Legal cases

In the normal course of the business, the Bank is presented with legal claims. The Bank's management is of the opinion that the possibility of an outflow of economic benefits in relation to legal claims outstanding as at 31 December 2020 and 2019 is remote, except for the provisions charged as shown in note 19 – Provisions for liabilities and Charges.

32. Management of capital

The Bank's objectives when managing capital are:

- to comply with the capital requirements set by the Central Bank of Kosovo (CBK);
- to safeguard the Bank's ability to continue as a going concern and continue to provide returns for the shareholder; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are regularly monitored by the Bank's management, employing techniques based on the guidelines of the CBK. The required information is provided to the CBK on a quarterly basis.

The assets are classified using a hierarchy of five risk weights, reflecting an estimate of credit, market and other risks associated with each asset and off-balance sheet exposure.

New Regulation on Capital Adequacy of Banks and Regulation on the Leverage Ratio are issued from the Central Bank of Kosova and are in force starting 1 January 2020. The regulation requires banks to hold a minimum regulatory capital of EUR 7,000 thousand, to maintain a minimum ratio of Tier I capital to risk-weighted assets of 9% (2019 old regulation: 8%) a minimum total regulatory capital to risk-weighted assets of 12% (2019 old regulation: 12%) and a minimum leverage ratio of 3% (2019 old regulation: 7%)

As of 31 December 2020 and 2019 the Bank is in compliance with all regulatory ratios: Tier I capital as of 31 December 2020 is 16.14% (2019: 14.67%), total regulatory capital is 17.15% (2019: 14.79%), and leverage ratio is 10.17% (2019: 12.28%).

The Bank was in compliance with regulatory requirements as at the reporting dates, at 31 December 2020 and 2019.

(All amounts are expressed in EUR thousand, unless otherwise stated)

32. Management of capital (continued)

Minimum Risk-Based Capital Ratios

The capital levels, risk weighted assets and capital adequacy ratios as per CBK regulations at 31 December 2020 and 2019, are as follows:

	2020	**2019**
Tier 1 capital		
Share capital	24,000	24,000
Retained earnings as per Central Bank of Kosovo reporting	49,989	50,093
Accumulated other comprehensive income (and other reserves)*	(2,043)	-
Less: Intangible assets	(2,331)	(2,158)
Credits to Bank's related parties	(501)	(545)
Total qualifying Tier 1 capital	**69,114**	**71,390**
Provisions for loan losses *(limited to 1.25% of RWA)*	4,284	590
Total qualifying Tier 2 capital	**4,284**	**590**
Total regulatory capital	**73,398**	**71,980**
Risk-weighted assets:		
On balance sheet	373,669	435,300
Off balance sheet	8,509	8,315
Risk assets for operational risk	42,967	42,967
Market risk	2,959	-
Total risk-weighted assets	**428,104**	**486,582**
Tier I capital to risk-weighted assets ratio	16.14%	14.67%
Total regulatory capital to risk-weighted assets ratio	17.15%	14.79%
Total leverage ratio (regulatory reporting)	10.17%	12.28%

In accordance with CBK regulation on Credit Risk, starting from 1 January 2020 "IFRS 9 – Financial Instruments" is applicable also for financial statements prepared in accordance with financial reporting provisions of Law No.04/L-093 on Banks, Micro-finance Institutions and Non-Bank Financial Institutions.

Accumulated other comprehensive income (and other reserves) as of 31 December 2020 is comprised of the following:

	2020
First time impact of IFRS 9 application	(2,457)
Fair value of investment property (recognized through OCI)	351
Fair value of investment securities (recognized through OCI)	63
	(2,043)

33. Financial risk management

The risk management function within the Bank is carried out with respect to financial risks and operational risks. Financial risk comprises credit risk, market risk (including currency risk, interest rate risk and other price risks), and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits set by the regulatory body and by the Bank's Board of Directors. The operational and legal risk management functions are intended to ensure the proper functioning of internal control functions and policies and procedures in order to minimise operational and legal risks.

Market risk

The activities of the Bank are to some extent exposed to possible losses as a result of the exposure of its financial instruments to interest-rate risk, or exchange-rate risk resulting from fluctuations in the financial markets. The majority of transactions of the Bank are in local currency and majority and exposure to foreign exchange risk is limited.

Foreign currency risk

The Policy on Management of the currency risk of TEB Sh.A. defines the methods of currency risk management within the Bank. The Bank manages foreign currency risk through managing the currency structure of its assets and liabilities. Foreign exchange rate risk is managed and governed according to the policies of the TEB Group. TEB Sh.A. continuously monitors exchange rate movements and foreign currency markets, and determines its currency positions on a daily basis.

Any exception to the policy is subject to approval by the Board of Directors of TEB Sh.A.. The Bank does not maintain open currency position for speculative purposes. Nevertheless, foreign exchange derivatives may be used for hedging purposes to close certain positions, in which case they are closely monitored at both local and group levels. The Bank undertakes transactions in EUR and in foreign currencies.

The Bank has not entered into forward exchange derivatives and does not have any embedded derivative at 31 December 2020 and 2019.

As the currency in which the Bank presents its financial statements is Euro, the Bank's financial statements are effected by movements in the exchange rates between the Euro and other currencies.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the functional currency of the Bank.

Foreign currency sensitivity analysis

The Bank is mainly exposed to US Dollar (USD) and Swiss Franc (CHF). The following table details the Bank's sensitivity to the respective increase and decrease in the value of Euro against the foreign currencies. The percentage used is the sensitivity rate analysis represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a respective change in foreign currency rates. The Bank has applied a 10% increase or decrease to the current currency exchange rates. A positive number below indicates an increase in profit and other equity where the EUR strengthens with respective percentages against the relevant currency.

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

		2020		2019
	+10% Euro	**-10% Euro**	**+10% Euro**	**-10% Euro**
Assets:				
Impact on cash and due from banks	(2,459)	3,006	(2,104)	2,571
Liabilities:				
Impact on due to banks and customers	2,447	(2,991)	2,090	(2,554)
Net impact on profit or loss and equity	**(12)**	**15**	**(14)**	**17**

The following table summarises the Bank's currency position as at 31 December 2020:

	EURO	**USD**	**CHF**	**Other**	**Total**
Financial assets					
Cash and current accounts with banks	122,907	454	6,433	1,400	131,194
Loans and advances to banks	56,003	18,679	-	-	74,682
Net Loans and advances to customers	414,694	-	-	-	414,694
Loans to individuals	223,642	-	-	-	223,642
Loans to legal entities	199,716	-	-	-	199,716
Impaired Loans	(8,664)	-	-	-	(8,664)
Investments in debt securities	25,928	-	-	-	25,928
Other financial assets	3,192	6	1	4	3,203
Total assets	**622,724**	**19,139**	**6,434**	**1,404**	**649,701**
Financial liabilities					
Due to customers	534,483	19,127	6,400	1,390	561,400
Borrowings	5,145	-	-	-	5,145
Lease liabilities	3,471	-	-	-	3,471
Other financial liabilities	4,509	-	-	-	4,509
Total liabilities	**547,608**	**19,127**	**6,400**	**1,390**	**574,525**
Net currency position at 31 December 2020	**75,116**	**12**	**34**	**14**	**75,176**

The following table summarises the Bank's currency position as at 31 December 2019:

	EURO	**USD**	**CHF**	**Other**	**Total**
Financial assets					
Cash and current accounts with banks	101,197	1,987	6,853	1,548	**111,585**
Loans and advances to banks	52,534	12,724	-	-	**65,258**
Net Loans and advances to customers	397,311	-	-	-	**397,311**
Loans to individuals	*215,706*	-	-	-	***215,706***
Loans to legal entities	*189,169*	-	-	-	***189,169***
Impaired Loans	*(7,564)*	-	-	-	***(7,564)***
Investments in debt securities	14,167	-	-	-	**14,167**
Other financial assets	3,231	7	3	1	**3,242**
Total assets	**568,440**	**14,718**	**6,856**	**1,549**	**591,563**
Financial liabilities					
Due to customers	489,283	14,632	6,809	1,539	**512,263**
Borrowings	8,981	-	-	-	**8,981**
Lease liabilities	4,065	-	-	-	**4,065**
Other financial liabilities	4,263	5	-	-	**4,268**
Total liabilities	**506,592**	**14,637**	**6,809**	**1,539**	**529,577**
Net currency position at 31 December 2019	**61,848**	**81**	**47**	**10**	**61,986**

Based on the Bank's policies, the individual open currency positions should not be greater than 5% of Tier 1 capital and the aggregate exposures in all currencies not greater than 10% of Tier 1 capital at any specific point of time, while as per CBK requirements, the open currency position for any single currency should not be more than 15% of Tier 1 capital and the aggregate exposure not more than 30% of Tier 1 capital.

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

As at 31 December 2020 and 31 December 2019 the Bank has complied with these ratios.

The exchange rates applied for the principal currencies against the Euro were as follows:

	31 December 2020	31 December 2019
United States Dollar (USD)	1.2271	1.1234
Swiss Franc (CHF)	1.0802	1.0854
British Pound (GBP)	0.8990	0.8508

Interest rate risk

Interest rate risk is 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 (re-pricing risk). 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 interest rate risk the bank is exposed is derived from its financial assets and liabilities that are sensitive to IR. The IRR may arise in increase in liabilities interest rate and as a result can trigger higher funding costs, while on the asset side, if IR decreases, it can affect bank profitability. On both scenarios, duration gap analysis is crucial to identify the sensitivity of IR. Duration gap analysis is a simple IRR methodology that provides an easy way to identify repricing gaps for monitoring interest rate risk arising from maturity discrepancy on the balance sheet. Gap analysis helps to identify maturity and repricing mismatches between assets, liabilities and off-balance sheet instruments. Gap schedules segregate rate-sensitive assets (RSA), rate sensitive liabilities (RSL), and off-balance sheet instruments according to their repricing characteristics. For liquidity purposes, maturity date is used, whereas for interest rate gaps, repricing date is important.

Moreover, the risk management department monitors exposure to interest rate risk using the interest rate gap analysis methodology, which is based on internal assumptions with the indicative limits set for different maturities.

The purpose of the policy, which is approved by BoD, is to manage the exposure to interest rate risk and limit the potential losses, as a result of the modification of levels of interest rates in the market and the effect of such changes on the business results and the market value of the Bank’s capital.

IRR policies are approved by BoD and reviewed on regular basis, while the senior management is responsible for ensuring that BoD approved policies and procedures are appropriately executed. Such risk management policy approved by the BoD, define the method of identification, measurement, monitoring and controlling the risk in the event of interest rate modification.

All instruments and positions which are sensitive to interest rate risk are classified in the banking book. Positions are observed pursuant to these segments:

- Interest rate sensitive positions in Euros
- Interest rate sensitive positions in other currencies (aggregate base and as per each currency).

Management believes that the Bank is not exposed to interest rate risk on its financial instruments except for the borrowings, which are at variable interest rates. Loans and deposits have fixed interest rates.

IR Sensitivity analysis

Interest rate risk management is supplemented by monitoring the sensitivity of the Bank’s net banking income and equity, to various floating interest rate scenarios. The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. The analysis assumes a parallel increase of interest rates by 100 basis points (±1%) on the level of net banking income for a two-year period.

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

Results presented below represent the changes in profit or loss and equity, which would occur if interest rates will increase or decrease by 100 basis points within one and two years. Change in the estimated one-year net banking income should be +/- 8% of the planned net banking income while change in the estimated two-year net interest income should be +/- 5% of the budgeted net banking income.

The analysis of the sensitivity of profit or loss and equity to changes in interest rates is as follows:

Sensitivity of the profit or loss	2020	2019
Increase in basis points +100 bps parallel shift	338	329
Decrease in basis points-100 bps parallel shift	(566)	(645)

Financial assets and liabilities based on the earlier between interest rate repricing date and maturity are presented below:

31 December 2020	Less than 1 month	1–3 months	3-12 months	1–5 years	More than 5 years	Total
Financial assets						
Cash and current accounts with banks	131,194	-	-	-	-	**131,194**
Loans and advances to banks	74,682	-	-	-	-	**74,682**
Loans to customers	35,305	5,690	42,481	245,874	85,344	**414,694**
Investment in debt securities	-	50	7,218	18,660	-	**25,928**
Other financial assets	3,203	-	-	-	-	**3,203**
Total financial assets	**244,384**	**5,740**	**49,699**	**264,534**	**85,344**	**649,701**
Financial liabilities						
Due to customers	495,295	5,297	29,863	28,453	2,492	561,400
Borrowings	1,001	-	2,430	1,714	-	5,145
Lease liabilities		25.58	2,984	461	-	3,471
Other financial liabilities	4,509	-	-	-	-	4,509
Total financial liabilities	**500,805**	**5,323**	**35,277**	**30,628**	**2,492**	**574,525**
Interest sensitivity gap	**(256,421)**	**417**	**14,422**	**233,906**	**82,852**	**75,176**

31 December 2019	Less than 1 month	1–3 months	3-12 months	1–5 years	More than 5 years	Total
Financial assets						
Cash and current accounts with banks	111,585	-	-	-	-	**111,585**
Loans and advances to banks	65,258	-	-	-	-	**65,258**
Loans to customers	40,754	3,917	42,623	234,213	75,804	**397,311**
Investment in debt securities	1,200	500	2,420	10,047	-	**14,167**
Other financial assets	3,242	-	-	-	**-**	**3,242**
Total financial assets	**222,039**	**4,417**	**45,043**	**244,260**	**75,804**	**591,563**
Financial liabilities						
Due to customers	414,820	6,727	54,152	36,338	226	**512,263**
Borrowings	-	-	428	8,553	-	**8,981**
Lease liabilities	-	1	84	3,455	525	**4,065**
Other financial liabilities	4,268	-	-	-	-	**4,268**
Total financial liabilities	**419,088**	**6,728**	**54,664**	**48,346**	**751**	**529,577**
Interest sensitivity gap	**(197,049)**	**(2,311)**	**(9,621)**	**195,914**	**75,053**	**61,986**

33. Financial risk management (continued)

Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to debtors is conducted through regular analysis of the debtors' credit worthiness. Exposure to credit risk is also managed in part by obtaining collateral and guarantees as other credit enhancement factors. Credit risk policies and procedures are reviewed and updated on a yearly basis in order to be in line with CBK regulations and Group standards.

The Bank's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets at the reporting date. In addition, the Bank is exposed to off-balance sheet credit risk through commitments and financial guarantees issued.

All credit exposures are reviewed at least on an annual basis, while large exposures are monitored on regular basis by the monitoring department. The Corporate Monitoring Unit and Credit Quality Unit, have the mandate to observe and monitor large corporate exposures on a monthly basis, and to report to the Credit Committee in case of any observed credit deterioration. The monitoring process considers but is not limited to cash flow and sales performance, credit covenants, payment behaviour, profitability, liquidity, solvency and debt ratio.

Concentrations of credit risk (including off balance sheet exposures) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would lead to inability to meet contractual obligations affected by changes in economic or other conditions.

For subsequent measurement and impairment of assets, the Bank assesses whether objective evidence of impairment exists. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The Bank has established the Board Provision Impairment Committee, which consists of two Board members, the CEO of the Bank, CRO, CFO, Head of Credit Risk and Head of Legal. This committee is responsible for the observation of the monthly assessment process and for the individual assessment for impairment. The individual assessment is performed for exposures that bear individually significant credit risk and is also based on the feedback and observations received from Credit Allocation and Monitoring Department.

The Bank has established a more efficient monitoring structure aiming to manage the exposures at the early stages of loan delinquency. In addition, the effectiveness of the local Private Enforcement Agents (PEA) and outsourcing of debt collection companies, led to increased recovery of non-performing loans.

New type of coronavirus (COVID-19), first emerging in China, has been classified as an pandemic affecting countries globally by the World Health Organization on 11 March 2020. COVID-19 has impacts on economic conditions, sectors, businesses, consumers, as well as asset and commodity prices, liquidity, exchange rates, interest rates, money and capital markets and many other issues and it still maintains uncertainty about the future. While many countries announce economic and financial programs in order to limit the damage caused by the virus, Republic of Kosovo also set regulatory fiscal and monetary actions in motion to support the companies and households in such difficult conditions. Additional regulatory measures are continued to be announced to tackle adverse impacts on companies and certain sectors.

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

The effects of this global pandemic on the Bank's financial statements are regularly monitored by the Risk Management as well as the Bank's Management. While preparing the financial statements as of 31 December 2020, the Bank reflected the possible effects of the COVID-19 outbreak on the estimates and judgements used in the preparation of the financial statements. Bank Management takes the necessary precautions in order to keep the negative effects under control and to be affected at the minimum level. The approach preferred for the period of 31 December 2020, will be revised in the following reporting periods, considering the effect of the pandemic and future expectations.

As of 31 December 2020, considering the possible effects of COVID-19 the data obtained with the principle of best effort were reflected to the estimates and assumptions used in the calculation of expected credit losses with the best estimation method. The Bank has also provided additional provisions through individual assessment for customers which may be considered as highly effected.

In accordance with “CBK Guideline on loan restructuring due to COVID 19” issued on 16th of March 2020 the Bank deferred loan instalment payments for up to 3 months for all customers who made a request (COVID 19-first phase).

In addition, CBK issued a Guideline on loan restructuring due to COVID 19 on 8th of June 2020, based on which the Bank restructured the loans for all customers who made a request allowing maturity extension up to 12 months (COVID 19 – second phase).

As of 31 December 2020 the outstanding balances of loans which were deferred in first phase (for 3 months) amount to EUR 82,358 thousand (these clients have continued paying regularly).

As of 31 December 2020 the outstanding balances of loans which were restructured in the second phase (for up to 12 months) amount to EUR 13,241 thousand.

In accordance with Group Norms and Guidance in specific context of COVID-19 the Bank did not automatically trigger the credit risk deterioration for these loans.

On the other hand, the Bank applied additional ECL (EUR 646 thousand) as an add- on factor for the customers that might be effected negatively in the future due to COVID 19 pandemic.”

Credit Risk Grading system

For measuring credit risk and grading financial instruments the Bank applies two approaches.

An Internal Rating-based risk system (IRB) or risk grades estimated by external international rating agencies for grading counterparty risk for Financial Institution and Sovereign risk, which are mapped on an internally defined group master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corresponding internal ratings	Corresponding ratings of external international rating agencies (MOODY’s)	Corresponding 1Y ECL PD interval
Excellent/ Very Good	[1+ / 2-]	Aaa to A3	0.01% - 0.04%
Good/ Above Average	[3+ / 4-]	Baa1-Baa2	0.06-0.21%
Average-Below Average	[5+ / 6-]	Baa3 – Ba2	0.26% - 1.46%
Poor - Weak	[7+ / 8-]	Ba3 – B2	2.11% - 8.06%
Speculative – Substandard	[9+ /10-]	B3 – C	9.53% - 21.81%
Default	[11/12]	D	100%

33. Financial risk management (continued)

Besides Group master scale grading which is applied for counterparty risk, for loans and advances to legal customers, the bank uses internal application grading tool calibrated to country risk which is based on quantitative (75%) and qualitative (25%) input and the customers rating is generated.

Such rating is not mapped to any external rating agencies, while it is only used for internal credit decision. Moreover, for individual exposures, the banks uses application and behaviour-scoring tool in order to score the individual portfolio which is based on several risk parameters.

Expected Credit Loss (ECL) measurement. ECL is an estimate of the present value of future cash shortfalls. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor of 45.45%. CCF is a coefficient that shows the probability of conversion of the commitment amounts to an on-balance sheet exposure within a defined period. PD is an estimate of the likelihood of default to occur over a given time period.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or a proxy thereof.

Expected credit losses are modelled over financial assets lifetime period. The lifetime period is equal to the remaining contractual period to maturity of the asset adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, for credit cards and overdraft, the lifetime exposure is measured over a period of 12 months.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are through-the-cycle estimates and the estimates do not consider forward looking information due to weak correlation of key macroeconomic variables and the impact on credit risk.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the borrower is insolvent and is experiencing financial difficulties;
- the borrower is deceased;
- the borrower has on-going legal issues;
- market outlook for a specific industry or the bank was forced to restructure the debt;
- any other factors that can trigger a default event.

33. Financial risk management (continued)

The default definition stated above is applied to all types of financial assets of the Bank. An asset is considered to exit the default status if:

- Regular repayments have to be made over a period of 6 months with days past due (DpD) <30 days for a single repayment (instalment)
- The borrower does not have any past due exposures >90 days
- The financial situation of the borrower has improved to the extent that full repayments are likely to be made based on banks monitoring department evaluation criteria's

A financial asset or a group of financial assets is impaired based on expected credit loss (ECL) and life time expected loss (LECL) as a result of one or more events that occurred after the initial recognition of the financial asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that carries no significant credit on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis until the contractual maturity. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. At the end of each observation period, the financial assets are classified as below:

- STAGE 1 - Delinquency 0 – 30 days - with no significant increase in credit risk
- STAGE 2 - Delinquency 31 - 90 days - with significant increase in credit risk and
- STAGE 3 - the defaulted exposures

Impairment of loans and advances to customers is based upon a review of several qualitative and quantitative factors attended to the credit, contain the weaknesses that are inherent in a credit, or of whether there is a probability that a portion of the loan amount will not be paid.

The main criteria that the Bank observes to determine that there is objective evidence of an impairment loss include:

- Default or delinquency in interest or principal payments;
- Default in repayment of interest or principal in other financial institutions ("FI"), subject of certain thresholds;
- Liquidity difficulties of the borrower
- Breach of contract covenants or conditions;
- The borrower considers bankruptcy or a financial reorganisation;
- Deterioration of economic and market conditions.
- Downgrade of internal credit rating and scoring
- Forbearance measure is extended to the borrower

33. Financial risk management (continued)

Collective assessment is established based on a credit risk model that considers the historical 5 year Default Rate for each segment (“PD”) and Loss Given Default factor (“LGD”). The PD factor results from default events possible within the next 12 months and is calculated for four different delinquency buckets separately. The LGD (recovery rate) is observed for a 36 period. The input data in the model is updated each 6 months for five separate segments (Retail, SME, Corporate, Agro and Credit Card exposures). At the end, the values are discounted with EIR for each facility, while for overdrafts and credit card a special discount rate factor is calculated. Final loan loss provision rates derived from the model are ultimately subject of Risk Management Committee (“RMC”) and Board of Directors (“BoD”) approval. At the end by using the equation of (EAD x PD x LGD x DF) the final ECL amounts are derived.

Recovery rates are calculated based on 36 months’ observation for Stage 1 and 2 facilities, while for Stage 3 credit facilities with exposure < 20,000 EUR. Moreover, for credit facilities with remaining maturity less than 1 year or credit facilities with no maturities, the 12-month default rate and Expected Credit Loss (ECL) are calculated.

For stage 3 exposures >20,000 EUR, Collection Department will estimate a cash inflow for each case individually and for each facility based on collateral liquidation expectation or any other source of cash inflow. Collection forecast are based on prudent and realistic estimates and should be based on the following credit enhancement factors: collateral market value and its liquidity, historical cash flow, third party guarantor/co-debtor capacity, time duration for the liquidation/repossession of the assets and legal country environment as external factor. Cash inflow estimate can cover a period of five years that will be discounted with an EIR or proxy EIR for each facility.

Restructured loans (Forborne Exposures) will be at stage 2 if the exposure was considered to be performing at the date when the measure was originated, otherwise it will remain at Stage 3.
For non-performing forborne exposures under stage 3, 24 months exit criteria to Stage 2 transfer plus additional 12 months as probation period for Stage 1 transfer will be observed. In total 36 months monitoring will be applied to transfer in Stage 1. For performing forborne exposures under Stage 2, 24 months exit criteria to Stage 1 transfer will be observed. In both instances, the payment behaviour for a single instalment should be less than 30 days in delay for the entire monitoring period and regular payments have been made at least during the half of the probation period, otherwise the probation period will restart from zero and previous staging will be kept.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss in impairment charge for credit losses.

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

Impairment of financial assets classified as hold to collect and sell

For financial assets measured at FVOCI, the regulatory PD and the corresponding PD term structure associated with Group master scale are used for group reporting, while for IFRS standalone reporting for those assets the bank will use min PD of 0.05% which is Basel IRB approach. On the other hand, for financial assets held to collect and sell and for sovereign risk exposure including government bonds and central bank balances, the bank will apply 45% LGD as defined under Basel IRB approach.

Maximum exposure to credit risk:

As at 31 December 2020	**Gross maximum exposure**	**Expected credit losses**	**Net maximum exposure**
Cash and current accounts with banks	101,268	(30)	101,238
Loans and advances to banks	74,950	(268)	74,682
Loans to individuals	**223,642**	**(3,378)**	**220,264**
Loans to customers	193,910	(2,458)	191,452
Overdrafts	1,493	(60)	1,433
Credit cards	28,239	(860)	27,379
Loans to legal entities	**199,716**	**(5,286)**	**194,430**
Loans to legal entities	166,109	(4,649)	161,460
Overdrafts	30,160	(489)	29,671
Credit Cards	3,447	(148)	3,299
Total loans and advances to customers	**423,358**	**(8,664)**	**414,694**
Investments in debt securities	25,928	-	25,928
Letters of credit	2,025	(5)	2,020
Letters of guarantees	6,828	(20)	6,808
Other guarantees and indemnities	86	(1)	85
Loan commitments	88,136	(386)	87,750
Contingent liabilities	**97,075**	**(412)**	**96,663**

As at 31 December 2019	**Gross maximum exposure**	**Expected credit losses**	**Net maximum exposure**
Cash and current accounts with banks	83,106	(23)	83,083
Loans and advances to banks	65,391	(133)	65,258
Loans to individuals	**215,706**	**(3,202)**	**212,504**
Loans to customers	183,556	(2,435)	181,121
Overdrafts	2,175	(76)	2,099
Credit cards	29,975	(691)	29,284
Loans to legal entities	**189,169**	**(4,362)**	**184,807**
Loans to legal entities	157,459	(3,696)	153,763
Overdrafts	28,014	(558)	27,456
Credit Cards	3,696	(108)	3,588
Total loans and advances to customers	**404,875**	**(7,564)**	**397,311**
Investments in debt securities	14,167	-	14,167
Letters of credit	1,640	(3)	1,637
Letters of guarantees	6,618	(24)	6,594
Other guarantees and indemnities	57	-	57
Loan commitments	83,110	(410)	82,700
Contingent liabilities	**91,425**	**(437)**	**90,988**

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

Concentration by geography

The following presents the Bank's main credit exposures by geographical region as at 31 December 2020 and 2019. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

Total Financial Assets	**OECD countries**	**Kosovo**	**Other**	**Total 2020**	**OECD countries**	**Kosovo**	**Other**	**Total 2019**
Cash and balances with the CBK	31,805	99,389	**-**	**131,194**	28,217	83,368	**-**	**111,585**
Loans and advances to banks	65,695	-	8,987	**74,682**	44,238	13,458	7,562	**65,258**
Loans and advances to customers	-	414,694	**-**	**414,694**	-	397,312	**-**	**397,312**
Investments in debt securities	-	25,928	**-**	**25,928**	-	14,167	**-**	**14,167**
Other financial assets	-	3,203		**3,203**	-	3,242	**-**	**3,242**
Total financial assets	**97,500**	**543,214**	**8,987**	**649,701**	**72,455**	**511,547**	**7,562**	**591,564**
Financial liabilities								
Due to customers		561,400		**561,400**	-	512,263	-	**512,263**
Borrowings		5,145		**5,145**	-	8,981	-	**8,981**
Lease liabilities	-	3,471		**3,471**	-	4,065	-	**4,065**
Other financial liabilities	-	4,509		**4,509**	-	4,268	-	**4,268**
Total financial liabilities	**-**	**574,525**	**-**	**574,525**	**-**	**529,577**	**-**	**529,577**

Write-offs

Write-offs are defined as the accounting reduction of a debt, which does not mean waiving the legal claim against the debtors and, hence, the debt may be revived. Proposals for (full or partial) write-offs on the debts may be submitted to the competent committee on the condition that certain procedures have been carried out.

Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations. The Bank monitors its liquidity on a daily, monthly and quarterly basis in order to manage its obligations as and when they fall due.

The following reports are used by the Bank for liquidity management purposes:

- Cash flow report and the liquidity ratios provided by the CBK regulation (>25% and >20%): daily basis
- ALCo Liquidity Coverage Ratio and Liquidity GAP reports: monthly basis
- ALCo and Board level reporting: quarterly basis.

The Liquidity GAP reports are prepared by the Risk Management Department while using normal behaviour cash flow and limits approved by the BoD. Moreover, the Bank also uses the CBK Liquidity GAP reports. Funding limits of EUR 35 million are available from TEB A.S. to cover the Bank's liquidity needs.

Funds are raised using a broad range of instruments including deposits, borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities.

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required for meeting 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. The Management is monitoring liquidity ratios against internal and regulatory requirements on a daily basis. As a result, Management believes that the Bank has no short-term liquidity gap. The amount disclosed in tables below is contractual undiscounted cash flows:

31 December 2020	Carrying amount	Gross inflow/ outflow	Less than 1 month	1–3 months	3 -12 months	1–5 years	More than 5 years
Financial assets							
Cash and current accounts with banks	131,194	131,224	131,224	-	-	-	-
Loans and advances to banks	74,682	74,957	74,957	-	-	-	-
Loans to customers	414,694	467,609	50,849	27,090	120,489	240,256	28,925
Investment in debt securities	25,928	26,627	-	52	7,412	19,163	-
Other financial assets	3,203	3,484	1,948	-	1,536	-	-
Total financial assets	**649,701**	**703,901**	**258,978**	**27,142**	**129,437**	**259,419**	**28,925**
Financial liabilities							
Due to customers	561,400	562,154	495,254	5,333	32,474	29,093	-
Borrowings	5,145	5,251	1,026	-	2,493	1,732	-
Lease liabilities	3,471	3,471	-	300	883	2,179	109
Other financial liabilities	4,509	4,509	2,472	1,373	664	-	-
Total financial liabilities	**574,525**	**575,385**	**498,752**	**7,006**	**36,514**	**33,004**	**109**
Unused loan commitments and guarantees	96,663	97,075	97,075	-	-	-	-
Total financial liabilities and commitments	**671,188**	**672,460**	**595,827**	**7,006**	**36,514**	**33,004**	**109**
Positive/(negative) gap	**(21,487)**	**31,441**	**(336,849)**	**20,136**	**92,923**	**226,415**	**28,816**

31 December 2019	Carrying amount	Gross inflow/ outflow	Less than 1 month	1–3 months	3 -12 months	1–5 years	More than 5 years
Financial assets							
Cash and current accounts with banks	111,585	111,608	111,608	-	-	-	-
Loans and advances to banks	65,258	65,391	65,391	-	-	-	-
Loans to customers	397,311	437,634	54,319	28,013	115,623	220,514	19,165
Investment in debt securities	14,167	14,605	1,286	514	2,486	10,319	-
Other financial assets	3,242	3,780	3,780	-	-	-	-
Total financial assets	**591,563**	**633,018**	**236,384**	**28,527**	**118,109**	**230,833**	**19,165**
Financial liabilities							
Due to customers	512,263	513,826	414,497	6,153	54,834	38,342	
Borrowings	8,981	9,000	1,000	-	2,857	5,143	-
Lease liabilities	4,065	4,103	-	368	935	2,341	459
Other financial liabilities	4,268	4,268	1,760	1,845	663	-	-
Total financial liabilities	**529,577**	**531,197**	**417,257**	**8,366**	**59,289**	**45,826**	**459**
Unused loan commitments and guarantees	91,425	91,425	91,425	-	-	-	-
Total financial liabilities and commitments	**621,002**	**622,622**	**508,682**	**8,366**	**59,289**	**45,826**	**459**
Positive/(negative) gap	**(29,439)**	**10,396**	**(272,298)**	**20,161**	**58,820**	**185,007**	**18,706**

For liquidity purposes, the Bank classifies demand and savings deposits as due on demand and maturing within one month. As a result, the contractual liquidity gap of up to twelve months is increased. However, the possibility that large amounts of customer deposits will leave the Bank is unlikely. Therefore, the Bank does not consider having any liquidity gap in the short term.

(All amounts are expressed in EUR thousand, unless otherwise stated)

34. Fair value disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Financial instruments not measured at fair value but for which fair value is disclosed

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.

Financial assets	**2020 Carrying value**	**Level 1**	**Level 2**	**Fair Value Level 3**	**2019 Carrying value**	**Level 1**	**Level 2**	**Fair Value Level 3**
Cash and current accounts with banks	**131,194**	131,194	**-**	**-**	**111,585**	111,585	**-**	**-**
Loans and advances to banks	**74,682**	**-**	74,682	-	**65,258**	**-**	-	65,258
Loans and advances to customers	**414,694**	**-**	**-**	420,204	**397,311**	**-**	**-**	395,274
Loans to individuals	*220,264*	**-**	-	222,220	*212,504*	**-**	-	*211,471*
Loans to legal entities	*194,430*	**-**	-	197,983	*184,807*	**-**	-	*183,803*
Other financial assets	**3,203**	**-**	-	3,203	**3,242**	**-**	-	3,242
Financial liabilities								
Due to customers	**561,400**	**-**	**-**	561,518	**512,263**	**-**	**-**	512,466
Borrowings	**5,145**	**-**	**-**	5,145	**8,981**	**-**	**-**	8,981
Lease liabilities	**3,471**	**-**	**-**	3,471	**4,065**	**-**	**-**	4,065
Other financial liabilities	**4,509**	**-**	**-**	4,509	**4,268**	**-**	**-**	4,268

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.

Loans and advances to banks, and other financial assets and liabilities, include inter-bank placements and items in the course of collection. As such balances are short term, their fair value is considered to approximate their carrying amount.

The fair value of deposits and borrowings from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

There were no purchases or sales in level 3 financial assets and the change in the carrying value of the balance is a results of the change in the fair value.

(All amounts are expressed in EUR thousand, unless otherwise stated)

34. Fair value disclosures (continued)

Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

The following table analyses assets 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 recognised in the statement of financial position.

Investments in debt securities are interest-bearing assets. Because no active market exists for treasury bills and bonds, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity and they are classified as Level 2.

Investment property is land held for capital appreciation. In the absence of an active market, the fair value of the investment property has been estimated using a discounted cash flow model based on the current market rates for similar properties in the same market using a discount rate that reflects the current market assessment of the uncertainty in the amount and timing of cash flow.

	2020 Fair Value	**Level 2**	**Level 3**	**2019 Fair Value**	**Level 2**	**Level 3**
Assets at fair value						
Non-derivative financial assets						
Investment in debt securities	25,928	25,928	-	14,167	14,167	-
Derivative financial assets						
Derivative foreign exchange swaps	-	-	-	-	-	-
Investment property						
Investment property	1,649	-	1,649	1,590	-	1,590
Total	**27,577**	**25,928**	**1,649**	**15,757**	**14,167**	**1,590**

(All amounts are expressed in EUR thousand, unless otherwise stated)

35. Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently.

As at 31 December 2020	FVTPL (mandatory)	FVTPL (designated)	Debt instruments at FVOCI	Equity instruments at FVOCI	AC	Total
Financial Assets						
Cash and current accounts with banks	-	-	-	-	101,238	101,238
Loans and advances to banks	-	-	-	-	74,682	74,682
Other financial assets	-	-	-	-	3,203	3,203
Loans to individuals	-	-	-	-	**220,264**	**220,264**
Loans to customers	-	-	-	-	191,452	191,452
Overdrafts	-	-	-	-	1,433	1,433
Credit cards	-	-	-	-	27,379	27,379
Loans to legal entities	-	-	-	-	**194,430**	**194,430**
Loans to legal entities	-	-	-	-	161,460	161,460
Overdrafts	-	-	-	-	29,671	29,671
Credit Cards	-	-	-	-	3,299	3,299
Total loans and advances to customers	-	-	-	-	**414,694**	**414,694**
Investment in debt securities	-	-	**25,928**	-	-	**25,928**
Kosovo Government Bonds	-	-	25,928	-	-	25,928
Total Financial Assets	-	-	**25,928**	-	**593,817**	**619,745**
Financial Liabilities						
Due to customers	-	-	-	-	**561,400**	**561,400**
Demand deposits	-	-	-	-	491,986	491,986
Term deposits	-	-	-	-	69,414	69,414
Borrowings	-	-	-	-	5,145	5,145
Lease liabilities	-	-	-	-	3,471	3,471
Other financial liabilities	-	-	-	-	4,509	4,509
Total Financial Liabilities	-	-	-	-	**574,525**	**574,525**

(All amounts are expressed in EUR thousand, unless otherwise stated)

35. Presentation of Financial Instruments by Measurement Category (continued)

As at 31 December 2019	**FVTPL (mandatory)**	**FVTPL (designated)**	**Debt instruments at FVOCI**	**Equity instruments at FVOCI**	**AC**	**Total**
Financial Assets						
Cash and current accounts with banks	-	-	-	-	83,083	83,083
Loans and advances to banks	-	-	-	-	65,258	65,258
Other financial assets	-	-	-	-	3,242	3,242
Loans to individuals	-	-	-	-	**212,504**	**212,504**
Loans to customers	-	-	-	-	181,121	181,121
Overdrafts	-	-	-	-	2,099	2,099
Credit cards	-	-	-	-	29,284	29,284
Loans to legal entities	-	-	-	-	**184,807**	**184,807**
Loans to legal entities	-	-	-	-	153,763	153,763
Overdrafts	-	-	-	-	27,456	27,456
Credit Cards	-	-	-	-	3,588	3,588
Total loans and advances to customers	-	-	-	-	**397,311**	**397,311**
Investment in debt securities	**-**	**-**	**14,167**	**-**	**-**	**14,167**
Kosovo Government Bills	-	-	499	-	-	499
Kosovo Government Bonds	-	-	13,668	-	-	13,668
Total Financial Assets	-	-	**14,167**	-	**548,894**	**563,061**
Financial Liabilities						
Due to customers	-	-	-	-	**512,263**	**512,263**
Demand deposits	-	-	-	-	411,151	411,151
Term deposits	-	-	-	-	101,112	101,112
Borrowings	-	-	-	-	8,981	8,981
Lease liabilities	-	-	-	-	4,065	4,065
Other financial liabilities	-	-	-	-	4,268	4,268
Total Financial Liabilities	-	-	-	-	**529,577**	**529,577**

36. Events after the end of the reporting period

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

Report date: 01.01.2020 — 31.12.2020
Address: "Preoc no no. Graçanica 10500, 7th km main road Prishtina-Ferizaj, Republic of Kosova"
Telephone: +383 (0) 38 230 123
Fax: +383 (0) 38 224 699
Email: info@teb-kos.com
Web: www.teb-kos.com

TEB Sh.A Annual Report 2020