

Banka Kombëtare Tregtare Kosovë Sh.a.

**Financial Statements as at and for the year ended December 31, 2020
with the Independent Auditor's Report there-on**

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Independent Auditor's Report

To the Shareholders of
Banka Kombëtare Tregtare Kosovë Sh.a.

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Opinion

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

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

Basis for Opinion

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

Other matter

The financial statements of Banka Kombëtare Tregtare Kosovë Sh.a. as of and for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion in their report on 25 March 2020.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Grant Thornton LLC
Prishtina,
30 April 2021


Suzana Stavrik
Statutory Auditor

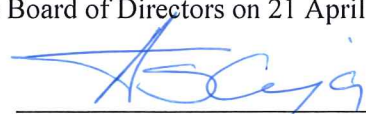

Banka Kombëtare Tregtare Kosovë sh.a.
Statement of Financial Position as at 31st December 2020
(Amounts in EUR, unless otherwise stated)

	Notes	December 31, 2020	December 31, 2019
Assets			
Cash and balances with Central Bank	6	102,398,903	68,789,883
Placements and balances with banks	7	30,402,526	37,244,984
Financial assets at fair value through other comprehensive income	8	101,259,272	105,911,832
Financial assets at amortized cost	8	28,230,433	7,697,413
Due from BKT Albania	25	38,658	25,139
Loans and advances to banks and other syndication loans	9.1	32,008,794	-
Loans to customers, net	9.2	351,964,719	305,985,957
Property and equipment	10	15,957,343	2,343,011
Right of use assets	10.1	2,053,083	2,799,428
Intangible assets	11	43,633	12,052
Income tax receivables	27	95,494	-
Deferred tax asset	27	300,337	277,547
Other assets	12	6,981,921	5,647,780
Total assets		671,735,116	536,735,026
Liabilities			
Customer deposits	13	539,308,400	449,152,204
Due to banks	14	12,509,157	4,661,073
Liabilities based on Repo Transactions	14	22,066,897	-
Due to BKT Albania	14	1,320,571	774,405
Income tax liability	27	-	196,960
Provisions	24	654,968	536,621
Accruals and other liabilities	15	1,978,468	2,299,295
Lease liabilities	10.1	2,116,340	2,841,154
Borrowings	16	18,247,148	22,283,169
Total liabilities		598,201,949	482,744,881
Equity			
Share capital	17	31,000,000	22,000,000
Accumulated profit from previous years		29,018,336	22,612,980
Profit for the year/ period		11,053,285	6,113,354
Fair value reserve		2,753,548	3,263,811
Other reserves		(292,002)	-
Total shareholder's equity		73,533,167	53,990,145
Liabilities and shareholder's equity		671,735,116	536,735,026

The audited statement of financial position is to be read in conjunction with the notes set out in pages 7 to 81 that form part of the audited financial information.

The audited financial information was authorised for release by the Board of Directors on 21 April 2021 and signed on its behalf by:


Suat Bakllal
CEO and Board Member


Agon Skeja
Head of Finance and Administration Group

Banka Kombëtare Tregtare Kosovë sh.a.Statement of profit or loss and other comprehensive income for the year ended 31st December 2020

(Amounts in EUR, unless otherwise stated)

		For the year ended December 31, 2020	For the year ended December 31, 2019
Interest income calculated using the effective interest method	18	25,699,458	21,243,614
Interest expense calculated using the effective interest method	19	(5,495,560)	(4,220,136)
Net interest income		20,203,898	17,023,478
Fees and commissions, net	20	4,357,849	3,637,206
Foreign exchange revaluation gain, net		79,388	(96,778)
Gain/(Loss) from sale of Investment securities measured at FVOCI	8	2,313,753	974,325
Profit / (loss) from FX trading activities, net		33,688	262,033
Other (expenses) / income, net	21	243,078	(1,776,426)
Total non-interest income, net		7,027,756	3,000,360
<i>Operating expenses</i>			
Personnel expenses	22	(4,994,245)	(4,315,654)
Administrative expenses	23	(4,991,964)	(4,762,223)
Depreciation and amortization	10, 10.1, 11	(1,532,998)	(1,726,638)
Total operating expenses		(11,519,207)	(10,804,515)
Impairment losses on loans to customers	9	(3,241,489)	(2,531,376)
Impairment losses on financial assets, other than loans to customers, and provisions for off balance items	24	(253,116)	(4,015)
Profit before income tax		12,217,842	6,683,932
Income tax expense	27	(1,164,557)	(570,578)
Current year income tax expense		(1,187,347)	(1,061,431)
Deferred income tax		22,790	490,853
Profit (Loss) for the period		11,053,285	6,113,354
Revaluation of investment securities		(510,263)	3,573,173
Total of other comprehensive income for the period		(510,263)	3,573,173
Total comprehensive income for the period		10,543,022	9,686,527

The audited statement of comprehensive income is to be read in conjunction with the notes set out in pages 7 to 81 that form part of the audited financial information.

Banka Kombëtare Tregtare Kosovë sh.a.Statement of changes in equity for the year ended 31st December 2020

(Amounts in EUR, unless otherwise stated)

	Share capital	Fair value reserves	Other reserves	Retained earnings	Total
Balance as at 1 January 2019	17,000,000	(309,362)	-	22,612,980	39,303,618
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners	-	-	-	-	-
Increase in share capital	5,000,000	-	-	-	5,000,000
Total transactions with owners recorded in equity	5,000,000	-	-	-	5,000,000
Total comprehensive income for the year					
Profit for the year	-	-	-	6,113,354	6,113,354
Net change in fair value of financial assets through other comprehensive income	-	3,573,173	-	-	3,573,173
Total comprehensive income for the year	-	3,573,173	-	6,113,354	9,686,527
Balance at 31 December 2019/01 January 2020-as stated	22,000,000	3,263,811	-	28,726,334	53,990,145
Effect from transition from CBK reporting to IFRS reporting according to CBK requirements	-	-	(292,002)	292,002	-
Balance at 31 December 2019/01 January 2020-restated	22,000,000	3,263,811	(292,002)	29,018,336	53,990,145
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners	-	-	-	-	-
Increase in share capital	9,000,000	-	-	-	9,000,000
Total transactions with owners recorded in equity	9,000,000	-	-	-	9,000,000
Total comprehensive income for the year					
Profit for the year	-	-	-	11,053,285	11,053,285
Net change in fair value of financial assets through other comprehensive income (Note 8)	-	(510,263)	-	-	(510,263)
Total comprehensive income for the year	-	(510,263)	-	11,053,285	10,543,022
Balance at 31 December 2020	31,000,000	2,753,548	(292,002)	40,071,621	73,533,167

The audited statement of changes in equity is to be read in conjunction with the notes set out in pages 7 to 81 that form part of the audited financial information.

Banka Kombëtare Tregtare Kosovë sh.a.

 Statement of cash flow for the year ended 31st December 2020

(Amounts in EUR, unless otherwise stated)

	Notes	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Cash flows from operating activities:			
Profit before income tax		12,217,842	6,683,932
<i>Adjustments to reconcile changes in net assets to net cash provided by operating activities:</i>			
Interest expense	19	5,495,560	4,220,136
Interest income	18	(25,699,458)	(21,243,614)
	10,		
Depreciation	10.1	1,532,998	1,726,638
	11		
Gain/ Loss on disposal of property, plant & equipment		-	(50,887)
Gain/loss on sale of investment securities		(2,313,753)	(974,325)
Gain on recovery of written off loans to customers		(261,782)	(201,765)
Write-off of loans to customers		622,978	3,233,656
Other non-monetary income		-	(1,900,666)
Impairment of loans to customers, net		3,241,487	1,198,386
Impairment of other financial assets, net		253,116	4,015
Impairment of other assets		-	225,002
Cash flows from operating profit before changes in operating assets and liabilities		(4,911,012)	(7,079,492)
<i>(Increase)/decrease in operating assets:</i>			
Restricted balances with Central Bank		(4,165,605)	(5,765,776)
Placement and balance with banks		(3,043,411)	(3,044,223)
Loans to banks and other syndication loans	9.1	(32,000,000)	-
Loans to customers	9.2	(49,405,274)	(60,208,934)
Due from BKT Albania		(13,519)	12,776,497
Other assets		(1,429,937)	(921,209)
		(90,057,746)	(57,163,645)
<i>Increase/(decrease) in operating liabilities:</i>			
Due to customers		89,997,119	97,361,361
Due to banks and syndication loans		7,873,869	(13,177,663)
Due to BKT Albania		22,613,063	774,405
Accruals and other liabilities		(679,846)	78,178
Lease liabilities		78,350	0
Impairment losses on financial assets, other than loans to customers, and provisions for off balance items (to be zeroed)		(33,072)	0
		119,849,483	85,036,281
Interest paid		(5,282,727)	(3,686,157)
Interest IFRS 16 paid		(78,340)	(99,994)
Interest received		24,770,121	19,391,991
Income taxes paid		(1,024,997)	(508,768)
Net cash flows from / (used in) operating activities		43,264,782	35,890,216
Cash flows used in investing activities			
Proceeds from sale of investment securities		(13,366,534)	(31,378,004)
Purchases of property, equipment and intangible assets		(14,432,566)	(1,447,055)
Proceeds from sale of Properties, plant & equipment		-	50,887
Net cash from/ (used in) investing activities		(27,799,100)	(32,774,172)
Cash flows from financing activities			
(Repayments of)/ Proceeds from due to banks		(4,037,222)	18,179,999
Paid in capital		9,000,000	5,000,000
Change in lease principal		(803,153)	(801,412)
Net cash generated from financing activities		4,159,625	22,378,587
Net increase in cash and cash equivalents		19,625,307	25,494,631
Cash and cash equivalents at the beginning of the period		71,510,222	46,015,591
Cash and cash equivalents at the end of the period		91,135,529	71,510,222

The audited statement of cash flows is to be read in conjunction with the notes set out in pages 7 to 81 that form part of the audited financial information.

1. General

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

Banka Kombëtare Tregtare J.S.C. Kosova (the “Bank”) is a fully owned subsidiary of Banka Kombëtare Tregtare J.S.C in Albania. BKT - Kosova was registered on 30 August 2007 with the Central Bank of Republic of Kosova (‘CBK’) to operate as a foreign branch in the Republic of Kosova and is subject to CBK regulations. On April 30, 2018, Banka Kombëtare Tregtare Kosova Branch changed its status from foreign branch to Joint Stock Company. Now its bank license has changed from Banka Kombëtare Tregtare Kosova Branch to Banka Kombëtare Tregtare J.S.C Kosova. The Bank offers a wide range of products and services to public and privately-owned enterprises and to individuals in the Republic of Kosova. The main source of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both EUR and foreign currency. BKT offers a variety of corporate and consumer loans, debit and credit cards, ATMs, sophisticated alternative channels, qualified international banking services and various treasury products. The network of BKT Kosova consists of 26 units. Seven units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti, Lipjan, Prishtina International Airport and Skenderaj. The number of employees at the end of 2020 was 389 (2019: 358).

Share capital

At 31 December 2020 the authorised share capital is EUR 31,000,000 (2019: EUR 22,000,000). The Bank is a joint stock company 100% owned by Banka Kombëtare Tregtare J.S.C in Albania. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank’s residual assets.

Upon the Shareholder’s Decision dated 25 June 2020, the Bank share capital was increased from EUR 22,000,000 to EUR 31,000,000 by capital injection performed on 29 June 2020.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). They have been prepared under the assumption that the Bank operates on a going concern basis.

The Bank has considered the impact of Covid-19 in preparing their financial statements. While the specific areas of judgement may not change, the impact of Covid-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event.

More information about circumstances caused by the global pandemic of COVID-19 that affected Bank’s operations and activities in 2020 is disclosed in Note 4. These circumstances did not affect the appropriateness of the going concern assumption of the Bank.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for Financial instruments measured at FVOCI which are measured at fair value.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2. Basis of preparation (continued)

(c) Functional and presentation currency

These financial statements are presented in EUR, which is also the Bank's functional and presentation currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4 and 5.

3. Significant accounting policies

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

(a) Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction.

The assets and liabilities of foreign operations are translated into Euro at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Euro at spot exchange rates at the dates of the transactions. Foreign currency differences on the translation of foreign operations are recognised directly in other comprehensive income.

The Bank during the normal course of business enters into spot foreign exchange transactions with settlement dates 1 or 2 days after the trade date. These transactions are recorded in the financial statements on the settlement date. Foreign currency differences are recognised in profit or loss on the settlement date.

(b) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

3. Significant accounting policies (continued)

(c) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(e) Current and deferred income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, 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, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Bank considers the impact of uncertain tax positions and whether additional taxes and interest may be due.

The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The applicable corporate tax rate in Republic of Kosovo is 10% (31 December 2019: 10%). Under Kosovo tax legislation system, tax losses can be carried forward to be offset against future taxable income for up to seven years.

3. Significant accounting policies (continued)

(f) Financial assets and liabilities

(i) Recognition

The Bank initially recognises financial assets and liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset, with the exception of spot foreign exchange transactions which are recognized on settlement date. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value corrected by (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(ii) De-recognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(ii) De-recognition (continued)

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Central Bank of Kosova "On Credit Risk Management". The write off procedure is initiated after the following conditions are met:

- Credit exposures not covered by collateral, either in pledge form or in mortgage form, classified as non-performing exposure shall be written off from the balance sheet within eighteen (18) months of the period when they are classified in this category;
- Credit exposures that are covered by pledged collateral classified as non-performing must be written off from the balance sheet within thirty-six (36) months of the period when they were classified non-performing;
- Credit exposures that are covered by collateral in the form of mortgages classified non-performing exposure must be written off from the balance sheet within sixty (60) months from the period when they are classified as "non-performing".

(iii) Classification and initial measurement of financial assets

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(iii) Classification and initial measurement of financial assets (continued)

All income and expenses relating to financial assets are recognised in profit or loss.

– ***Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)***

As per the new standard, one of the conditions for financial assets to be classified either under ‘amortised cost’ or ‘Fair Value Through Profit or Loss (“FVTPL”)’ category is that the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank has performed the SPPI test and has determined the business models for its financial assets.

– ***Business model assessment***

There are three business models under IFRS 9 – ‘Held to Collect (“HTC”)', ‘Held to Collect and Sell (“HTCS”)' and ‘Other (“Other BM”)'.

1. Under the HTC model, cash flows result from collecting contractual payments. If an SPPI product is HTC, it is measured at amortised cost.
 2. Under HTCS, cash flows result from contractual payments, as well as from selling the financial assets. If an SPPI product is HTCS, it is measured at fair value through other comprehensive income (“FVOCI”).
 3. Other BM are those that are neither HTC, nor HTCS. One example could be a model under which trading is the primary purpose with contractual payment collection not constituting an integral part of the model. If a product (SPPI or not) is held under Other BM, it is measured at fair value through profit or loss (“FVTPL”).
- The Bank has assessed the business model for its financial assets as follows;

Treasury

Treasury assets consist of cash or equivalents, Government Bonds, Investment securities such as Eurobonds, Bonds and Certificates.

Investment securities are accounted for depending on their classification as either Financial instruments measured at amortized cost or Financial instruments measured at FVOCI and in some cases as HTC.

The business model of the Bank under IFRS 9 is:

- "HTC" for HTM products. Such products shall be measured at amortised cost;
- “HTCS” for AFS products. Such products shall be measured at FVOCI; and
- “Other BM” for TRD products and shall be measured at FVTPL.

Retail

The Retail assets consist of various financing facilities to individuals (e.g. Mortgage loans, Consumer loans, Home improvement loans, Car loans, Credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.

The fair value of the Retail assets is not a critical aspect in the Bank’s management of the portfolio.

The business model of the Banks under IFRS 9 is "HTC" and the Retail loans shall be measured at amortised cost.

Corporate

The Corporate assets consist of various financing facilities to corporates (e.g. Cash loans, Non-cash loans, Agro loans, Project & structured finance, Business credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.

The fair value of the Corporate assets is not a critical aspect in the Bank’s management of the portfolio.

The business model of the Banks under IFRS 9 is "HTC" and the corporate loans shall be measured at amortised cost.

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(iv) Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and most of other receivables fall into this category of financial instruments as well as government bonds and forfeiting instruments that were previously classified as held-to-maturity under IAS 39.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The category also contains an equity investment. In the current financial year, the fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Bank determined that in the current period the Fair Value of these investments approximates to their carrying amount. Government bonds that are held for trading are classified as held-for-trading under IAS 39 fall into this category.

Financial assets at fair value through other comprehensive income (FVOCI)

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon de-recognition of the asset. The Bank's government bonds, treasury notes and treasury bills, corporate bonds, promissory notes, assets backed securities and equity portfolio that were previously classified as available for sale fall into this category.

(v) Offsetting

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

(vi) Amortised cost measurement

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

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(vii) Fair value measurement

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

In many cases the transaction price equals the fair value (that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold). When determining whether fair value at initial recognition equals the transaction price, the Bank considers factors specific to the transaction and to the asset or liability.

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

(viii) Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss. Recognition of credit losses is no longer dependent on the Bank first identifying a credit loss event. Instead the Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(ix) *Classification and measurement of financial liabilities*

The Bank's financial liabilities include Customer deposits, borrowings from banks and other financial institutions, subordinated debt and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

(x) *Derivative financial instruments and hedge accounting*

The Bank applies the new hedge accounting requirements in IFRS 9 prospectively.

Derivative financial instruments are accounted for at fair value through profit and loss (FVTPL) except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- There is an economic relationship between the hedged item and the hedging instrument
- The effect of credit risk does not dominate the value changes that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

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

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

(g) Cash and cash equivalents

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

(h) Derivatives held for risk management purposes

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

3. Significant accounting policies (continued)

(h) Derivatives held for risk management purposes (continued)

(i) Loans

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

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

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

(j) Property and equipment and intangibles

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

• Leased hold improvements	1 to 10 years
• Motor vehicles and machinery	5 years
• Office furniture	5 years
• Computers and electronic equipment	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting dates.

(iv) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives, which at 31 December 2020 and 2019 is from 1 to 20 years.

Intangible assets consist of software licences.

3. Significant accounting policies (continued)

(j) Property and equipment and intangibles (continued)

(v) Leased property and equipment

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

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

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

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

Initial direct costs

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

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

Option 1 – its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. The practical expedient to exclude initial direct costs from the measurement of the Right of Use asset at the date of initial application is applicable under Option 1 or;

Option 2 – an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease. Although it is not stated explicitly in the new standard, the practical expedient on initial direct costs is not relevant under Option 2. The Bank does not adjust the Right of Use asset for historical amounts e.g. initial direct costs.

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

Low-value assets

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

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

Incremental Borrowing Rate

The rate used for calculation of the RoU asset and the Lease liability has taken into consideration the term, FX denomination, risk associated with the bank, security, risk associated with the asset and economic environment.

The closest values matching this definition are Funds Transfer Pricing (FTP) rates. The term and FX denomination are taken into consideration when constructing the EUR yield curves. The Bank considered at the initial application date the rates published by 31 December 2018.

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

3. Significant accounting policies (continued)

(j) Property and equipment and intangibles (continued)

(v) Leased property and equipment (continued)

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

a. Base rate yield curve

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

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

b. Credit spread

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

- 1) Identify the international long-term Issuer Default Rating of the financial institution (“Bank”). International long-term IDR is given by the External Credit Rating Agency such as Moody’s, Fitch or Standard & Poor. The Bank will use only the official, world-wide accepted, external credit rating agencies such as Fitch, Moody’s and S&P because only these 3 agencies do the analyses world-wide, make and publish the studies on PDs, LGD’s (where credit spread will be determined as $PD \times LGD$) etc. on the global level. These three agencies are also the only ones allowed to be used for the purpose of relying on the expert-data parameters for e.g. in EU (as per CRD/CRR regulation etc.).
- 2) If the financial institution (Bank) does not have such a rating and it is part of a Bank, the lower rating of the country ceiling for the country where Bank is located and the external agency’s international long-term Issuer Default Rating of the ultimate parent is used. The underlying reason for this approach is that when a bank is part of a Bank, support is more likely.
- 3) If neither of these steps results in a rating, country ceiling for the country in which Bank is located is identified and at least one notch is subtracted. The country ceiling is the best rating that an entity based in that country can receive, so this is used as a benchmark as we tend to work with the biggest and most robust institutions. Additionally, the downward risk adjustment is made for the sake of prudence.

The state of Kosova does not have a credit rating.

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

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

3. Significant accounting policies (continued)

(j) Property and equipment and intangibles (continued)

(v) Leased property and equipment (continued)

BKT Kosova

B-

At initial application date, the credit spread of the Bank is 4.08%. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.82%.

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

For leases previously classified as operating leases under IAS 17, a lessee recognizes a lease liability measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2020.

3. Significant accounting policies (continued)

(k) Assets acquired through legal process (repossessed collateral)

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. The Bank applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Collaterals repossessed by the Bank represent the repossessed collaterals of some unrecoverable loans, the ownership of which was taken by the Bank. The Bank has established an Asset Sale Committee, responsible for the disposal of these assets. These assets are accounted for as foreclosed assets. The fair value of these assets at the reporting date is determined with reference to the current market prices. Write off for repossessed collateral is booked for all the repossessed assets more than 10 years from the end of actual reporting period.

(l) Impairment of non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Deposits and borrowings

Deposits and borrowings are part of the Bank's sources of funding. When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements. Deposits and borrowings are initially measured at fair value net of directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies (continued)

(n) Provisions

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

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(o) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

3.1 New Standards adopted as at 1 January 2020

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

Standards and amendments that are effective for the first time in 2020 (for an entity with a 31 December 2020 year-end) and could be applicable to the Bank are:

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to References to the Conceptual Framework (Various Standards)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

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

3. Significant accounting policies (continued)

3.2 Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

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

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

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

4. Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 5).

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (note 3, (f), (iii)). The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

ECL Determination

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

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

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

4. Use of estimates and judgements (continued)

Determining fair values

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

Critical accounting judgments made in applying the Bank’s accounting policies include:

Valuation of financial instruments

The Bank’s accounting policy on fair value measurements is discussed under note 3 (f) (vii).

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

4. Use of estimates and judgements (continued)**Fair values**

The table below sets out the carrying amounts and fair values of the financial assets and liabilities by the level in the fair value hierarchy into which the fair value measurement is categorised:

31-Dec-20			Fair Value			
	Note	Carrying Amount	Level 1	Level 2	Level 3	Total
Placement and balances with banks	7	30,402,526	-	-	30,402,526	30,402,526
Investment securities	8	129,489,705	101,259,272	-	28,230,433	129,489,705
Due from BKT Albania	25	38,658	-	-	38,658	38,658
Loans and advances to banks and other syndication loans	9	32,008,794	-	-	32,008,794	32,008,794
Loans to customers	9	351,964,719	-	-	351,964,719	351,964,719
Total financial assets		543,904,402	101,259,272	0	442,645,130	543,904,402
Customer deposits	13	539,308,400	-	-	539,308,400	539,308,400
Due to banks	14	13,829,728	-	-	13,829,728	13,829,728
Liabilities based on Repo Transactions	14	22,066,897	-	-	22,066,897	22,066,897
Borrowings	16	18,247,148	-	-	18,247,148	18,247,148
Total financial liabilities		593,452,173	0	0	593,452,173	593,452,173

31-Dec-19			Fair Value			
	Note	Carrying Amount	Level 1	Level 2	Level 3	Total
Placement and balances with banks	7	37,244,984	-	-	37,244,984	37,244,984
Investment securities	8	113,609,245	105,911,833	-	7,697,412	113,609,245
Due from BKT Albania	25	25,139	-	-	25,139	25,139
Provisions	9	-	-	-	-	-
Loans to customers	9	305,985,957	-	-	305,985,957	305,985,957
Total financial assets		456,865,325	105,911,833	0	350,953,492	456,865,325
Customer deposits	13	449,152,204	-	-	449,152,204	449,152,204
Due to banks	14	5,435,478	-	-	5,435,478	5,435,478
Liabilities based on Repo Transactions	14	-	-	-	-	-
Borrowings	16	22,283,169	-	-	22,283,169	22,283,169
Total financial liabilities		476,870,851	0	0	476,870,851	476,870,851

4. Use of estimates and judgements (continued)

Going Concern

During the beginning of 2020, the pandemic of COVID-19 was spread globally. In response to the situation, in March 2020 the Government of Kosova took drastic measures by suspending all activities that were not vital. Furthermore, facing the consequences of the COVID-19 Pandemic, which go far beyond the crucial element of public health, both the Government of Kosova and Central Bank of Kosova implemented immediate measures in order to mitigate the social and economic impact of the outbreak.

The government on 27 March 2020 approved the emergency fiscal package in amount Eur 170.6Mil Euro, the package includes:

- Euro 41mio for payment of salaries for private sector with the monthly amount Eur 170 for 2 months
- Euro 20mio for companies public & private that offers municipalities services that are affected by the restriction of movement
- Euro 15mio for micro and small companies affected directly by the covid-19 (through KCGF)
- Euro 5mio for subvention for Agro sector (and Euro 5Mil additional to budget)
- Euro 10mio for supporting companies which are exportin
- Other amount is distributed for measures for fighting COVID-19 and families in need (for 98.100 citizens)
- Extension of deadlines for implementation of the unfinished Grants project for farmers
- Securing the feed corridor for livestock and poultry from Bulgaria and northern Macedonia.
- Subvention of the rent's payments for businesses up to 50%

Furthermore, Government of Kosova announced the second phase of Economic recover package in amount of EUR 1.2billion, including:

- Government Approval of Project Law for Economic Recovery – COVID 19,
- Withdrawal 10 % of savings funds from the pension trust
- Increasing coverage of new loans through the Kosovo Credit Guaranty Fond-KCGF,
- Reprogramming of existing bank loans where the government receives the reprogramming fee,
- Facilitate the tax burden on businesses to improve their short-term liquidity,
- Payment subsidy for existing employers as well as new employers for specific sectors affected by pandemics,
- Doubling the budget for agriculture and increasing subsidies,
- Development of local agricultural markets and their digitalization as well as support for the sale of fresh agricultural products,
- Subsidizing interest rates on agricultural loans,
- Support for the extension of the Greek period for the purchase of apartments and houses based on income criteria as well as the return of a part of the saved funds to the contributors from pension trust,

Central Bank of Kosova has announced that customers that will face liquidity problems can request a postponement of the settlement of their liabilities toward the Banks until 30.10.2020.

The Bank considers the liquidity risk in the recovery plans, in the internal capital adequacy assessment process, setting well-defined limits on its appetite for risk. The Group determines that its capital resources are available.

In terms of liquidity scenarios, the Bank conducts periodically stress tests exercises to assess its liquidity position. In these exercises the Bank conduct 3 liquidity crisis scenario which are: business as usual scenario, idiosyncratic scenario and systemic scenario. In this regard, throughout 2020, the exercises have confirmed that even if the liquidity stress situation would continue for a period of 3 months, the Bank would meet the demand for funds for its main currencies.

4. Use of estimates and judgements (continued)**Going Concern (continued)**

Moreover, in the frame of managing and monitoring the liquidity risk, it has been performed the projection of liquidity in terms of not cash flow based on the trend performance during the period of pandemic situation. It is worth emphasizing that in the above liquidity cash flow analysis, we have taken into consideration how long the cash available, including the cash inflows, would be sufficient to cover the cash outflows. From the results, the Bank would be able to cover its cash outflow, with current cash available and potential cash inflow up to 7 months in loan repayment, security portfolio and deposit withdrawal. In this regard, throughout 2020, the exercises have confirmed that even if the liquidity stress situation would continue for a period of 3 months, the Bank would meet the demand for funds for its main currencies.

In the scenarios considering the pandemic extent, the CAR in both, baseline and adverse scenarios, have resulted above the minimum requirement threshold set by Central Bank of Kosova. However, the Bank has taken necessary protective action by increasing the capital during 2020.

For the year ending 2021, the Bank would expect an increase on the nonperforming loans portfolio due to the economic downturn. Following the emergence of COVID - 19 pandemics, the Bank has analysed and considered the macroeconomic changes to reflect the impact of COVID - 19 in the calculation of the Expected Credit Loss.

During 2020, the Bank has managed to achieve the budgeted results, exceeding them in terms of balance sheet size, while in terms of profitability the Bank achieved 97% of targets. For the year ending 2021, the Bank expects the budgeted figures to be standing at positive results, although not possible to be reliably measured at the moment.

During 2020, the decline in share prices on global listed stock exchanges occurred in the beginning of 2020 reversed gradually in the upcoming month resulting to a higher fair value of the Bank listed investments. In 2021 the Management expect a stable performance of the fair value reserve.

The Banks management evaluates the Banks ability to continue as a going concern considering all the factors stated above and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Banks ability to continue as a going concern. Therefore, the Consolidated Financial Statements continue to be prepared on the going concern basis.

The below table shows the detailed postponed amount and number of customers, divided in corporate and retail:

	Phase 1		Phase 2	
	Postponed Debt	Number of Customers	Postponed Debt	Number of Customers
Corporate	25,819,074	247	70,591,066	172
Retail	36,830,892	3,243	4,913,030	219
Total	62,649,966	3,490	75,504,096	391

5. Financial risk management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks
- operational risks

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

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO), Risk Management Group and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All these bodies report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's Loans to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). BKT Kosova has formed a Credit Committee to oversee the approval of requests for credits up to the limit of 500,000 EUR. Credit requests with amounts over EUR 500,000 are approved only upon decision of the Board of Directors. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

Each business unit is required to comply with Bank credit policies and procedures. Regular audits of business units and Credit Risk Management processes are undertaken by Internal Audit.

5. Financial risk management (continued)**(b) Credit Risk (continued)****i. Maximum credit exposure**

The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets. Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2020 and 31 December 2019 are as follows:

Financial Instruments Credit Risk	Note	31-Dec-20			31-Dec-19		
		Exposure before impairment	Impairment	Net exposure for credit risk	Exposure before impairment	Impairment	Net exposure for credit risk
A. Credit risk exposure relating to balance sheet items							
Cash and Cash Balances with Central Banks		102,398,903	-	102,398,903	68,789,883	-	68,789,883
Placements and Balances with the Banks		30,408,198	-5,672	30,402,526	37,277,297	-7,174	37,270,123
Investment securities - measured at FVOCI		101,467,602	-208,330	101,259,272	106,146,687	-234,855	105,911,832
Investment securities - measured at amortised cost		28,317,762	-87,329	28,230,433	7,722,140	-24,727	7,697,413
Loans to customers		364,368,180	-12,403,461	351,964,719	315,593,114	-9,607,157	305,985,957
Loans and advances to banks		32,108,988	-100,194	32,008,794	0	0	0
Other Assets		6,981,921		6,981,921	5,872,782	-225,002	5,647,780
Total Assets		666,051,554	-12,804,986	653,246,568	541,401,903	-10,098,915	531,302,988
Off balance sheet items							
Undrawn credit commitments		40,578,963	-	40,578,963	37,231,125	-	37,231,125
Swap foreign currency contract	29	39,308,879	-	39,308,879	18,575,154	-	18,575,154
Collaterals for loan portfolio		802,594,080	-	802,594,080	699,438,780	-	699,438,780
Securities pledged as collateral		-	-	-	-	-	-
Total off-balance sheet		882,481,922	-	882,481,922	755,245,059	-	755,245,059
Total credit risk exposure		1,548,533,476	-12,804,986	1,535,728,490	1,296,646,962	-10,098,915	1,286,548,047

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii. Expected credit loss measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. This credit quality depends on the extent of credit deterioration since initial recognition and will spread over three stages:

“Stage 1” comprises of assets that have not suffered any significant deterioration of credit quality since initial recognition;

“Stage 2” comprises of assets that have suffered significant deterioration since initial recognition;

“Stage 3” concerns all assets where a default has occurred.

Under this general approach, the ECL for an asset is calculated over different time horizons according to the stage it was assigned to:

ECL over one year for assets in stage 1;

ECL over remaining lifetime for assets in stage 2 and stage 3.

The stage assignment is done according to the following rules:

Impairment: if the counterparty for the considered asset has defaulted, the asset is assigned to “Stage 3”. An asset is considered as having defaulted if any repayment (principal or interest) is overdue for more than 90 days or if the counterparty is in a proven situation of default (bankruptcy).

Rating D (lower than C): Assets with this rating are currently considered to be in stage 3.

Qualitative factors: IFRS 9 has advised to consider qualitative factors such as watch lists or financial analysis by experts. Similarly, to the previous case, there is also a second time threshold. In case the repayment of an asset is overdue for more than 30 days and less than 90 days, it is assigned to “Stage 2”.

Relative Threshold: if the counterparty has suffered significant deterioration in credit risk, that is if its credit quality since initial recognition has dropped more than a specific pre-defined relative threshold, then it is assigned to “Stage 2”.

All assets that are not in the previous cases are assigned to “Stage 1”.

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible.

Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes.

The Bank has three main portfolios, which are:

- Loan portfolio

This category includes wholesale and individual/retail accounts loans.

- Treasury portfolio

This category includes bonds, treasury bills and equity accounts.

- Project and Structured Finance

This category includes letters of credit and bank guarantees.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

Significant Deterioration through relative threshold

The bank computes a relative threshold matrix that gives for each rating a prediction of what the expected rating for each time horizon should be.

Through-the-cycle (TTC) transition matrices give the percentage of counterparties which moved from one rating to another over a specific time interval. TTC matrices over a 10-year horizon are taken since this gives a comfortable horizon for a relative threshold.

Credit risk grading

The bank relied on proxies provided by external credit rating agencies. External TTC transition matrices for all European entities provided by international credit rating agencies are used. The following steps are then carried out:

First the mapping between the internal and external rating systems is performed;

From there, a TTC transition matrix with the number of observations (number of entities that changed from one specific rating to another) is used and a weighted average per mapped rating is computed in order to compute the internal ratings TTC matrix.

Forward-looking information incorporated in the ECL models

The TTC PDs are transformed into PIT PDs by taking into account the macroeconomic environment through a set of macroeconomic variables: real GDP growth rate, inflation rate and unemployment rate. These variables were sourced from the IMF2, including historical data spanning 1990 – 2017 and baseline projections for 2018 – 2021. The first PD model includes a simplified form of the Merton model. In this framework, a systemic variable X_t which represents the macroeconomic environment is introduced. The sensitivity of each rating's PD to this variable is obtained via the calibration of the ρ parameter. The model takes into account the global default rate of each year and calculates X_t for each year, which is then regressed over with the different combinations of macro-economic variables. Using projections of the macroeconomic variables, the regression formula is used to deduce projections of X_t , and based on the one factor Merton model the PIT PDs are obtained. The second PD model considers the default rate per rating in each year, which enables the calibration of the sensitivity π_i for all ratings.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

1. Probability of default (PD);
2. Loss given default (LGD); and
3. Exposure at default (EAD).

ECL is estimated under Baseline (typical), Best (favourable) and Adverse (unfavourable) conditions.

The only Point-in-Time estimates are for Probability of Default. LGD assumes Basel estimates and EAD uses amortisation type payment schedules. Once all components (PD, EAD, LGD) have been computed, the ECL is estimated under three different scenarios: Baseline (typical), Best (favourable) and Adverse (unfavourable) condition, with weights 52%, 18% and 30% respectively. The final ECL is the probability-weighted ECL under those three scenarios.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

1. Probability of Default

The probability of default has been modelled on the basis of the one factor Merton model. The approach to model the point-in-time forward looking and macroeconomic PD is divided into three different steps: - The first step is to calibrate the cumulated TTC PDs; - The second step is to include the forward-looking information and transform the cumulated TTC PDs to PIT PDs; - The final step is to describe the conversion of PIT PDs to TTC PDs after a certain horizon. Default rates are essential for the calculation of Point-in-Time Probability of Default (PD) and for the estimation of ECL. The Bank used external default rate data for each relevant sector and region. A number of macro-economic variables sourced from the IMF2, including historical data spanning 1990 – 2017 and baseline projections for 2018 – 2021, were considered in modelling of PIT PD. For non-rated accounts, PD are estimated using the nominal weighted average PD of all rated accounts within the same rating system. However, this does not guarantee that the PD for non-rated accounts in stage 2 (NRB2) is higher than for stage 1 (NRB1). To account for the higher risk of NRB2 exposures, the Bank mapped NRB2 to an equivalent risk grade with similar PIT PD as the PD for NRB1 exposure for a time horizon equal to the average residual lifetime of all unexpired accounts within the same sector.

2. Loss Given Default (LGD)

Loss Given Default is defined as the percentage of the Exposure at Default (EAD) that is ultimately lost in case of default of a counterparty, after all possible recoveries through selling of collateral or collection procedures. As regards to the loan to customers' portfolio, LGD is modelled using historical recovery rates or using the collateral value of the asset. The bank has considered information about past collateral value, time in default, time to sale, sale costs, in calculating the LGD. A defaulted collateralised asset can move through different stages post default. The bank can seize the collateral ("Possession") in order to sell it ("Sale") and make up for the potential loss due to the default of the counterparty. Possession of collateral can occur voluntarily ("handing over the keys") or via litigation (court proceedings). And sales may be carried out by the institution (after obtaining possession) or by means of a customer self-sale. On the date of collateral sale, any shortfall is recognised in the P&L (write-off expense) and subsequent recoveries (debt collection either internal or external) may occur. Write-off occurs when there is a shortfall on collateral sale. Closed and cures occur when the full outstanding is recovered with the former resulting in the account closing (i.e. no lending). Cure refers to both closed and curing accounts. For the unsecured/uncollateralised types of assets the value of the collateral is supposed to be 0 and the actual model is still applied taking into account pure debt collection. In the light of this recovery process, the Bank defines LGD as the expected severity (loss) given a default. The Banks mapped each collateral type in BKT portfolios to the Basel LGD segments¹, each with their own LGD parameters for Corporate and Retail Portfolio based on historical data. For Sovereigns and Banks Segment, LGD value is fixed 25% as per Basel requirements.

3. Exposure at Default (EAD)

An asset can have a customised, linear or bullet amortisation type. For assets with a customised amortisation type, repayment schedules are used to estimate EAD. For assets without any amortisation type, a linear repayment plan is assumed. For off balance sheet exposures, it is required that provisions are held against undrawn commitments. BKT's calculation of the credit conversion factor (CCF) values is in line with Basel II requirements under the standardised approach: "Commitments with an original maturity up to one year and commitments with an original maturity over one year will receive a CCF of 20% and 50%, respectively." Early repayment/refinance assumptions are also incorporated into the calculation. However, the early repayments are considered to be 0 for all assets as the Bank's historical data suggests insignificant material impact.

5. Financial risk management (continued)**(b) Credit Risk (continued)***ii Expected credit loss measurement (continued)*

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

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

31 December 2020	Loans and advances to customers			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	298,290,214	11,165,637	6,554,854	316,017,078
Transfer to Stage 1 (from 2 or 3)	3,326,933	(3,117,191)	(209,742)	-
Transfer to Stage 2 (from 1 or 3)	(14,588,409)	14,677,740	(89,331)	-
Transfer to Stage 3 (from 1 or 2)	(1,209,389)	(845,775)	2,055,164	-
New financial assets originated or purchased	121,541,929	79,692,328	215,018	201,449,275
De-recognition of financial assets	(118,827,177)	(6,198,411)	(794,093)	(125,819,681)
Changes due to change in credit risk that did not result in de-recognition	(22,104,400)	(3,219,966)	(1,029,793)	(26,354,159)
Write-offs	-	-	(622,978)	(622,978)
Gross Balance at 31 December 2020	266,429,701	92,154,362	6,079,099	364,663,162

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included. As of 31-December-2020 unamortized deferred fee amounts 294,982 Eur.p

5. Financial risk management (continued)**(b) Credit Risk (continued)***ii Expected credit loss measurement (continued)***CHANGES IN GROSS CARRYING AMOUNT OF LOANS TO CUSTOMERS AT AMORTISED COST**

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

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

5. Financial risk management (continued)**(b) Credit Risk (continued)***ii Expected credit loss measurement (continued)*

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

ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST

31 December 2020	Loans to customers allowance			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 20120	7,070,848	436,735	2,099,573	9,607,157
Transfer to Stage 1 (from 2 or 3)	377,980	(162,271)	(215,709)	0
Transfer to Stage 2 (from 1 or 3)	(228,327)	263,529	(35,202)	0
Transfer to Stage 3 (from 1 or 2)	(16,580)	(7,726)	24,306	0
New financial assets originated or purchased	1,435,297	6,003,691	122,939	7,561,927
De-recognition of financial assets	(3,468,160)	(252,557)	(246,365)	(3,967,082)
Write-offs	-	-	(445,178)	(445,178)
Changes in models/risk parameters	(819,564)	(25,866)	492,068	(353,362)
Foreign exchange and other changes	-	-	-	0
Allowance at 31 December 2020	4,351,494	6,255,535	1,796,432	12,403,461

5. Financial risk management (continued)**(b) Credit Risk (continued)***ii Expected credit loss measurement (continued)*

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

ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST

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

5. Financial risk management (continued)**(b) Credit Risk (continued)****ii Expected credit loss measurement (continued)**

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers). Fair values and discount / premiums are excluded.

CHANGES IN GROSS CARRYING AMOUNT OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)**31 December 2020**

	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	12,209,523	-	-	12,209,523	101,457,813	-	-	101,457,813
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	7,206,181	-	-	7,206,181	43,429,220	-	-	43,429,220
De-recognition of financial assets	(12,209,523)	-	-	(12,209,523)	(45,689,756)	-	-	(45,689,756)
Changes due to modifications that did not result in de-recognition	-	-	-	-	(1,008,550)	-	-	(1,008,550)
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other changes	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2020	7,206,181	-	-	7,206,181	98,188,727	-	-	98,188,727

31 December 2020

	Investment Securities at amortised cost				Loan Commitments and financial guarantee			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
Balance at 1 January 2020	8,132,409	-	-	8,132,409	12,284,809	-	5,000	12,289,809
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	(5,000)	5,000	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	20,894,968	-	-	20,894,968	12,401,889	1,808,395	-	14,210,285
De-recognition of financial assets	-	-	-	-	(6,263,720)	-	(5,000)	(6,268,720)
Changes due to modifications that did not result in de-recognition	(687,255)	-	-	(687,255)	700	-	-	700
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other changes	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2020	28,340,121	-	-	28,340,122	18,418,679	1,813,395	-	20,232,074

5. Financial risk management (continued)**(b) Credit Risk (continued)****ii Expected credit loss measurement (continued)**

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

CHANGES IN GROSS CARRYING AMOUNT OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)

31 December 2019	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	6,017,047	-	-	6,017,047	69,702,837	-	-	69,702,837
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	11,164,482	-	-	11,164,482	78,474,987	-	-	78,474,987
De-recognition of financial assets	(4,965,066)	-	-	(4,965,066)	(44,633,406)	-	-	(44,633,406)
Changes due to modifications that did not result in de-recognition	(6,941)	-	-	(6,941)	(2,086,605)	-	-	(2,086,605)
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other changes	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2019	12,209,522	-	-	12,209,522	101,457,813	-	-	101,457,813

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

The gross carrying amounts include only Nominal amounts. Unamortized discount; Accrued interest and Marked to market gain/ (loss) are not included.

5. Financial risk management (continued)**(b) Credit Risk (continued)***ii Expected credit loss measurement (continued)*

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

RECONCILIATION OF THE ACCUMULATED IMPAIRMENT ALLOWANCE OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)**31 December 2020**

	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	7,174	-	-	7,174	234,855	-	-	234,855
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	5,672	-	-	5,672	88,077	-	-	88,077
Derecognition of financial assets	-7,174	-	-	-7,174	-108,702	-	-	-108,702
Write-offs	-	-	-	-	-5,900	-	-	-5,900
Changes in models/risk parameters	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2020	5,672	0	0	5,672	208,330	0	0	208,330

31 December 2020

	Debt Investment Securities at amortised cost				Loan Commitments and financial guarantee contracts			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	24,727	-	-	24,727	536,621	-	-	536,621
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	64,692	-	-	64,692	395,789	3,246	-	399,035
New financial assets originated or purchased	-	-	-	-	(112,096)	-	-	(112,096)
Derecognition of financial assets	-	-	-	-	-	-	-	-
Write-offs	(2,090)	-	-	(2,090)	(168,591)	-	-	(168,591)
Changes in models/risk parameters	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2020	87,329	-	-	87,329	651,722	3,246	-	654,968

5. Financial risk management (continued)**(b) Credit Risk (continued)****ii Expected credit loss measurement (continued)**

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

RECONCILIATION OF THE ACCUMULATED IMPAIRMENT ALLOWANCE OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)**31 December 2019****Balance at 1 January 2019**

Due from Banks				Investment Securities at FVOCI			
Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
6,473	-	-	6,473	138,992	-	-	138,992
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
3,309	-	-	3,309	175,048	-	-	175,048
(2,775)	-	-	(2,775)	(73,380)	-	-	(73,380)
-	-	-	-	-	-	-	-
167	-	-	167	(5,805)	-	-	(5,805)
-	-	-	-	-	-	-	-
7,174	-	-	7,174	234,855	-	-	234,855

31 December 2019**Balance at 1 January 2019**

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

5. Financial risk management (continued)**(b) Credit Risk (continued)****iii. Credit quality analysis**

The following table sets out information about the credit quality of loan to customers in 2020 and 2019 by asset quality at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

		31-Dec-20	31-Dec-19
Stage 1	Non-Past Due	258,653,456	279,970,189
	Past due	7,781,577	18,320,025
	Total	266,435,033	298,290,214
	Allowance	4,345,954	7,070,849
	Total Carrying Amount	262,089,079	291,219,365
Stage 2	Non-Past Due	2,245,311	4,720,748
	Past due	89,902,678	6,444,889
	Total	92,147,989	11,165,637
	Allowance	6,276,187	436,735
	Total Carrying Amount	85,871,802	10,728,902
Stage 3	Non-Past Due	27,882	99,810
	Past due	6,052,258	6,455,044
	Total	6,080,140	6,554,854
	Allowance	1,781,320	2,099,573
	Total Carrying Amount	4,298,820	4,455,281
Total net amount at amortised cost		352,259,701	306,403,548
Value of collateral		802,594,080	699,438,780

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the aging analyses of loans to customers in 2020 and 2019:

31 December 2020	Loans to customers 2020				Loans to customers 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Current	254,434,060	2,145,148	14,708	256,593,916	273,856,236	3,461,464	68,380	277,386,080
1 - 30 days	7,655,019	365,944	10,196	8,031,159	17,363,129	885,357	7,780	18,256,266
31 - 90 days	0	83,175,692	94	83,175,786	-	6,382,081	7,081	6,389,162
91 - 180 days	0	185,019	248,774	433,793	-	-	700,921	700,921
181 - 360 days	0	0	670,920	670,920	-	-	650,707	650,707
> 361 days	0	0	3,354,128	3,354,128	-	-	3,020,412	3,020,412
Total	262,089,079	85,871,803	4,298,820	352,259,702	291,219,365	10,728,902	4,455,281	306,403,548
Value of collateral	542,469,835	237,629,503	22,494,742	802,594,080	640,204,424	37,490,440	21,743,916	699,438,780

5. Financial risk management (continued)**(b) Credit Risk (continued)****iii. Credit quality analysis (continued)**

The following table sets out information about the credit quality of financial assets, other than loans to customers, measured at amortised cost, FVOCI debt investments (2019). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

FINANCIAL INSTRUMENTS CREDIT RISK - OTHER THAN LOANS TO CUSTOMERS

	2020			2019	
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Purchased credit- impaired	Total
Placements and Balances with banks at amortised cost					
Aa1 to Aa3		-	-	-	-
A1 to A3		-	-	-	-
Baa1 to Baa3	3,003,000	-	-	-	3,003,000
Ba1 to Ba3	-	-	-	-	-
B1 to B3		-	-	-	-
Unrated	4,203,181	-	-	-	4,203,181.11
Exposure before impairment	7,206,181	-	-	-	7,206,181
Loss allowance	5,672	-	-	-	5,672
Carrying amount	7,200,509	-	-	-	7,200,509
Investment Securities at FVOCI					
Aa1 to Aa3	-	-	-	-	-
A1 to A3	1,144,323	-	-	-	1,144,323
Baa1 to Baa3	2,574,386	-	-	-	2,574,386
Ba1 to Ba3	17,381,724	-	-	-	17,381,724
B1 to B3	38,960,808	-	-	-	38,960,808
Unrated	38,127,488	-	-	-	38,127,488
Exposure before impairment	98,188,729	-	-	-	98,188,729
Loss allowance	208,330	-	-	-	208,330
Carrying amount	97,980,399	-	-	-	97,980,399

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(amounts in EUR, unless otherwise stated)

5. Financial risk management (continued)**(b) Credit Risk (continued)****iii. Credit quality analysis (continued)**

<i>Investment Securities at Amortised Cost</i>						
Aa1 to Aa3	-	-	-	-	-	-
A1 to A3	-	-	-	-	-	-
Baa1 to Baa3	-	-	-	-	-	-
Ba1 to Ba3	1,503,347	-	-	-	1,503,347	-
B1 to B3	26,836,775	-	-	-	26,836,775	8,132,409
Unrated	-	-	-	-	-	-
Exposure before impairment	28,340,122	-	-	-	28,340,122	8,132,409
Loss allowance	87,329	-	-	-	87,329	24,727
Carrying amount	28,252,793	-	-	-	28,252,793	8,107,682

Credit quality of financial assets other than loan and advances to customers, based on the internal rating system of the Bank is categorised as follows:

31-Dec-20	Cash and balances with Central Bank	Due from other banks	Investment securities	Loans to banks and syndicated loans	Other Assets	Total
Good	102,398,903	30,402,526	129,489,705	32,008,794	6,981,921	301,281,849
Acceptable	-	-	-	-	-	-
Close monitoring	-	-	-	-	-	-
Total	102,398,903	30,402,526	129,489,705	32,008,794	6,981,921	301,281,849

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5. Financial risk management (continued)**(b) Credit Risk (continued)****iii. Credit quality analysis (continued)**

The following table sets out information about the credit quality loans to customers for the corporate portfolio in 2020. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST - CORPORATE PORTFOLIO				
31 December 2020	12-month ECL	Lifetime ECL not credit-	Lifetime ECL credit-impaired	Total
Large Corporate				
Strong (rating A)	4,270,387	2,331	-	4,272,718
Satisfactory (rating B&C)	110,248,392	61,584,283	11,849	171,844,524
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	381	591,896	592,277
Total Rated	114,518,779	61,586,995	603,745	176,709,519
Non-Rated	31,875	18,929	388	51,192
Total gross amount	114,550,654	61,605,924	604,133	176,760,711
Carrying amount	111,927,725	56,842,923	454,422	169,225,069
Collateral held for credit impaired assets & assets at FVPL	270,340,887	143,935,732	1,505,511	415,782,130
SME Corporate				
Strong (rating A)	1,222,803	280,670	-	1,503,473
Satisfactory (rating B&C)	19,693,069	14,600,395	2,089	34,295,553
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	73,861	2,496,411	2,570,272
Total Rated	20,915,872	14,954,926	2,498,500	38,369,298
Non-Rated	139,849	73,890	6,457	220,196
Total gross amount	21,055,721	15,028,816	2,504,957	38,589,494
Carrying amount	20,652,712	13,951,720	2,167,972	36,772,404
Collateral held for credit impaired assets & assets at FVPL	64,109,408	42,126,760	11,353,954	117,590,122
Micro Corporate				
Strong (rating A)	1,417,328	138,059	-	1,555,387
Satisfactory (rating B&C)	7,356,792	5,222,079	2,017	12,580,888
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	547,886	547,886
Total Rated	8,774,120	5,360,138	549,903	14,684,161
Non-Rated	1,571,390	731,501	-	2,302,891
Total gross amount	10,345,509	6,091,638	549,903	16,987,050
Carrying amount	9,990,842	5,840,409	460,720	16,291,971
Collateral held for credit impaired assets & assets at FVPL	36,009,187	25,691,015	3,446,925	65,147,127
OFF BALANCE SHEET	160,434	24,782	38,687	223,903
Credit cards Loss allowance	4,421	334	7,842	12,597

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5. Financial risk management (continued)**(b) Credit Risk (continued)****iii. Credit quality analysis (continued)**

The following table sets out information about the credit quality loans to customers for the corporate portfolio in 2019. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST - CORPORATE PORTFOLIO

31 December 2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Large Corporate				
Strong (rating A)	4,068,305	-	-	4,068,305
Satisfactory(rating B&C)	134,564,735	5,835,839	27,795	140,428,369
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	1,530,977	1,530,977
Total Rated	138,633,040	5,835,839	1,558,772	146,027,651
Non Rated	211,560	-	-	211,560
Total gross amount	138,844,600	5,835,839	1,558,772	146,239,211
Carrying amount	134,253,483	5,555,097	1,381,363	141,189,943
Collateral held for credit impaired assets & assets at FVPL	324,115,453	19,783,773	6,798,244	350,697,470
SME Corporate				
Strong (rating A)	1,477,949	-	-	1,477,949
Satisfactory(rating B&C)	28,924,852	2,001,303	12,360	30,938,515
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	1,991,856	1,991,856
Total Rated	30,402,801	2,001,303	2,004,216	34,408,320
Non Rated	231,594	109,693	-	341,287
Total gross amount	30,634,395	2,110,996	2,004,216	34,749,607
Carrying amount	29,632,153	1,986,842	1,695,563	33,314,558
Collateral held for credit impaired assets & assets at FVPL	93,111,640	6,277,753	7,869,054	107,258,447
Micro Corporate				
Strong (rating A)	1,357,020	-	-	1,357,020
Satisfactory(rating B&C)	11,111,498	1,068,440	2,751	12,182,689
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	460,914	460,914
Total Rated	12,468,518	1,068,440	463,665	14,000,623
Non Rated	1,527,551	67,553	8,730	1,603,834
Total gross amount	13,996,069	1,135,993	472,395	15,604,457
Carrying amount	13,450,919	1,129,830	374,018	14,954,767
Collateral held for credit impaired assets & assets at FVPL	48,648,730	5,438,383	1,725,198	55,812,311
OFF BALANCE SHEET	201,089	1,249	30,076	232,414
Credit cards Loss allowance	11,420	216	9,338	20,974

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*(amounts in EUR, unless otherwise stated)***5. Financial risk management (continued)****(b) Credit Risk (continued)****iii. Credit quality analysis (continued)**

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2020. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST – RETAIL PORTFOLIO

31 December 2020	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage				
Defaults		25,179	1,290,756	1,315,935
Non-Rated	33,668,866	4,552,549		38,221,415
Total gross amount	33,668,866	4,577,728	1,290,756	39,537,350
Collateral held for credit impaired assets & assets at FVPL	102,644,128	19,908,237	5,269,160	127,821,525
Consumer				
Defaults		62,925	808,994	871,919
Non-Rated	83,740,363	4,727,220	1,540	88,469,123
Total gross amount	83,740,363	4,790,145	810,534	89,341,042
Collateral held for credit impaired assets & assets at FVPL	69,366,224	5,967,758	919,192	76,253,174
Creditcards				
Defaults		28,015	290,218	318,233
Non-Rated	3,074,957	25,724	29,640	3,130,321
Total gross amount	3,074,957	53,739	319,858	3,448,554
Collateral held for credit impaired assets & assets at FVPL	-	-	-	-
OFF BALANCE SHEET	5,746,724	32,630	1,136,625	6,915,979
Credit cards Loss allowance	26,705	246	59,409	86,359
	58,035	1,253	322,815	382,104

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5. Financial risk management (continued)**(b) Credit Risk (continued)****iii. Credit quality analysis (continued)**

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2019. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST – RETAIL				
31 December 2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-	Total
Mortgage				
Defaults			1,258,443	1,258,443
Non Rated	32,086,037	1,047,229	1,636	33,134,902
Total gross amount	32,086,037	1,047,229	1,260,079	34,393,345
Collateral held for credit impaired assets & assets at FVPL	80,324,968	3,622,511	2,744,651	86,692,130
Consumer				
Defaults			767,532	767,532
Non Rated	79,054,700	911,982	42,159	80,008,841
Total gross amount	79,054,700	911,982	809,691	80,776,373
Collateral held for credit impaired assets & assets at FVPL	41,705,052	570,861	1,001,343	43,277,256
Creditcards				
Defaults			445,321	445,321
Non Rated	3,680,137	123,599	4,378	3,808,114
Total gross amount	3,680,137	123,599	449,699	4,253,435
Collateral held for credit impaired assets & assets at FVPL	-	-	-	-
	4,924,137	79,283	1,018,969	6,022,389
OFF BALANCE SHEET	39,275	1,267	151,368	191,910
Credit cards Loss allowance	83,229	4,675	541,767	629,671
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Total loss allowance as per December 2020	4,413,785	6,275,607	1,714,069	12,403,461
Total loss allowance as per December 2019	7,021,597	435,252	1,938,868	9,395,717

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, its performance is closely monitored for the purpose of impairment testing. Set out below are the carrying amounts of loans to customers whose term have been renegotiated and are under monitoring:

FORBORNE LOANS TO CUSTOMERS ACCORDING TO THEIR CREDIT QUALITY AT AMORTISED COST

31 December 2020	Total amount of Loans	Total amount of Forborne Loans	Forborne Loans (%)
Stage 1	266,435,033	627,437	0.24%
Stage 2	92,147,989	2,064,136	2.24%
Stage 3	6,080,140	2,606,390	42.87%
Exposure before impairment	364,663,162	5,297,963	1.45%
Stage 1 Allowance	4,345,954	2,711	1.08%
Stage 2 Allowance	6,276,187	72,137	1.15%
Stage 3 Allowance	1,781,320	435,466	25.41%
Total net amount	352,259,701	4,787,649	1.36%
Value of collateral	802,594,080	25,003,810	3.12%
31 December 2019	Total amount of Loans	Total amount of Forborne Loans	Forborne Loans (%)
Stage 1	298,290,214	2,781,463	0.93%
Stage 2	11,165,637	2,764,725	24.76%
Stage 3	6,554,854	2,681,474	40.91%
Exposure before impairment	316,010,705	8,227,662	2.60%
Stage 1 Allowance	7,070,849	76,262	1.08%
Stage 2 Allowance	436,735	28,927	6.62%
Stage 3 Allowance	2,099,573	372,651	17.75%
Total net amount	306,403,548	7,749,823	2.53%
Value of collateral	699,438,780	41,878,642	5.99%

5. Financial risk management (continued)**(b) Credit Risk (continued)****iv. Credit Collateral and other credit enhancement**

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Financial Assets
- Charges over business assets such as premises, machineries, and accounts receivable;

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

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

Set out below is an analysis of collateral and credit enhancement obtained during the years:

	Loans to customers		
	Retail	Corporate	Total Loans
31 December 2020			
Residential, commercial or industrial property	170,475,344	524,392,277	694,867,621
Financial assets	11,629,594	13,483,295	25,112,889
Other	21,969,762	60,643,808	82,613,570
Total	204,074,700	598,519,380	802,594,080

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

iv. Credit Collateral and other credit enhancement (continued)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). The Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes of grading and takes the necessary actions according to the monitoring procedures. The Risk Committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

5. Financial risk management (continued)

(b) Credit Risk (continued)

iv. Credit Collateral and other credit enhancement (continued)

Past due but not impaired loans

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

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio and other financial assets. It relates to the specific loss component for individually significant exposures.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Central Bank of Kosova "On Credit Risk Management". The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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5. Financial risk management (continued)**(b) Credit Risk (continued)****v. Concentration of credit risk**

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and investment securities as at 31 December 2020 and 31 December 2019 is shown below:

	Note	Loans to customers		Loans to banks		Investment Securities	
		31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Carrying amount	8,9.1,9.2	351,964,719	305,985,957	32,008,794	-	129,489,704.90	113,609,245
Concentration by sector							
Corporate		222,076,965	189,275,170	4,995,384	-	4,512,248.56	2,431,704
Government		-	-			82,056,532.62	92,954,700
Banks		-	-	27,013,410	-	42,920,923.84	18,222,841
Retail		129,887,754	116,710,787	32,008,794	-	-	
Total		351,964,719	305,985,957	32,008,794	-	129,489,704.90	113,609,245
Concentration by location	Note	Loans to customers		Loans to banks		Investment securities	
		31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Albania						1,606,516	4,729,596
Kosova		351,964,719	305,985,957			41,302,217	65,167,441
Montenegro						4,834,707	4,092,984
United Kingdom						3,365,079	
Turkey				14,987,804		48,968,169	23,746,831
Egypt						6,450,632	6,524,874
Ukraine						8,288,664	3,474,026
Europe							3,441,791
Russia							2,431,702
Nigeria				5,005,647			
Uzbekistan				12,015,343			
Japan						1,562,473	
Mexico						1,411,141	
Middle East and Africa						11,700,106	
Total	8,9.1,9.2	351,964,719	305,985,957	32,008,794	0	129,489,705	113,609,245

5. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The purpose of Liquidity Risk Management (LRM) is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Bank's LRM policy includes how the Bank identifies, measures, monitors and control that risk.

Organization of LRM: Bank's LRM Organization includes two different bodies in the monitoring and management of liquidity. The involvement of different bodies helps provide clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to the Treasury and FI Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to the Risk Management Group. The main purpose of the Risk Management Group, which conducts daily overview of LRM reports, is to provide an early warning signal of liquidity risk to the senior management of the Bank.

LRM Reports: Bank's LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under "business as usual" scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows/ outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity.

The LRM approach of the Bank results in positive liquidity gaps for all time stages up to one year as at 31 December 2019.

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5. Financial risk management (continued)**(c) Liquidity risk (continued)**

As at 31 December 2020, the Bank's assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-specified	Total
Assets							
Cash and balances with Central Bank	102,398,903	-	-	-	-	-	102,398,903
Placement and balances with Banks	23,282,835	6,106,566	1,013,125	-	-	-	30,402,526
Financial instruments measured at FVOCI	-	2,112,908	3,664,930	68,595,948	26,885,487	-	101,259,272
Financial instruments measured at amortized cost	-	2,213,107	-	17,728,661	8,288,664	-	28,230,433
Due from BKT Albania	38,658	-	-	-	-	-	38,658
Loans and advances to banks	-	-	27,003,147	5,005,647	-	-	32,008,794
Loans and advances to customers, net	4,197,476	3,958,618	37,663,384	158,948,130	147,197,111	-	351,964,719
Other assets	3,963,626	837,430	2,180,865	-	-	-	6,981,921
Right of use assets	-	-	-	-	-	2,053,083	2,053,083
Total assets	133,881,498	15,228,629	71,525,451	250,278,386	182,371,262	2,053,083	655,338,309
Liabilities							
Customer deposits	275,314,387	15,136,120	122,994,449	125,346,032	517,413	-	539,308,400
Due to banks and REPO							
Agreements	23,455,131	-	11,120,923	-	-	-	34,576,054
Due to BKT Albania	1,320,571	-	-	-	-	-	1,320,571
Accruals and other liabilities	1,978,468	-	-	-	-	-	1,978,468
Lease Liability	-	-	-	-	-	2,116,340	2,116,340
Borrowings	-	-	450,062	17,797,086	-	-	18,247,148
Total liabilities	302,068,557	15,136,120	134,565,434	143,143,118	517,413	2,116,340	597,546,982
Net Position	(168,187,059)	92,509	(63,039,983)	107,135,268	181,853,849	(63,257)	57,791,327
Cumulative net position	(168,187,059)	(168,094,550)	(231,134,533)	(123,999,265)	57,854,584	57,791,327	-

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*(amounts in EUR, unless otherwise stated)***5. Financial risk management (continued)****(c) Liquidity risk (continued)**

LRM reports are produced for Euro currency and for the total statement of financial position as well. Maximum cumulative outflow limits, which are managed and monitored on a daily-basis, have been assigned.

The assets and liabilities are presented at their remaining maturity in the table above. The cumulative liquidity gaps are in negative due to the high concentration of deposits (current accounts).

As at 31 December 2019, the Bank's assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-specified	Total
Assets							
Cash and balances with Central Bank	38,501,618	-	-	-	-	30,288,265	68,789,883
Placement and balances with banks	30,573,029	5,630,779	-	1,041,176	-	-	37,244,984
Investment securities	188,059	446,007	5,110,041	67,775,540	32,392,185	-	105,911,832
Held-to-maturity securities	-	91,028	29,987	7,576,398	-	-	7,697,413
Due from BKT Albania	25,139	-	-	-	-	-	25,139
Loans and advances to customers	13,555,835	22,954,481	140,690,061	92,847,391	35,938,189	-	305,985,957
Other assets	2,875,019	-	2,653,640	-	-	-	5,528,659
Right of use assets						2,799,428	2,799,428
Total assets	85,718,699	29,122,295	148,483,729	169,240,505	68,330,374	33,087,693	533,983,295
Liabilities							
Customer deposits	226,055,045	15,777,392	99,794,421	107,525,346	-	-	449,152,204
Due to banks	1,436,133	1,381,979	1,842,961	-	-	-	4,661,073
Due to BKT Albania	774,405	-	-	-	-	-	774,405
Income tax liability	-	196,960	-	-	-	-	196,960
Accruals and other liabilities	2,299,295	-	-	-	-	-	2,299,295
Lease Liabilities	-	-	-	-	-	2,841,154	2,841,154
Borrowings	18,169	-	4,037,222	18,227,778	-	-	22,283,169
Total liabilities	230,583,047	17,356,331	105,674,604	125,753,124	0	2,841,154	482,208,260
Net Position	-144,864,348	11,765,964	42,809,125	43,487,381	68,330,374	30,246,539	51,775,035
Cumulative net position	-144,864,348	-133,098,384	-90,289,259	-46,801,878	21,528,496	51,775,035	-

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5. Financial risk management (continued)**(d) Market risk****1) Foreign currency risk**

Foreign currency risk is the risk that the value of assets and liabilities will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Central Bank of Republic of Kosova guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions. The Treasury and FI Group manages the foreign currency positions and balances the currency spread of the Bank on an ongoing basis. The following tables present the equivalent amount of assets, liabilities and shareholder's equity by currency as at 31 December 2020 and 2019:

2020	EUR	ALL	USD	GBP	CHF	Other	Total
Assets							
Cash and balances with Central Bank	89,169,171	104	749,673	422,667	11,996,001	61,287	102,398,903
Placement and balances with Banks	24,912,092	80,819	2,422,428	219,657	2,758,767	8,763	30,402,526
Financial instruments measured at FVOCI	75,239,371	-	22,654,822	2,220,797	1,144,282	-	101,259,272
Financial instruments measured at amortized cost	9,790,769	-	18,439,663	-	-	-	28,230,433
Due from BKT Albania		25,886			12,771		38,658
Loans and advances to banks	32,008,794	-	-	-	-	-	32,008,794
Loans and advances to customers	351,964,707	-	11	-	1	-	351,964,719
Other assets	5,812,008	-	1,232,401	-	33,007	-	7,077,415
Total assets	588,896,912	106,809	45,498,998	2,863,121	15,944,829	70,050	653,380,721
Liabilities							
Customer deposits	521,260,262	355	10,596,460	2,151,131	5,299,055	1,136	539,308,400
Due to banks	31,581,460	-	1,137,721	23	1,856,850	-	34,576,054
Due to BKT Albania	941,269	-	378,870	383	-	49	1,320,571
Deferred tax liabilities	-	-	-	-	-	-	-
Provisions	654,968	-	-	-	-	-	654,968
Income tax liability	-	-	-	-	-	-	-
Total liability	554,437,959	355	12,113,051	2,151,537	7,155,905	1,185	575,859,992
Net position	34,458,952	106,454	33,385,947	711,584	8,788,924	68,865	77,520,726
Net position (GAP)	34,458,952	34,565,406	67,951,353	68,662,937	77,451,861	77,520,726	-

5. Financial risk management (continued)

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(amounts in EUR, unless otherwise stated)

(d) Market risk (continued)**1) Foreign currency risk (continued)**

2019	EUR	ALL	USD	GBP	CHF	Other	Total
Assets							
Cash and balances with Central Bank	89,169,171	104	749,673	422,667	11,996,001	61,287	102,398,903
Placements and balances with banks	24,900,571	80,819	2,422,428	219,657	2,758,767	8,763	30,391,005
Available for sale securities	75,239,371	-	22,654,822	2,220,797	1,144,282	-	101,259,272
Held-to-maturity securities	9,790,769	-	18,439,663	-	-	-	28,230,432
Due from BKT Albania		25,886			12,771		38,657
Loans to customers	32,008,794	-	-	-	-	-	32,008,794
Other assets	351,964,707	-	11	-	1	-	351,964,719
Total assets	583,073,383	106,809	44,266,597	2,863,121	15,911,822	70,050	646,291,782
Liabilities							
Customer deposits	433,746,576	371	8,196,247	1,890,593	5,318,407	10	449,152,204
Due to banks	4,024	-	1,427,293	25	3,229,731	-	4,661,073
Due to BKT Albania	418,278	-	355,668	403	-	56	774,405
Income tax liability	196,960	-	-	-	-	-	196,960
Accruals and other liabilities	2,170,038	-	111,919	-9,932	27,270	-	2,299,295
Borrowings	22,283,169	-	-	-	-	-	22,283,169
Total liability	458,819,045	371	10,091,127	1,881,089	8,575,408	66	479,367,106
Net position	124,254,338	106,438	34,175,470	982,032	7,336,414	69,984	166,924,676
Net position (GAP)	124,254,338	124,360,776	158,536,246	159,518,278	166,854,692	166,924,676	-

5. Financial risk management (continued)**(d) Market risk (continued)*****1) Foreign currency risk (continued)***

The following table shows the sensitivity of the Bank for foreign currency risk. The sensitivity analysis includes only the monetary items denominated in foreign currency at the end of the year, thus making adjustment of their value when the exchange rate of the foreign currencies is changed by 1% and/or 5%. Adverse amount below marks a decrease of the profit or loss which appears in case the EUR increases its value compared to the foreign currencies by 1% and/or 5%. When the value of the EUR compared to foreign currencies decreases by 1% and/or 5%, the effect on the profit or loss is equal but with reverse index as showed in the table below:

<i>in</i> EUR	Change in 2020	Profit or loss 2020
ALL	5%	5,323
USD	5%	1,661,670
GBP	1%	6,837
CHF	5%	439,430
Other	5%	3,434

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department in Head Office manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee in Head Office. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date were outstanding for the whole year.

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

	USD	Euro
Assets		
Cash and balances with Central Bank	-	-
Loans and advances to banks	-	3.86%
Loans to customers	-	5,73%
Investment securities	5.93%	3.33%
Liabilities		
Customer deposits and due to banks	0.5%	2.01%

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

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

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

2020	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp Decrease	100 bp Increase	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(2,716,050)	2,716,050	2,900,022	(2,900,022)

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

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5. Financial risk management (continued)**(d) Market risk (continued)****2) Interest rate risk (continued)**

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2020 and 2019 are as follows:

2020	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Non-specified</i>	<i>Total</i>
Assets							
Cash and balances with Central Bank	67,945,029	-	-	-	-	34,453,874	102,398,903
Balances with banks	23,282,835	6,106,566	-	1,013,125	-	-	30,402,526
Financial instruments measured at FVOCI	-	2,112,908	3,664,930	68,595,948	26,885,487	-	101,259,272
Financial instruments measured at amortized cost	-	2,213,107	-	17,728,661	8,288,664	-	28,230,433
Due from BKT Albania	38,658	-	-	-	-	-	38,658
Loans and advances to banks	-	-	27,003,147	5,005,647	-	-	32,008,794
Loans to customers	4,197,476	3,958,618	37,663,384	158,948,130	147,197,111	-	351,964,719
Total assets (TA)	95,463,998	14,391,199	68,331,461	251,291,511	182,371,261	34,453,874	646,303,305
Liabilities							
Customer Deposits, Due to banks& Liabilities based on Repo Transactions	300,090,089	15,136,120	134,115,371	125,346,032	517,413	-	575,205,024
Borrowings	-	-	450,062	17,797,086	-	-	18,247,148
Total liabilities (TL)	300,090,089	15,136,120	134,565,433	143,143,118	517,413	-	593,452,173
2019	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Non-specified</i>	<i>Total</i>
Assets							
Cash and balances with Central Bank	38,501,618	-	-	-	-	30,288,265	68,789,883
Balances with banks	30,573,029	5,630,779	-	1,041,176	-	-	37,244,984
Investment securities	188,059	446,007	5,110,041	67,775,540	32,392,185	-	105,911,832
Held-to-maturity securities	-	91,028	29,987	7,576,398	-	-	7,697,413
Due from Head Office	25,139	-	-	-	-	-	25,139
Loans to customers	13,555,835	22,954,481	140,690,061	92,847,391	35,938,189	-	305,985,957
Total assets (TA)	82,843,680	29,122,295	145,830,089	169,240,505	68,330,374	30,288,265	525,655,208
Liabilities							
Customer Deposits and due to banks	227,491,178	17,159,371	101,637,382	107,525,346	-	-	453,813,277
Borrowings	18,169	-	4,037,222	18,227,778	-	-	22,283,169
Total liabilities (TL)	227,509,347	17,159,371	105,674,604	125,753,124	-	-	476,096,446

5. Financial risk management (continued)

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk and carried out with collaboration with Head Office.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with internal standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

(f) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosova ("CBK"), which ultimately determines the statutory capital required to underpin its business.

5. Financial risk management (continued)**(f) Capital management (continued)***Capital Adequacy*

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted exposures, calculated as the sum of the risk-weighted exposure amounts, on- and off-balance sheet for credit risk and for credit counterparty risk, capital requirement for market and operational risk.

The minimum Regulatory Capital Ratio against the risk weighted exposures required by Central Bank of Kosova is 12%. The minimum Tier 1 Capital Ratio is 8.0% and the minimum Regulatory Capital Ratio is 12%.

In December 2020, BKT has reported the following ratios which does not include the profit of the second half of the year.

- 2020 Tier 1 Capital Ratio 12.98% (2019: 12.89%)
- 2020 Total Capital Ratio 14.03% (2019: 13.02%)

Risk-Weighted Assets (RWAs)

Each exposure class has its own specific requirements on how to assess the appropriate risk weight and respective risk weighted exposures. For credit risk and counterparty risk is applied the Standardised Approach. Operational risk capital requirement is calculated based on the Basic Indicator Approach.

6. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2020 and 2019 are detailed as following:

	31 December 2020	31 December 2019
Cash on hand	28,916,839	29,086,204
Balances with CBK	73,482,064	39,703,679
	102,398,903	68,789,883

Balances with the Central Bank of Kosova include the statutory reserve of 10% of customer deposits in Kosova.

Cash and cash equivalents included in Statement of cash flows as at 31 December 2020 and 2019 are presented as follows:

	31 December 2020	31 December 2019
Cash and balances with Central Bank	102,398,903	68,789,883
Statutory reserves	(34,453,870)	(30,288,265)
Balances with banks	23,190,495	33,008,604
	91,135,529	71,510,222

Balances with banks at 31 December 2020 and 2019 include current accounts with resident and non-resident banks.

7. Placements and balances with banks

Placements and balances with banks as at 31 December 2020 and 31 December 2019 consisted as follows:

	31 December 2020	31 December 2019
Placements	7,092,362	12,017,924
Current accounts	23,190,496	25,042,636
Accrued interest	125,340	191,598
Impairment provision	(5,672)	(7,174)
	30,402,526	37,244,984

The placements in banks are with original maturity up to 1 year and bear interest income from 0.35% up to 4.00% (31 December 2019: EUR 5,637,953 are with original maturity up to 1 year).

8. Investment securities

Investment securities as at 31 December 2020 and 31 December 2019 are presented as follows:

	31 December 2020	31 December 2019
Treasury bonds and Eurobonds- measured at FVOCI	101,259,272	105,911,832
Corporate bonds- measured at amortised cost	28,230,433	7,697,413
Total	129,489,705	113,609,245

During 2020, the bank has realised gain in the amount of 2,313,753 Eur due to sale of investments securities measured at FVOCI (2019: 974,325).

a) Investment securities - measured at FVOCI

Treasury bonds and Eurobonds as at 31 December 2020 comprise as follows:

Type	Nominal Value	Unamortized discount	Accrued Interest	Changes in fair value	Impairment (note 24)	Book Value
EUR Denominated	71,713,000	1,003,466	1,017,194	1,649,126	(143,415)	75,239,371
CHF Denominated	1,110,905	638	5,867	26,912	(41)	1,144,282
GBP Denominated	2,002,158	108,922	21,784	88,871	(939)	2,220,797
USD Denominated	21,925,678	(587,698)	392,140	988,637	(63,935)	22,654,822
	96,751,742	525,328	1,436,986	2,753,548	(208,330)	101,259,272

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

Type	Nominal value	Unamortized discount	Accrued interest	Changes in fair value	Impairment (note 24)	Book Value
EUR denominated	88,240,000	1,087,810	1,082,903	2,750,658	(206,671)	92,954,700
CHF denominated	3,408,882	41,961	22,013	108,509	(493)	3,580,872
USD denominated	8,990,564	(161,277)	170,020	404,643	(27,691)	9,376,260
	100,639,446	968,494	1,274,936	3,263,810	(234,855)	105,911,832

8. Investment securities (continued)**b) Investment securities - measured at amortised cost**

Investment securities measured at amortized cost as at 31 December 2020 comprise as follows:

Type	Unamortized		Accrued		Book Value
	Nominal Value	Discount/ Premium	interest	Impairment	
EUR Denominated	9,400,000	61,669	360,487	(31,387)	9,790,769
USD Denominated	18,270,720	(84,029)	308,915	(55,942)	18,439,663
Total	27,670,720	(22,360)	669,402	(87,329)	28,230,433

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

Type	Unamortized		Accrued		Book Value
	Nominal Value	discount	Interest	Impairment	
Bond USD Denominated	8,011,394	(410,269)	121,015	(24,727)	7,697,413
	8,011,394	(410,269)	121,015	(24,727)	7,697,413

9. Loans to customers, banks and other syndication loans**9.1 Loans and advances to banks and syndication loans**

Loans and advances to banks are comprised of syndicated loans to foreign banks/entities as presented in the table below:

	31 December 2020	31 December 2019
Bank of Industry Limited	5,000,000	-
Ipoteka-Bank	7,000,000	-
Akbank T.A.S	6,000,000	-
Yapi Ve Kredi Bankasi AS	1,000,000	-
Turkiye Ihracat Kredi Bankasi A.S	1,000,000	-
Turkiye Garanti Bankasi AS	3,000,000	-
QNB FinansBank AS	2,000,000	-
Uzauto Motors JSC	5,000,000	-
Denizbank A.S.	2,000,000	-
Total Loans to banks	32,000,000	-
Accrued interest	108,988	-
Less allowances for impairment on loans (note 24)	(100,194)	-
Loans and advances to banks	32,008,794	-

All loans are in EUR and bear interest rates ranging from 1.85% to 4.50%. All loans will mature within one year, except "Bank of Industry Limited" that will mature in four years. The loans are not secured with collateral, beside "Bank of Industry" which is guaranteed by Central Bank of Nigeria and "Uzato Motors JSC" which is guaranteed by both "Holdco UzAvtosanoat" and "UzAuto Motors Powertrain".

9.2 Loans to customers, net

Loans to customers consisted of the following:

	31 December 2020	31 December 2019
Loans to customers, gross	362,539,025	313,987,080
Accrued interest	2,124,137	2,023,625
Less allowances for impairment on loans	(12,403,461)	(9,607,157)
Less deferred fee income	(294,982)	(417,591)
	351,964,719	305,985,957

Movements in the allowance for impairment on loans to customers:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
At 1 January	9,607,157	8,408,771
Impairment charge for the year, net	3,241,489	2,531,376
Written off loans	(445,185)	(1,332,990)
At the end of the period	12,403,461	9,607,157

During the year based on decision from the Board of Directors the Bank has written off loans in total amount of EUR 622,978 (2019: 3,233,656), out of which impaired loans in amount of EUR 445,185 (2019: 1,332,990).

The breakdown of the loan portfolio is as follows:

	2020	2019
Retail (individuals)	37%	38%
Private Enterprises	63%	62%

All loans are in EUR and bear interest rates ranging from 0.5% to 22.2%. The Bank has granted a few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals.

9. Loans to customers (continued)

9.3 Loans to customers, net (continued)

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

	31 December 2020		31 December 2019	
	EUR	%	EUR	%
Construction and other industries	57,506,724	25%	49,975,478	25%
Wholesale Trade	48,984,192	21%	43,686,948	22%
Retail Trade	49,626,216	21%	40,686,125	21%
Manufacturing	25,110,423	11%	23,812,383	12%
Hotels and other services	8,630,121	4%	13,530,589	7%
Services	21,720,758	9%	18,422,335	9%
Agriculture	7,634,992	3%	5,680,625	3%
Other	13,122,799	6%	793,069	0%
Total	232,336,226	100%	196,587,552	100%

The classification of gross retail loans by type is as follows:

	31 December 2020		31 December 2019	
	EUR	%	EUR	%
Loans	127,974,476	97%	114,206,190	96%
Overdraft and credit cards	4,352,459	3%	5,216,963	4%
Total	132,326,936	100%	119,423,153	100%

10. Property and equipment

Property and equipment as at 31 December 2020 and 2019 are composed as follows:

(In EUR)	Land	Leasehold improvements	Motor vehicles	Computers and electronic equipment	Furniture and equipment	TOTAL
Cost						
At 1 January 2019	-	3,051,458	524,231	4,972,417	1,520,220	10,068,326
Additions	-	37,088	561,079	823,580	19,523	1,441,270
Disposals	-	-	(285,171)	-	-	(285,171)
At 31 December 2019/ 01 January 2020	-	3,088,546	800,139	5,795,997	1,539,743	11,224,425
Additions	13,875,000	71,388	-	383,357	21,525	14,351,270
Disposals	-	-	-	-	-	-
At 31 December 2020	13,875,000	3,159,934	800,139	6,179,354	1,561,268	25,575,695
Accumulated depreciation						
At 1 January 2019	-	(2,358,779)	(415,859)	(4,119,953)	(1,410,035)	(8,304,626)
Charge for the year	-	(223,537)	(103,765)	(495,250)	(39,407)	(861,959)
Disposals	-	-	285,171	-	-	285,171
At 31 December 2019/ 01 January 2020	-	(2,582,316)	(234,453)	(4,615,203)	(1,449,442)	(8,881,414)
Charge for the year	-	(219,961)	(132,432)	(368,262)	(16,283)	(736,938)
Disposals	-	-	-	-	-	-
At 31 December 2020	-	(2,802,277)	(366,885)	(4,983,465)	(1,465,725)	(9,618,352)
Net book value						
At 1 January 2019	-	692,679	108,372	852,464	110,185	1,763,700
At 31 December 2019	-	506,230	565,686	1,180,794	90,301	2,343,011
At 31 December 2020	13,875,000	357,657	433,254	1,195,889	95,543	15,957,343

During 2020 the Bank did not sell any asset.

During 2020, the bank bought a land in amount of EUR 13,875,000, which will be used for Head Office location.

As at December 31, 2020 and December 31, 2019 there are no property and equipment pledged.

10.1 Right of use assets

The Bank leases property used for branches' operations. Information about leases for which the Bank is a lessee is presented below.

	Right of use assets	
	Property	Total
As at 1 January 2019	3,632,695	3,632,695
Additions	9,871	9,871
Depreciation expense	(843,138)	(843,138)
As at 31 December 2019/1 January 2020	2,799,428	2,799,428
Additions	-	-
Depreciation expense	(746,345)	(746,345)
As at 31 December 2020	2,053,083	2,053,083

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	31 December 2020	31 December 2019
As at 1 January	2,841,154	3,632,695
Additions	-	9,871
Interest expense (note 19)	78,340	99,994
Payments	(803,153)	(901,406)
As at 31 December	2,116,340	2,841,154

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

	For the year ended as at 31 December 2020	For the year ended as at 31 December 2019
Depreciation expense of right-of-use assets	746,345	833,949
Interest expense on lease liabilities (note 19)	78,340	99,994
Rent expense - short term leases payments	143,118	97,458
Total amounts recognized in profit or loss	967,802	1,031,401

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

	31 December 2020	31 December 2019
Short-term lease liabilities	123,653	791,264
Long-term lease liabilities	1,992,687	2,049,890
Total lease liabilities	2,116,340	2,841,154

11. Intangible assets

Intangible assets as at 31 December 2020 and 2019 are composed as follows:

	Intangible assets	Total
<i>Cost</i>		
At 1 January 2019	276,520	276,520
Additions	5,787	5,787
Disposals	-	-
At 31 December 2019/ January 2020	282,307	282,307
Additions	81,296	81,296
Disposals	-	-
At 31 December 2020	363,603	363,603
<i>Accumulated depreciation</i>		
At 1 January 2019	(248,714)	(248,714)
Charge for the year	(21,541)	(21,541)
Disposals	-	-
At 31 December 2019/01 January 2020	(270,255)	(270,255)
Charge for the year	(49,715)	(49,715)
Disposals	-	-
At 31 December 2020	(319,970)	(319,970)
<i>Net book value</i>		
At 01 January 2019	27,806	27,806
At 31 December 2019	12,052	12,052
At 31 December 2020	43,633	43,633

As at December 31, 2020 and December 31, 2019 there are no intangible assets pledged.

12. Other assets

Other assets as at 31 December 2020 and 2019 are as follows:

	31 December 2020	31 December 2019
Cards transactions settlement	2,579,403	3,093,640
Prepaid expenses	545,276	119,121
Advances to suppliers	86,924	101,243
Collaterals repossessed by the Bank	2,085,071	1,892,971
Cash differences	-	73
Other assets	1,910,249	665,733
	7,206,923	5,872,782
Less allowance for impairment	(225,002)	(225,002)
	6,981,921	5,647,780

Movements in impairment of other assets

	31 December 2020	31 December 2019
As of January 1 st 2020	225,002	-
Additions during 2020	-	225,002
Reverse charge	-	-
Balance as of 31 st December 2020	225,002	225,002

Movements in the repossessed collateral, which consists of immovable properties, are presented as follows:

	31 December 2020	31 December 2019
At 1 January	1,892,971	1,358,010
Additions	860,041	1,545,276
Sales and disposals	(667,940)	(1,010,315)
At 31 December	2,085,071	1,892,971

13. Customer deposits

Customer deposits as of 31 December 2020 and 2019 are composed as follows:

	31 December 2020	31 December 2019
Current accounts:		
Individuals	169,685,262	134,726,939
Private enterprises	77,918,978	58,340,514
State owned entities	17,639,575	19,538,518
	265,243,814	212,605,971
Add: Current maturity of long-term customer deposits	148,201,141	129,020,917
Total short-term customer deposits	413,444,955	341,626,888
Term Deposits:		
Individuals	197,280,131	167,755,383
Private enterprises	35,161,133	28,050,870
State owned entities	41,623,322	40,739,980
	274,064,585	236,546,233
Less: Current maturity of long-term customer deposits	(148,201,141)	(129,020,917)
Total long-term customer deposits	125,863,444	107,525,316
	539,308,400	449,152,204

13. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

	31 December 2020			31 December 2019		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	250,897,674	14,346,140	265,243,814	201,586,700	11,019,271	212,605,971
Term deposits	270,362,588	3,701,998	274,064,585	232,159,875	4,386,358	236,546,233
One month	1,471,765	-	1,471,765	417,039	-	417,039
Three months	1,247,578	-	1,247,578	594,297	-	594,297
Six months	7,228,419	755,042	7,983,461	3,690,618	821,585	4,512,203
Twelve months	91,935,989	2,576,527	94,512,516	85,440,867	2,951,175	88,392,042
Over two years	168,478,837	370,428	168,849,265	142,017,054	613,598	142,630,652
Total deposits	521,260,262	18,048,138	539,308,400	433,746,575	15,405,629	449,152,204

The five largest depositors of the Bank at 31 December 2020 comprise approximately 13 % (2019: 16%) of total deposits.

14. Due to banks and financial institutions

Due to banks as at 31 December 2020 and 31 December 2019 consisted as follows:

	31 December 2020	31 December 2019
Current accounts	95,944	367,310
Time deposits	12,410,917	4,292,804
Accrued interest	2,296	959
Due to banks	12,509,157	4,661,073
Due to BKT Albania	1,320,571	774,405
Repo Agreements	22,043,649	-
Accrued interest	23,248	-
Liabilities based on Repo Transactions	22,066,897	-
Total	35,896,625	-

Kosova Government Bonds and Securities with a total value of EUR 27,394,350 (31 December 2019: The Bank had no Repo Agreements) were used to secure Repo agreements and borrowings from banks.

Due to BKT Albania represents vostro accounts.

15. Accruals and other liabilities

	31 December 2020	31 December 2019
Accounts payable	1,890,412	2,231,103
Guarantee deposits received	7,123	6,656
Other liabilities	80,933	61,536
	1,978,468	2,299,295

As of 31 December 2020, the balance of accounts payables includes: inter-branch account for cards settlement, payable taxes such as withholding taxes for interest, salaries etc.; payable management bonuses, other payable expenses.

“Guarantee deposits received” represents guarantees received from suppliers based on contracts with them.

16. Borrowings

Borrowings as at 31 December 2020 and 31 December 2019 consisted as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Current maturity of long – term borrowings	4,894,444	4,037,222
Non-current part of long – term borrowings	13,333,334	18,227,778
Borrowings	18,227,778	22,265,000
Accrued interest	19,371	18,169
	<u>18,247,148</u>	<u>22,283,169</u>

1. A loan by European Fund for Southeast Europe S.A. (“EFSE”) in amount of EUR 10,000,000 was disbursed on December 20, 2019. The applicable margin for the loan is 2.35% per annum. The loan will be repaid in consecutive semi-annual instalments starting from December 15, 2020 to December 15, 2024.

2. A loan by Green for Growth Fund, Southeast Europe S.A. (“GGF”) in amount of EUR 10,000,000 was disbursed on December 16, 2019. The applicable margin for the loan is 2.25% per annum. The loan will be repaid in consecutive semi-annual instalments starting from December 15, 2020 to December 15, 2024.

3. A loan by European Fund for Southeast Europe S.A. (“EFSE”) in amount of EUR 5,000,000 was disbursed on December 20, 2013. The applicable margin for the loan is 3% per annum. The loan will be repaid in consecutive semi-annual instalments starting from December 30, 2015 to December 30, 2020.

4. A loan by European Fund for Southeast Europe S.A. (“EFSE”) in amount of EUR 5,000,000 was disbursed on June 30, 2014. The applicable margin for the loan is 3% per annum. The loan will be repaid in consecutive semi-annual instalments starting from June 30, 2016 to June 30, 2021.

Loans are given with the purpose to be placed to private micro and small enterprises and entrepreneurs (MSEs) that are registered and/or residents in Kosova to finance working capital and investment requirements.

As at 31 December 2020, the Bank is in-compliance with the covenants with EFSE, such as open credit exposure ratio and cost to income ratio.

17. Share capital

At 31 December 2020 the authorized share capital is EUR 31,000,000 (2019: EUR 22,000,000). The Bank is a joint stock company 100% owned by Banka Kombëtare Tregtare J.S.C in Albania. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank's residual assets.

Upon the Shareholder's Decision dated 25 June 2020, the Bank share capital was increased from EUR 22,000,000 to EUR 31,000,000 by capital injection performed on 29 June 2020.

The following table show the shareholder's structure as of 31 December 2020 and 2019.

	31 December 2020			31 December 2019		
	No. of shares	Total in EUR	%	No. of shares	Total in EUR	%
Banka Kombetare Tregtare J.S.C in Albania	3,100,000	31,000,000	100	2,200,000	22,000,000	100

Reserves

The fair value reserve comprises the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are de-recognized or reclassified. This amount is increased by the amount of loss allowance.

Other reserves**Changes between CBK Regulations and IFRS**

Changes on provision fund	(664,017)
Changes on accrued interest	99,440
Changes on deferred tax	277,547
Changes on Accumulated profit from previous years	(5,564)
Changes on other liabilities	592
Total other reserves	(292,002)

During the year ended at 31 December 2020, the Central Bank of Kosovo (CBK) changed its regulatory reporting framework and discontinued the requirement for issuing statutory financial statements prepared based on a reporting framework different than IFRS, which resulted on a one-time effect of EUR 292,002. This amount may not be distributed as dividend payment or any other form of distribution, until further instructions or approval received by CBK.

Retained earnings

Retained earnings as at 31 December 2020, includes the cumulative non-distributed earnings.

18. Interest income calculated using the effective interest method

Interest income is composed as follows:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Loans to customers	20,357,142	18,569,523
Due from BKT Albania (Note 25)	2,130	8,265
Investment securities	4,654,369	2,402,922
Balances with banks	685,817	262,904
	25,699,458	21,243,614

19. Interest expenses calculated using the effective interest method

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Customer deposits	4,641,540	3,834,936
Due to banks	261,257	167,356
Interest expenses for borrowings	514,424	117,850
Interest expenses for leases (Note 10.1)	78,340	99,994
	5,495,560	4,220,136

20. Fees and commissions, net

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

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
<i>Fee and commission income</i>		
Lending activity	104,818	190,877
Payment services to clients	2,549,532	2,653,065
Customer accounts' maintenance	1,386,481	468,945
Cash transactions with clients	501,385	480,141
	4,542,217	3,793,028
<i>Fee and commission expense</i>		
Inter-bank transactions	(184,368)	(155,822)
	(184,368)	(155,822)
	4,357,849	3,637,206

21. Other (expense) / income, net

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
<i>Other income</i>		
Gain on sale of fixed assets	-	50,887
Income from collection of written off loans	261,782	201,765
Other income	159,090	10,703
	420,872	263,355
<i>Other expenses</i>		
Write off of loans to customers, net	(177,794)	(1,900,666)
Other expenses	-	(139,115)
	(177,794)	(2,039,781)
Other (expense) / income, net	243,078	(1,776,426)

22. Personnel expenses

Personnel expenses are composed as follows:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Salaries	4,158,471	3,768,183
Social insurance	189,262	176,182
Other employee benefits	646,513	371,289
	4,994,245	4,315,654

23. Administrative expenses

Administrative expenses are composed as follows:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Lease payments (note 10.1)	143,118	97,458
Credit/debit cards expenses	1,472,807	1,412,690
Telephone, electricity and IT expenses	365,330	381,953
Other external services	1,224,765	1,128,072
Repairs and maintenance	437,333	336,484
Security and insurance expenses	313,802	286,306
Taxes other than tax on profits	501,252	398,243
Impairment expenses	-	225,002
Marketing expenses	290,833	271,647
Office stationery and supplies	75,283	80,444
Sundry	95,439	96,089
Representation expenses	38,499	41,284
Training	33,503	6,549
	4,991,964	4,762,223

Credit / debit card operational expenses are related to expenses for issuing, maintenance and operational expenses for credit and debit cards.

24. Impairment of financial assets other than loans to customers, and provisions for off balance sheet items

Movements in the allowance for impairment of financial assets other than loans to customers and provisions for off balance sheet items:

	Investment Securities	Loans and advances to banks	Placements in banks	Provision for off balance items	Total
At 01 January 2019	159,819	-	6,473	633,070	799,362
Impairment charge/ (release) for the year	99,763	-	701	(96,449)	4,015
At 31 December 2019/01 January 2020	259,582	-	7,174	536,621	803,377
Impairment charge/ (release) for the year	36,078	100,194	(1,503)	118,347	253,116
At 31 December 2020	295,660	100,194	5,672	654,968	1,056,494

25. Related party transactions

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

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

Aktif Yatirim Bankasi and Kosova Electricity Distribution and Supply Company J.S.C (KEDS) are controlled by Calik Holding. As at January 1, 2015 KEDS is divided into two companies: KEDS and Kosova Electricity Supply Company (KESCO).

Albtelcom sha is a telecommunication company located in Albania and is controlled at 93.2% by Cetel Telecom owned by Calik Holding.

Balances and transactions with related parties

	31 December 2020	31 December 2019
Assets		
<i>Placements and balances with banks:</i>		
Aktif Yatirim Bankasi	42,325	31,478
Due from BKT Albania	38,658	25,139
<i>Loans to customers:</i>		
KEDS / KESCO	489	68
Albtelecom Sh.a	2,359,618	2,501,501
Senior management	418,332	207,456
Other	100,159	-
Total Assets	2,959,581	2,765,642
Liabilities		
<i>Customer current accounts and deposits:</i>		
KEDS / KESCO	16,157,788	-
KEDS SHA	99,797	12,247,625
Aktif Yatirim Bankasi	8,517,679	-
Senior management	575,380	303,965
Due to BKT Albania	1,320,571	774,406
REPO BKT Albania	12,546,399	-
ALBTELECOM	541	-
OTHER RELATED	753,029	-
<i>Other liabilities:</i>		
Aktif Yatirim Bankasi	-	-
Total Liabilities	39,971,185	13,325,996

	31 December 2020	31 December 2019
Commitments and contingencies		
<i>Guaranties in favour of customers:</i>		
BKT Albania	150,000	1,038,168
KEDS / KESCO	-	-
Senior management	12,650	11,950
<i>Commitments in favour of customers:</i>		
KEDS / KESCO	4,511	4,932
Senior Management	54,198	26,937
Other Related	22,515	-

25. Related party transactions (continued)

The balances due from Head Office include transfers of funds on behalf of the Bank or its customers, management of foreign currency positions performed by the BKT Kosova, and other inter-company balances.

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Statement of comprehensive income		
Interest income from:	168,331	184,624
<i>Aktif Yatirim Bankasi</i>	1,958	32,297
<i>KESCO JSC & KEDS SHA</i>	14	20,046
<i>BKT ALBANIA</i>	2,130	132,281
<i>Albtelecom SHA</i>	157,304	-
<i>Other Related</i>	6,924	-
Interest expenses for:	(14,122)	(41,430)
<i>Aktif Yatirim Bankasi</i>	(2,037)	(17,309)
<i>BKT Albania</i>	(3,514)	(24,121)
<i>KESCO JSC & KEDS SHA</i>	-	-
<i>Other Related</i>	(8,571)	-
Fees and commissions Income:	61,155	43,376
<i>KESCO JSC & KEDS SHA</i>	37,243	42,857
<i>Albtelecom SHA</i>	-	519
<i>Aktif Yatirim Bankas</i>	22,673	-
<i>Other Related</i>	1,238	-
Net	215,364	186,570

Transactions with directors and executive officers

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

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Directors	462,131	329,178
Executive officers	454,105	460,025
	916,236	789,203

26. Contingencies and commitments

Guarantees and letters of credit	31 December 2020	31 December 2019
Guarantees in favour of customers	20,232,074	11,061,309
Letters of credit issued to customers	-	1,228,500
	20,232,074	12,289,809
Provision (note 24)	(654,968)	(536,621)
Guarantees and letters of credit, net	19,577,106	11,753,188

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

Other	31 December 2020	31 December 2019
Undrawn credit commitments	40,578,963	37,231,125
Collaterals for loan portfolio	802,594,080	699,473,780

26. Contingencies and commitments (continued)**Legal**

In the normal course of business, the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2020.

Lease commitments

Lease commitments for the years ended 31 December 2020 and 2019 are composed as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Not later than 1 year	123,653	791,264
Later than 1 year and not later than 5 years	786,845	1,534,587
Later than 5 years	1,205,843	515,303
Total	<u>2,116,340</u>	<u>2,841,154</u>

The Bank has entered into lease commitments with duration up to ten years. The Bank may cancel these leases upon giving three months' notice period. Therefore, at 31 December 2020 the maximum non-cancellable commitment payable not later than one year is EUR 225,944 (2019: EUR 201,509).

27. Income tax

Income tax is comprised as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Current income tax expense	1,187,347	1,061,431
Deferred tax income	(22,790)	(490,853)
	<u>1,164,557</u>	<u>570,578</u>

The tax on the Bank's results before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Banks as follows:

	<u>For the year ended as at December 31, 2020</u>	<u>For the year ended as at December 31, 2019</u>
Profit before tax	12,217,842	6,683,932
Add/Less: non-deductible expenses	(1,167,789)	(721,930)
Non-allowable tax depreciation	744,745	107,157
CBK Impairment losses not allowed for tax purposes	742,687	4,545,151
Difference in impairment expenses CBK vs IFRS	(664,016)	-
Taxable profit/ (losses) for the year	<u>11,873,469</u>	<u>10,614,310</u>
Current tax expense	<u>1,187,347</u>	<u>1,061,431</u>
Effective tax rate	<u>9.72%</u>	<u>15.88%</u>

27. Income tax (continued)

Deferred tax is calculated based on the enacted tax rate of 10%. The carry forward period for any tax losses in accordance with the laws in Kosova is seven years. The Bank did not recognize the net deferred tax assets relating to temporary differences, due to the fact that it is not certain that the deferred tax asset will be utilized. The tax losses are detailed as follows:

The movement on the deferred income tax account is as follows:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Assets / (Liability) at 1 January	277,547	(213,306)
Release for the period	22,790	490,853
Liability at the end of the year	300,337	277,547

Deferred income tax liabilities are attributable to the following items:

	31 December 2020	31 December 2019
Allowance for loan impairment	-	454,515
Deferred fee for loan commissions	(12,261)	-
Decelerated depreciation	160	10,716
Deferred interest expenses	34,891	25,622
	22,790	490,853

Income tax liability is consisted as follow:

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
Accumulated taxable profit	11,873,469	10,614,307
10% tax on income	1,187,347	1,061,431
Prepayments of income tax during the year	(1,282,841)	(864,471)
Income tax (receivable) / payable	(95,494)	196,960

28. Exchange rates

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

	31-Dec-20		31-Dec-19	
Currency	Units per EUR	EUR per Unit	Units per EUR	EUR per Unit
USD	1.227099999	0.814929509	1.12331371	0.8902233
GBP	0.899030000	1.112309934	0.85054793	1.1757128
CHF	1.080200000	0.92575449	1.08538604	0.9213312
ALL	123.4000000	0.008103728	121.77000033	0.0082122

29. Swap Contracts

2020

<i>NAME</i>	<i>Value Date</i>	<i>Maturity Date</i>	<i>Amount in EUR</i>	<i>Currency</i>
AKTIF INVESTMENT BANK	04/08/2020	02/02/2021	7,000,000	EUR
AKTIF INVESTMENT BANK	06/08/2020	16/02/2021	1,108,879	GBP
AKTIF INVESTMENT BANK	06/08/2020	23/02/2021	3,000,000	EUR
AKTIF INVESTMENT BANK	02/09/2020	02/03/2021	5,000,000	EUR
AKTIF INVESTMENT BANK	06/10/2020	07/04/2021	10,000,000	EUR
AKTIF INVESTMENT BANK	30/10/2020	17/02/2021	1,700,000	EUR
AKTIF INVESTMENT BANK	10/11/2020	14/05/2021	5,000,000	EUR
AKTIF INVESTMENT BANK	30/12/2020	12/01/2021	6,500,000	EUR
TOTAL			39,308,879	

2019

<i>NAME</i>	<i>Value Date</i>	<i>Maturity Date</i>	<i>Amount in EUR</i>	<i>Currency</i>
AKTIF INVESTMENT BANK	23-10-19	22-04-20	6,000,000	EUR
AKTIF INVESTMENT BANK	31-10-19	30-04-20	3,134,515	EUR
AKTIF INVESTMENT BANK	10-12-19	02-03-20	2,250,000	EUR
AKTIF INVESTMENT BANK	27-12-19	07-01-20	4,400,000	EUR
AKTIF INVESTMENT BANK	30-12-19	08-01-20	2,200,000	EUR
AKTIF INVESTMENT BANK	30-12-19	31-12-19	6,200,000	EUR
TOTAL			24,184,515	

The income/expense

The total expense for Swap contracts for 2020 included in “Profit / (loss) from FX trading activities, net” was EUR 321,060 (2019: EUR 58,302).

30. Events after the reporting period

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