Türkiye İş Bankası A.Ş. – Branch in Kosovo

FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020
WITH INDEPENDENT AUDITORS' REPORT THEREON

CONTENTS

mazars

Ukshin Hoti Str., 45/6
10000, Pristina
Kosovo

Tel: +381 38 609 029
www.mazars.al

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Türkiye Iş Bankasi A.S. – Dega në Kosovë

Opinion

We have audited the financial statements of **Türkiye Iş Bankasi A.S. – Dega në Kosovë** (The "Bank") which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kosovo and 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.

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

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

In preparing the financial statements, management is responsible for assessing the 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 Company or to cease operations, or has no realistic alternative but to do so.

mazars

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

mazars

We are required to communicate with those charged with governance of **Türkiye Iş Bankasi A.S. – Dega në Kosovë** 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.

mazars
Ukshin Hoti Str., 45/6 Build,
10000, Pristina, Kosovo
NUI: 811335597

Teit Gjini
Legal Auditor

February 25th,2021

Statement of financial position as at 31 December 2020
(Amounts in EUR)

	Notes	31 December 2020	31 December 2019
Assets			
Cash on hand, at banks and balances with Central Bank	7	29,737,408	22,822,094
Placements with banks	8	-	3,983,686
Financial investments at amortized cost	9	1,344,904	5,138,322
of which restricted at Central Bank		*1,344,904*	*3,018,104*
Loans and advances to costumers, net	10	68,873,462	68,315,028
Property and equipment, net	11	596,986	768,136
Intangible assets, net	12	92,434	88,464
Repossessed collaterals	14	642,333	165,333
Right of use of asset	13	1,708,843	2,014,959
Deferred tax asset	32	11,107	-
Prepaid income tax	15	9,486	9,455
Other assets	16	19,603	38,486
Total assets		**103,036,566**	**103,343,963**
Liabilities			
Due to customers	17	80,942,006	75,659,528
Due to banks	18	6,000,000	11,612,859
Due to Head Office	19	1,448,744	2,970,181
Other taxes and contribution payable	20	101,957	33,907
Deferred tax liability	32	-	26,256
Deferred revenues	21	-	1,840
Other liabilities	22	308,034	194,956
Provisions	23	105,821	97,795
Lease liability	24	1,811,882	1,984,407
Total liabilities		**90,718,444**	**92,581,729**
Shareholders' equity			
Share capital		10,000,000	10,000,000
Accumulated profit		2,318,122	762,234
Total shareholders' equity	25	**12,318,122**	**10,762,234**
Total liabilities and shareholders' equity		**103,036,566**	**103,343,963**

These Financial Statements were approved on behalf of the Bank on February 23, 2021 by:

Oguzhan Ceylan	**Faton Ramadani**	**Afrore Rudi**
Country Manager	Chief Financial Officer	Partner,Certified Accountant
Türkiye Is Bankasi A.S.	Türkiye Is Bankasi A.S.	Deloitte Kosova sh.p.k
Branch in Kosovo	Branch in Kosovo	

The accompanying notes on pages from 8 to 72 form an integral part of these Financial Statements.

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Interest income		4,482,929	4,814,526
Interest expense		(1,784,258)	(2,156,339)
Net interest income	**26**	**2,698,671**	**2,658,187**
Fee and commission income		606,815	268,435
Fee and commission expense		(31,655)	(9,101)
Net fee and commission income	**27**	**575,160**	**259,334**
Net foreign exchange loss	**28**	91,776	24,511
Other income	**29**	20,288	34,245
Total operating income		**112,064**	**58,756**
Credit loss release (expense) on loans and advances to customers	**10**	126,963	(961,770)
Release of expected losses for financial assets and others	**7,8,9,16**	43,929	57,236
Repossessed assets release of provisions	**14**	41,333	1,687
Release of expected losses (expense) for guarantees issued to customers and overdraft unused limits	**22**	31,177	(82,040)
Operating expenses	**30**	(726,446)	(968,207)
Employee benefits	**31**	(767,220)	(878,153)
Depreciation and amortization	**11,12,13**	(428,448)	(456,172)
Profit (Loss) before tax		**1,707,183**	**(311,142)**
Income tax expense	**32**	(182,938)	(44,092)
Net profit (loss) for the year		**1,524,245**	**(355,234)**
Other comprehensive income		-	-
Total comprehensive income (loss) for the year		**1,524,245**	**(355,234)**

The accompanying notes on pages from 8 to 72 form an integral part of these Financial Statement.

	Share capital	**Retained earnings**	**Total shareholders' equity**
Balance at 1 January 2019	**10,000,000**	**2,050,762**	**12,050,762**
Profit for the year	-	(355,234)	(355,234)
Other comprehensive income			
Total comprehensive income for the year		**(355,234)**	**(355,234)**
Transactions with owners, recognized directly in equity			
Contributions by and distributions to owners/dividend	-	(933,294)	(933,294)
Balance at 31 December 2019	**10,000,000**	**762,234**	**10,762,234**
Balance at 1 January 2020	10,000,000	762,234	10,762,234
Changes in accounting policies		31,643	31,643
Profit for the year	-	1,524,245	1,524,245
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**1,524,245**	**1,524,245**
Transactions with owners, recognized directly in equity			
Contributions by and distributions to owners/dividend	-	-	-
Balance at 31 December 2020	**10,000,000**	**2,318,122**	**12,318,122**

The accompanying notes on pages from 8 to 72 form an integral part of these Financial Statements.

Statement of cash flows for the year ended 31 December 2020
(Amounts in EUR)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
I. Cash flows from (used in) operating activities			
Profit before tax		1,707,183	(311,142)
Adjustments for:			
Depreciation and amortization	**11,12,13**	428,447	456,172
Net impairment loss		(243,402)	984,886
Provision for legal cases	**23**	8,026	97,795
Net gain/(loss) from investing activities		(8,290)	-
Interest income	**26**	(4,482,929)	(4,814,526)
Interest expense	**26**	1,784,258	2,156,339
Changes in operating assets and liabilities:			
Movement in mandatory reserve with CBK	**7**	(1,927,101)	1,080,138
Increase in placements with banks	**8**	4,000,000	2,000,000
Decrease (Increase) in loans and advances to customers	**10**	(424,562)	15,820,315
Increase in due to customers	**17**	5,066,714	17,296,240
Increase (decrease) in tax payable and other liabilities	**20,23**	151,601	(1,864)
Deferred revenues	**21**	(1,840)	(8,297)
Decrease (Increase) in prepayments and other receivables	**16**	18,874	(32,845)
Repossessed assets	**14**	(435,667)	-
Income tax paid	**32**	(127,954)	(131,562)
Interest paid		(1,448,698)	(2,012,550)
Interest paid right of use	**27**	(138,819)	(144,497)
Interest received		4,498,249	4,905,228
Net cash generated from operating activities (I)		**8,424,090**	**37,339,830**
II. Cash flows generated from/ (used in) investing activities			
Decrease (Increase) in financial assets at amortized cost	**9**	3,801,009	(3,032,087)
Acquisition of property and equipment	**11**	(1,983)	(31,070)
Acquisition of intangible assets	**12**	(15,272)	(4,722)
Proceeds from sale of assets		8,290	-
Net cash (used in)/generated from investing activities (II)		**3,792,044**	**(3,067,879)**
III. Cash flows generated from/ (used in) financing activities			
Borrowings with the Head Office	**19**	(1,515,274)	(31,116,818)
Repayment of borrowings	**18**	(5,600,000)	(1,400,000)
Dividends paid		-	(933,294)
Lease payments	**24**	(110,421)	(59,555)
Net cash generated from/ (used in) financing activities (III)		**(7,225,695)**	**(33,509,667)**
IV. Net increase in cash and cash equivalents (I+II+III)		**4,990,439**	**762,284**
V. Cash and cash equivalents at the beginning of the year		**13,277,031**	**12,514,746**
VI. Cash and cash equivalents at the end of the year (IV + V)	**7**	**18,267,470**	**13,277,030**

The accompanying notes on pages from 8 to 72 to the form an integral part of these Financial Statements.

1. REPORTING ENTITY

Türkiye İş Bankası A.Ş.– Branch in Kosovo ("the Bank" or "the Branch") is a branch of Türkiye İş Bankası A.Ş., a Turkish entity. The Bank operates as a commercial and savings bank to all categories of customers within Kosovo.

The Bank operates under a banking licence numbered 011 issued by the Central Bank of the Republic of Kosovo, registered at the Ministry of Trade and Industry on 19 November 2012 with business registration number 70899345 and fiscal number 600886131. The Bank operates with two branches. One office is located at Str. Ukshin Hoti No 100, in Pristina and the other one at Zahir Pajaziti Street, in Prizren.

The bank had 30 employees as at December 31st, 2020 (29 employees as at December 31st, 2019)

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it 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 Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(d) Functional and presentation currency

The Financial Statements are presented in EUR, which is also the Bank's functional currency.

(e) Use of estimates and judgments

The preparation of Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Information about impairment of financial assets and fair values of financial instruments is described in note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

(b) Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, where appropriate, a shorter period) to:

− the gross carrying amount of the financial asset; or

− the amortized cost of the financial liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

Interest income is calculated by applying the effective interest rate to the gross basis of the financial asset.

Under IFRS 9 for financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(c) Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.
Under IFRS 15 the Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.
The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations,
Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time.
The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) 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

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

Deferred tax

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

Deferred tax is 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.
A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets and deferred tax liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit and tax obligation, respectively will be realized. Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

(e) Leases

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture, vehicles and telephones). For these leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:
- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Leases (continued)

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The lease payments change due to changes in an indexor rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.
The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an indexor rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Leases (continued)

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.
The Bank has chosen to use the Modified Retrospective Approach in applying IFRS 16. Under the modified retrospective approach, a lessee will not have to recast comparative financial information. Therefore, the date of initial application is the first day of the annual reporting period in which a lessee first applies the requirements of the new lease standard. At the date of the initial application of the new lease standard, lessees will recognize the cumulative effect of the initial application as an adjustment to the opening balance of retained earnings as of 1st January 2019. Prior periods are left as is under the recognition requirements of IAS 17.
The initial recognition involves calculating the present value of all remaining lease payments using the lessee's incremental borrowing rate at the date of initial application and stating the lease liability at the calculated amount on the balance sheet.

In order to calculate the present values of the remaining lease payments the Bank used an interest rate assigned from the Treasury Department of the Head Office. The interest rate used represents the borrowing rate that the Group usually charges in the interbank borrowings. The Bank has used an interest rate of 7.57% to discount lease payments for the branch of Prishtina and Head Office, and has used an interest rate of 6.71% to discount lease payments for the branch of Prizren.

There are two options for measuring the right-of-use asset on transition. It is important to note that this is done on a lease-by-lease basis:

i) The first approach is to measure the asset as if IFRS 16 had been applied since the commencement date of a lease using a discount rate based on the lessee's incremental borrowing rate at the date of initial application.
ii) The second approach is to measure the asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application.
iii) The Bank has chosen to apply the second method above and measuring the lease liability equal to right of use asset adjusted by any prepayment. The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of EUR 2,273,091(including prepaid leases) and lease liabilities of EUR 2,043,962.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments

Financial assets and financial liabilities are recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. 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 recognized immediately in profit or loss.

g) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.
All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

The Bank recognized in its financial statements only financial assets that are held at amortized cost.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

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

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).
Despite the foregoing, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset:

a) the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see below); and

b) the Bank may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see below).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets (continued)

(i) Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Bank recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the 'finance income – interest income' line item (note 26).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets (continued)

(ii) Debt instruments classified as at FVTOCI

The corporate bonds held by the Bank are classified as at FVTOCI. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are de-recognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see above) are measured at FVTPL. Specifically:

a) Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
b) Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Bank has not designated any debt instruments as at FVTPL.
c) Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

(iv) Foreign exchange gains and losses

a) The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically, for financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item;
b) b) for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the 'other gains and losses' line item. Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve;
c) c) for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item; and
d) d) for equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets (continued)

(v) Derecognition of financial assets

The Bank derecognizes a financial asset only 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 entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.
On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

(vi) Write of policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Bank may write-off financial assets that are still subject to enforcement activity.

h) Financial liabilities

(i) Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Bank, are measured in accordance with the specific accounting policies set out below.

(ii) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) designated as at FVTPL.

A financial liability is classified as held for trading if:

a) it has been acquired principally for the purpose of repurchasing it in the near term; or
b) on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
c) it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial liabilities (continued)

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
b) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
c) it forms part of a contract containing one or more embedded derivatives.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon de-recognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Bank that are designated by the Bank as at FVTPL are recognized in profit or loss.

(iii) Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.
The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial liabilities (continued)

(iv) Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.
Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- the amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

(v) Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk, foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.
The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

(vi) De-recognition of financial liabilities

The Bank de-recognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial liabilities (continued)

(1) the carrying amount of the liability before the modification; and
(2) the present value of the cash flows after modification is recognized in profit or loss as the modification gain or loss within other gains and losses.

(i) Identification and measurement of impairment

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
− financial assets that are debt instruments; and
− loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).
The Bank will recognize loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized will be 12-month ECLs:
− debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
− loans and debt investment securities for which credit risk has not increased significantly since initial recognition.

Measurement of ECLs

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

Probability of default

Represents the probability of default of the credit over a specified time period. In this context, the Bank has developed models to calculate 12 month and life time default probabilities by using internal rating models.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on requirements set forth by Credit Risk Management regulation by using qualitative and quantitative factors that are indicative of the risk of default.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets and financial liabilities

Significant increase in credit risk

Significant increase in the risk of default and default itself are key determinants for calculation of the expected credit losses.
At each reporting date, the Bank assesses whether there has been a significant increase in credit risk by comparing:
(i) The risk that the loan will default at or after the reporting date with
(ii) The risk of default assessed at or after the date of its initial recognition.

When performing this assessment, the Bank considers reasonable and supportable forward-looking and historical information for individual loans, or group of loans when reasonable and supportable information is not available on an individual basis. Measurement of the ECLs pattern reflects the general pattern of deterioration or improvement in the credit quality of financial instruments, expressed in terms of significant increase in credit risk. When the financial instruments are initially originated, loss allowance is measured at an amount equal to 12-month expected credit losses. When the instrument's risk of default has significantly increased since its origination, the Bank shall measure loss allowance at an amount equal to lifetime expected credit losses.

Determining whether credit risk has increased significantly

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.
The Bank has identified whether a significant increase in credit risk has occurred for an exposure that changes the regulatory risk classification from standard to watch assessed in line with the Bank's policy for regulatory risk classification. All loans showing significant increase in credit risk are classified in Stage 2.
As a backstop, and as required by IFRS 9, the Bank presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Beside the backstop indicator, the Bank also considers as a significant increase in credit risk if the loan is classified from standard to watch or a worse risk grade or other loans of the same customer with the Bank are classified from standard to watch or a worse risk grade. The Bank also considers that the risk has increased if the client requests a restructuring with easing teams such as: extended maturity, lower instalment, lower interest rate, waivers of accrued penalties and interest.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets and financial liabilities (continued)

Methodology on calculation of ECL

PD calculation

Probability of Default: Represents the likelihood of a default over a specified time period.
In this context, the Bank has developed models to calculate 12-month and life-time default probabilities by using internal rating based on credit rating models.

There has been a segmentation of the loan portfolio based on the similar characteristics of risk with the purposes of PD calculation. Below are presented the segments of the loan portfolio:

- Business Loans
- Individual Loans

Calculation of 12-month PD is done on monthly basis for the whole period of historical data and the long-run average of PDs is used for Business and Individual portfolio separately.

Lifetime PD is calculated by adding external factors (benchmarking) over the 12-month PD. In this regard the change of NPL ratio from 2014 to 2019 is used as external factor. So it is taken into consideration that if the NPL ratio in the market will reach the maximal point (as in 2014) this will affect the probability of default of the ISBANK Branch as well.

LGD calculation

Loss Given Default (LGD): Defined as the damage caused by the default of borrower to the total balance of the exposure at the time of default. The LGD estimates are determined in terms of credit risk groups that are detailed in the Bank's data resources and system facilities. The model used for the estimation of the LGD was established by taking into account the direct cost items during the collection process, based on the historical data of the Bank's collection, cash flows are discounted at effective interest rates.
There has been a grouping into the following segments of the loan portfolio with the purposes of LGD calculation:

- Business Loans
- Individual Loans

The Bank reviews on annual basis the set limits and criteria to ensure that they remain valid following possible changes in the loans portfolio size and composition.

Exposure at Default:

For loans covered by cash, the balance of cash at the reporting date, for loans that are not covered by cash, the balance calculated using the Credit Conversion Factor (CCF) is represented by Exposure to Failure. Credit Conversion Factor: Estimated for non-cash loans (outstanding limit for renewables, commitments, non-cash loans, etc.) The Bank's historical limit usage data for revolving loans are: analyzed and the amount of the limit that can be used up to the predetermined time is estimated. For non-cash loans, the loan to cash conversion ratio is estimated by analyzing the type of product and the amount of past bank compensation. Represents the balance at the date of report. Expected credit loss is reflected in the income statement. Released provisions in the current year are accounted under "Expected Credit Losses", the released portion of the free provisions set aside in previous years is transferred to "Other Operating Income".

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets and financial liabilities (continued)

Stage 1:
An important determinant for calculating the expected credit loss in accordance with IFRS 9 is to assess whether there is a significant increase in the credit risk of the financial asset. Financial assets that have not experienced a significant increase in credit risk since the initial recognition are monitored in the first stage. Impairment for credit risk for the Stage 1 financial assets is equal to the 12-month expected credit losses.

Stage 2:
Financial assets that experienced a significant increase in the credit risk since initial recognition, are transferred to Stage 2. The expected credit loss of these financial assets are measured at an amount equal to the instrument's lifetime expected credit loss. In order to classify a financial asset in the second stage, the following criteria is considered:
-
Overdue more than 30 and less than or equal to 90 days
- Restructuring of the loan
- When a credit facility has shown a significant deterioration since origination, the Bank records an allowance based on Lifetime PD.
- Credit facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3 to Stage 2.
In the event of a significant deterioration in the probability of default, the credit risk is considered to be increased significantly and the financial asset is classified as stage 2. The absolute and gradual thresholds used to increase the probability of default are differentiated on the basis of portfolio type.

Stage 3:
Financial assets with sufficient and fair information for impairment at the reporting date, are classified in the third stage. Expected credit loss of these financial assets is measured at an amount equal to the lifetime expected credit loss.
. Transition to Stage 3 is realized when the financial asset is defaulted. A default is considered to have occurred with regard to a particular obligor or to financial asset when either or both of the two following events have taken place:-
The bank considers that the obligor is unlikely to pay its credit obligations to the Branch in full, without recourse by the Branch to actions such as realizing security (if held).
- The financial asset is past due more than 90 days.

The validity of the risk parameter estimates used in the calculation of expected credit losses is reviewed and evaluated at least annually within the framework of model validation processes. Macroeconomic forecasts and risk delinquency data used in risk parameter models are re-evaluated every quarter to reflect the changes in economic conjuncture and are updated if needed.

While calculating the expected credit loss, aside from assessment of whether there is a significant increase in credit risk or not, basic parameters expressed as probability of default, loss given default and exposure at default are used.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets and financial liabilities (continued)

Modified financial assets

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

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses. For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

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

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

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit.
Following forbearance, a customer needs to demonstrate consistently good payment behavior over eight months before the exposure is measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets and financial liabilities (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
− financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
− loan commitments and financial guarantee contracts: generally, as a provision;
− where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
− instruments measured at amortized cost: loss allowance is recognized in the statement of financial position.

j) Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances to banks and loans and advances to customers are classified as loans and receivables.

All loans and advances are initially recognized at fair value. After initial recognition, these are subsequently measured at amortized costs using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Loans and advances are reported net of provisions for loan losses.

k) Cash and cash equivalents

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

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

l) Deposits and borrowings

Deposits and borrowings are the Bank's main sources of debt funding.
Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

m) Repossessed assets

Collateral held under loan agreement can only be possessed by the Bank in case of borrower's default and conduct of legal procedures in accordance with legislation of Kosovo which enable the Bank to take full legal title and ownership. Only after the completion of these procedures, the Bank can sell or transfer the collateral. Repossessed assets are initially recognized at the amount stipulated by the court order and are subsequently measured at the lower of cost and net realizable value and any gain or loss from the sale of these assets is recognized in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Repossessed assets (continued)

From the initial recognition, the Bank classifies the repossessed property at a minimum of substandard classification and set aside provisioning according to classification. In addition, the Bank recognizes repossessed collateral as an asset only when it has full legal title of the collateral and the fair value of collateral can be determined reliably. The Bank cannot sell, transfer or re-pledge the collateral if legal procedures for transfer of ownership as a result of default have not been completed. The Bank holds the possession of properties acquired through enforcement in the form of a mortgage, for a maximal period of five years. If, within five years, the asset has not been sold by the Bank, it is written down to zero value.

n) Provisions

A provision is recognized 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 the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

o) Employee benefits

(i) Mandatory social security contributions

The Bank makes only mandatory social security contributions that provide pension benefits for employees upon retirement. The Government of Kosovo is responsible for providing the legally set minimum threshold for pensions in Kosovo under a defined contribution pension plan. The Company's contributions to the pension plan are charged to profit or loss as incurred.

p) Property and equipment

(i) Recognition and measurement

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Purchased software that is essential to the operation of the respective device is capitalized as part of that device.

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

Any gain or loss arising on the disposal of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and recognized in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognized 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 costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Property and equipment (continued)

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight line basis over the estimated useful lives of the assets. Depreciation methods, useful lives and residual values (if not insignificant) are reassessed at the reporting date.

The estimated useful lives for the current and comparative years were as follows:

- Furniture, fixtures and equipment 5 years
- Other fixed assets 5 years
- Vehicles 5 years

Leasehold improvements are depreciated over 10 years which is the shorter of the lease term and their useful lives.

q) Intangible assets

Intangible assets with finite useful life that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful life of the software is five years.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

r) Grants

Grants are not recognized until there is reasonable assurance that the Bank will comply with the conditions attaching to them and that the grants will be received. Grants are recognized in profit or loss on a systematic basis over the periods in which the Bank recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, grants are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

s) Financial guarantees and loan commitments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Taxation

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the balance sheet date. The tax rate on corporate income is set at 10% in accordance with Kosovo tax regulations currently in force, Law no. 06/L-105 "On Corporate Income Tax", published on June 27, 2019

The income tax charge in the profit and loss for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates enforced or substantially enacted at the balance sheet date.

Taxable profit differs from profit as reported in the profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than income taxes are recorded within operating expenses.

Deferred income tax is accounted for using the balance sheet liability method for temporary differences arising between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

i) Initial application of new amendments to the existing standards effective for the current reporting period

- **Amendments to IFRS 3 "Business Combinations" -** Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" -** Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" -** Definition of Material (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IFRS 16 "Leases" - Covid-19-Related Rent Concessions** (effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. The amendment is also available for interim reports.),*

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Bank's financial statements.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

ii) Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements, the following amendments to the existing standards were issued by IASB which are not yet effective:

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

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

5. USE OF ESTIMATES AND JUDGMENTS

Management discusses with the Audit Committee the development, selection and presentation of the Bank's critical accounting policies and their application, as well as assumptions made about significant estimation uncertainties. Information about the assumptions and estimates of uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and of the critical judgments in applying the accounting policies that have the most significant effect on the amounts recognized in the separate financial statements are disclosed below. These disclosures support comments on financial risk management.

a) Expected Credit Losses

Financial assets measured at amortized cost are assessed for impairment on a basis described in Note 4. The Bank reviews its assumptions and judgments on a regular basis.

The Bank measures the expected credit losses of a financial instrument in a way that reflects:
(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(ii) the time value of money; and
(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

b) Determining fair values

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

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

Level 1: Quoted market price in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimation of the fair value is disclosed below.

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

c) Disclosure and estimation of fair value

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

Financial instruments – fair value hierarchy

The following table sets out the fair values of financial instruments measured and not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. No items have fair value measurements in accordance to Level 1.

	2020			**2019**		
	Carrying value	**Fair value**		**Carrying value**	**Fair value**	
		Level 2	**Level 3**		**Level 2**	**Level 3**
Financial assets not measured at fair value						
Financial investments at amortized cost	1,344,904	1,344,904	-	5,138,322	5,138,322	-
Cash on hand and at banks	29,737,408	-	29,737,408	22,822,094	-	22,822,094
Placements to Banks	-	-	-	3,983,686	-	3,998,434
Loans and advances to customers	68,873,462	-	69,026,812	68,264,165	-	67,397,303
Other financial assets	661,806		661,806	184,498	-	184,498
Financial liabilities not measured at fair value						
Due to customers	67,542,295	-	68,014,144	66,874,632	-	66,517,872
Borrowings	6,000,000	-	6,000,000	11,612,859	-	11,595,089
Other financial liabilities	342,147		342,147	129,842	-	129,842

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Financial instruments – fair value hierarchy

Fair value for financial assets and liabilities above have been determined using Level 2 and Level 3 input described above.

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

Placements to Banks
Due from other banks include inter-bank placements and accounts. As loans, advances and deposits are short term and at floating rates, their fair value is considered to equate to their carrying amount.

Financial investments at amortized cost
Investments include treasury bonds issued by the Government of Kosovo which are bought with the intention to hold them till maturity. The fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Loans and advances to customers
Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.
The Bank's loan portfolio has an estimated fair value approximately equal to its book value due either to their short-term nature or to underlying interest rates which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Due to customers, borrowings and other financial liabilities
The fair value of liabilities and Due to customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits and subordinated debt of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

Potential impacts of COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which were likely to negatively impact net income and the measurement of assets and liabilities. However, the pandemic has not had any impact in the activity of the Bank for the year 2020. At the current time, we are unable to quantify the potential effects of this pandemic on our financial statements.

6. FINANCIAL RISK MANAGEMENT

Risk management process and the functions involved in the process are some of the primary responsibilities of the Board of Directors of the Parent Company (Head Office). The Risk Management Department, which operates under the Board of Directors, has been organized as Asset-Liability Management Risk Unit, Credit Risk and Economic Capital Unit, Operational Risk and Model Verification and Subsidiary Risk Unit.

The Bank's risk management process is carried out within the framework of risk policies which are set by the Risk Management Department and issued by the Board of the Directors and written standards which contains risk policies.

These policies which are in line with international practices are general standards which contain: organization and scope of the risk management function, risk measurement policies, duties and responsibilities of the risk management group, procedures for determining risk limits, ways to eliminate limit violations and approval and confirmation to be given in a variety of events and situations. The scope and content of the Bank's risk management system is given by the main risk types.

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

- credit risk
- liquidity risk
- market risk
- 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) 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 investments.

Credit risk is defined as the risk of the failure to comply with the requirements or failing to fulfill its obligations partially or totally of the counter side of the transaction contract with the Bank. The methodology and responsibilities of the credit risk management, controlling and monitoring and the framework of credit risk limitations are specified with the credit risk policy. The Bank defines, measures and manages credit risk of all products and activities. The Board of Directors reviews the Bank's credit risk policies and credit risk strategy on an annual basis as a minimum. Management is responsible for the implementation of credit risk policies which are approved by the Board of Directors.

As a result of loan and credit risks analysis all findings are reported to the Board of Directors and Management on a regular basis. In addition to credit risk assessment process, monitoring of credit risk also comprises monitoring and managing the credit by sector, security, geography, currency, credit type and credit rating.

As part of the Bank's credit risk management, as well as limits required by legal regulations, the Bank utilizes the risk limits to undertake the maximum credit risk within risk groups or sectors that the Board of Directors determines.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

These limits are determined in such a way that minimize risk concentration within particular sectors. Excess risk limits up to legal requirements and boundary limits are considered as an exception. The Board of Directors has the authority to approve exceptions. The results of the control of risk limits and the evaluations of these limits are presented by Internal Audit and Risk Management Group to Management and the Board of Directors.
The Bank uses credit decision support systems which are created for the purpose of credit risk management, lending decisions, controlling the credit process and credit provisioning. The consistency of the credit decision support systems with the structure of the Bank's activities, size and complexity is examined continuously. Credit decision support systems include the Risk Committee assessment and approval of Board of Directors.

Maximum Credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2020 and 31 December 2019 are as follows:

	31 December 2020	31 December 2019
Balances with Central Bank of Kosovo	19,445,500	19,260,798
Cash at banks	9,956,902	3,415,406
Loans and advances to costumers, net	68,873,462	68,315,028
Financial investments at amortized cost	1,344,904	5,138,322
Guarantees in favor of customers and credit commitments	24,322,877	32,714,484
Maximum exposure to credit risk	**123,943,643**	**128,844,038**

Credit quality by class of financial assets:

31 December 2020	Neither past due nor impaired	Past due but not impaired	Past due and impaired	TOTAL
Balances with Central Bank of Kosovo	19,445,500	-	-	19,445,500
Cash at banks	9,956,902	-	-	9,956,902
Loans and advances to costumers, net	57,013,784	10,943,030	916,648	68,873,462
Financial investments at amortized cost	1,344,904	-	-	1,344,904
Guarantees in favor of customers and credit commitments	23,156,700	1,166,177	-	24,322,877
Maximum exposure to credit risk	**110,917,788**	**12,109,208**	**916,648**	**123,943,643**

31 December 2019	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
Balances with Central Bank of Kosovo	19,260,798	-	-	19,260,798
Cash at banks	3,415,406	-	-	3,415,406
Loans and advances to costumers, net	66,708,725	-	1,606,303	68,315,028
Financial investments at amortized cost	5,138,322	-	-	5,138,322
Guarantees in favor of customers and credit commitments	32,714,484	-	-	32,714,484
Maximum exposure to credit risk	**127,237,735**	**-**	**1,606,303**	**128,844,038**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

Loans and advances to customer's bears fixed and floating interest rates.

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/security.

Past due but not impaired loans

Loans and securities, where contractual interest or principal payment 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.

Loans and advances to customers, net	**31 December 2020**	**31 December 2019**
Neither past due nor impaired	57,013,784	66,708,725
Past due and impaired	10,943,030	-
Past due but not impaired	916,648	1,606,303
Total	**68,873,462**	**68,315,028**

The aging analysis of credit risk exposure is as follows:

Category (Aging)	**31 December 2020**	**31 December 2019**
Standard (0 days)	57,404,112	68,223,510
Standard (1-30 days)	10,978,139	97,753
Watch (31-60 days)	387,400	12,972
Substandard (61-90 days)	-	-
Doubtful (91-180 days)	-	-
Loss (more than 180 days)	1,312,825	1,325,532
Accrued interest	489,466	482,557
Less: Deferred disbursement fee	(67,559)	(69,412)
Total Loans at amortized cost, gross	**70,504,384**	**70,072,913**
Less: Allowance for impairment	(1,630,922)	(1,757,885)
Loans and advances to customers, net	**68,873,462**	**68,315,028**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (continued)

Set out below is an analysis of collateral obtained as coverage in respect of loans and advances to customers:

Loans and advances to customers	Maximum exposure to credit risk	Real Estate	Total collateral	Surplus collateral	Net Exposure
31 December 2019	68,315,028	295,816,586	73,835,635	227,501,558	-
31 December 2020	70,504,654	992,103,461	66,572,802	921,598,807	-

The Bank is not permitted to sell or re-pledge collateral held under loan contracts in absence of default by the owner of collateral.

The net exposure consists of a loan to a group client approved centrally, for which the collateral is not held locally but at parent level.

(b) Concentrations

IS Bank has a credit strategy which determines the types of investments (concentrations) based primarily on economic segments such as industry, trade, construction, etc. Due to the small size of the Republic of Kosovo, geographical concentrations within Kosovo are not significant; this strategy is reviewed and updated on an annual basis by the management board or the bank.

The following table breaks down the Bank's main credit exposure at their net amounts, as categorized by the industry sectors of our counterparties.

As of December 31, 2020 and 2019, an analysis of loans to customers and banks by industry sectors was as follows:

	31 December 2020	31 December 2019
Wholesale and retail trade	46,186,423	47,829,150
Electricity, gas, steam and air conditioning supply	-	6,231,805
Construction	8,384,860	3,251,781
Manufacturing	9,244,104	7,940,420
Accommodation and food service activities	1,335,223	864,690
Water, supply, sewerage and waste management and services	415,167	501,138
Individual	875,561	1,079,143
Mining and quarrying	422,076	484,093
Other services	2,011,744	387,969
Transportation and storage	519,397	506,551
Administrative and support service activities	3,970	4,744
Professional, scientific and technical activities	683,951	578,282
Information and communication	-	-
Accrued interest	489,466	482,557
Deferred revenue on disbursement fee	(67,559)	(69,412)
Total Loans at amortized cost, gross	**70,504,383**	**70,072,913**
Less: Allowance for impairment	(1,630,922)	(1,757,885)
Loans and advances to customers, net	**68,873,461**	**68,315,028**

6. 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. Liquidity risk may raise as a result of funding long-term assets with short-term resources. Care is taken to maintain the consistency between the maturities of assets and liabilities and strategies are used to acquire funds over longer terms.

Based on cash flow projections, prices are differentiated for different maturities and thereby measures are taken to meet liq uidity requirements; moreover liquidity that may be required for extraordinary circumstances is estimated and alternative liquidity sources are determined for possible utilization.

The purpose of Liquidity Risk Management is to ensure, as far as possible, that the Bank 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 its reputation. Liquidity Risk Management is handled in collaboration and close supervision of Treasury Group Department in Head Office. As at 31 December 2020 and 2019, the Bank's financial assets and liabilities have remaining contractual maturities as follows:

31 December 2020	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Unspecified**	**Total**
Assets							
Cash and balances with Central Bank	18,267,469	-	-	-	-	11,533,145	29,800,614
Financial investments at amortized cost	9,197			1,346,400	-	-	1,355,596
Loans to customers	6,852,234	2,203,476	19,880,214	27,233,900	14,402,118	-	70,571,943
Total assets	**25,128,900**	**2,203,476**	**19,880,214**	**28,580,300**	**14,402,118**	**11,533,145**	**101,728,153**
Liabilities							
Deposits from costumers	17,895,023	6,124,366	26,172,485	30,750,132	-	-	80,942,006
Short term borrowings	6,000,000				-	-	6,000,000
Dues to Head Office	1,249,763	-	138,774	60,206			1,448,744
Other liabilities	288,496	105,246	263,009	1,179,679	423,421	-	2,259,851
Total liabilities and equity	**25,433,282**	**6,229,611**	**26,574,269**	**31,990,017**	**423,421**	**-**	**90,650,600**
Net Position	**(304,382)**	**(4,026,135)**	**(6,694,055)**	**(3,409,717)**	**13,978,697**	**11,533,145**	**11,077,553**
Cumulative net position	**(304,382)**	**(4,330,518)**	**(11,024,572)**	**(14,434,289)**	**(455,592)**	**11,077,553**	**-**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

31 December 2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with Central Bank	13,320,053	-	-	-	-	9,563,020	22,883,074
Placements with banks	4,001,389	-	-	-	-	-	4,001,389
Financial investments at amortized cost		1,756,857	2,173,750	1,246,839	-	-	5,177,446
Loans to customers	4,900,829	1,710,078	18,084,265	27,511,989	17,935,163	-	70,142,325
Total assets	**22,222,272**	**3,466,935**	**20,258,015**	**28,758,828**	**17,935,163**	**9,563,020**	**102,204,234**
Liabilities							
Deposits from costumers	12,695,922	6,822,669	31,835,351	24,305,585	-	-	75,659,527
Short term borrowings	7,001,992	2,601,618	2,009,250	-	-	-	11,612,859
Dues to Head Office	1,950,410	295,951	224,585	499,235	-	-	2,970,181
Other liabilities	124,837	20,816	205,869	1,189,711	670,812	-	2,212,044
Total liabilities and equity	**21,773,160**	**9,741,053**	**34,275,055**	**25,994,531**	**670,812**	**-**	**92,454,612**
Net Position	**449,111**	**(6,274,119)**	**(14,017,040)**	**2,764,297**	**17,264,351**	**9,563,020**	**9,749,622**
Cumulative net position	**449,111**	**(5,825,007)**	**(19,842,047)**	**(17,077,750)**	**186,601**	**9,749,622**	**-**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

i. Foreign currency risk (continued)

The following tables present the equivalent amount of financial assets and liabilities by currency as at 31 December 2020 and 2019 as translated into EUR:

2020	**EUR**	**TRY**	**USD**	**GBP**	**CHF**	**Total**
Assets						
Cash and balances with Central Bank	29,458,701	225	227,570	50,912		29,737,408
Financial investments at amortized cost	1,344,904	-	-	-	-	1,344,904
Loans and advances to customers	68,845,175	-	28,287	-	-	68,873,462
Total assets	**99,648,780**	**225**	**255,857**	**50,912**	**-**	**99,955,774**
Liabilities						
Deposits from costumers	80,412,729		529,261	11	5	80,942,006
Short term borrowings	6,000,000	-	-	-	-	6,000,000
Dues to parent company	1,448,744	-		-	-	1,448,744
Other liabilities	2,259,851	-	-	-	-	2,259,851
Total liability and equity	**90,121,323**	**-**	**529,261**	**11**	**5**	**90,650,600**
Net position	**9,527,456**	**225**	**(273,403)**	**50,901**	**(5)**	**9,305,174**
Cumulative net position	**9,527,456**	**9,527,681**	**9,254,278**	**9,305,179**	**9,305,174**	**-**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

i. Foreign currency risk (continued)

2019	**EUR**	**TRY**	**USD**	**GBP**	**CHF**	**Total**
Assets						
Cash and balances with Central Bank	22,142,605	36,441	642,781	268	-	22,822,094
Placements with banks	3,983,686	-	-	-	-	3,983,686
Financial investments at amortized cost	5,138,322	-	-	-	-	5,138,322
Loans and advances to customers	68,224,958	-	39,208	-	-	68,264,165
Total assets	**99,489,571**	**36,441**	**681,988**	**268**	**-**	**100,208,268**
Liabilities						
Deposits from costumers	75,181,454	-	478,063	10	-	75,659,527
Short term borrowings	11,612,859	-	-	-	-	11,612,859
Dues to parent company	2,725,619	-	244,562	-	-	2,970,181
Other liabilities	2,211,724	-	320	-	-	2,212,044
Total liability and equity	**91,731,656**	**-**	**722,945**	**10**	**-**	**92,454,612**
Net position	**7,757,915**	**36,441**	**(40,957)**	**257**	**-**	**7,753,656**
Cumulative net position	**7,757,915**	**7,794,356**	**7,753,399**	**7,753,656**	**7,753,656**	**-**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

ii. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets (re-pricing risk). The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The assets and customer term deposits of the bank carry fixed and variable interest rates while borrowings are at variable interest rate. The interest rates applicable to financial assets and liabilities are disclosed in relevant note to these financial statements. Interest rate risk management policy of the bank defines the method of identification, measurement, following up and controlling the risk in the event of interest rate modification. The Bank is exposed to various risks associated with the effects of fluctuations of market interest rates on its financial position and cash flows. The tables below summarize the Bank's exposure to interest rate risks.

2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with Central Bank	-	-	-	-	-	29,737,408	**29,737,408**
Financial investments at amortized cost	9,197		-	1,335,707	-	-	**1,344,904**
Loans to customers - fixed	7,080,113	3,414,096	25,345,097	32,120,423	637,672	-	**68,597,402**
Loans to customers - variable	15,399	4,586	220,466	35,609	-	-	**276,060**
Total assets	**7,104,708**	**3,418,682**	**25,565,563**	**33,491,740**	**637,672**	**29,737,408**	**99,955,773**
Liabilities							
Deposits from customers	4,495,313	6,124,366	26,172,485	30,750,132	-	13,399,711	**80,942,006**
Short Term Borrowings	6,000,000			-	-	-	**6,000,000**
Due to Head Office - Fixed	-	-	138,774	60,206	-	1,249,763	**1,448,744**
Due to Head Office - Variable	-	-	-	-	-	-	-
Other Liabilities	17,691	33,903	157,188	1,179,679	423,421	447,968	**2,259,851**
Total liabilities	**10,513,004**	**6,158,268**	**26,468,448**	**31,990,017**	**423,421**	**15,097,442**	**90,650,600**
Net Position	**(3,408,296)**	**(2,739,586)**	**(902,885)**	**1,501,723**	**214,251**	**14,639,966**	**9,305,173**
Cumulative net position	**(3,408,296)**	**(6,147,882)**	**(7,050,766)**	**(5,549,043)**	**(5,334,792)**	**9,305,173**	

6. FINANCIAL RISK MANAGEMENT (CONTINUED)
(d) Market Risk (continued)

ii. Interest rate risk

2019	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Assets							
Cash and balances with Central Bank	-	-	-	-	-	22,822,094	**22,822,094**
Placements with banks	3,983,686	-	-	-	-	-	**3,983,686**
Financial investments at amortized cost		1,743,650	2,157,324	1,237,349	-	-	**5,138,322**
Loans to customers – fixed rate	4,731,949	1,508,085	17,443,318	26,980,530	16,837,732	-	**67,501,615**
Loans to customers – floating rate	120,502	184,412	295,881	161,755	-	-	**762,551**
Total	**8,836,137**	**3,436,147**	**19,896,524**	**28,379,634**	**16,837,732**	**22,822,094**	**100,208,268**
Liabilities							
Deposits from costumers	4,663,164	6,684,179	31,536,989	24,070,582	-	8,704,614	**75,659,527**
Short term borrowings	7,012,859	2,600,000	2,000,000	-	-	-	**11,612,859**
Dues to Head Office – fixed rate	116,663	240,475	465,121	197,512	-	1,950,410	**2,970,181**
Dues to Head Office – floating rate	-	-	-	-	-	-	**-**
Other liabilities	5,633	10,177	108,073	1,189,711	670,812	227,637	**2,212,044**
Total	**11,798,320**	**9,534,831**	**34,110,184**	**25,457,804**	**670,812**	**10,882,661**	**92,454,612**
Net Position	**(2,962,183)**	**(6,098,684)**	**(14,213,660)**	**2,921,830**	**16,166,920**	**11,939,433**	**7,753,655**
Cumulative net position	**(2,962,183)**	**(9,060,867)**	**(23,274,527)**	**(20,352,697)**	**(4,185,778)**	**7,753,655**	

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk (continued)

ii. Interest rate risk (continued)

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

	2020		2019	
Assets	USD	EUR	USD	EUR
Cash and balances with Central Bank	N/a		N/a	
Loans and advances to customers	4.00%	5.53%	4.00%	5.95%
Financial investments at amortized cost	N/a	1.70%	N/a	1.14%
Liabilities				
Customer deposits	2.34%	2.37%	1.81%	2.40%
Short term borrowings	N/a	0.01%	N/a	0.92%
Dues to parent company	N/a	2.68%	N/a	2.75%

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		2019	
	Increase 1%	**Decrease 1%**	**Increase 1%**	**Decrease 1%**
Estimated Profit (loss) effect	93,052	(93,052)	77,537	(77,537)

(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 behavior. Operational risks arise from all of the Banks'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 innovation. 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.

All risks except financial risks are considered within the scope of operational risk. Studies are undertaken by execution of identification, definition, measurement, analysis, monitoring of operational risk, providing and reporting the necessary control related to monitoring the progress of the country and world, the development of techniques and methods, necessary legal reporting, notification and conduct of follow-up transactions. Studies on the subject are conducted by the Department of Risk Management.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risks (continued)

Qualitative and quantitative methods are used in a combination for measurement and evaluation of the operational risks. In this process, information used is obtained from "Impact-Probability Analysis", "Missing Event Data Analysis", "Risk Indicators" methods. Methods prescribed by legal regulations are applied as minimum in determining the capital requirement level for the operating risk.

All risks are assessed in the context of operational risk, loss events and the risk indicators, together with operational risks are monitored on a regular basis by the Department of Risk Management and reported periodically to the Risk Committee and the Board of Directors.

(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 recognized and the Bank recognizes 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.

Regulatory Capital

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity. The Bank's overall strategy remains unchanged from previous year. In accordance with the regulations of the Central Bank of Republic of Kosovo, the Bank should maintain a capital equivalency deposit of not less than EUR 7,000,000. The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The Bank has met the regulatory requirements as at 31 December 2020 and 2019.

7. CASH ON HAND AND AT BANKS AND BALANCES WITH CENTRAL BANK

	31 December 2020	31 December 2019
Cash on hand and at banks:		
Cash on hand	335,006	145,890
Current account with banks	9,897,896	3,393,284
Nostro account with parent company	69,470	36,440
Cash and cash equivalents	**10,302,372**	**3,575,615**
Allowance for ECL/Impairment losses	(10,464)	(14,318)
Cash on hand and at banks after provisions	**10,291,908**	**3,561,297**
Current and Restricted balances with Central Bank:		
Unrestricted balances with Central Bank of Kosova	7,965,097	9,701,355
Liquidity reserves (restricted)	5,883,041	6,588,000
Capital equivalent deposit (restricted)	5,650,104	3,018,104
Current and Restricted balances with Central Bank:	**19,498,242**	**19,307,459**
Allowance for ECL/Impairment losses	(52,742)	(46,662)
Current and Restricted balances with Central Bank after provisions	**19,445,500**	**19,260,797**
Total	**29,737,408**	**22,822,094**

In accordance with the CBK rules, the Bank should meet the minimum average liquidity requirement. Balances with Central Bank of Kosovo include a mandatory liquidity reserve balance with CBK of EUR 5,883 thousand (31 December 2019: EUR 6,588 thousand). The liquidity requirement is calculated on a weekly basis as 10% of the deposit base, defined as the average total deposit liabilities to the non-banking public in EUR and other currencies, over the business days of the maintenance period. The assets with which the Bank may satisfy the liquidity requirements are the deposits in EUR with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base. Balances with CBK at 31 December 2020 and 2019 represent mostly the amount placed with the Central Bank of Kosovo as a capital equivalency deposit, Investments in securities are also used as capital equivalency deposits required for a branch of a foreign bank.

7. CASH ON HAND AND AT BANKS AND BALANCES WITH CENTRAL BANK (CONTINUED)

Cash at bank

	2020			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	9,967,366	-	-	9,967,366
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**9,967,366**	**-**	**-**	**9,967,366**

	2019			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	3,429,724	-	-	3,429,724
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**3,429,724**	**-**	**-**	**3,429,724**

	Gross Carrying amount		ECL		Total
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2020	**3,429,724**	**-**	**(14,318)**	**-**	**3,415,406**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	6,537,641	-	3,854	-	**6,541,495**
New financial assets originated or purchased	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	**-**	**-**	**3,854**	**-**	**3,854**
As at 31 December 2020	**9,967,366**	**-**	**(10,464)**	**-**	**9,956,902**

7. CASH ON HAND AND AT BANKS AND BALANCES WITH CENTRAL BANK (CONTINUED)

	Gross Carrying amount		**ECL**		**Total**
	Stage 1 12-month ECL	**Stage 2, 3 and POCI Lifetime ECL**	**Stage 1 12-month ECL**	**Stage 2, 3 and POCI Lifetime ECL**	
As at 1 January 2019	**8,544,260**	**-**	**(13,217)**	**-**	**8,531,043**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(5,361,881)	-	-	-	**(5,361,881)**
New financial assets originated or purchased	247,346		(1,101)		**246,245**
Write-offs		-		-	-
Foreign currency effect and other movements		-	-	-	-
Net change in Profit and Loss	**-**	**-**	**(1,101)**		**(1,101)**
As at 31 December 2019	**3,429,724**		**(14,318)**		**3,415,406**

<u>Current and restricted balances with central bank</u>

	2020			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	19,498,241	-	-	**19,498,241**
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**19,498,241**	**-**	**-**	**19,498,241**

	2019			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	19,307,459	-	-	**19,307,459**
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**19,307,459**	**-**	**-**	**19,307,459**

7. CASH ON HAND AND AT BANKS AND BALANCES WITH CENTRAL BANK (CONTINUED)

	Gross Carrying amount			**ECL**	**Total**
	Stage 1	**Stage 2,3 and POCI**	**Stage 1**	**Stage 2,3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2020	**19,307,459**		**(46,662)**		**19,260,797**
All transfers					
Derecognitions other than write-offs					
Repayments and change in cash flow	190,782		(6,080)		184,702
New financial assets originated or purchased					
Write-offs					
Foreign currency effect and other movements					
Net change in Profit and Loss	**-**		**(6,080)**		
As at 31 December 2020	**19,498,241**	**-**	**(52,742)**		**19,445,500**

	Gross Carrying amount			**ECL**	**Total**
	Stage 1	**Stage 2,3 and POCI**	**Stage 1**	**Stage 2,3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2019	**14,421,855**		**(117,698)**		**14,304,157**
All transfers	-		-		-
Derecognitions other than write-offs	-		-		-
Repayments and change in cash flow	-		-		-
New financial assets originated or purchased	4,885,604		71,036		**4,956,640**
Write-offs	-		-		-
Foreign currency effect and other movements	-		-		-
Net change in Profit and Loss	**-**		**71,036**		**71,036**
As at 31 December 2019	**19,307,459**	**-**	**(46,662)**	**-**	**19,260,797**

8. PLACEMENTS WITH BANKS

	31 December 2020	31 December 2019
Fixed Term Placements to Banks		
Placements to Ziraat Bank	-	4,000,000
Accrued interest	-	1,389
Total	**-**	**4,001,389**
Allowance for Expected Credit Losses	-	(17,703)
Fixed Term Placements to Banks	**-**	**3,983,686**

	2019			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	4,001,389	-	-	4,001,389
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**4,001,389**	**-**	**-**	**4,001,389**

	Gross Carrying amount		ECL		Total
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2020	**4,001,389**	**-**	**(17,703)**	**-**	**3,983,686**
All transfers		-		-	
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(4,001,389)	-	17,703	-	3,983,686
New financial assets originated or purchased	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	**-**	**-**	**17,703**	**-**	**17,703**
As at 31 December 2020	**-**	**-**	**-**	**-**	**-**

8. PLACEMENTS WITH BANKS (CONTINUED)

	Gross Carrying amount		ECL		Total
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2019	**6,000,000**	**-**	**(26,199)**	**-**	**5,973,801**
All transfers		-		-	
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(6,000,000)	-	26,199	-	(5,973,801)
New financial assets originated or purchased	4,001,389	-	(17,703)	-	3,983,686
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	**-**	**-**	**8,496**	**-**	**8,496**
As at 31 December 2019	**4,001,389**	**-**	**(17,703)**	**-**	**3,983,686**

9. FINANCIAL INVESTMENTS AT AMORTIZED COST

	31 December 2020	31 December 2019
Nominal Value – Bonds	1,350,000	5,170,000
Bonds	1,344,215	5,145,224
Interest Receivables	9,196	28,703
Amortization of discount	2,185	3,519
Amortization of premium	-	-
Net value of Bonds	**1,355,596**	**5,177,446**
Allowance for ECL/Impairment losses	(10,693)	(39,124)
Net book value of securities	**1,344,904**	**5,138,322**

Investments in securities represent investments in Government Treasury Bills and Bonds classified as held to maturity and issued by the Government of the Republic of Kosovo.

9. FINANCIAL INVESTMENTS AT AMORTIZED COST (CONTINUED)

	2020			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	1,355,596	-	-	1,355,596
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**1,355,596**	**-**	**-**	**1,355,596**

	2019			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard (0 days)	5,177,446	-	-	5,177,446
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**5,177,446**	**-**	**-**	**5,177,446**

9. FINANCIAL INVESTMENTS AT AMORTIZED COST (CONTINUED)

	Gross Carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2020	**5,177,446**	**-**	**(39,124)**	**-**	**5,138,322**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(3,920,299)	-	29,208	-	**(3,891,091)**
New financial assets originated or purchased	98,450	-	(777)	-	**97,673**
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	**-**	**-**	**28,431**	**-**	**28,431**
As at 31 December 2020	**1,355,597**	**-**	**(10,693)**	**-**	**1,344,904**

	Gross Carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2019	**2,118,926**	**-**	**(14,265)**	**-**	**2,104,661**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(993,331)	-	6,723	-	**(986,608)**
New financial assets originated or purchased	4,051,851	-	(31,581)	-	**4,020,270**
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in Profit and Loss	**-**	**-**	**(24,859)**	**-**	**(24,859)**
As at 31 December 2019	**5,177,446**	**-**	**(39,124)**	**-**	**5,138,323**

10. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2020	31 December 2019
Commercial Loans	42,974,719	46,395,000
Individual Loans	839,171	1,017,922
Staff Loans	36,390	61,221
Overdrafts	26,232,196	22,185,624
Accrued interest	489,466	482,557
Total gross loans and advances to costumers	**70,571,943**	**70,142,325**
Deferred revenue on disbursement fee	(67,559)	(69,412)
Loan loss provisions	(1,630,922)	(1,757,885)
Net Loans	**68,873,462**	**68,315,028**

Movements in the impairment allowance in 2020 and 2019 are composed as follows:

	31 December 2020	31 December 2019
Allowance as at 1 January	**1,757,885**	**796,115**
Charge/(Release) for the year	(126,963)	961,770
Allowance as at 31 December	**1,630,922**	**1,757,885**

Gross carrying amount for total loans are, as follows:

	2020				
Internal Rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard (0-30 days)	67,967,084	415,167	-	-	68,382,252
Watch (31-60 days)	-	387,400	-	-	387,400
Substandard (61-90 days)	-	-	-	-	-
Doubtful (91-180 days)	-	-	-	-	-
Loss (more than 180 days)	-	-	1,312,825	-	1,312,825
Accrued interest	216,863	7,484	265,119	-	489,466
Less: Deferred disbursement fee	(65,616)	(997)	(945)	-	(67,558)
Total Loans at amortized cost, gross	**68,118,331**	**809,054**	**1,576,999**	-	**70,504,384**
Less: Allowance for impairment	(574,948)	(8,205)	(1,047,770)	-	(1,630,922)
Loans and advances to customers, net	**67,543,384**	**800,849**	**529,229**	**-**	**68,873,462**

	2019				
Internal Rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard (0-30 days)	67,084,246	23,220			67,107,466
Watch (31-60 days)	188,751	-	-	-	188,751
Substandard (61-90 days)	-	988,543	-	-	988,543
Doubtful (91-180 days)	49,476	-	-	-	49,476
Loss (more than 180 days)	-	-	1,325,532	-	1,325,532
Accrued interest	200,326	2,038	280,193	-	482,557
Less: Deferred disbursement fee	(28,815)	(293)	(40,303)	-	(69,412)
Total Loans at amortized cost, gross	**67,493,984**	**1,013,508**	**1,565,421**	**-**	**70,072,913**
Less: Allowance for impairment	(622,080)	(10,475)	(1,176,193)	-	(1,808,748)
Loans and advances to customers, net	**66,871,903**	**1,003,034**	**389,228**	**-**	**68,264,165**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for loans are as follows:

	Stage 1	Stage 2	Stage 3	POCI	
Total Loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
Gross carrying amount as at 1 January 2020	**67,522,799**	**1,013,802**	**1,605,725**	**-**	**70,142,326**
Transfers:					
Transfer from Stage 1 to Stage 2	(93,960)	93,960		-	-
Transfer from Stage 1 to Stage 3	(228,382)	-	228,382	-	-
Transfer from Stage 2 to Stage 3		(111,839)	111,839	-	-
Transfer from Stage 2 to Stage 1		-		-	-
Transfer from Stage 3 to Stage 2		-		-	-
Transfer from Stage 3 to Stage 1		-		-	-
Payments and assets derecognized other than write-offs	(33,428,479)	(23,359)	(445,081)	-	**(33,896,919)**
Changes to contractual cash flows due to modifications not resulting in derecognition	26,662,974	(162,512)	77,080	-	**26,577,542**
New loans originated	7,748,995	-	-	-	**7,748,995**
Gross carrying amount as at 31 December 2020	**68,183,948**	**810,052**	**1,577,944**	**-**	**70,571,943**

	Stage 1	Stage 2	Stage 3	POCI	
Total Loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
Gross carrying amount as at 1 January 2019	**78,988,445**	**1,029,904**	**2,444,146**	**-**	**82,462,495**
Transfers:					
Transfer from Stage 1 to Stage 2	(123,217)	123,217	-	-	-
Transfer from Stage 1 to Stage 3	(548,848)		548,848	-	-
Transfer from Stage 2 to Stage 3	-	(80,597)	80,597	-	-
Transfer from Stage 2 to Stage 1	143,167	(143,167)			-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Payments and assets derecognized other than write-offs	(24,725,782)	(650,222)	(25,966)	-	**(25,401,970)**
Changes to contractual cash flows due to modifications not resulting in derecognition	(13,718,793)	(23,313)	82,301	-	**(13,659,805)**
New loans originated	22,278,436	820,185		-	**23,098,621**
Gross carrying amount as at 31 December 2019	**67,522,800**	**1,013,800**	**1,605,725**	**-**	**70,142,325**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An analysis in the Expected Credit Losses is presented below:

	Stage 1	Stage 2	Stage 3	POCI	
Total Loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
ECL amount as at 1 January 2020	**572,953**	**10,473**	**1,174,458**	**-**	**1,757,885**
Transfers:					
Transfer from Stage 1 to Stage 2	(808)	808		-	-
Transfer from Stage 1 to Stage 3	(1,965)		1,965	-	-
Transfer from Stage 2 to Stage 1				-	-
Transfer from Stage 2 to Stage 3		(1,012)	1,012	-	-
Transfer from Stage 3 to Stage 2				-	-
Transfer from Stage 3 to Stage 1				-	-
Changes in PDs/LGDs/EADs				-	-
Derecognitions other than write-offs	(286,613)	(203)	(401,767)		**(688,583)**
Changes to contractual cash flows due to modifications not resulting in derecognition	227,548	(1,861)	272,100	-	**497,787**
New loans originated or purchased	63,833				**63,833**
Write-offs				-	-
FX and other movements				-	-
Net change in Profit and Loss	**1,995**	**(2,268)**	**(126,690)**	**-**	**(126,963)**
ECL amount as at 31 December 2020	**574,948**	**8,205**	**1,047,768**	**-**	**1,630,922**

	Stage 1	Stage 2	Stage 3	POCI	
Total Loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
ECL amount as at 1 January 2019	**156,981**	**5,548**	**633,586**	**-**	**796,115**
Transfers:					
Transfer from Stage 1 to Stage 2	(1,062)	1,062	-	-	-
Transfer from Stage 1 to Stage 3	(165,719)		165,719	-	-
Transfer from Stage 2 to Stage 1	1,232	(1,232)		-	-
Transfer from Stage 2 to Stage 3	-	(32,462)	32,462	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-	-
Derecognitions other than write-offs	(46,140)	(3,736)	(13,289)		**(63,165)**
Changes to contractual cash flows due to modifications not resulting in derecognition	438,252	32,490	355,980	-	**826,722**
New loans originated or purchased	189,409	8,804		-	**198,213**
Write-offs				-	-
FX and other movements				-	-
Net change in Profit and Loss	**415,972**	**4,926**	**540,872**	**-**	**961,770**
ECL amount as at 31 December 2019	**572,953**	**10,474**	**1,174,458**	**-**	**1,757,885**

11. PROPERTY AND EQUIPMENT

	Leasehold improvements	IT Equipment	Furniture, fixtures and equipment	Other Assets	Vehicles	Total
Cost						
Balance at 1 January 2019	862,682	213,540	235,202	93,094	49,450	**1,453,968**
Additions	5,937	2,234	21,500	1,399	-	**31,070**
Disposals	-	-	-	-	-	-
Balance at December 31, 2019	**868,619**	**215,774**	**256,702**	**94,493**	**49,450**	**1,485,038**
Additions	786	839	358	-		1,983
Disposals	-	-	-	-	(26,950)	(26,950)
Balance at December 31, 2020	**869,405**	**216,613**	**257,060**	**94,493**	**22,500**	**1,460,071**
Accumulated depreciation						
Balance at 1 January 2019	213,015	91,738	139,364	46,251	40,063	**530,431**
Charge for the year	90,478	43,449	34,740	12,166	5,638	**186,471**
Eliminated on disposals	-	-	-	-	-	-
Balance at 31 December 2019	**303,493**	**135,187**	**174,104**	**58,417**	**45,701**	**716,902**
Charge for the year	91,298	43,273	23,863	10,950	3,749	173,133
Eliminated on disposals					(26,950)	(26,950)
Balance at 31 December 2020	**394,791**	**178,460**	**197,967**	**69,367**	**22,500**	**863,085**
Net Balance at 31 December 2019	**565,126**	**80,587**	**82,598**	**36,076**	**3,749**	**768,136**
Net Balance at 31 December 2020	**474,614**	**38,153**	**59,093**	**25,126**	**-**	**596,986**

The value of EUR 16,391 and EUR 52,003 categorized into the furniture, fixtures and equipment category represent assets received as donations from Head Office during the fiscal years of 2015 and 2014.

12. INTANGIBLE ASSETS

	Software	Total
Cost		
Balance at 1 January 2019	139,069	139,069
Additions	4,722	4,722
Disposals	-	-
Balance at December 31, 2019	**143,791**	**143,791**
Additions	15,272	15,272
Disposals	-	-
Balance at December 31, 2020	**159,064**	**159,064**
Accumulated Amortization		
Balance at 1 January 2019	43,758	43,758
Charge for the year	11,569	11,569
Eliminated on disposals	-	-
Balance at 31 December 2019	**55,327**	**55,327**
Charge for the year	11,303	11,303
Eliminated on disposals		-
Balance at 31 December 2020	**66,630**	**66,630**
Net Balance at 31 December 2019	**88,464**	**88,464**
Net Balance at 31 December 2020	**92,434**	**92,434**

13. RIGHT OF USE ASSET

	Buildings	Total
Cost		
At 1 January 2019	2,273,091	2,273,091
Charge for the year (lease modifications)	-	-
At 31 December 2019	**2,273,091**	**2,273,091**
Charge for the year (lease modifications)	(62,104)	(62,104)
At 31 December 2020	**2,210,986**	**2,210,986**
Accumulated depreciation	-	-
At 1 January 2019	-	-
Charge for the year	(258,132)	(258,132)
At 31 December 2019	**(258,132)**	**(258,132)**
Charge for the year	(244,012)	(244,012)
At 31 December 2020	**(502,144)**	**(502,144)**
Carrying amount		
At 31 December 2019	**2,014,959**	**2,014,959**
At 31 December 2020	**1,708,843**	**1,708,843**

On February 2020, the contractual amount of one of the leases the Bank has entered decreased, and as such impacted also the Right of Use Asset amount and Lease liability by decreasing it for EUR 62,104.

Amounts recognized in profit and loss	**31 December 2020**
Depreciation expense on right-of-use assets	244,012
Interest expense on lease liabilities	138,819
Expense relating to short-term leases	-
Expense relating to leases of low value assets	9,840
Expense relating to variable lease payments not included in the measurement of the lease liability	-

	31 December 2020
Fixed payments (including amortization of prepayment)	333,655
Variable payments	-
Total payments	**333,655**

14. REPOSSESSED COLLATERALS

	31 December 2020	31 December 2019
Repossessed assets	642,333	206,667
Impairment for repossessed assets	-	(41,334)
Total	**642,333**	**165,333**

Repossessed assets consist of a residential building repossessed during 2018 and 2020.

	Gross Carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2020	**206,667**	**-**	**(41,334)**	**-**	**165,333**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	435,666	-	-	-	**435,666**
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	41,334	-	**41,334**
Net change in Profit and Loss	**-**	**-**	**41,334**	**-**	**41,334**
As at 31 December 2020	**642,333**	**-**	**-**	**-**	**642,333**

	Gross Carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2019	**206,667**	**-**	**(43,020)**	**-**	**163,647**
All transfers	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	1,686	-	1,**686**
Net change in Profit and Loss	**-**	**-**	**1,686**	**-**	**1,686**
As at 31 December 2019	**206,667**	**-**	**(41,334)**	**-**	**165,333**

15. PREPAID INCOME TAX

Prepaid income tax amounting 9,486 EUR, is comprised from balance of prepayment carried forward from previous years. Based on tax laws in Kosovo, prepayment income tax cannot be netted off against income tax payable, until this is allowed by tax authorities.

16. OTHER ASSETS

	31 December 2020	31 December 2019
Prepayments	9,616	28,807
Other receivables	10,070	9,752
Total	**19,686**	**38,559**
Adjustment for ECL	(83)	(73)
Total	**19,603**	**38,486**

An analysis of the gross amount of other assets by rating is presented below:

Internal rating grade 2020	Stage 1	Stage 2	Stage 2	Total
Standard (0 days)	19,686	-		**19,686**
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**19,686**	-	-	**19,686**

Internal rating grade 2019	Stage 1	Stage 2	Stage 2	Total
Standard (0 days)	38,559	-	-	**38,559**
Standard (1-30 days)	-	-	-	-
Watch (31-60 days)	-	-	-	-
Substandard (61-90 days)	-	-	-	-
Doubtful (91-180 days)	-	-	-	-
Loss (more than 180 days)	-	-	-	-
Total	**38,559**	-	-	**38,559**

16. OTHER ASSETS (CONTINUED)

An analysis of gross carrying amount and ECL by stages, is presented below:

	Gross Carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2020	**38,559**		**(73)**		**38,486**
All transfers	-				-
Derecognitions other than write-offs	-		-		-
Repayments and change in cash flow	(18,873)		(10)		**(18,883)**
New financial assets originated or purchased					-
Write-offs	-		-		-
Foreign currency effect and other movements	-		-		-
Net change in Profit and Loss	-		**(10)**		**(10)**
As at 31 December 2020	**19,686**	**-**	**(83)**	**-**	**19,603**

	Gross Carrying amount		**ECL**		**Total**
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2019	**242,125**	-	**(1,976)**	-	**240,149**
All transfers	-	-		-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	25,562	-	1,903	-	**27,464**
New financial assets originated or purchased	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	(229,127)	-	-	-	**(229,127)**
Net change in Profit and Loss	-	-	**1,903**	-	**1,903**
As at 31 December 2019	**38,559**	-	**(73)**	-	**38,486**

17. DUE TO CUSTOMERS

	31 December 2020	31 December 2019
Current Accounts		
Individuals- CA	5,789,853	3,354,258
Corporations	5,593,036	4,835,702
State owned entities	36,032	3,654
Correspondent banks	1,597,530	80,282
Non-profit organizations	383,260	511,000
Total current accounts	**13,399,711**	**8,784,896**
Term Deposits		
Individuals – TDA	35,062,899	32,680,672
Corporations	19,941,084	26,221,411
State owed entities	10,000,000	5,650,000
Non-profit organizations	1,500,000	1,500,000
Interest payable – deposit	1,038,312	822,549
Total term deposits	**67,542,295**	**66,874,632**
Total deposits	**80,942,006**	**75,659,528**

Term deposits bear fixed interest rates ranging from 0.5% - 3.5% as of 31 December 2020 (2019: 0.1% - 3.4%).

18. DUE TO BANKS

Fixed-term deposits:	31 December 2020	31 December 2019
IS Bank AG	6,000,000	-
TEB Bank	-	6,000,000
Bank for Business	-	3,000,000
Economic Bank	-	2,600,000
Interest Payable - Local Banks	-	12,859
Total	**6,000,000**	**11,612,859**

The short-term borrowing with commercial banks bear interest rates from 1% p.a (2019: 0.80% up to 1.5% p.a. p.a.).

19. DUE TO HEAD OFFICE AND OTHER AFFILIATES

	31 December 2020	31 December 2019
Current account with Head Office	1,249,763	1,950,410
Long term borrowing	197,512	1,012,139
Interest payable - HQ	1,469	7,632
Total	**1,448,744**	**2,970,181**

The long-term borrowings bear interest rates ranging from 2.15% p.a. to 3.85% p.a. (2019: 1.75% p.a. to 3.85% p.a.) and have remaining weighted average maturity of 3 years.

Depending on needs for additional disbursements, the Branch has the right at its discretion, to renew or obtain additional funds at short notice from Head Office, as well as return to Head Office any extra liquidity.

20. OTHER TAXES AND CONTRIBUTIONS PAYABLE

	31 December 2020	31 December 2019
Withholding tax on salary	4,965	6,027
Pension contributions payable	4,015	4,868
Withholding tax on rent and interest	2,289	1,638
Corporate tax payable	71,343	10,638
Tax payable TTD	19,345	10,736
Total	**101,957**	**33,907**

21. DEFERRED REVENUE

	31 December 2020	31 December 2019
Deferred revenue	-	1,840
Total	**-**	**1,840**

Deferred revenue is related to a donation of office furniture and equipment from Head Office to the Bank.

22. OTHER LIABILITIES

	31 December 2020	31 December 2019
Other accruals	240,191	95,935
Expected losses from off-balance sheet items	67,843	99,020
Total	**308,034**	**194,954**

22. OTHER LIABILITIES (CONTINUED)

	2020 - letters of guarantees and unused overdraft limit				
Internal Rating 2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard (0-30 days)	13,251,724	1,153	-	-	13,252,877
Watch (31-60 days)		-	-	-	-
Substandard (61-90 days)	-	-	-	-	-
Doubtful (91-180 days)	-	-	-	-	-
Loss (more than 180 days)	-	-	-	-	-
Total	**13,251,724**	**1,153**	**-**	**-**	**13,252,877**

	2019 - letters of guarantees and unused overdraft limit				
Internal Rating 2019	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard (0-30 days)	16,742,507	-	-	-	16,742,507
Watch (31-60 days)	153,639	-	-	-	153,639
Substandard (61-90 days)	-	273	-	-	273
Doubtful (91-180 days)	524	-	-	-	524
Loss (more than 180 days)	-	-	230,873	-	230,873
Total	**16,896,670**	**273**	**230,873**	**-**	**17,127,815**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for letters of guarantees are as follows:

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
Gross carrying amount as at January 1, 2020	**16,896,670**	**273**	**230,873**	**-**	**17,127,815**
Transfers:	-	-	-	-	-
Transfer from Stage 1 to Stage 2	(11)	11		-	-
Transfer from Stage 1 to Stage 3	(1,905)		1,905	-	-
Transfer from Stage 2 to Stage 3		(17)	17	-	-
Transfer from Stage 3 to Stage 2				-	-
Transfer from Stage 3 to Stage 1				-	-
Derecognitions other than write-offs				-	-
Repayments and change in cash flow	(6,582,369)	885	(232,795)		**(6,814,278)**
New loans originated or purchased	2,939,340	-	-		**2,939,340**
Write-offs				-	-
FX and other movements	-	-	-	-	-
Gross carrying amount as at December 31, 2020	**13,251,724**	**1,153**			**13,252,877**

22. OTHER LIABILITIES (CONTINUED)

	Stage 1	Stage 2	Stage 3	POCI	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Originated credit-impaired**	**Total**
Gross carrying amount as at January 1, 2019	**10,975,821**	**189,519**	**225,195**	**-**	**11,390,535**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Derecognitions other than write-offs	(2,500,475)	(11,390,535)	(428)	-	**(13,891,439)**
Repayments and change in cash flow	3,897,940	11,201,289	6,106		**15,105,335**
New loans originated or purchased	4,523,384				**4,523,384**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Gross carrying amount as at December 31, 2019	**16,896,670**	**273**	**230,873**	**-**	**17,127,815**

	Stage 1	Stage 2	Stage 3	POCI	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
ECL amount as at 1 January 2020	**97,284**	**2**	**1,733**	**-**	**99,020**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	(16)	-	16	-	-
Transfer from Stage 2 to Stage 1		-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Changes in PDs/LGDs/EADs		-	-	-	-
Derecognitions other than write-offs	(42,148)	8	(1,749)	-	**(43,890)**
New loans originated or purchased	12,713	-	-	-	**12,713**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**(29,452)**	**7**	**(1,733)**	**-**	**(31,177)**
ECL amount as at 31 December 2020	**67,833**	**10**	**-**	**-**	**67,843**

22. OTHER LIABILITIES (CONTINUED)

	Stage 1	Stage 2	Stage 3	POCI	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
ECL amount as at 1 January 2019	**16,525**	**455**	**-**	**-**	**16,980**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	217	(217)	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Changes in PDs/LGDs/EADs	14,307	-	-	-	**14,307**
Derecognitions other than write-offs	(2,736)	-	-	-	**(2,736)**
New loans originated or purchased	68,154	2	2,312	-	**70,469**
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change in Profit and Loss	**79,942**	**(215)**	**2,312**	**-**	**82,040**
ECL amount as at 31 December 2019	**96,467**	**240**	**2,312**	**-**	**99,020**

23. PROVISIONS

For the year ended December 31, 2020, the Bank has recognized a provision for an outstanding legal claim in the amount of EUR 105,821 (2019: EUR 97,795).

24. LEASE LIABILITIES

	31 December 2020	31 December 2019
Maturity analysis:		
Year 1	208,782	123,884
Year 2	224,281	222,486
Year 3	240,933	238,905
Year 4	233,045	256,538
Year 5	231,931	239,851
Onwards	672,909	902,743
Total	**1,811,882**	**1,984,407**
Analysed as:		
Non-current	1,603,100	1,860,523
Current	208,782	123,884

25. SHARE CAPITAL

As at December 31, 2020, the share capital amounted to EUR 10,000 thousand (2019: EUR 10,000 thousand).

26. NET INTEREST INCOME

	Year ended 31 December 2020	Year ended 31 December 2019
Interest income from loans and advances to customers	4,436,243	4,748,211
Interest income from securities	43,144	60,959
Interest income from deposits in local banks	3,541	5,356
Total interest income	**4,482,929**	**4,814,526**
Interest expenses		
Interest expenses for deposits	(1,612,318)	(1,319,687)
Interest expenses for borrowings	(33,122)	(692,155)
Interest expenses for lease liability	(138,819)	(144,497)
Total interest expenses	**(1,784,258)**	**(2,156,339)**
Net interest income	**2,698,670**	**2,658,187**

27. NET FEE AND COMMISION INCOME

	Year ended 31 December 2020	Year ended 31 December 2019
Fees for letter of guarantees	369,329	147,089
Fees for early termination of contracts	144,532	7,903
Other fee and commission income	92,954	113,443
Total fee and commission income	**606,815**	**268,435**
Fee and commission expense	(31,655)	(9,101)
Net fee and commission income	**575,160**	**259,334**

28. NET FOREIGN EXCHANGE

	Year ended 31 December 2020	Year ended 31 December 2019
Foreign exchange gain	1,659,185	114,844
Foreign exchange loss	(1,567,410)	(90,332)
Net foreign exchange gain	**91,776**	**24,511**

29. OTHER INCOME

	Year ended 31 December 2020	**Year ended 31 December 2019**
Income from asset donation	3,155	8,385
Interest income from previous years corrections	8,843	25,860
Income from sale of assets	8,290	-
Total fee and commission income	**20,288**	**34,245**

30. OTHER OPERATING EXPENSES

	Year ended 31 December 2020	**Year ended 31 December 2019**
Fees paid to CBK	139,983	137,668
Royalty fee	121,646	105,920
Provisions for legal cases	8,026	97,795
Consultancy and auditing	99,197	94,518
Payments system expenses	82,267	87,281
Communication expenses	73,587	77,259
Representation expenses	1,599	57,062
Utilities and Fuel	37,491	34,140
Maintenance and repair	31,141	32,497
Deposit insurance expenses	25,738	22,934
Memberships	14,008	13,669
Security expenses	15,717	16,665
Operating lease expenses for vehicle	9,840	4,100
Other expenses	28,202	40,057
Other tax and fee expenses	38,002	146,642
Total other operating expenses	**726,444**	**968,207**

31. EMPLOYEE BENEFITS

	Year ended 31 December 2020	**Year ended 31 December 2019**
Salaries	675,629	749,126
Welfare and pension contribution expenses	61,998	67,439
Health insurance	9,874	9,936
Other employee compensations	19,720	51,652
Total employee benefits	**767,220**	**878,153**

The Bank had 30 employees as at December 31, 2020 (29 employees as at December 31, 2019). Other compensations for international employees include health insurance, transportation and other related costs of transfer to Kosovo.

32. INCOME TAX EXPENSE

The income tax expense for the years ended 31 December 2020 and 31 December 2019 is composed of the following:

	Year ended 31 December 2020	Year ended 31 December 2019
Current tax expense	188,658	142,200
Deferred tax	(5,720)	(98,108)
Total income tax	**182,938**	**44,092**

Reconciliation of prepaid tax/tax payables

	Year ended 31 December 2020	Year ended 31 December 2019
Current tax expense	(188,658)	(142,200)
Advance payments during the year	117,315	131,562
Tax payable	**(71,343)**	**(10,638)**

Tax returns are filed annually but the profits or losses declared for tax purposes remain provisional until the tax authorities examine the returns and the records of the taxpayer and a final assessment is issued. Kosovo tax laws and regulations are subject to interpretations by the tax authorities.

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 Kosovo is four years.

Movement in deferred tax liability is presented below:

	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	26,256	124,365
Change in accounting policy	(31,643)	-
Movement of deferred tax	(5,720)	(98,108)
Deferred tax liability (asset) as at year end	**(11,107)**	**26,256**

32. INCOME TAX EXPENSE (CONTINUED)

The table below represents the calculation of corporate income tax for the year ended 31 December 2020 and 31 December 2019:

	Effective Tax rate	Year ended 31 December 2020	Effective Tax rate	Year ended 31 December 2019
Profit before tax		**1,707,183**		**(311,142)**
Tax calculated at 10%	10%	170,718	10%	(31,142)
Tax effect of interest earned from investments in Kosovo Governments securities	10%	(4,314)	10%	(6,096)
Tax effect of additional release/impairment for CBK provisioning	10%	-	10%	104,686
Tax effect of non-deductible expenses	10%	1,503	10%	13,430
Tax effect of exchange loss	10%	(4,766)	10%	770
Tax effect of the accrued interest on term deposits	10%	13,823	10%	57,176
Tax effect on the impairment of repossessed assets	10%	(4,133)	10%	(169)
Tax effect on the differences in accrued interest for CBK and IFRS purposes	10%	14,084	10%	(11,796)
Adjustment for depreciation of right of use asset	10%	24,401	10%	25,813
Rent payments	10%	(33,365)	10%	(34,876)
Adjustment for legal provisions	10%	803	10%	9,780
Adjustment for interest expenses lease liability	10%	13,882	10%	14,450
Other income	10%	64	10%	147
Nontaxable expected credit losses	10%	(4,041)	10%	-
Total corporate income tax expenses	10%	**188,658**	10%	**142,200**
Deferred tax liability from temporary differences recognized	-	(5,720)	-	(98,108)
Total tax charge		**182,938**	-	**44,092**

33. RELATED PARTY TRANSACTIONS

Türkiye İş Bankası A.Ş.– Branch in Kosovo is a branch of Türkiye İş Bankası A.Ş. The major shareholders of Türkiye İş Bankası A.Ş and their participations in share capital as at 31 December 2020 are as follows:

- Isbank Pension Fund, acting on behalf of both active and retired Bank employees: 39.95%;
- Free Float: 31.96% (about 60% of the free float is held by foreign investors);
- Ataturk's Shares: 28.09%. The Republican People's Party (CHP) is the testamentary heir to the shares initially held by Ataturk (founder of Isbank).

Related party balances and transactions as at 31 December 2020 and 31 December 2019 are composed as follows:

	31 December 2020	**31 December 2019**
Due from Head Office		
Current accounts with Head Office	69,470	36,441
Due to Head Office		
Current accounts with Head Office	1,249,763	1,950,410
Long term borrowings	197,512	1,012,139
Interest payable related to short and long-term borrowing	1,469	7,632
Deferred revenue from donated assets		1,840
Due from other related parties (subsidiaries of HO)		
Current accounts with Is Bank AG, Germany	7,961,804	243,205
Due to other related parties		

	Year ended 31 December 2020	**Year ended 31 December 2019**
Income generated from Head Office		
Other income from donated assets	1,840	8,385
Expense incurred with related parties		
Management remuneration	353,010	190,018
Interest expense for short-term borrowings	11,936	561,440

34. CONTINGENCIES AND COMMITMENTS

Guarantees and credit commitments	**31 December 2020**	**31 December 2019**
Guarantees in favor of customers	10,743,571	11,272,645
Loans approved but not yet disbursed	11,070,000	15,450,000
Undrawn credit commitments	2,509,305	5,940,976
Total	**24,322,877**	**32,663,621**

Non-cancelable lease commitments	**31 December 2020**	**31 December 2019**
Less than one year	87,191	51,012
Total	**87,191**	**51,012**

Legal

In 2020, the Bank has recognized a provision of 8 thousand for an outstanding claim, in addition to EUR 97 thousand recognized in 2019. Other outstanding legal claims and litigations are in the normal activity of the Bank.

35. SUBSEQUENT EVENTS

There are no reportable subsequent events to be disclosed.