# BANKA CREDINS KOSOVE SHA

Financial Statements for the period from

17 March 2020 through 31 December 2020

with Independent Auditor's Report

## CONTENTS

# Independent Auditor's Report

**Grant Thornton LLC**
Rexhep Mala 18
10000 Pristina
Kosovo
**T** +383 (0)38 247 801
**F** +383 (0)38 247 802
**E** Contact@ks.gt.com
VAT No. 330086000

To the Shareholders of

Banka Credins Kosovë Sh.a.

## Opinion

We have audited the accompanying financial statements of Banka Credins Kosovë Sh.a. (the "Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from 17 March 2020 through 31 December 2020, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the period from 17 March 2020 through 31 December 2020 in accordance with the International Financial Reporting Standards (IFRSs).

## Basis for Opinion

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

## Emphasis of matter

We draw attention to Note 2.2.3 to the financial statements which describes that the Bank's financial statements have been prepared assuming that the Bank will continue as a going concern. The ability of the Bank to continue as a going concern is dependent on continued financial support from its Shareholder. The Shareholder has committed to continue providing financial support to the Bank for a period of at least 12 months from the date of support letter.

The financial statements do not include any adjustment that might result from the outcome of this uncertainty. Our audit opinion is not modified in respect of this matter.

## Responsibilities of Management and Those Charged with Governance for the financial statements

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

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

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

## Auditor's Responsibilities for the audit of the financial statements

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

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

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

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

GRANT THORNTON L.L.C. KOSOVO

Suzana Stavrik
Statutory Auditor

**Grant Thornton LLC**
Prishtina,
19 April 2021

## Statement of profit or loss and other comprehensive income
### for the period from 17 March 2020 through 31 December 2020

| | Notes | For the period 17.03.2020-31.12.2020 '000 EUR |
|---|---|---|
| Interest income calculated using the effective interest method | | 0.00 |
| Interest expense calculated using the effective interest method | | (25.68) |
| **Net interest income** | 3 | **(25.68)** |
| | | |
| Fee and commission income | | 0.13 |
| Fee and commission expense | | (0.08) |
| **Net fee and commission income** | 4 | **0.05** |
| | | |
| Other expenses | | (40.43) |
| Other income | | 0.00 |
| **Net other income** | 5 | **(40.43)** |
| | | |
| Net Impairment losses on financial assets | 6 | (0.05) |
| Personnel expenses | 7 | (79.00) |
| Administrative expenses | 8 | (82.47) |
| Depreciation of property and equipment | 13 | (36.42) |
| Depreciation of right-of-use assets | 15 | (47.07) |
| **Total operating expenses** | | **(245.01)** |
| | | |
| **(Loss) before taxes** | | **(311.07)** |
| Income tax expense | 9 | (0.04) |
| **(Loss) for the year** | | **(311.11)** |
| | | |
| **Other comprehensive income** | | |
| Other comprehensive income | | - |
| **Total comprehensive income for the year** | | **(311.11)** |

The financial statements have been approved by the Board of Directors of Banka Credins Kosovë Sh.a on 19 April, 2021 and signed on its behalf by:

**Selman LAMAJ**
*Chief Executive Officer*

**Ana GOGA**
*Chief Financial Officer*

## Statement of Financial Position
### as at 31 December 2020

| | Notes | 31 December 2020<br>'000 EUR |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 10 | 7,811.49 |
| Restricted balances with Central Bank | 11 | 219.98 |
| Loans and advances to customers | 12 | 5.91 |
| Property and equipment | 13 | 2,069.95 |
| Prepaid Expenses | 14 | 82.47 |
| Right of use assets | 15 | 1,600.69 |
| Other assets | 16 | 5.72 |
| **Total assets** | | **11,796.21** |
| | | |
| **Liabilities** | | |
| Due to customers | 17 | 240.39 |
| Lease liability | 18 | 1,605.66 |
| Other liabilities | 19 | 2,261.27 |
| **Total liabilities** | | **4,107.32** |
| | | |
| **Equity** | | |
| Share capital | 20 | 8,000.00 |
| Net profit for the period | | (311.11) |
| **Total equity** | | **7,688.89** |
| **Total liabilities and equity** | | **11,796.21** |

## Statement of changes in equity

### for the period from 17 March 2020 through 31 December 2020

| | Share capital | Share premium | General reserve | Revaluation reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|
| | **‘000 EUR** | **‘000 EUR** | **‘000 EUR** | **‘000 EUR** | **‘000 EUR** | **‘000 EUR** |
| **Balance at 17 March 2020** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |
| Profit/Loss of the year | - | - | - | - | (311.11) | **(311.11)** |
| *Other comprehensive income for the year* | | | | | | |
| Other comprehensive income | - | - | - | - | - | **-** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **(311.11)** | **(311.11)** |
| *Transactions with owners* | | | | | | |
| Issue of share capital | 8,000.00 | - | - | - | - | **8,000.00** |
| **Total transactions with owners** | **8,000.00** | **-** | **-** | **-** | **-** | **8,000.00** |
| **Balance as at 31 December 2020** | **8,000.00** | **-** | **-** | **-** | **(311.11)** | **7,688.89** |

## Statement of cash flows

### for the year ended 31 December 2020

| | Notes | Year ended 31 December 2020 '000 EUR |
|---|---|---|
| **Operating activities** | | |
| **Profit before income tax** | | **(311.07)** |
| *Adjustments for non-cash items:* | | |
| Loan loss provision charges (net) | 6 | 0.05 |
| Depreciation and amortisation expense | 13,15 | 83.49 |
| Net interest income / (expense) | 3 | 25.68 |
| Net fee and commission income | 4 | (0.05) |
| **Net cash flows (used in) operating activities before changes in operating assets and liabilities** | | **(201.90)** |
| *Changes in operating assets and liabilities* | | |
| Change in loans and advances to customers | 12 | (5.96) |
| Change in restricted balances with the Central Bank | 11 | (223.95) |
| Change in prepaid expense | 14 | (82.47) |
| Change in other assets | 16 | (5.72) |
| Change in due to customers | 17 | 240.39 |
| Change in other liabilities | 19 | 2,261.27 |
| Income tax | | 0.04 |
| Interest paid | | (21.71) |
| Fee and commission inflow | | 0.13 |
| Fee and commission paid | | (0.08) |
| Income tax paid | 9 | (0.04) |
| **Net cash from operating activities** | | **1,960.00** |
| | | |
| **Investing activities** | | |
| Purchase of property and equipments | 13 | (2,106.37) |
| **Net cash flows (used in) investing activities** | | **(2,106.37)** |
| | | |
| **Financing activities** | | |
| Issue of share capital | 20 | 8,000.00 |
| Change in lease liability | 18 | (42.10) |
| **Net cash flow from financing activities** | | **7,957.90** |
| | | |
| **Net increase in cash and cash equivalents** | | **7,811.49** |
| Cash and cash equivalents at 1 January | | 0.00 |
| **Cash and cash equivalents at 31 December** | 10 | **7,811.49** |

## 1 General information

Banka Credins Kosove sh.a. (hereinafter "the Bank") is a Kosovo financial institution which was incorporated on 17 March 2020 under the Kosovo Commercial Law and was licensed by the Central Bank of Kosovo on 28 September 2020 to operate as a bank in all fields of banking activity in Kosovo in accordance with the law No 04/L-093, "On banks, micro financing institutions and non-banking financial institutions", dated July 2012. The Bank is also subject to law No. 03/L-209, dated December 2010, "On the Central Bank of the Republic of Kosovo" hereinafter referred to as "Central Bank").

The only shareholder of Banka Credins Kosove is Credins Bank Albania, which is a company incorporated in Albania and owns 100% of the shares. Banka Credins sh.a. is an Albanian financial institution which was incorporated on 31 January 2003 under the Albanian Commercial Law and was licensed by the Bank of Albania on 31 March 2003 to operate as a bank in all fields of banking activity in Albania in accordance with the law No. 8365, "On banks in the Republic of Albania", dated July 1998."). Credins Bank Albania operates through 58 outlets in Albania. It has 958 employees as at 31 December 2020. Credins Bank Albania is ranked as no 1 bank in the market for its loans portfolio and second for it's the deposit portfolio. The capital of Credins Bank is around 93 million USD. Credins Bank Albania has shareholders structure comprised of 62 shareholders, individuals and companies. The main shareholders are Renis Tershana which owns 18.53% of the total shares and B.F.S.E Holding BV which owns 15.21% of the total shares.

**Registered address and principal place of business:** The addres of the head office of the bank and principal place of business is: "UÇK," Street, No. 240, Prishtinë, Kosovo.

**Main activity: The Bank** operated as a bank with full rights, in compliance with the Law No. 04/L-093 On Banks micro financing institutions and non-banking financial institutions and offers services for all client categories in the Republic of Kosovo through its branch network comprised of 1 branch in Prishtina and 1 branch in Ferizaj which will start operating from January 2021.
**The Board of Directors** of the Bank is composed of:

- Lars Jonas Hasselrot – Chairman
- Clive Moody – Member
- Raimonda Duka – Member
- Dorina Kripa – Member
- Ardi Shita - Member

As at 31 December 2020 the Bank had 29 employees.

## 2 Accounting policies

### 2.1 Basis of preparation

The Financial Statements have been prepared on the historical cost basis.

The Financial Statements are presented in EUR, which is the Bank's functional currency and all values are rounded to the nearest thousand up to two decimals (EUR '000), except when otherwise indicated.

#### 2.1.1 Statement of compliance

The Financial Statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) and with the tax law applicable in the Republic of Kosovo as well as the regulatory requirements of Central Bank of Kosovo.

#### 2.1.2 Presentation of Financial Statements

The Bank presents its statement of financial position broadly in order of liquidity.
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simulaneously. Income and expense is not offset unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

### 2.2 Significant accounting judgements, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities (if any). Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur.

## 2. Accounting Policies (continued)

## 2.2 Significant accounting judgements, estimates and assumptions (continued)

### 2.2.1 Impairment losses on financial assets

The bank considers exposure as non-performing/impaired when one or more of following events that have a detrimental impact on the estimated future cash flows have occurred:

► Days past due of an account greater than 90 days
► Loan is characterized by bad rating (loans that have rating equal to 7 or economic rating equal to 10)

The mentioned default (impairment) definition is applied on the account (loan) level.

Loans that are not individually tested for impairment are assessed collectively.

The collective impairment is calculated according to stage 2 and stage 1.

Stage 2: For collectively assessed accounts in Stage 2 impairment allowance is equal to lifetime ECL. Lifetime ECL is defined as all possible default loss events over the expected life of a financial instrument (i.e., risk of a default occurring on the financial instrument during its expected life).

Stage 1: For collectively assessed accounts in Stage 1, 12 month Expected Credit Loss (ECL) is calculated. 12-month ECLs is a loss that is expected to materialize in the following 12 months – therefore 12 months' probability is multiplied by current EAD and corresponding LGD. In the case, remaining maturity is shorter than 12 months, instead of 12 months PD, the remaining lifetime PD is considered.

The measurement of impairment losses under IFRS across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

The Bank's internal credit grading model, which assigns PDs to the individual grades

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment Segmentimi i aktiveve financiare kur ECL-ja e tyre vlerësohet në baza kolektive
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

### 2.2.2 Significant events during the reporting period

During the beginning of 2020, the pandemic of COVID-19 was spread globally. In March 2020, the government of Kosovo undertook drastic measures by suspending all activities that were not vital. This situation has affected negatively the opening and operation of the Bank by delaying the licensing process and starting of the activity in mid October 2020. Starting of the activity in the last quarter of the year, affected negatively the operating results. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Bank for future periods.

**2. Accounting policies (continued)**

**2.2 Significant accounting judgements, estimates and assumptions (continued)**

**2.2.2 Significant events during the reporting period (continued)**

The activity of the Bank has continued without suspension from mid October 2020, and there has been a relatively stable performance on the customers' collection. For the year ending 2021, the Bank would expect an increase on the performing loans portfolio even regardless of the economic downturn. Following the emergence of COVID-19 pandemics, the Bank is analyzing macroeconomic changes and will reflect these changes in the stress tests used to predict the effect of COVID-19 in calculating the Expected Credit Loss.
The Bank considers in its internal capital adequacy assessment the stress scenario in calculating the capital demand for market risk related to its portfolio of investments, majority of which is measured at fair value to other comprehensive income and it has a direct impact on capital.
The Bank considers the liquidity risk in the recovery plans, in the internal capital adequacy assessment process, setting well-defined limits on its appetite for risk. The Bank determines that its capital resources are available and there are alternative elements in increasing these resources on time. The Bank will perform regularly, stress test exercises, to test the possible impact of macroeconomic indicators in Bank's key financial position, performance and regulatory compliance. These stress tests will be mainly focused on the impact that some outlined macro and microeconomic scenarios might have on the loan portfolio, being the Bank's main source of income, financial position including market risk. Official forecast models of the Central Bank and Bank's internal risk valuation are used in these exercises. In the base scenario based on the Banks forecasts as per the approved strategy in the Board of Directors the Bank forecasts for 2021 CAR (46,53%) and 2022 (22,06%). The Bank has foreseen an increase of capital in order to maintain the minimum capital requirement from the Central Bank of Kosovo. According to the budget this increase will be enabled in the first quarter of 2021.The potential shareholders have semi qualified profiles from the Central Bank of Kosovo and will be going through the rest of the process during the first quarter of 2021. Regarding the liquidity scenarios, the Bank will perform stress-tests through considering the crisis scenario of liquidity specific only to Credins Bank Kosovo and the crisis scenario of liquidity for the banking system through suposing a decrease in the receivables by 10% and withdraw of deposits between 3% to 5%. Dynamic tests are performed to evaluate the possible effect of the increase/decrease in the number of clients in the different financial position items and the income and expenses for a certain amount of time.

During the first two months of 2021 the Bank has managed to achieve the budgeted results. For the year ending 2021, the Bank expects a negative deviation in the budgeted numbers due the pandemic situation which, for the moment cannot be measured reliably, however Management strongly believes that it will remain in positive results.

The Bank's Management has made an assessment in the ability of the Bank as a going concern considering all the above mentioned factors and is confident that the Bank has sufficient 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. For additional disclosures on capital management refer to note 2.4.3.

**2.2.3. Going concern assumption**

The Bank's financial statements have been prepared on a going concern basis, as explained in Note 2.2.2 above, which assumes that the Bank will continue with its operations for the foreseeable future.

The ability of the Bank to continue as a going concern is dependent on continued financial support from its Shareholder and the availability of continuous sources of funding.

The Bank's shareholder has no intention to liquidate or to terminate the business operations of the Bank. In addition, the Shareholder has declared that it is able to provide support and has committed to continue providing financial and other support to the Bank for a period of at least 12 months from the support letter dated 07 April 2021.

**2.2.4 Fair value of financial instruments**

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

**2.2.5 Effective Interest Rate (EIR) method**

The Bank's EIR method, as explained in Note 2.4.7.1, recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioral life of loans and deposits and recognizes the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behavior and life-cycle of the instruments.

**2. Accounting policies (continued)**
**2.2 Significant accounting judgements, estimates and assumptions (continued)**

### 2.2.6 Deferred tax asset

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilized. Although in Kosovo tax losses can be utilized within 4 years of the date it occurred, judgement is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with future tax-planning strategies

### 2.2.7 Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has long term lease contracts. The Bank has invested in leasehold improvements of the leased assets in order to make the best use of its premises.

### 2.2.8 Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses the average annual lending rate ('IBR') in the banking system based on the Statistical Bulletin of the Central Bank of Kosovo to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as to reflect the terms and conditions of the lease). On first implementation of IFRS 16 the IBR applied to lease liabilities recognised under IFRS 16 was 6.0364%.

## 2.3 Changes in accounting policies and disclosures

### 2.3.1 Standards and interpretations effective from 1 January 2020

The new and amended standards that are issued, effective from 1 January 2020, applicable up to the date of issuance of the Bank's financial statements are disclosed below.

- **Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7**

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument.

As indicated in the accounting policies, the Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. IAS 39 requires that for cash flow hedges, a forecast transaction must be highly probable. IAS 39 also requires that a hedging relationship only qualifies for hedge accounting if the hedging relationship is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The assessment of hedge effectiveness is made prospectively and retrospectively.

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. The Bank did not early adopt the interest rate benchmark but it anticipates that it would have no material effect in its financial statements.

The interest rate reform Phase 2 includes a number of additional relief and disclosures. These apply to the transition of a financial instrument from an existing interest rate to a risk-free rate (RFR). Changes in the basis for determining contractual cash flows as a result of interest rate reform are required as a practical tool to be treated as changes in a floating interest rate, provided that, for the financial instrument, the transition from the reference rate of the interest rate measure interest rate in RFR is done economically. As shown in accounting policies, the Bank chose, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

**2. Accounting policies (continued)**

**2.3. Changes in accounting policies and disclosures (continued)**

**2.3.1 Standards and interpretations effective from 1 January 2020 (continued)**

The Phase 2 IRR reform provides temporary relief that allows the Bank's hedging relationship to continue further by replacing an existing interest rate standard with an IRR. The exemptions require the Bank to change the definitions of hedges and the documentation of hedges. This includes redefining the hedged risk to refer to an RFR, redefining the description of the hedging instrument and / or protected item to refer to the RFR, and changing the method for assessing the effectiveness of the hedge. The protection documentation must be updated by the end of the reporting period in which a replacement is made. For retrospective assessment of hedge effectiveness, the Bank may choose to hedge on a hedging basis to restore the cumulative change in fair value to zero. The Bank may designate an interest rate as a component of hedged risk not specified in the contract changes in the fair value or cash flows of a hedged item, provided that the component of interest rate risk is separately identifiable e.g., is an established benchmark widely used in the marketplace to value loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided by this requirement provided that the Bank reasonably expects the RFRs to become individually identifiable within 24 months. For item group hedges, the Bank is required to transfer to subgroups those instruments that refer to RFRs. Any hedge relationships that prior to the application of Phase 2 IRR reform were terminated solely because of the IRR reform and meet the qualifying criteria for hedge accounting when implementing Phase 2 of the IRR reform should be restored upon initial application.

- **Amendmends to IFRS 3: Definition of a Business**

Business Combinations. This amendment clarifies that to be considered a business, the integrated set of activities and assets must include, at the very least, an input and an essential process that, together, contribute significantly to the ability to create output. Furthermore, it clarifies that a business can exist without including all the inputs and processes needed to create results. These changes had no impact on the Bank 's financial statements, but may affect future periods if the Bank enters into any business combination.

- **Amendments to IAS 1 and IAS 8: Definition of Materiality**

The amendments provide a new definition of materiality that says, "information is material if left out, misstatement or obscurity can be expected to influence the decisions of key users of the financial statements, the overall purpose they make based on those financial statements, which provide financial information about a specific reporting entity. ”The amendments clarify that materiality will depend on the nature or size of the information, either individually or in combination with other information, in the context of the financial statements. The misinformation is material if it can be reasonably expected to affect decisions made by key users. These changes had no impact on the Bank's financial statements nor are they expected to have any impact in the future.

- **Conceptual Framework for Financial Reporting**

The Conceptual Framework is not a standard, and none of the concepts contained in it go beyond that concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to assist preparers to develop sound accounting policies where the standard becomes applicable, and to help all parties understand and interpret the standards. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These changes had no impact on the Bank's 2020 financial statements.

- **Amendmends to IFRS 16 Covid-19 Related Lease Concessions**

On May 28, 2020, the IASB issued lease concessions related to Covid-19 - amendment to IFRS 16 leases. The amendments provide relief to tenants by applying IFRS 16 Guidelines for Accounting for Lease Modifications to Lease Concessions Arising Directly Covid-19 pandemic. As a practical tool, a tenant may choose not to assess whether a Covid-19 lease concession from a lessor is a modification lease. A lessee making these choices shall account for any change in lease payments arising from the Covid-19 lease concession in the same manner that it would calculate the change under IFRS 16 if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. This change had no impact on the Bank's financial statements.

**2.3.2 Standards and interpretations in issue not yet effective**

Other Standards and amendments that are not yet effective and have not been adopted early by the Bank include:
- IFRS 17 Insurance Contracts
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

These changes did not have an impact on the financial statements in the period of the initial application and therefore the explanatory notes have not been prepared.

*(amounts in EUR '000, unless otherwise stated)*

## 2. Accounting policies (continued)

### 2.4 Summary of significant accounting policies

#### *2.4.1 Foreign currency transactions*

In preparing the financial statements, transactions in currencies other than the Bank's functional currency are recognized at the exchange rates prevailing at the dates of the transactions.

Transactions in foreign currencies are translated into the respective functional currency of the operation at the exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rates at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rates at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The applicable rate of exchange (EUR to foreign currency unity) for principal currencies as at 31 December 2020 were as follows:

| | 31 December 2020 |
|---|---|
| USD | 1.2281 |
| GBP | 0.90307 |
| CHF | 1.0857 |
| CAD | 1.5701 |

#### *2.4.2 Financial instruments – initial recognition and subsequent measurement*

##### *2.4.2.1 Date of recognition*

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

##### *2.4.2.2 Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.4.4.1.1 and 2.4.4.1.2. Financial instruments are initially measured at their fair value (as defined in Note 2.4.3), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below:

**Day 1 profit or loss**

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is de-recognized.

##### *2.4.2.3 Measurement categories of financial assets and liabilities*

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 2.4.4.1
- FVOCI, as explained in Notes 2.4.4.4 and 2.4.4.5
- FVTPL, as set out Note 2.4.4.6.

The Bank classifies and measures its derivative and trading portfolio at FVPL, as explained in Notes 2.4.4.2 and 2.4.4.3. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 2.4.4.6.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 2.4.4.6.

**2. Accounting policies (continues)**

**2.4 Summary of significant accounting policies(continued)**

***2.4.2 Financial instruments – initial recognition and subsequent measurement (continued)***

***2.4.2.4 De-recognition of financial assets***

***2.4.2.4.1 De-recognition due to substantial modification of terms and conditions***

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a de-recognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to de-recognize a loan to a customer, amongst others, the Bank considers the following factors:

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

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in de-recognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

***2.4.2.4.2 De-recognition other than for substantial modification***

***2.4.2.4.2.1 Financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognized when the rights to receive cash flows from the financial asset have expired. The Bank also de-recognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition. The Bank has transferred the financial asset if, and only if, either:

• The Bank has transferred its contractual rights to receive cash flows from the financial asset

or

• It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
• The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
• The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
• The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.
In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.
A transfer only qualifies for de-recognition if either:
• The Bank has transferred substantially all the risks and rewards of the asset
Or
• The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continued involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**2. Accounting policies (continued)**

**2.4 Summary of significant accounting policies(continued)**

***2.4.2 Financial instruments – initial recognition and subsequent measurement (continued)***

***2.4.2.4 De-recognition of financial assets (continued)***

***2.4.2.4.2 De-recognition other than for substantial modification (continued)***

***2.4.2.4.2.2 Financial liabilities***

A financial liability is de-recognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

***2.4.3 Determination of fair value***

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarized below.

- Level 1 financial instruments − Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- Level 2 financial instruments − Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- Level 3 financial instruments − Those that include one or more unobservable input that is significant to the measurement as whole.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralized financial instruments. The Bank estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts on itself. The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

***2.4.4 Financial assets and liabilities***

***2.4.4.1 Due from banks, Loans and advances to customers, financial investments at amortized cost***

The Bank measures Due from banks, Loans and advances to customers and other financial investments at amortized cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

***2.4.4.1.1 Business model assessment***

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.
• The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
• How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.
The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

**2. Accounting policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.4 Financial assets and liabilities (continued)***

***2.4.4.1.2. The SPPI test***

As a second step of its classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

***2.4.4.2 Derivatives recorded at fair value through profit or loss***

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument. Financial assets are classified based on the business model and SPPI assessments as outlined in Note 2.4.4.1.1 and 2.4.4.1.2. As of 31 December 2020, the Bank has not recognized derivatives recorded at fair value through profit or loss.

***2.4.4.3 Financial instruments at FVPL***

The Bank classifies financial assets or financial liabilities at FVPL when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. FVPL assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established. Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term. As of 31 December 2020, the Bank has not recognized financial instruments at FVPL.

***2.4.4.4 Debt instruments at FVOCI***

The Bank classifies debt instruments at FVOCI when both of the following conditions are met:

• The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets

• The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in Note 2.4.2. The ECL calculation for Debt instruments at FVOCI is explained in Note 2.4.6.3 Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On de-recognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss. As of 31 December 2020, the Bank has not recognized debt instruments at FVOCI.

**2. Accounting policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.4 Financial assets and liabilities (continued)***

***2.4.4.5 Debt issued and other borrowed funds***

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.
The Bank has issued financial instruments with equity conversion rights. When establishing the accounting treatment for these non-derivative instruments, the Bank first establishes whether the instrument is a compound instrument and classifies such instrument's components separately as financial liabilities, financial assets, or equity instruments in accordance with IAS 32. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercising the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to the equity and liability components, the equity component is assigned as the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. Once the Bank has determined the split between equity and liability, it further evaluates whether the liability component has embedded derivatives that must be separately accounted for (as outlined in Note 2.4.4.2). As of 31 December 2020, the Bank has not recognized debt issued and other borrowed funds.

***2.4.4.6 Financial assets and financial liabilities at fair value through profit or loss***

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met.

Such designation is determined on an instrument-by-instrument basis:

• The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis,
or
• The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy,
or
• The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate. As of 31 December 2020, the Bank has not recognized financial assets and liabilities at fair value through profit or loss.

***2.4.4.7 Financial guarantees, letters of credit and undrawn loan commitments***

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and an ECL allowance.

The premium received (if any) is recognized in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. As of 31 December 2020, the Bank has not recognized financial guarantees, letter of credit and undrawn loan commitments.

**2. Accounting policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.5 Reclassification of financial assets and liabilities***

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

***2.4.6 Impairment of financial assets***

***2.4.6.1 Overview of the ECL principles***

The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as ‘financial instruments’. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months’ expected credit loss (12mECL). The Bank’s policies for determining if there has been a significant increase in credit risk are set out in Note 24.2.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

***2.4.6.1 Overview of the ECL principles (continued)***

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank’s policy for grouping financial assets measured on a collective basis is explained in Note 24.2.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 24.2.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

• Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

• Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

• Stage 3: Loans considered credit-impaired. The bank records an allowance for the LTECLs.

• 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) de-recognition of the financial asset.

***2.4.6.2 The calculation of ECL***

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

• PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de-recognized and is still in the portfolio.

• EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, collateral coverage and accrued interest from missed payments.

**2. Accounting policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.6 Impairment of financial assets (continued)***

• LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, as set out in Note 2.4. It is usually expressed as a percentage of the EAD. Expert LGD values are used estimated as 1 less the cash recovery rates. The recovery rates are estimated based on the internal available data of the bank historic recoveries within the last five years. The LGD values are based on cash recoveries without discriminating whether the exposure is secured or not secured. For the loan to customer portfolio the LGD values vary from 45% to 70%. LGD values for all other portfolio such as loans to Financial Institutions, Sovereigns and investment securities is set at 45%.

When estimating the ECLs, the Bank considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

***2.4.6.2 The calculation of ECL (continued)***

The mechanics of the ECL method are summarized below:

• Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.
• Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
• Stage 3: For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
• POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.

***2.4.6.3 Debt instruments measured at fair value through OCI***

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon de-recognition of the assets.

***2.4.6.4 Purchased or originated credit impaired financial assets (POCI)***

For POCI financial assets, the Bank only recognizes the cumulative changes in LTECL since initial recognition in the loss allowance.

***2.4.6.5 Forward looking information***

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

GDP growth

• Unemployment rates

• Central Bank base rates

• House price indices

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 24.2.

**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.6 Impairment of financial assets (continued)***

***2.4.6.6 Offsetting financial instruments***

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

***2.4.7 Recognition of interest income and expenses***

***2.4.7.1 The effective interest rate method***

Under both IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortized cost, interest rate derivatives for which hedge accounting is applied and the related amortization/recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortized cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognized at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability

***2.4.7.2 Interest and similar income/expense***

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information. In its Interest income/expense calculated using the effective interest method.

In its Interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out in Note 2.4.7.1 above.

Other interest income/expense includes interest on all financial assets/liabilities measured at FVPL, other than those held for trading, using the contractual interest rate. Interest income/expense on all trading financial assets/liabilities is recognized as a part of the fair value change in Net trading income. The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired (and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures (and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI financial asset.

The Bank also holds investments in financial assets issued in countries with negative interest rates. The Bank discloses interest received on these financial assets as interest expense. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

*(amounts in EUR '000, unless otherwise stated)*

## 2. Accounting Policies (continued)

### 2.4 Summary of significant accounting policies (continued)

#### *2.4.8 Fee and commission income and expense*

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.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

#### *2.4.9 Net trading income*

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading. This is included in interest income line as Net trading income.

#### *2.4.10 Net loss on financial assets and liabilities designated at fair value through profit or loss*

Net loss on financial instruments at FVTPL represents non-trading derivatives held for risk management purposes used in economic hedge relationship but not qualifying for hedge accounting relationships, financial assets and financial liabilities designated as at FVTPL, also non-trading assets measured at FVTPL, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

#### *2.4.11 Cash and cash equivalents*

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

#### *2.4.12 Investment securities*

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either debt securities at amortized cost, debt securities though other comprehensive income or debt securities at fair value through profit or loss (mandatory).

#### *2.4.13 Property Plant and equipment and right-of-use assets*

**(i) Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

**(ii) Subsequent Cost**

The cost of replacing part of an item of property or 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.

**(iii) Depreciation**

Depreciation is recognized in profit or loss on a declining balance method over the estimated useful life of the assets, except for depreciation of property which is based on the straight line method. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Depreciation methods, useful lives and residual values are reassessed at the reporting date. Right-of-use assets are depreciated on a straight-line basis over the lease term. The depreciation rates for the current and comparative periods are as follows:

| Fixed Assets Category | Depreciation % |
|---|---|
| Buildings | 10% |
| Electronic equipment | 20% |
| Vehicles | 20% |
| Furniture's, fittings and office equipment | 20% |
| Leasehold improvements | 10% |

## 2. Accounting Policies (continued)

### 2.4 Summary of significant accounting policies (continued)

#### *2.4.14 Intangible assets*

**(i) Software**

Software acquired by the Bank is stated at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is recognized in profit or loss at 20% based on the initial cost method from the date that it is available for use.

**(ii) Licenses**

Licenses and rights to use that are acquired by Bank are stated at cost less accumulated amortization and impairment losses, if any. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss when incurred. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the license, from the date that it is available for use.

#### *2.4.15 Impairment of non – financial assets*

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss.

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

#### *2.4.16 Financial guarantees*

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

#### *2.4.17 Pension benefits*

**(i) Compulsory social security contributions**

The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement. KPST authorities are responsible for providing the legally set minimum threshold for pensions under a defined contribution pension plan. The Bank's contributions to the benefit pension plan are charged to the profit or loss as incurred

**(ii) Paid annual leave**

The Bank recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange of the employee's service for the period completed.

#### *2.4.18 Provisions for contingent liabilities and commitments*

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, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognizes any impairment loss on the assets associated with that contract.

**2. Accounting policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.19 Taxes***

Income tax expense represents the sum of the tax currently payable.

**(i) Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Corporate tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years in accordance with the Kosovo tax legislation. Taxable income is calculated by adjusting the profit before taxes for certain income and expenses as required by law in the Republic of Kosovo.

**(ii) Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws in Albania that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**(iii) Current and deferred tax for the year**

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

***2.4.20 Repossessed properties***

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations of the Bank are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

The Bank holds some repossessed properties that it has acquired through enforcement of collateral over loans and advances. The Bank measures these repossessed assets initially at their cost (purchase price). At the end of each reporting period, these assets are measured at the lowest of their cost or net realizable value. Gains and losses arising from changes in the net realizable value of these repossessed properties are included in profit or loss in the period in which they arise. These assets are derecognized upon disposal or when these are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the properties (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized, under the apllicable law in the Republic of Kosovo.

***2.4.21 Deposits and subordinated liabilities***

Deposits, debt securities issued and subordinated liabilities are the Bank's chief sources of debt funding. When the Bank sells a financial asset and simultaneously enters into a "repo" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the Bank's Financial Statements.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss. 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 net carrying amount on initial recognition.

**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.22 Dividends***

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders.

For the year on 31 December 2020, the Bank has not declared any dividends payable to its shareholders.

***2.4.23 Equity reserves***

The reserves recorded in equity (other comprehensive income) on the Bank's statement of financial position include:

"General reserve" reserve which comprises changes made for legal and statutory reserve as determined in the Central Bank Law and Commercial Companies Law applicable in Kosovo and

"Revaluation reserve" which is used to record exchange differences arising from the revaluation of investment securities.

For the year ending 31 December 2020, the Bank has not recorded any general reserves nor revaluation reserves.

***2.4.24 Write-offs***

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

***2.4.25 Forborne and modified loans***

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.
De-recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

**2.4.26 *Leases***

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Right-of-use assets*

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 15 Right-of-use assets and are subject to impairment in line with the Bank's policy as described in Note 2.4.15 Impairment of non-financial assets.

*Lease liabilities*

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

## 2. Accounting Policies (continued)

### 2.4 Summary of significant accounting policies (continued)

#### 2.4.26 *Leases (continued)*

#### *2.4.26.1 Bank as a lessor*

Leases where the Bank transfers substantially all the risk and benefits of ownership of the asset are classified as finance leases. In the statement of financial position, the Bank presents the receivable amount equal to the net investment value. The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

The sales revenue recognized at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest.

(amounts in EUR ‘000, unless otherwise stated)

### 3 Net Interest income

| | For the period 17.03.2020 - 31.12.2020 |
|---|---|
| **Interest income calculated using the effective interest method** | |
| *Total interest income* | ***0.00*** |
| **Interest expense calculated using the effective interest method** | |
| Due to banks | (5.69) |
| Interest expense related to the lease (note 15) | (19.99) |
| *Total interest expense* | ***(25.68)*** |
| **Net interest income / (expense)** | **(25.68)** |

### 4 Net Fee and commission income and expense

| | For the period 17.03.2020 - 31.12.2020 |
|---|---|
| **Fee and commission income** | |
| Banking customer fees | 0.10 |
| Fee and commissions from lending services | 0.03 |
| *Total fee and commission income* | ***0.13*** |
| **Fee and commission expense** | |
| Inter bank transaction fees | (0.01) |
| Other | (0.07) |
| *Total fee and commission expense* | ***(0.08)*** |
| **Net fee and commission income** | **0.05** |

### 5 Net other income

| | For the period 17.03.2020 - 31.12.2020 |
|---|---|
| Other expenses | 40.43 |
| | **40.43** |
| Other income | 0.00 |
| | **0.00** |
| **Net other income** | **40.43** |

Other expenses related to banking activity for the year ended as at 31 December 2020 include expenses for licencies purchased during 2020.

### 6 Net impairment losse on financial assets

| | For the period 17.03.2020 - 31.12.2020 |
|---|---|
| Charges for ECL on loans and advances to customer (note 12) | 0.05 |
| | **0.05** |

### 7 Personnel expenses

| | For the period 17.03.2020 - 31.12.2020 |
|---|---|
| Salaries | 69.67 |
| Mandatory health insurance | 8.12 |
| Bonuses and rewards | 1.21 |
| **Total** | **79.00** |

*(amounts in EUR '000, unless otherwise stated)*

### 8 Administrative expenses

| | For the period 17.03.2020 - 31.12.2020 |
|---|---|
| Insurance and surveillance | 26.38 |
| Safety | 16.22 |
| Other tariffs | 13.86 |
| Cleaning and hygiene | 9.24 |
| Electricity & Water | 6.30 |
| Communications | 5.26 |
| Supplies and other services | 3.13 |
| Subcontracting, Consulting and Specialized Work | 0.83 |
| Lawyers and other legal aid | 0.65 |
| Transport | 0.59 |
| Marketing | 0.02 |
| | **82.47** |

Insurance and surveillance include the payment of the initial premium paid to the Deposit Insurance Fund as per the applicable law. Safety includes the contracts for the safety of the Banks premises.

### 9 Income tax expense

| | | For the period 17.03.2020 - 31.12.2020 |
|---|---|---|
| (Loss) before taxes | | (311.07) |
| Tax charge for the year at applicabe rate | 10% | 0.00 |
| Tax effect of unrecognized expenses for tax purposes | | 0.04 |
| Current tax expense | | 0.04 |
| **Income tax expense** | | **0.04** |

Impairment costs recognized by the Bank in accordance with IFRSs are considered as a deductible expense for tax purposes, provided that they are certified by an external auditor and do not exceed the limits set by the Central Bank. In accordance with the tax legislation in Kosovo, the applicable corporate income tax rate for the year ended 31 December 2020 is 10%. The period for transferring tax losses in accordance with the Law on Taxation in Kosovo is four years. For the year 2020, the Bank is at a loss, it has paid through tax returns the tax liability under applicable law taking into account that has not realized income as per the minimum threshold according to tax law.

Tax returns are submitted annually to the Tax Authorities but the declared profits or losses for fiscal purposes are considered provisional until the tax returns and tax calculations are inspected by the tax authorities and a final assessment is issued. Kosovo tax legislation is subject to interpretation by the tax authorities.

### 10 Cash and cash equivalents

| | 31 December 2020 |
|---|---|
| Cash on hand | 148.74 |
| Unrestricted balances with central bank | 7,662.75 |
| | **7,811.49** |

The Bank has not recognise impairment of balances with the Central Bank (note 11).

*(amounts in EUR '000, unless otherwise stated)*

## 11 Restricted balances with Central Bank

| | 31 December 2020 |
|---|---|
| Restricted balances with Central Bank | 223.95 |
| *Negative interest for unrestricted balances with Central Bank* | *(3.97)* |
| **Balances with Central Bank, net** | **219.98** |

In accordance with the requirements of the Central Bank regarding the deposit reserve for liquidity purposes, the Bank must maintain a minimum of 10% of customer deposits with a maturity of up to one year, in the Central Bank as a reserve account. Mandatory reserves represent instruments with high liquidity, including cash, accounts with the CBK, or with other banks in Kosovo, and the amounts held with the CBK shall not be less than half of the total reserves. The assets with which the Bank can meet its liquidity requirements are Euro deposits with the CBK and 50% of the Euro equivalent of cash in easily convertible currencies. Deposits with the CBK should not be less than 5% of the applicable deposit base.
The reserve expressed in euro represents an interest rate that is equal to the deposit rate announced by the European Central Bank which on 31 December 2020 was (0.6%). The Central Bank does not calculate any interest on the mandatory reserve.

The Bank has recognized as a liability for the closing year 2020 the negative interest accrued by the Central Bank of Kosovo for the conditional amount to the Central Bank.

## 12 Loans and advances to customers

Loans and advances to customers consist of the following:

| | 31 December 2020 |
|---|---|
| Balances for loans and advances to customers, gross | 5.96 |
| Allowance for ECL | (0.05) |
| **Loans and advances to customers, net** | **5.91** |

Loans and advances to customers by product classification are presented as follows:

| | 31 December 2020 |
|---|---|
| Corporates | 3.96 |
| Mortgage loans | 0.00 |
| Consumer loans | 2.00 |
| Other secured loans | 0.00 |
| ***Total, gross*** | ***5.96*** |
| Allowance for ECL | (0.05) |
| ***Total, net*** | **5.91** |

Movements in the allowance provision is presented below:

| | Year ended 31 December 2020 |
|---|---|
| **At the beginning of the period** | **0.00** |
| Allowance for ECL (note 6) | (0.05) |
| Writte offs | 0.00 |
| Effect of foreign currency movements | 0.00 |
| **At the end of the period** | **(0.05)** |

(amounts in EUR '000, unless otherwise stated)

## 12 Loans and advances to customers (continued)

The tables below show an analysis of changes in gross carrying amount and the corresponding allowance for ECL for each of the above categories:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Balance at 17 March 2020** | - | - | - | - |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - |
| New financial assets originated or purchased | 5.91 | - | - | 5.91 |
| Derecognition of financial assets | - | - | - | - |
| Changes due to changes in credit risk, net | - | - | - | - |
| Write-offs | - | - | - | - |
| Foreign exchange and other changes | - | - | - | - |
| **Gross Balance at 31 December 2020** | **5.91** | **-** | **-** | **5.91** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Allowance for ECL at 17 March 2020** | - | - | - | - |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - |
| New financial assets originated or purchased | 0.05 | - | - | 0.05 |
| Derecognition of financial assets | - | - | - | - |
| Changes due to changes in credit risk, net | - | - | - | - |
| Write-offs | - | - | - | - |
| Foreign exchange and other changes | - | - | - | - |
| **Allowance for ECL at 31 December 2020** | **0.05** | **-** | **-** | **0.05** |

## 13 Property and equipment

| | Buildings | Electronic and office equipment | Vehicles, Furniture & Fittings | Leasehold improvements | Work in process | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 17 March 2020** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |
| Additions | 0.00 | 367.51 | 156.59 | 808.33 | 773.93 | **2,106.37** |
| **Balance at 31 December 2020** | **0.00** | **367.51** | **156.59** | **808.33** | **773.93** | **2,106.36** |
| **Depreciation** | | | | | | |
| **Balance at 17 March 2020** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |
| Depreciation for the period | 0.00 | (15.29) | (5.56) | (15.57) | - | (36.42) |
| **Balance at 31 December 2020** | **0.00** | **(15.29)** | **(5.56)** | **(15.57)** | **-** | **(36.42)** |
| **Net Book Value** | | | | | | |
| **Balance at 17 March 2020** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |
| **Balance at 31 December 2020** | **0.00** | **352.22** | **151.04** | **792.77** | **773.93** | **2,069.95** |

As at 31 December 2020, work in progress consist of payments made towards suppliers for purchase of assets or services that contribute to the investment in the Credins Bank branch in Ferizaj that has started operation in January 2021.

As at 31 December 2020 there are no property and equipment encumbered of pledged to secure bank liabilities.

*(amounts in EUR ‘000, unless otherwise stated)*

### 14 Prepaid Expenses

Prepaid expenses in the amount of 82.47 thousands EUR include prepaid expenses for licences and expenses that will be accounted during 2021.

### 15 Right-of-use assets

**Bank as a lessee**
The Bank has lease contracts for various buildings that it uses for the branches' operations. Leases of the premises generally have lease terms between 5 and 20 years. The Bank's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Bank is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options, which are further discussed below.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

| **Cost** | **Right-of-use** | **Total** |
|---|---|---|
| **Balance at 17 March 2020** | **-** | **-** |
| Additions | 1,647.76 | 1,647.76 |
| **Balance at 31 December 2020** | **1,647.76** | **1,647.76** |
| **Amortization** | | |
| **Balance at 17 March 2020** | **-** | **-** |
| Amortization | (47.07) | (47.07) |
| **Balance at 31 December 2020** | **(47.07)** | **(47.07)** |
| **Net Book Value** | | |
| **Balance at 31 December 2020** | **1,600.69** | **1,600.69** |

The following are the amounts recognized in profit or loss:

| | **31 December 2020** |
|---|---|
| Depreciation expense of right-of-use assets | (47.07) |
| Interest expense on lease liabilities (note 3) | (19.99) |
| **Total amount recognized in profit or loss** | **(67.06)** |

### 16 Other assets

| | **31 December 2020** |
|---|---|
| Debtors | 0.01 |
| Inventory warehouse | 5.71 |
| | **5.72** |

Other debtors include commission liabilities for scoperto accounts, which will be settled in the beginning of 2021.
Inventory include all purchases in the warehouse which are not yet in use, which will be used for the new branch in Ferizaj that started operating in January 2021.

### 17 Due to customers

| | **31 December 2020** |
|---|---|
| Private individuals | 203.64 |
| Corporate | 36.71 |
| Other customers | 0.05 |
| | **240.39** |

The table below shows due to customers by currency are detailed as follows:

| | **31 December 2020** |
|---|---|
| Current accounts | |
| Local currency | 240.37 |
| Foreign currency | 0.01 |
| Saving accounts | |
| Local currency | 0.01 |
| Foreign currency | 0.00 |
| | **240.39** |

*(amounts in EUR '000, unless otherwise stated)*

## 18 Lease liability

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

| | 31 December 2020 |
|---|---|
| **As at 1 January** | **0.00** |
| Additions | 1,647.76 |
| Payments | (62.09) |
| **Total** | **1,585.67** |
| Accretion of interest | 19.99 |
| **Balance as at 31 December** | **1,605.66** |

Minimal lease payments related to lease contracts for buildings of the branches' operations are analyzed as follows:

| | Minimal lease payments | | | | | | |
|---|---|---|---|---|---|---|---|
| **31 December 2020** | **Within 1 year** | **1-2 year** | **2-3 year** | **3-4 year** | **4 - 5 year** | **After 5 year** | **Total** |
| Lease payments | 217.35 | 217.35 | 217.35 | 217.35 | 217.35 | 1,024.39 | 2,111.11 |
| Finance charges | (91.02) | (83.38) | (75.29) | (66.71) | (57.60) | (131.46) | (505.46) |
| **Total** | **126.33** | **133.96** | **142.06** | **150.64** | **159.74** | **892.93** | **1,605.66** |

## 19 Other liabilities

Other liabilities are comprised of the following:

| | 31 December 2020 |
|---|---|
| Payments toward Credins Bank Albania | 2,156.30 |
| Tax payments | 10.87 |
| Suppliers and accrued payables | 94.09 |
| **Total** | **2,261.27** |

Liabilities toward Credins Bank Albania include payments made from Credins Bank Albania to support the investment in Credins Bank Kosova. These payments are made towards suppliers for the reconstruction, purchase of plant property and equipment and services that have contributed to put in the operation Credins Bank Kosovo.

## 20 Share Capital

In accordance with Law no. 04 / L-093 on "Banks, Microfinance Institutions and Non-Bank Financial Institutions", the minimum share capital for banks operating in Kosovo should be 7 million Euro.

The capital of the bank is composed of 8,000,000 (eight-million) Eur. The share capital consists of 8,000,000 (eight million) shares with a nominal value of 1 (one) Eur per share. The share capital is 100% owned by Credins Bank JSC in Albania, which constitutes the share capital.

The shareholders of the Bank and the respective shares held by them are as follows:

| | 31 December 2020 (%) |
|---|---|
| Banka Credins SH.A (Albania) | 100.00% |
| **Total** | **100.00%** |

The paid up capital of the Bank as at 31 December 2020 is 8,000,000 (8 million) EUR with nominal value 1 Eur each.

The capital amount of 8,000,000 (8 million) euros has been signed and registered with the Kosovo Business Registration Agency (KBRA). The shares of the Bank have a nominal value and are indivisible. Each share entitles its holder to one vote.

A reconciliation of share capital at the beginning and end of the year are as follows:

| | Normal shares |
|---|---|
| | **31 December 2020** |
| **As at 17 March 2020** | 0.00 |
| Increase in number of shares: | 8,000,000 |
| **As at 31 December 2020** | **8,000,000** |

*(amounts in EUR '000, unless otherwise stated)*

## 21 Maturity analysis of assets and liabilities

| 31 December 2020 | < 12 months | > 12 months | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalent | 7,811.49 | 0.00 | 7,811.49 |
| Restriced balances with Central Bank | 219.98 | 0.00 | 219.98 |
| Loans and advances to customers | 5.91 | 0.00 | 5.91 |
| Property and equipment | 2.86 | 2,067.09 | 2,069.95 |
| Prepaid expenses | 82.47 | 0.00 | 82.47 |
| Right-of-use assets | 164.79 | 1,435.89 | 1,600.69 |
| Other assets | 5.72 | 0.00 | 5.72 |
| **Total assets** | **8,293.23** | **3,502.98** | **11,796.21** |
| **Liabilities** | | | |
| Due to customers | 240.39 | 0.00 | 240.39 |
| Lease liability | 126.33 | 1,479.33 | 1,605.66 |
| Other liabilities | 2,261.27 | 0.00 | 2,261.27 |
| **Total liabilities** | **2,627.99** | **1,479.33** | **4,107.32** |
| **Net** | **5,665.24** | **2,023.65** | **7,688.89** |

Expected maturity dates do not differ significantly from the contract dates, except for:

- Retail deposits, which are included within Due to customers, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers, and are renewable at the end of their contractual term.

## 22 Contingent liabilities and commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities.

### Lease commitments – Bank as lessee

The Bank has leased the offices in Prishtina and Ferizaj with a 10-year lease term. A detailed information regarding the changes occurred as per IFRS 16 requirements. Whilst in here we are presenting information on future commitments for the years ended 31 December 2020:

| | Year ended 31 December 2020 |
|---|---|
| Not later than 1 year | 0.00 |
| Later than 1 year and not later than 5 years | 0.00 |
| Later than 5 years | 1,600.69 |
| **Total** | **1,600.69** |

### Litigation and claims

As at 31 December 2020, the Bank is not subject to any claims and legal proceedings which arise in the ordinary course of business.

### Legal claims

At year-end, the Bank does not have any unresolved legal claims with no probable adverse effects; no provision has been accounted in the financial statements.

### Capital commitments

As at 31 December 2020, the Bank has capital commitments with the suppliers Shaga and Agimi B for the production of office equipments as well as safety equipments for its branches in Ferizaj and Prishtina. These contracts are to be finalized during 2021.

*(amounts in EUR '000, unless otherwise stated)*

## 23 Related party disclosures

In the following tables, the Bank presents the relationships that existed between the Bank and its related parties, the nature of the transactions, outstanding amounts and expenses and/or income recognized as at 31 December 2020.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director (whether executive or otherwise) of the Bank. Persons or entities that are related to the Bank, by being either a person or close member of that person's family to the Bank, by having control or joint control by a person or close member of that person's family, or by having significant influence over the entity, are presented as other related parties.

**Related party transactions**

| | 31 December 2020 | |
|---|---|---|
| **Transaction** | **Parent** | **Other related parties** |
| Assets | 0.00 | 0.00 |
| Liabilities | 2,156.30 | |
| Income | 0.00 | 0.00 |
| Expenses | 0.00 | 0.00 |

| | Interest rates (in %) |
|---|---|
| **Type of transaction** | **31 December 2020** |
| Current account | 0.00% |

In addition, the key management personnel remuneration has been as follows, with no other benefits to disclose as at 31 December 2020:

| | Salaries | Bonuses |
|---|---|---|
| **Year ended 31 December 2020** | | |
| Key management remuneration | 21.87 | 0.00 |
| Board of Directors remuneration | 16.25 | 0.00 |

## 24 Risk management

### 24.1 Introduction and overview

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.

***Risk management framework***

The Board of Directors has overall responsibility for the establishment and oversight and control of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO) and the Credit Committee, which are responsible for developing and monitoring Bank risk management policies in specified areas up to predetermined limits of exposure.

The risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Since the past year, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening.

The government has taken measures to implement the Economic Recovery Program for 2021, increase the coverage of new loans and facilitate access to finance. The government has begun to carry out its mission to the fullest extent possible in facilitating access to finance for those in sectors with difficult access to finance, facilitating access to banking finance, especially for those who have difficulty securing it independently. CBK regulatory measures for the treatment of loans guaranteed by KCGF as risk-free assets for banks, represent a very important relief in terms of regulatory capital requirements to banks, as well as the coverage of the guarantee fee by the Government of Kosovo, which is considered to reflect more favorable conditions by lending institutions for guaranteed loans. Banks have coped well with the recession so far, relying on high levels of liquidity and initial capital Covid-19 pandemic, which have contributed to maintaining the stability of the financial system. The reforms implemented by the Central Bank of the Republic of Kosovo in previous years, which focused on strengthening financial security and the banking supervisory framework, helped alleviate the pressures from the pandemic. In order to maintain sound levels of capital within the banking system and to support Kosovo's economy through lending, the CBK has decided to suspend the distribution of dividends by banks for 2020. The CBK has published the loan-restructuring guide in order to establish the criteria on which the loan restructuring process should be based for borrowers who have encountered financial difficulties because of the pandemic. The Credit Restructuring Guide has made it possible to ease the credit burden on borrowers without implicating any deterioration in their classification in the Kosovo credit register. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank measures, remain difficult to determine in time. It is not possible to reliably assess the duration and severity of these consequences, as well as their impact on the Bank's financial position and results for future periods. The Audit Committee is supported by the Bank's internal audit to perform its functions. Internal control regularly and 'ad-hoc' monitors risk management policies and procedures, and reports the results of observations to the Audit Committee.

## 24 Risk management (continued)

### 24.2 Credit risk

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

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committees for all credit exposures within 5% of the Bank’s regulatory capital. The Board of Directors in cooperation with the Credit Committee is responsible for oversight of the Bank’s credit risk, including: formulating credit policies, covering collateral requirements, credit assessment, documentary and legal procedures, compliance with regulatory and statutory requirements, establishing the authorization structure for the approval and renewal of credit facilities.

Authorization limits are allocated to Risk Division Credit Committees. Larger facilities require approval by Senior Credit Committee, with the involvement of the High Management level or the Board of Directors as appropriate. Credit decision-making Authorities assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

Developing and maintaining the Bank’s risk classifications in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk-grading framework consists of five grades in accordance with the Central Bank of Kosovo, reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approval by Credit Committee and these grades are subject to regular monthly reviews. The Bank's Credit Committee regularly receives and reviews credit quality reports and takes appropriate corrective action. Each business unit must implement the Bank's credit risk management policies and procedures authorized by the Credit Committee. Each business unit / branch is responsible for the quality and performance of its loan portfolio, including those with central approval.

By the end of 2021, the Bank expects an increase in its loan portfolio despite the economic downturn. Following the emergence of the COVID-19 pandemic emergency, the Bank is analyzing macroeconomic changes and will reflect these changes in the Stress Tests used to describe the impact of COVID-19 on the calculation of Expected Credit Losses (note 2.4.6.2).

*(amounts in EUR '000, unless otherwise stated)*

**24 Risk management (continued)**

**24.2 Credit risk (continued)**

Regular audits of business units and Bank Credit processes are undertaken by Internal Audit. Based on the Bank's internal rating policy, the portfolio rating as at 31 December 2020 is as follows:

| Bank's Credit Rating | 31 December 2020 | % to Total Gross |
|---|---|---|
| A+ | 0.00 | 0.00% |
| A | 0.00 | 0.00% |
| A- | 0.00 | 0.00% |
| B+ | 0.00 | 0.00% |
| B | 0.00 | 0.00% |
| B- | 0.00 | 0.00% |
| C+ | 0.00 | 0.00% |
| C | 0.00 | 0.00% |
| C- | 0.00 | 0.00% |
| D+ | 0.00 | 0.00% |
| D | 0.00 | 0.00% |
| E+ | 0.00 | 0.00% |
| E | 0.00 | 0.00% |
| E- | 0.00 | 0.00% |
| **Loans with a credit rating** | **0.00** | **0.00%** |
| Loans with no rating | 5.96 | 100.00% |
| Loans with credit score | 0.00 | 0.00% |
| **Total Gross Loan portfolio** | **5.96** | **100.00%** |

The table below shows the credit quality by class of asset for loans and advances to customers to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowances.

| | 31 December 2020 | |
|---|---|---|
| **Credit ranking by Bank** | **Default rates in %** | **Total** |
| **High rank** | | **0.00** |
| Risk rating class 1 | 0.00% | 0.00 |
| Risk rating class 2 | 0.00% | 0.00 |
| Risk rating class 3 | 0.00% | 0.00 |
| **Standard rank** | | **0.00** |
| Risk rating class 4 | 0.00% | 0.00 |
| Risk rating class 5 | 0.00% | 0.00 |
| **Sub–standard grade** | | **0.00** |
| Risk rating class 6 and lower | 0.00% | 0.00 |
| **No rating** | **100.00%** | **5.96** |
| **Total** | | **5.96** |

The classification of the internal rating is in accordance with the Bank's procedures regarding the different segments of the client. In the high grade class are included the valuations for the commercial clients (A+,A,A-) and the valuations for individuals and micro (classes 1,2). For the standard grade are included the valuations for the commercial clients (B+,B) and the valuations for individuals and micro (classes 3,4,5). And in the sub-standard grade are included the valuations for the commercial clients (B- and lower) the valuations for individuals and micro (classes 6,7).

*(amounts in EUR '000, unless otherwise stated)*

**24 Risk management (continued)**

**24.2 Credit risk (continued)**

**Exposure to credit risk**

| | Gross maximum exposure |
|---|---|
| | **31 December 2020** |
| Cash and cash equivalent (exluding cash on hand) | 7,662.65 |
| Restricted balances with Central Bank | 219.98 |
| Loans and advances to customers (gross) | 5.96 |
| Other assets | 0.01 |
| **Total** | **7,888.60** |
| **Total Credit related commitments** | 0.00 |
| **Total Credit Risk Exposure** | **7,888.60** |

As at 31 December 2020, the Bank does not have past due and not impaired exposures for loans and advances to customers.

*(amounts in Eur'000, unless otherwise stated)*

## 24 Risk management (continued)

### 24.2 Credit Risk (continued)

**Exposure to credit risk (continued)**

The table below shows the credit quality for loans and advances to customers for the year as at 31 December 2020, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowances.

| 31 December 2020 | Neither past due nor impaired | | | | Past due but not impaired | Individually impaired | Total |
|---|---|---|---|---|---|---|---|
| | Investment grade | Standard grade | Sub standard grade | Without rating | | | |
| Corporate lending | 0.00 | 0.00 | 0.00 | 3.96 | 0.00 | 0.00 | 0.00 |
| Small business lending | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.96 |
| Consumer lending | 0.00 | 0.00 | 0.00 | 2.00 | 0.00 | 0.00 | 2.00 |
| Residential mortgage | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total** | **0.00** | **0.00** | **0.00** | **5.96** | **0.00** | **0.00** | **5.96** |
| | | | | | | | |
| Allowances for impairment of loans | 0.00 | 0.00 | 0.00 | 0.05 | 0.00 | 0.00 | 0.05 |
| **Loan exposure, net of allowances** | **0.00** | **0.00** | **0.00** | **5.91** | **0.00** | **0.00** | **5.91** |

*(amounts in Eur'000, unless otherwise stated)*

**24 Risk management (continued)**

**24.2 Credit risk (continued)**

**Exposure to credit risk (continued)**

The following tables set out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed. Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 2.4.6.1.

| | | | | 31 December 2020 |
|---|---|---|---|---|
| **Cash and Cash equivalents** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Current accounts with banks*** | | | | |
| Low- fair risk | - | - | - | - |
| Less: allowance | - | - | - | - |
| **Carrying amount** | **-** | **-** | **-** | **-** |
| Money market placements | | | | |
| Low- fair risk | - | - | - | - |
| Less: allowance | - | - | - | - |
| **Carrying amount** | **-** | | | **-** |
| **Unrestricted balances with central bank** | | | | |
| Low- fair risk | 7,811.49 | - | - | 7,811.49 |
| Less: allowance | - | - | - | - |
| **Carrying amount** | **7,811.49** | | | **7,811.49** |
| **Total** | **7,811.49** | **-** | **-** | **7,811.49** |

| | | | | 31 December 2020 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Restricted cash at Central Bank*** | | | | |
| Low- fair risk | 219.98 | - | - | 219.98 |
| Less: allowance | **-** | **-** | **-** | **-** |
| **Carrying amount** | **219.98** | **-** | **-** | **219.98** |

| | | | | 31 December 2020 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***Loans to customers*** | | | | |
| Low- fair risk | 5.96 | 0.00 | 0.00 | 5.96 |
| Less: allowance | (0.05) | 0.00 | 0.00 | (0.05) |
| **Carrying amount** | **5.91** | **0.00** | **0.00** | **5.91** |

*(amounts in Eur'000, unless otherwise stated)*

## 24 Risk management (continued)

### 24.2 Credit risk (continued)

**Exposure to credit risk (continued)**

The table below shows the net exposure to loans and advances to customers as at 31 December 2020 categorized as per individual and collective impaired portfolio:

| | Net exposure to Loans and advances to customers |
|---|---|
| | **31 December 2020** |
| *Individually impaired* | |
| **Carrying amount** | **0.00** |
| *Collectively assessed for impaired* | |
| Past due but not impaired | 0.00 |
| Allowance for impairment | 0.00 |
| **Carrying amount** | **0.00** |
| Neither past due nor individually impaired | 5.96 |
| Allowance for impairment | (0.05) |
| **Carrying amount** | **5.91** |
| **Total carrying amount on loans and advances to customers** | **5.91** |

**Risk concentration**

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

| **Loans and advances to customers** | **31 December 2020** | | |
|---|---|---|---|
| | **Kosovo** | **Other** | **Total** |
| Consumer loans | 0.00 | 2.00 | 2.00 |
| Health and social activities | 3.91 | 0.00 | 3.91 |
| | **3.91** | **2.00** | **5.91** |

*(amounts in Eur'000, unless otherwise stated)*

## 24 Risk management (continued)

### 24.2 Credit risk (continued)

**Exposure to credit risk (continued)**

An analysis of concentrations of credit risk by industry sector at the reporting date is shown below:

| 31 December 2020 | Corporate lending | Small business lending | Consumer lending | Residential mortgage | Total |
|---|---|---|---|---|---|
| Individuals | 0.00 | 0.00 | 2.00 | 0.00 | 2.00 |
| Public Sector | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Trade | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Manufacturing | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Construction | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Services | 0.00 | 3.91 | 0.00 | 0.00 | 3.91 |
| Others | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total** | **0.00** | **3.91** | **2.00** | **0.00** | **5.91** |
| **Financial Services** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |

### 24.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

**Administration of liquidity risk**

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Bank's reputation. Short-term liquidity is managed by the Treasury Department, while mid-term and long-term liquidity is managed by ALCO. The Risk Management Division reports regularly to ALCO and the Treasury Department on level of exposure to liquidity risk. Treasury Department maintains a portfolio of short-term liquid assets, made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained by the Bank. Daily reports produced by Treasury as well as weekly and monthly reports produced by the Risk Management Division cover the liquidity position of the Bank. All liquidity policies and procedures are subject to review and approval by ALCO.

**Exposure to liquidity risk**

The key measures used by the Bank for managing liquidity risk are the calculation of liquidity ratios and the evaluation of liquidity gaps for specific periods.
The Bank calculates on a weekly basis the following ratios: liquid assets to short-term liabilities, loans to deposits, and liquid assets to deposits. Liquid assets are considered as including cash and cash equivalents, Albanian government treasury bills and any short term deposits with banks maturing within one month. Details of the liquid assets to short-term liabilities ratio during the reporting period were as follows:

| | 31 December 2020 |
|---|---|
| Average for the period | 311.30% |
| Minimum for the period | 251.36% |
| Maximum for the period | 377.24% |

The Bank has in place an emergency plan for liquidity risk management in unusual circumstances, considering various scenarios, which may affect the level of liquidity of the Bank. The Bank considers the liquidity risk in the recovery plans, in the internal capital adequacy assessment process, setting well-defined limits on its appetite for risk. The Bank is confident that its sources of capital can be available at any time. Depending on the escalation of the situation created by the pandemic COVID -19 and preventive measures, the Bank will consider various scenarios that may affect the inflows in measuring its indicators increasing its financing through:

- Capital increase through new capital issuance (new capital injection in the Bank);
- Increase through the issuance of subordinated debt.

Maturity gaps for each major currency are calculated and analyzed by the Bank on a monthly basis. The tables below show an analysis of the Bank's assets and liabilities as of 31 December 2020 according to their remaining maturity.

*(amounts in Eur'000, unless otherwise stated)*

**24 Risk management (continued)**

**24.3 Liquidity risk (continued)**

**Exposure to liquidity risk (continued)**

The table shows the liquidity situation of the Bank as currently monitored by the Bank's management, as at 31 December 2020. It considers the undiscounted cash flows in/out of the Bank for on and off financial assets and liabilities, reflecting any earlier repayment or retention history assumptions.

| **31 December 2020** | **< 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets (Cash flow in)** | **8,031.47** | **0.00** | **5.97** | **0.00** | **0.00** | **8,037.44** |
| Cash and cash equivalents | 7,811.49 | 0.00 | 0.00 | 0.00 | 0.00 | **7,811.49** |
| Restriced balances with Central Bank | 219.98 | 0.00 | 0.00 | 0.00 | 0.00 | **219.98** |
| Loans and advances to customers (gross) | 0.00 | 0.00 | 5.96 | 0.00 | 0.00 | **5.96** |
| Other assets | - | - | 0.01 | - | - | **0.01** |
| **Liabilities (Cash flow out)** | **251.27** | **0.00** | **2,376.71** | **586.40** | **892.93** | **4,107.32** |
| Deposits from bank and customers-Current account | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |
| Current account with customers | 240.39 | 0.00 | 0.00 | 0.00 | 0.00 | **240.39** |
| Lease liabilities | - | - | 126.33 | 586.40 | 892.93 | **1,605.66** |
| Other liabilities | 10.87 | - | 2,250.39 | 0.00 | 0.00 | **2,261.27** |
| **Total gap on balance sheet** | **7,780.20** | **0.00** | **(2,370.74)** | **(586.40)** | **(892.93)** | **3,930.12** |
| | | | | | | |
| Off Balace sheet (Cash flow out) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **0.00** |
| **Total gap off balance sheet** | **0.00** | **-** | **-** | **-** | **-** | **0.00** |
| | | | | | | |
| **Total GAP 31 December 2020** | **7,780.20** | **0.00** | **(2,370.74)** | **(586.40)** | **(892.93)** | **3,930.12** |
| **Cumulative GAP 31 December 2020** | **7,780.20** | **7,780.20** | **5,409.46** | **4,823.06** | **3,930.13** | **-** |

*(amounts in Eur'000, unless otherwise stated)*

### 24 Risk management (continued)

### 24.3 Liquidity risk (continued)

**Exposure to liquidity risk (continued)**

The table below summarizes the maturity profile of the Bank's financial liabilities based on contractual undiscounted payments.

| | < 1 month | 1-3 months | 3-12 months | 1-5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **31 December 2020** | | | | | | |
| Current account with customers | 240.39 | 0.00 | 0.00 | 0.00 | 0.00 | **240.39** |
| Lease | - | - | 126.33 | 586.40 | 892.93 | **1,605.66** |
| Other liabilities | 10.87 | - | 2,250.39 | 0.00 | 0.00 | **2,261.27** |
| **Total** | **251.27** | **0.00** | **2,376.72** | **586.40** | **892.93** | **4,107.32** |

*(amounts in Eur'000, unless otherwise stated)*

### 24 Risk management (continued)

### 24.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments.

***Management of market risks***

ALCO is responsible for the overall management of market risks. The risk of foreign exchange positions is measured and reported by the Risk Management Department on a daily basis. The Bank manages this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. The Bank manages interest rate risk by conducting reprising gap analysis and profit margin analysis for each major currency. The Risk Management Department produces these reports on a monthly basis.

***Exposure to foreign exchange risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ALCO has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis to ensure positions are maintained within established limits.

The analysis of assets and liabilities as of 31 December 2020 by the foreign currencies in which they were denominated is as follows:

| **31 December 2020** | **EUR** | **USD** | **ALL** | **Other** | **TOTAL** |
|---|---|---|---|---|---|
| Cash and Cash equivalent | 7,811.49 | 0.00 | 0.00 | 0.00 | **7,811.49** |
| Restricted balances with Central Bank | 219.98 | 0.00 | 0.00 | 0.00 | **219.98** |
| Loans and advances to customers | 5.91 | 0.00 | 0.00 | 0.00 | **5.91** |
| Other assets | 0.01 | 0.00 | 0.00 | 0.00 | **0.01** |
| **Total assets** | **8,037.39** | **0.00** | **0.00** | **0.00** | **8,037.39** |
| Due to customers | 240.38 | 0.01 | 0.00 | 0.00 | **240.39** |
| Lease liabilities | 1,605.66 | 0.00 | 0.00 | 0.00 | **1,605.66** |
| Other liabilities | 2,261.27 | 0.00 | 0.00 | 0.00 | **2,261.27** |
| **Total liabilities** | **4,107.31** | **0.01** | **0.00** | **0.00** | **4,107.32** |
| **Net position** | **3,930.08** | **(0.01)** | **0.00** | **0.00** | **3,930.07** |

For the period ended 31 December 2020, there are no capital items in foreign currency (paid up capital is in EUR), the effect in the capital of the Bank is the same as the effect of profit/loss after tax.

*(amounts in Eur'000, unless otherwise stated)*

### 24 Risk management (continued)

### 24.4 Market risk (continued)

***Exposure to interest rate risk***

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities and interest rate gap position as at 31 December 2020. The Bank's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re–pricing or maturity dates.

| 31 December 2020 | < 1 month | 1-3 months | 3-12 months | 1-5 years | > 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 7,811.49 | - | - | - | - | - | **7,811.49** |
| Restricted balances with Central Bank | 219.98 | - | - | - | - | - | **219.98** |
| Loans and advances to customers (gross) | - | - | 5.96 | - | - | - | **5.96** |
| Right-of-use assets | - | - | 164.79 | 659.18 | 776.72 | - | **1,600.69** |
| **Total assets** | **8,031.47** | **-** | **170.76** | **659.18** | **776.72** | **-** | **9,638.12** |
| **Liabilities** | | | | | | | |
| Due to customers | 240.39 | - | - | - | - | - | **240.39** |
| Lease liabilities | - | - | 126.33 | 586.40 | 892.93 | - | **1,605.66** |
| **Total liabilities** | **240.39** | **-** | **126.33** | **586.40** | **892.93** | **-** | **1,846.05** |
| **GAP as at 31 December 2020** | **7,791.08** | **-** | **44.43** | **72.78** | **(116.21)** | **-** | **7,792.07** |

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### 24.5 Operational risk

In accordance with CBK regulation, operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people, systems or external events. This definition includes legal risk, but excludes strategic risk and reputational risk. To ensure effective operational risk management, the Bank has implemented an operational risk framework which includes policies and procedures, techniques and tools for identifying, assessing, preventing / controlling and monitoring operational risk. To improve and enhance the effectiveness of internal controls in the bank's processes and to record all operational risk losses, the bank has established a "loss event database" where all events that cause operational losses or potential risks are recorded. The limits and reporting lines of these losses are defined in operational risk management policies. Furthermore, the operational risk procedure describes in detail the steps that the Bank takes from the information collected in the operational risk events database. This database is considered to be the best source of information for the development of models for measuring the bank's exposure to operational risk as it provides information on the causes of loss. Furthermore, through the information collected from this database, corrective or preventive measures have been put in place to prevent / control this risk. The annual assessment of the various processes in the bank is part of the bank's operational risk management framework. Through this assessment, the Bank collects useful information for determining the Bank's operational risk profile and assesses the risks to which the Bank has been exposed, including the degree of control implementation. This enables the improvement of control processes through various measures, thus reducing the impact of losses from operational risk. Effective operational risk management means recognizing the bank's position and risk profile. Therefore, for this purpose, the bank uses key risk indicators (KRIs) to monitor exposure managers related to key risks. These indicators are monitored on a regular basis (monthly / quarterly) in order to facilitate operational risk management by providing early warning signals for changes that may indicate risk concerns. In creating an effective operational risk management, the Bank has undertaken various activities related to raising risk awareness mainly through trainings, which are provided to all bank staff on an annual basis. These trainings aim to increase knowledge about operational risk management by discussing different scenarios in previous operational risk events. Furthermore, the trainings address the channels through which operational risk events should be monitored and reported. In addition, the Bank has implemented a process to ensure that changes in products, services or processes (existing or new) pass the risk review and approval. This will ensure that operational risk arising from new processes, products or services at the Bank is monitored and addressed promptly. The Bank calculates the capital payment for operational risk using the Base Indicator (BIA) approach as defined by the Central Bank Regulation on Operational Risk Management.

### 24.6 Captal management

***Regulatory capital***

The objectives of the Bank in the case of capital management are: - to comply with the capital requirements set by the Central Bank of Kosovo (CBK); - maintain the Bank's ability to continue its activity on an ongoing basis and to continue to provide returns to the shareholder; and - maintain a strong capital base to support the development of its business. The Bank's management using techniques based on CBK guidelines regularly monitors capital adequacy and the use of regulatory capital. Necessary information is provided to the CBK on a quarterly basis. Assets are classified using a rating of five risk categories, reflecting an assessment of credit risk, market risk and other risks associated with each asset and off-balance sheet exposure. The regulation requires banks to maintain a minimum regulatory capital of 7,000 thousand Euros, to maintain a minimum ratio of 9% of first tier capital (Tier I) to risk weighted assets (currently in 2020: 212.58%), a minimum of 12% of total regulatory capital to risk weighted assets (currently in 2020: 212.58%), and a minimum of 3% of total capital to total assets ratio (leverage ratio) (currently in 2020: 67.82 %). The Bank complied with regulatory requirements at the reporting dates of 31 December 2020.

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

*(amounts in Eur'000, unless otherwise stated)*

### 24.6 Captal management (continued)

***Regulatory capital (continued)***

The Bank manages its capital to ensure that the Bank will be able to continue on an ongoing basis as it maximizes shareholder returns through improved debt and equity. The Bank's capital structure consists of paid-in capital, general risk reserves and retained earnings. The Bank's policy is to maintain a strong capital base in order to maintain the confidence of investors, creditors and the market and to support the future development of the business. The impact of the level of capital on shareholder returns is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that may be possible with higher returns and the advantages and security that a strong capital position offers.
The Bank monitors capital adequacy, with particular emphasis on rules and reports issued by the Central Bank of Kosovo ("CBK"). Capital Adequacy Ratio is the ratio of regulatory capital to risk weighted assets, off-balance sheet items and other risks, expressed as a percentage. The minimum required for the Capital Adequacy Ratio is 9% for Tier 1 capital and 12% for total equity Risk Weighted Assets (RWA).
Assets are weighted according to broad categories of national risk, placing the weight of risk according to the amount of capital that would be needed to support them. Six risk weighing categories (0%, 20%, 50%, 75%, 100%, 150%) apply; for example, cash and money market instruments are weighted at zero risk, which means that no additional capital is needed to hold these assets. Property and equipment are weighted at 100% risk, which means that they must be backed by Capital (First Class) equal to 9% of the book value. Credit commitments on off-balance sheet items have been considered. The amounts are then risk weighted at the same rate as for balance sheet assets.

| | **31 December 2020** |
|---|---|
| Weighted risk assets | 3,763.26 |
| Total risk-weighted off-balance sheet exposures | 0.00 |
| Total risk weighted assets for operational risk | 0.00 |
| **Total** | **3,763.26** |
| **Regulatory Capital (Total Capital)** | **8,000.00** |
| **Capital Adequacy Ratio (Total Capital)** | **212.58%** |

To ensure capital adequacy, the Bank has begun building models that define the additional capital required in Pillar II to cover the risks to which the Bank is exposed as required by the CBK Regulation on the Internal Capital Valuation Process. (ICAAP).

***Capital allocation***

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is also dependent upon the regulatory capital. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, and is subject to review by the Bank Credit Committee or ALCO as appropriate.

### 24.7 Fair value disclosures

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

*Loans and advances to customers* – Loans and advances are net of allowances for impairment. The majority of the loan portfolio is subject to reprising within a year, by changing the base rate. The fair value is calculated using the cash flow of the payments for their remaining maturity discounted with an average market interest rate. For the investments is used a level 2 input in the fair value hierarchy.
*Deposits from customers* - Because no active market exists for these instruments, 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 as per the latest market rate for deposits with similar maturity and currency. For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value. For the deposits is used a level 3 input in the fair value hierarchy.

*(amounts in Eur'000, unless otherwise stated)*

## 24 Risk management (continued)

### 24.7 Fair value disclosures (continued)

As of 31 december 2020, there are no financial instruments measured at fait value.

The following table presents the fair value of financial instruments that are not measured at fair value and analyzes them from the level of the fair value hierarchy:

| 31 December 2020 | Carrying amount | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 7,811.49 | 7,811.49 | - | - | 7,811.49 |
| Restricted Balances with Central Bank | 219.98 | 219.98 | - | - | 219.98 |
| Loans and advances to customers | 5.96 | 5.91 | - | - | 5.91 |
| **Liabilities** | | | - | | |
| Due to customers | 240.39 | 240.39 | - | - | 240.39 |

## 25 Events after the reporting date

The management of the Bank is not aware of any other event after the reporting date that would require either adjustments or additional disclosures in these Financial Statements.