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ANNUAL REPORT

2020

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CHAIRMAN'S LETTER

Ansis Grasmanis
CHAIRMAN OF THE BOARD OF DIRECTORS

Dear readers,

We started our 2020 financial year with a continuing strong performance before the world experienced disruptions as a result of the pandemic outbreak.
Certainly, the pandemic had significant repercussions for our customers as well. The bank had to react quickly to face the new environment that changed overnight and made a decisive move to help its clients cope with the new situation.

My confidence in the bank's capability to overcome this agitated period is based on our strategy and progress to continue offering services using ethical practices that are the foundations of our business providing what's needed most for our clients.

During the second quarter, 40% of the bank customers were granted a standardized 3-month payment holiday. Further in the third quarter, we made an individual assessment of more than 300 customers that faced the most difficulties and, as a result, 7.7% of the portfolio were granted restructured repayment schedules.

Although the global economy is growing again after contraction in 2020, the pandemic has taken a heavy toll and derailed people around the globe in terms of business and activities. Despite the expectations of depressing economic activity and incomes for a prolonged period, the horizon is looking calmer with the introduction of vaccines. On the other hand, there is a positive trend around Europe facilitating a reinvestment cycle aimed at sustainable growth that is parallel to wide government subsidies through economic recovery packages. This will most likely enhance the overall economic upsurge in 2021 as forecast by the IMF and World Bank. Within this global environment, the Kosovo economy contracted by 7% in 2020, with growth restarting in Q4.

2020 PERFORMANCE

Generally, the performance of the banking sector followed a stable financial trend and a relatively firm market environment in Kosovo regardless of the Pandemic situation. Total assets in the banking sector continued to grow by 12.6% peaking at EUR 5.35 billion, which displays consistency on the deposits side as well by reaching a level of EUR 4.36 billion. This growth was followed by a solid development in loan portfolio by 7.1% that resulted in EUR 3.25 billion, while maintaining good portfolio quality of 2.7% NPL, which continues to be one of the best in the region. BPB has shown encouraging results as well, specifically in core segments that include the Private Individuals & MSME segments. In 2020, the Bank's net profit tipped just over EUR 4.5 million, a success which is considerable when the lockdown period is taken into consideration.

The Board of Directors has evaluated and confirmed the recommendation of the dividend payment for both the 2020 and 2019 financial results. This is thanks to BPB's solid capital position, loan portfolio diversification and cautious risk management.
Corporate governance and internal controls systems have progressed and strengthened. Three new independent professionals joined the Board of Directors, setting a good example of a well-professionally diversified composition. The corporate governance improvements corresponding to the bank's growth will lead to long term increased shareholder value and will take the bank to the next level. To reach such milestones, the bank started to measure costumer and employee satisfaction using the Net Present Score methodology. Results showed a significant increase towards the end of the year in both dimensions. This year, we have proven the resilience of continuing operations and our business model, supported by the strength of our customer engagement that we will follow closely in the future.

Each crisis we overcome will make us stronger and this year has been no exception for BPB. I thank shareholders for their support, executive management for the leadership, all colleagues for their dedication and commitment to take the bank through this turbulent year thus ensuring the bank's resilience and know-how for long term sustainable and profitable growth.

On behalf of the Board of Directors,

Ansis Grasmanis
Chairman of the Board of Directors

CEO'S LETTER

Arton Celina
CHIEF EXECUTIVE OFFICER

Dear readers,

2020 made no exception for Kosovo nor our bank just like for all banking industry around the globe, for which we are glad to be moving onward to the more prosperous 2021. In many aspects financial sector has been confronted profoundly while piercing through a real stress test environment where internal systems of the banks were tested and we are happy here at BPB that all the core systems including liquidity and loan recovery proved to be sound and stable. Consequently country's GDP contracted by 7.3 % YoY by third quarter of 2020, then gradually picked up during last quarter, which makes us contemplate that times to come are going to be upward trending in many industries with significant expansion considering the drop through pandemics. Yet, the impact of the economic decline coming out from the natural developments is still to be felt during next period of time, which requires great efforts from all stakeholders including financial sector.

The business environment went through severe conversion underlining that some sectors were affected much more due to specific activities that were directly hit from lower demand or restrictions from COVID 19 measures. Sectors like Construction and HORECA were both affected heavily and they impacted not only loan growth in banking but reduced consuming capacities in many other sectors. As a result more than 30% of total business activities went through survival mode by reducing significantly the number of their employees due to operations below their full capacities. Thanks to our strategic positioning these punitive times found BPB with highly diversified portfolio that did not pose existential threats for the bank since most of business portfolio was allocated to MSME-s that were fairly more agile and able to adopt.

The Bank continued through a controlled growth by staying loyal to its business model in serving PI and MSME-s. By the end of the year BPB grew by 6.7 % in loan side that resulted in total outstanding loan portfolio of close to EUR

200 million that elevates the bank at greater level in terms of competition and visa vis client's needs. Revenues from interest in the amount of EUR 15.6 million, compared to EUR 14.8 million in 2019 combined with reduced cost to income ratio of 50.5% compared to 52.5% of one year before enabled the bank to keep under control all operations throughout the year. Simultaneously, customer's deposits played a crucial role in banks stability allowing a continued access to finance for all our clients. The increase of 13.8% in deposit side while exceeding EUR 288 million compared to EUR 254 million last year was a remarkable achievement. Subsequently the Bank's total capital increased to EUR 35.6 million from EUR 31.1 million in the previous year.

Firm capital strength and cautious risk management, in terms of sufficient provisioning, empowered the bank to develop and provide quality banking services for our clients while managing their expectations during pandemics. To approximately 60% of business clients, our bank has prolonged their payments as per CBK-s instructions and regulatory requirements which resulted in accurate payment plans, since only 7% went under 2-nd wave for moratoriums that derived the low level of NPL of only 2.68%.

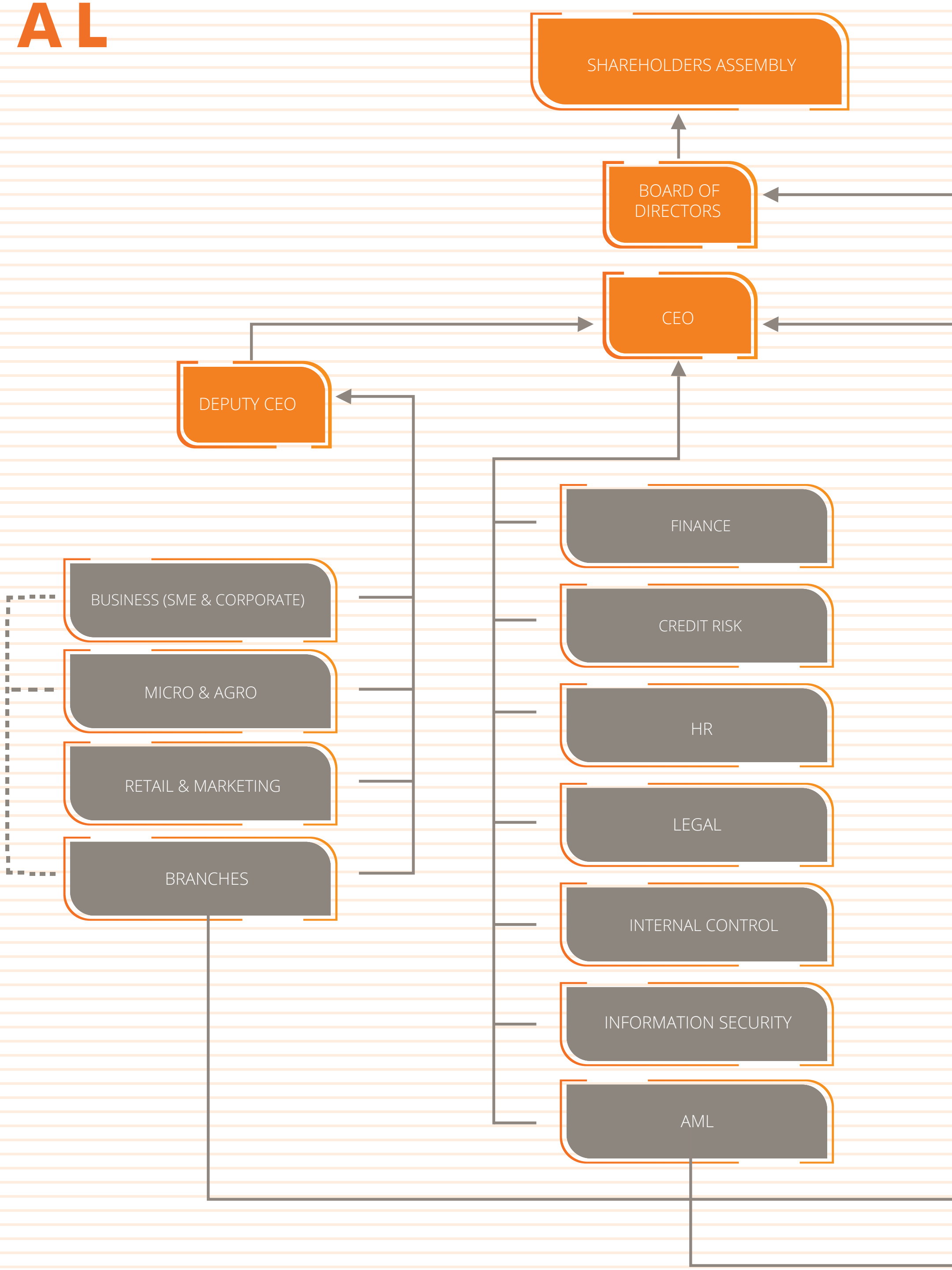
Supporting and ensuring the well-being of businesses, while generating effectively reliable revenue in leading sectors, ensures us that BPB will remain compact and unwavering from greater results for years to come. Apart from portfolio quality and other banking activities, we used this time to our advantage as an opportunity to reflect over many processes and internal systems and re-design the cycle of processes that better fit the current operational business model as well as enables the expansion of institutional limits. Hence, for the next year we plan to expand our range of offerings and not only banking services.

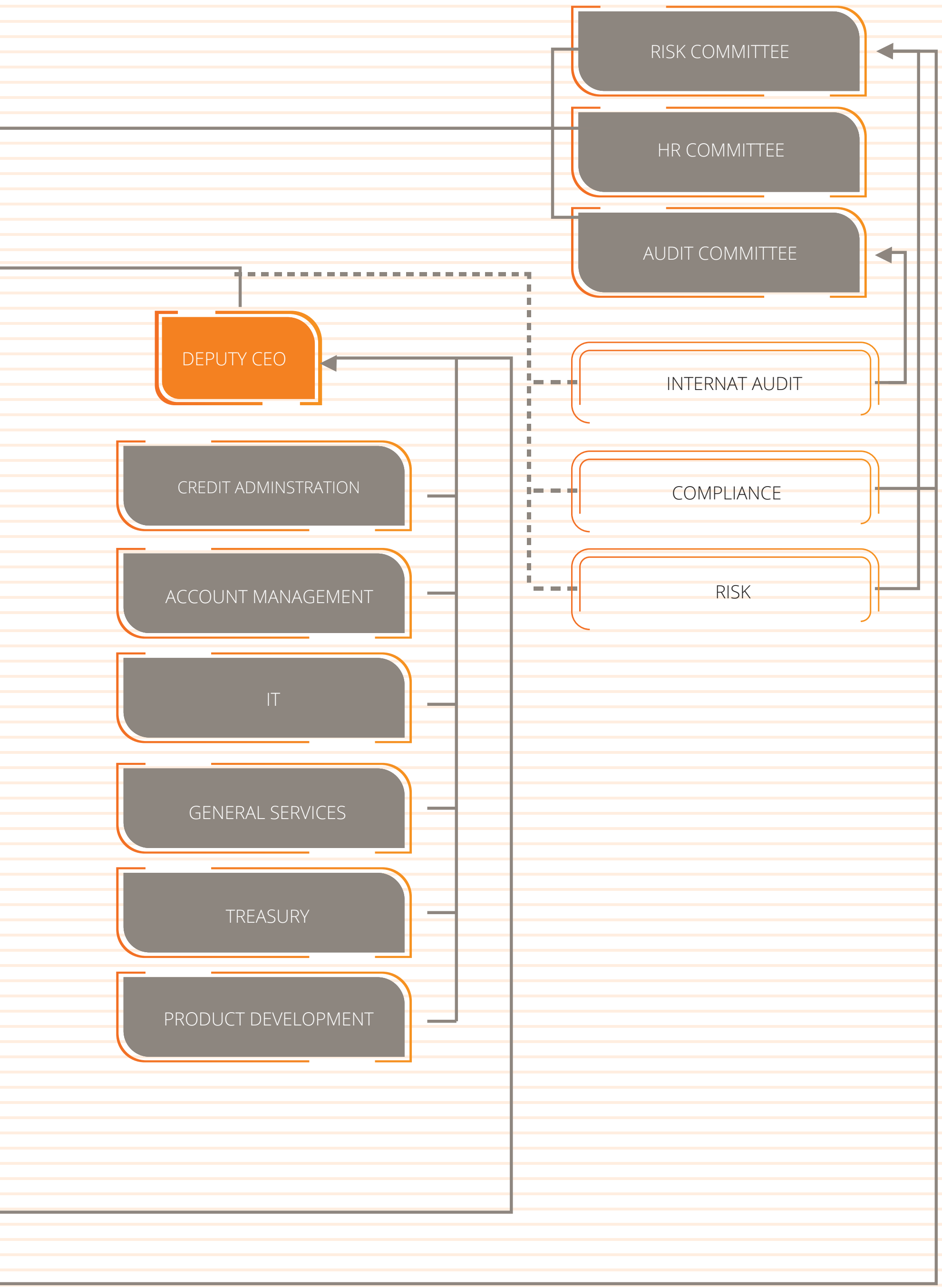
For the year of intense work that required well-orchestrated activities taking to account business and financial environment I would like to thank our staff for their tireless efforts and good work that they have done, our shareholders, for their support and trust in BPB and express my gratitude to our clientele that trusted us during times when it most mattered.

On behalf of BPB,

Arton Celina
Chief Executive Officer

ORGANIZATIONAL STRUCTURE




RISK COMMITTEE
HR COMMITTEE
AUDIT COMMITTEE
DEPUTY CEO
INTERNAT AUDIT
COMPLIANCE
RISK
CREDIT ADMINSTRATION
ACCOUNT MANAGEMENT
IT
GENERAL SERVICES
TREASURY
PRODUCT DEVELOPMENT

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FINANCIAL RESULTS ACCORDING TO IFRS

Despite a difficult year, BPB throughout 2020 has marked a successful year, resulting in a stable financial performance, expressed in key financial indicators of our bank.
In 2020, a net profit of EUR 4.5 million was achieved, thus increasing the equity of shareholders from EUR 31.1 million as it was in 2019, to EUR 35.6 million at the end of 2020. The return on average equity ratio was 13.6% this year and 22.8 % in the previous year. Capital adequacy ratios were kept stable, where the total capital on risk-weighted assets was 17.76%, while for 2019 it was 15.73%.

During 2020, net interest income was EUR 13.3 million, thus marking an increase of EUR 0.9 million, or an increase of 7.3%, compared to EUR 12.4 million in 2019.

Interest expenses for 2020 were about EUR 2.3 million. The net interest margin in 2020 was 6.3%, from 6.6% in the previous year, as a result of the fall in the interest rate on loans.

The second category of revenues by size are net revenues from fees and commissions which reached the level of EUR 2.3 million, having increased compared to last year by 17.3%. Operating expenses during 2020 increased by 0.4% compared to 2019.

The cost to income ratio marked an improvement from 52.5% in 2019 to 50.5% in 2020.

Even during 2020, BPB continues to increase its gross loan portfolio, with an increase of EUR 12.5 million, thus reaching EUR 200 million at the end of 2020. Investments in government securities and bonds issued by the Government of the Republic of Kosovo, during 2020, increased by EUR 14.9 million resulting in EUR 53.5 million at the end of 2020, from EUR 38.6 million in the previous year. By further diversifying the structure of deposits and the continued stability of new funds, BPB during 2020, marked a significant increase in the deposit base of EUR 34.9 million.

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BUSINESS CLIENTS AND PRIVATE INDIVIDUALS

Being an economically fragile year after the spread of the COVID-19 pandemic worldwide, the banking industry in the country and around the world has been deeply challenged in many aspects. The banking sector went through a stress test and difficult environment, whereas as BPB, we are happy that all key indicators, including liquidity and credit collection, proved to be extremely solvent and stable.

The year 2020 has challenged BPB in all possible dimensions, both financially and from the aspect of managing the created situation which is already a new reality in the business environment. Despite this fact, BPB has continued to develop and provide quality banking services which are now already defined in its business model. In this regard, the service of micro businesses, small and medium-sized enterprises (SMEs) and individuals has continued to be the focus of the bank, although with slightly different objectives given the situation and the managing that it required.

Pandemic management was the main focus of BPB, including regulatory requirements for extensions/restructuring of loans and other necessary changes which were carried out with great dedication by the bank staff that has been extremely committed in working with our clients to overcome this challenge as easily as possible. Relevant departments, including Business and Risk, have analyzed the entire existing portfolio and came up with the first market analysis and the effects of the pandemic on Kosovo businesses with a special focus on SMEs. This study was also used by our partners and third parties, and it also served as our guide for adequate actions for the bank and our clients. with the sole aim of making a dysfunctional economy disadvantages easier to bare. About 60% of the loan portfolio in the business sector has been extended/restructured depending on the needs of the client, so as to ease the burden of payments during lockdown. Nonetheless, only 10% of businesses encountered problems on due date of the instalments which confirmed that the solutions and modalities offered to our clients have been appropriate.

The pandemic was also deemed to be the right time for BPB to prepare the infrastructure for remote access to the bank's services. During pandemic many clients preferred home-based service to those provided inside bank offices. The regulatory bodies also showed willingness and support in this regard, therefore we have introduced opportunities for acquiring banking services through alternative channels and our website. In addition, new investments in staff and infrastructure are planned, to further the digitalization process of applying for bank services.

The eagerness readiness to serve and communicate with our clients, during a very challenging year, was manifested in our efforts to boost our Call Centre services. As many of our clients found it impossible to contact us through the traditional, branch visit method, the bank has tripled the capacities in the Call Centre in order to provide the necessary clarifications and assistance to our clients. The success of this project was confirmed after a Net Promoter Score (NPS) research. Whilst the whole banking market saw a decrease of said score during the hardest months (March - June) of lockdown, by the end of the year there was an upsurge in NPS scores, with BPB one of the leaders of the market with a 34% score, based on an independent research made by an independent institution.

The unprecedented situation has also proved challenging for our front office staff. BPB is proud with the selflessness of staff shown by their readiness to serve the clients, providing all necessary services, including to the groups that had benefited from the governments 'Rimëkëmbje' (Recovery) plan, many of whom were unbanked clients until that point.

Moreover, a number of staff found time to be trained in providing non-financial services, which is a project for the upcoming year (2021). The training was held with an external trainers, and aimed to prepare BPB staff in providing non-financial solutions to our clients, which will be followed by business academies to be held during 2021 and will be one of the added values that BPB will provide to the country's economy.

The bank has continued to cooperate with the Kosovo Credit Guarantee Fund by increasing the limit for businesses and agribusinesses. Through this fund, we have managed to finance a significant number of SMEs and agribusiness clients, who have had financing barriers due to lack of collateral or mortgage. The financing with KCGF has helped the businesses in question to continue and expand their capacities further.

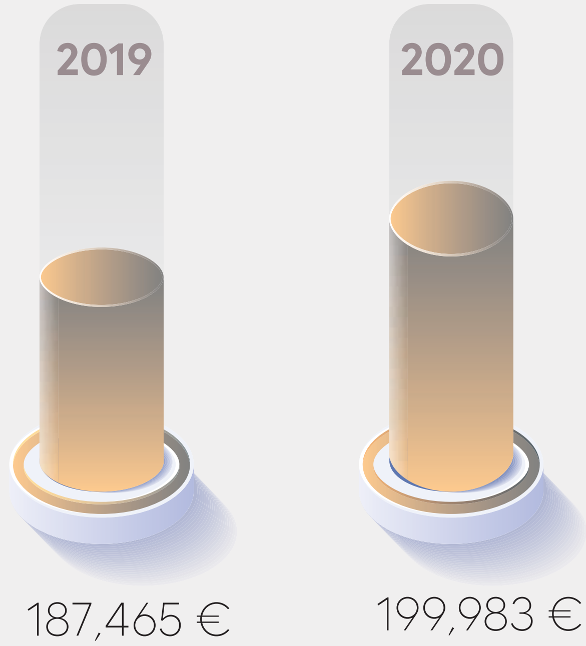
The agribusiness sector is always given the outmost importance since it represents one of the main pillars of economic development which also affects the increase of employment in the country. This sector accounts for over 10% of the country's GDP. Although a year affected by the pandemic, agribusiness has grown slightly during 2020. The bank has continued to provide services and credit products based on the requirements of agribusinesses in order to support and increase their capacity.

In terms of the bank's performance, notwithstanding the circumstances, 2020 is characterized as a successful year. After easing of measures in the first wave in Q3, the bank reinstated its focus on financing private clients and businesses. Specific, client oriented, campaigns were launched for private clients with very attractive interest rates, and loosened up bank's demand for collateral. The collateral requirements also eased for business clients. Furthermore, as far as businesses are concerned, we have also approved limits set by the bank according to the needs of our clients, mainly focused on improving the liquidity cycle.

As a result of these campaigns, about 70% (15 eur million increase) of the total portfolio growth was achieved in the fourth quarter. Out of this increase, individual loans accounted for h80%, with the business loans also having a moderate increase, while always keeping the quality of the portfolio under control.

The positioning of BPB, a bank focused MSME and private individuals, has been further developed and the clients' trust was reflected by the deposits.

GROSS LOANS



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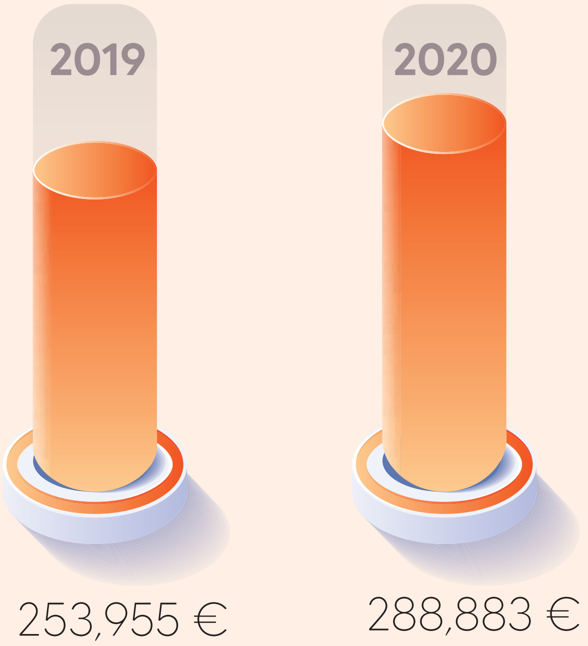
DEPOSITS



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There was a steady increase in deposits despite the pandemic. During 2020, deposits increased by EUR 34.9 million euros, respectively 13.8%, and this increase was mainly due to the current account of private clients.

BPB has continued to innovate in banking packages for businesses which are designed in a very transparent way and enable clients to choose only those services that meet their needs. Given our focus on raising the quality of new services and products, which add value to our clients' day-to-day business, we are in the process of finalizing our credit rating. This will enable quick access to credit for clients, enabling them to apply through alternative channels, which significantly contributes to improving the service time to these clients. This process will be possible both through the website and, in the future, through other electronic platforms such as E-banking or M-banking.

The bank continues to focus on improving and updating electronic services by increasing efficiency and saving time for our clients. In this regard, we have continued to add services to electronic platforms such as E-Banking and M-Banking, which are very user-friendly. The number of clients using the M-Banking and E-Banking platform has increased by 65.04%. Moreover, in terms of electronic services, BPB is the first bank set up the use of contactless card service in ATMs, a service which makes it even easier for clients to execute daily transactions.

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RISK MANAGEMENT

2020 was a completely different year from the aspect of risk management, where in addition to the management of regular works and processes, it was characterized by two important processes:

- Implementation of new regulations by the CBK, and
- The management of the COVID-19 pandemic.

On January 1st, 2020, a set of regulations related to credit risk management entered into force, including the regulation on the application of IFRS 9 standard and the regulation on non-performing loans exposures and restructuring. This was followed by the regulation on bank capital adequacy, and the regulation on the internal capital adequacy assessment process - ICAAP. For all these new regulatory requirements, the bank has made the necessary preparations and implemented them in time.

Regarding the management of the COVID-19 pandemic, even before the first cases appeared in Kosovo, the bank had taken the necessary steps to prepare a response plan, which had foreseen the measures that the bank should take depending on the developments and the spread of pandemic. The measures taken by the Bank have been comprehensive, including: human resource management, client relationship management, supplier relationship management and management of the bank's internal processes. As part of this plan, a Response Team was established, consisting of members of the executive management and other relevant departments. In terms of risk management during this period, the risk department has been an integral part, and one of the main actors in the bank's efforts to manage and respond to the risks created as a result of COVID-19.

In terms of operational risk management, the necessary steps have been taken to implement security measures for the staff, in order to ensure the continuity of the bank's operational activities. Some of the activities undertaken in this regard were: work from home for a part of the staff, establishment of mechanisms and implementation of measures to ensure protection of staff from the spread of the pandemic, development of a success plan for critical staff, drafting of awareness guidelines for protection against the spread of the pandemic and providing information sessions for staff engaged from home for protection against cyber-attacks. Regarding the relationship with clients and suppliers, critical suppliers have been identified and their activities monitored to ensure business continuity, and the bank has further developed and improved its electronic platforms so that its clients can be provided with services easily and quickly without having to come physically to the bank.

In order to ensure that the bank is liquid at all times, various measures have been implemented during this period in order to control cash flow, where liquidity indicators, use of credit facilities, deposit withdrawals, out-of-bank transfers, and other positions relevant to the bank's liquidity have been closely monitored on a daily basis. In this regard, in order to ensure that the bank will have sufficient liquidity coverage even in a deteriorating situation, stress tests have been conducted, which were passed successfully. Additionally, during this period, the liquidity reserve plan has been tested in order to be prepared in case it needed to be activated.

Regarding credit risk management, in line with the decisions of the Government of Kosovo and the CBK to provide mitigation measures for individuals and businesses affected by the pandemic, during the period March - June 2020, the bank has postponed instalments for the affected clients, in accordance with their requirements. In this regard, the bank has followed two approaches, where on the one hand it conducted individual assessments for clients where it discussed directly with clients to understand their sustainability and stability, while on the other hand, it evaluated the credit portfolio within the segments and the impact of government decisions regarding the operation of businesses. In the second phase, from June 2020 to the end of September, the bank restructured loans at the request of clients, where all cases have been analyzed individually, by compiling financial analysis for clients to provide them with the most suitable option in order to support their recovery.

All these activities have been conducted with the aim of identifying segments and potential clients that may have an increase in credit risk, so that the bank considers this increase during the loan allocation process.

In order for credit risk management to be at its best, we have continuously conducted stress tests to understand the credit risk profile and the bank's exposure to this risk. These stress tests have been based on assumptions about deteriorating credit portfolio and macroeconomic factors. Based on the results of stress tests, it was concluded that the bank will continue to be well covered with loan loss provisions, and at the same time, it will be in compliance with internal and regulatory limits.

In addition, during this period, we have continued to maintain the quality of loans at satisfactory levels. Regardless of the quality of the loans, the bank has allocated provisions over what was required, in order to provide sufficient coverage in the event of credit deterioration as a result of the pandemic.

It is worth noting that for 2020, the bank has stood above the average level of the banking sector in terms of coverage with loan provisions. During this period, in order to better measure the risk, the bank has been also engaged in industry-specific analysis by making assessments based on various relevant criteria. BPB has continuously monitored every Government decision regarding restrictive measures, and has dynamically reflected changes in the risk of economic industries.

Through the analysis of economic industries, scenarios were foreseen of possible developments, and in a correlative way, sufficient reserves were allocated in order to better capitalize and maintain the stability of the bank.
The Risk Management department has continued to advance processes related to risk areas, to ensure full compliance with the laws and regulatory requirements of the CBK.

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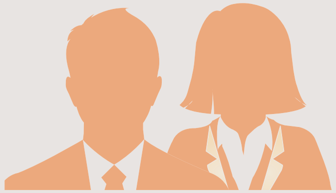
HUMAN RESOURCES

The employees drive our success. Their skills, experience and commitment are what makes possible our innovative products and services. As an employer, we aim to ensure that BPB is a workplace with a culture of care that supports and engages employees, enabling them to advance in their careers.
We invest in our employees and help them reach their full potential. They know that they can have a satisfying career here, thanks to our collaborative culture, achieved success and numerous opportunities.

OUR EMPLOYEES AT A GLANCE

365 EMPLOYEES
AVERAGE AGE - 35.5



190 **175**

27 BRANCHES

9.91 AVERAGE JOB EXPERIENCE

THE IMPACT OF COVID-19 AND OUR RESPONSE

The spread of COVID-19, classified as a pandemic by the World Health Organization, has had and continues to have a significant impact on people, businesses, societies and economies around the world.

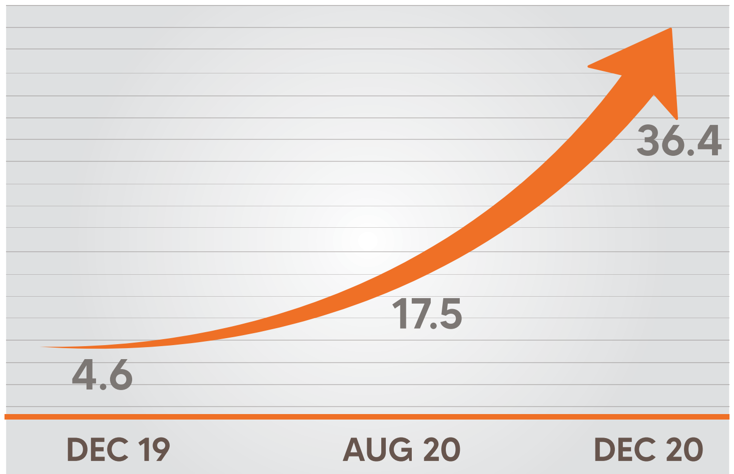
In a time of uncertainty, our focus has been on ensuring the well-being and health of our employees. In various surveys related to the management of the situation during the pandemic, our employees estimated that the Bank provided the conditions and took the necessary measures and actions to ensure the continuity of work even during the Covid-19 situation.

From the survey conducted by Deloitte Albania & Kosovo for the Covid-19 situation management, 78.2% of our staff thought that BPB provides them with the necessary tools and has taken the necessary measures and actions to ensure the continuity of work even during the situation pandemic. 85.5% of our staff estimated that there is a high team spirit and cooperation despite the challenges created by the pandemic.

THE KEY TO A SUSTAINABLE CULTURE/KEY ACHIEVEMENTS

It is vital that we understand how our employees feel, as it helps us give them the support they need to work and better serve our clients. We have taken their views on a range of topics, such as their commitment, culture, behaviour, leadership, and our well-being, through employee survey.

We continue to measure eNPS, i.e. whether our employees would recommend BPB as a good place to work, by which we determine how the bank is perceived and how satisfied the employees are with their development and work environment. The results of the eNPS survey at the end of 2020, show a significant increase and today the eNPS of our bank is 36.4, a level which is considered "excellent" and shows the Bank's commitment in all dimensions to increase the motivation and satisfaction of staff at work.



The bank continues to care about its people and their motivation, and during the pandemic we focused on virtual activities in order to keep all employees as close as possible. We have organized a special edition of TAPQuiz in collaboration with Gjirafa Videos called TAPn'BPB. It was a quiz where colleagues tested their general knowledge, but also knowledge of bank history. The winners received prizes, but it was the atmosphere created in the bank that day that will be remembered by all of us. Similarly, we conducted the first competition of the best photography with the title "Moment in BPB" for our employees, who competed by sending illustrated photos with a view of everyday life in the workplace.

Awareness campaigns like #IWashMyHandsFor, #StrongerTogether, #BreastCancerAwarness, “Stay away because I like you”, in support and awareness of colleagues, relatives and our society, were presented and supported on the social networks of BPB Career, which is the official site of announcements of various activities and development opportunities in our Bank. BPB Career continues to grow and have the attention of outside parties by informing them even more about the events of our employees. In 2020, we also started publishing motivating stories from within the BPB staff.

TALENT RECRUITMENT, DEVELOPMENT AND MANAGEMENT

BPB aims to be the chosen employer and a place that offers career development opportunities. The key to our success is our attitude towards commitment to invest in our employees at every stage of their career. Everything starts with recruitment, where potential candidates are hired based on the individual experience and competencies, learning skills and quick adaptation, as well as ideas for process development. In 2020, we continued hiring externally as well as recruiting new talents from the BPB Juniors Program.

Using the BPB Juniors Program, BPB remains committed to the strategy of recruiting and preparing young people for the banking market. Moreover, with this program, young people, during their studies and after graduation, have the opportunity for the best possible transition from study to the beginning of their future career. It should be noted that this year, we completed the 3rd BPB Juniors program, whereby 20 candidates graduated.

EMPLOYEE TRAINING AND DEVELOPMENT

BPB is constantly invests in staff so that they discover their full potential. In 2020, a total of 28 employees were promoted, achieving even more personal and professional development.

We believe that through their day-to-day work and other opportunities such as special projects, internal movements and formal and informal meetings, our employees continue to build new skills.

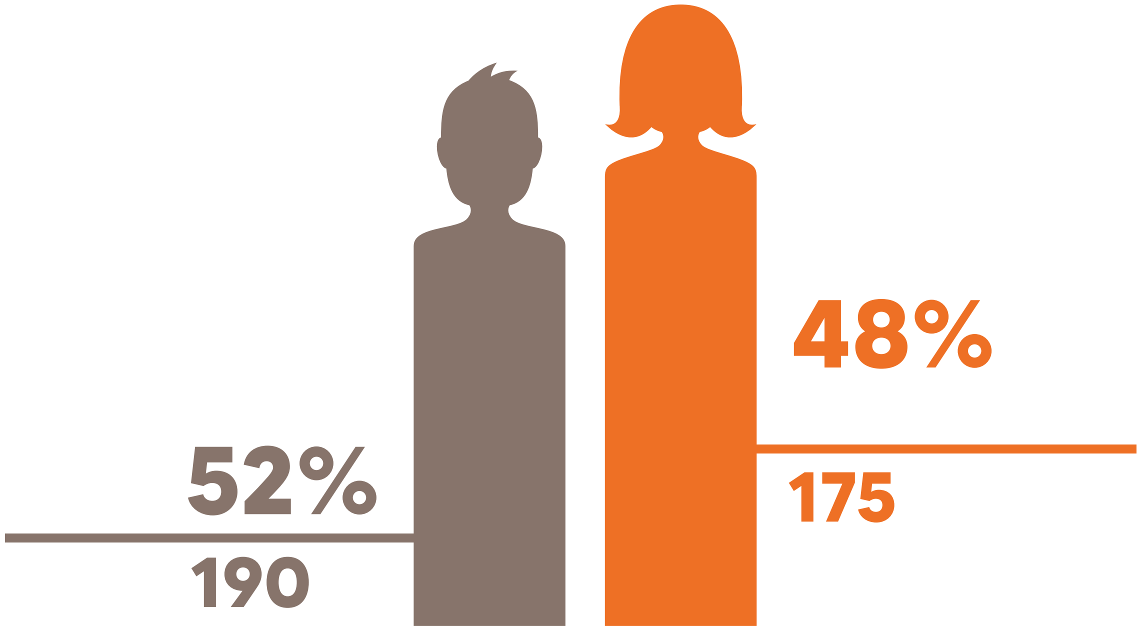
Training is also a regular part of everyone's experience. We have continued to develop training that all employees must follow for compliance, operational risk management and business continuity, AML, and other topics. In the pandemic year, direct training has been significantly and understandably smaller in number, however participation in virtual training and online courses has increased. During 2020, skills-building and career development were at the core of BPB trainings. We have developed and trained, potential senior officers, promoted staff and encouraged change of positions within BPB. Our goal is that at least every year employees through Performance Management talk to their superior regarding the development and advancement of themselves.

DIVERSITY & INCLUSION IMPORTANCE

Working at BPB involves developing relationships with people from different backgrounds and cultures, which are critical to our long-term success. For this, we strive to form an inclusive culture and offer equal opportunities for promotion.

We remain committed to narrowing the gender representation gap, especially at the management level, through a culture of gender diversity and supporting initiatives to hire, promote and retain more women at all levels of our institution.

In 2020, 48% of all employees were female. Moreover, we continue to increase the representation of women in the management role which currently stands at 43%, while on the Board of Directors women represent 29%.



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COMPLIANCE AND AML

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AML

The objective of the Banka për Biznes remains to be the observance of the regulations, current national laws, EU directives and regulation, as well as international best practice as stipulated by the FATF. BPB always acts in accordance with the legal obligations (Law no. 05 / L-096) and other sub-legal acts on the prevention of Money Laundering and Combating Terrorist Financing.

During 2020 the AML Department has implemented the program which contains strict internal rules in terms of prevention, detection and reporting of suspicious money laundering transactions.

Among other things, the focus of the bank continued to be the identification of clients, in order to have as much information as possible about the profile of clients and business activity, with the purpose of eliminating any possible threat of money laundering, and building a trust- and transparency-based relationship with clients.

With the support of ASEBA-AML application which utilizes systematic solutions, transaction data containing information on users is integrated, which reflect a comprehensive overview of activities within the system and enables the accurate and correct identification of suspicious activities, therefore enabling the bank to monitor and identify potential money laundering and terrorist financing cases in on-going basis.

COMPLIANCE

Banka për Biznes, as a development-oriented bank, aims to perform responsible banking activities by acting in accordance with laws and regulations in force, by applying national and international compliance best practices.

Its business activities are conducted ethically, prioritising the client and establishing the business relationship under the unconditional application of the regulatory framework.

Compliance in BPB is organized as an independent function and is set at the top management level. This function assists executive management in overseeing the overall compliance of the bank and keeps them informed and up to date on developments and/or best practices in compliance and reviews these developments and/or practices for bank applicability.

The Compliance Function reports to the Board of |Directors on the status of compliance activities within the bank. In this regard, it provides recommendations to the Board on how to develop and generally improve compliance with the CBK regulatory framework.

The entire internal document framework in the bank is created in the spirit of local laws and regulations in force by focusing on requirements to respond to the various compliance risks to which the bank may be exposed.
In addition, the Compliance Function continuously monitors and challenges the extent to which the bank complies with the regulatory framework.

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PRODUCT DEVELOPMENT AND INFORMATION TECHNOLOGY

In addition to the overall impact of the pandemic on the way of doing business, the banking sector was also faced with new circumstances, and it was forced to present appropriate ways to ensure the smooth running of operational processes accordingly, and the provision of services to clients through alternative channels.

BPB has enabled execution of almost all types of transactions through electronic channels, where the investments and developments carried out over the years, have had a direct impact on increasing their usability, thus promoting social responsibility and avoiding client visits to branches.

Ensuring high functionality of electronic channels has been one of the main objectives of this year, therefore a series of commitments and investments with a direct impact on increasing performance has been undertaken. Investment in mechanisms for monitoring the functionality of services in real time, implementation of more frequent preventive controls and renewal of various utensils in ATM's, have had a positive effect on the provision of sustainable and stable services 24/7.

Work has been done at the same pace on optimization projects of key banking systems, raising the level of their availability and sustainability. We have also worked on the development of tools that help automate complex reporting processes to regulators as well as real-time monitoring and reporting of potential problems in various services.

On the other hand, in line with technological advancements, BPB has continued to focus on product development and information technology.

As a result, even during this year, there was continuous expansion and improvement of existing services in order to meet client expectations and to provide quality and convenience during banking. In addition to upgrades to some of the existing functionalities, the way of conducting transactions through electronic platforms E-banking and M-banking has been simplified, enabling faster and more efficient management of finances. Furthermore, investments have been made in increasing the level of security and performance of the application by significantly improving its response time.

The network of ATMs and cards has proven to be one of the main actors towards the digital journey of the banking sector, paving the way for further transformation. As a result, investments were made in expanding the range of services and increasing the security of card transactions. Specifically, BPB has implemented the functionality of contactless deposit at ATMs, thus becoming the first bank in the market to provide this service. It is worth mentioning the implementation of the new version of the service "3D Secure" to prevent unauthorized use of cards when conducting online transactions based on client behaviour.

Operating in an environment imposed by the circumstances created and the flexibility shown during this period highlights the role and importance of new technologies today, as a starting point and a necessity in our journey towards any further development or change. In this regard, the bank will extend the necessary investments in technology to further automate and redesign the processes, in order to increase the quality and delivery of service, with the aim of increasing client satisfaction.

BPB

Banka e vendit tënd

SOCIAL RESPONSIBILITY

Since the establishment of the bank, in addition to business activities, BPB aims to be part of the community by investing in improving the quality of life in the community that we operate. Accordingly, every year, the bank devotes part of its time and financial means to addressing topics of interest to society.

BPB started the year 2020 with the support of educational institutions of all levels. An important contribution was made to help the renovation of the institution 'Yllkat', a kinder garden that is modeled based on European standards for such institutions. In addition, we have bought books for the primary school 'Meto Bajraktari' enriching the library of this school for its students. However, the main project was the donation we made to mark the 50th anniversary of the founding of the University of Prishtina.

University of Prishtina "Hasan Prishtina" is the first public university in Kosovo and for five decades educates and prepares professionals in various fields. BPB has proudly supported the main event to mark the 50th anniversary of the founding of this university.

Our initiatives to help the education system in Kosovo were reconsidered after the spread of pandemic in Kosovo, in March. Given that all educational institutions were closed and Kosovo was going through unprecedented times, BPB re-addresses its social responsibility goals by focusing them on supporting small businesses and various institutions in their fight against the pandemic Covid 19.

Initially, we organized the distribution of disinfectants and information boards to 500 small businesses in order to prevent the spread of the pandemic and raise public awareness. We followed that with the disinfection of 50 businesses throughout Kosovo, an activity that aimed to keep business premises safe and strengthen the message that BPB is always close to businesses and not only in providing financial services, but also with practical projects that help businesses in their most difficult times.

In our desire to help as many institutions as possible, in addition to the above-mentioned activities for businesses, we have also helped institutions such as the Family Medicine Center and SOS villages. We donated 65 pulsoximeters to the Family Medicine Center. These medical devices are used to measure the level of oxygen and measure the current heart rate, which are important indicators in the early identification of symptoms in patients affected by the virus COVID 19. While, for SOS villages we have donated food packages and disinfectants to help this organization to provide adequate support and care for its residents in this difficult period, when childcare is even more needed.

Last but not least, BPB remained dedicated to Kosovar sport. In 2020 we sponsored two basketball teams, BC Ylli and BC Prishtina. Given the difficulties that all sports encountered during a very challenging year, we wanted to emphasize that BPB is a partner in both, good and challenging times. Our sponsorships enabled both teams to maintain some sort of normality in what was a very abnormal year for all of us.


BPB me donacion për çerdhën Yllkat
BPB dhuron libra për Bibliotekën e Shkollës "Meto Bajraktari"
UNIVERSITETI I PRISHTINËS
50
BPB me krenari ka përkrahur Universitetin e Prishtinës për të shënuar 50 vjetorin e themelimit
BPB ndihmon fëmijët e SOS Fshatrat e Fëmijëve Kosovë me pako ushqimore
Banka për Biznes me donacion për Qendrën Kryesore të Mjekësisë Familjare
Banka për Biznes shpërndan 500 dezinfektues te bizneset e vogla në gjithë territorin e Kosovës

BPB

Banka e vendit tënd

BANKA PËR BIZNES SH.A.

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

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BPB

Statement of Management's Responsibilities

To the Shareholders and the Board of Banka për Biznes J.S.C.

We have prepared the financial statements as at 31 December 2020 and for the year then ended, which presents fairly, in all material respects the financial position of Banka për Biznes J.S.C. (the "Bank") as at 31 December 2020 and the results of its operations and its cash flows for the year ended. Management is responsible for ensuring that the Bank keeps accounting records that comply with the Kosovo banking regulations and can be suitable amended to disclose with reasonable accuracy the financial position of the Bank and the results of its operations and cash flows in accordance with International Financial Reporting Standards that include International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for related accounted periods.

Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Bank and prevent and detect fraud and other irregularities.

Management considers that, in preparing the financial statements, the Bank has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgment and estimates, and the appropriate International Financial Reporting Standards have been followed.

The financial statements are hereby approved on behalf of the Executive Management.

Pristina, Kosovo

March 26, 2021

Executive Management

BDO

Tel: +381 38 600 031
Fax: +381 38 600 032
www.bdokosovo.com

BDO Kosova L.L.C.
Rr. Ukshin Hoti C4/3, Hy. A, Kati II
10000 Prishtina Kosova

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Banka për Biznes Sh.a.

The report on the audit of the annual financial statements

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), 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.

Key audit matters

Key audit matters are those which were, in our professional judgment, of the utmost importance for our audit of the separate and consolidated annual financial statements of the current period and include most significant recognized risks of significant misstatement as a result of error or fraud with the greatest impact on our audit strategy, the allocation of our available resources and the time spent by the engaged audit team. We have dealt with these matters in the context of our audit of the separate and consolidated annual financial statements as a whole and in forming our opinion about them, and we do not give a separate opinion on these matters.

We have determined that the following matters were key audit matters and should be published in our Independent Auditor's report.

Impairment allowances for expected credit losses on loans and advances to customers	
As at 31 December 2020, in the Banks financial statements gross loans and advances to customers amount to Euro 199,983 thousand, related impairment allowance amounts to Euro 7,327 thousand and impairment loss recognized in the income statement amounts to Euro 3,042 thousand (31 December 2019: gross loans and advances: Euro 187,465 thousand, impairment allowance: Euro 5,301 thousand, impairment loss recognized in the income statement: Euro 692 thousand).	
Key audit matter	**How we addressed the key audit matter**
We focused on this area due to the significance of the amounts involved for the Bank financial statements and also because of the nature of the judgements and assumptions that management are required to make. Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for the Management. IFRS requires management to make judgments about the future and various items in the Bank financial statements are subject to estimation uncertainty. The estimates required for credit loss allowances for loans and advances to customer are significant estimates. The key areas of judgement associated with credit loss allowances for loans and advances to customer are following: • the identification of loans that are deteriorating, • the assessment of significant increase in credit risk, • forecasts of future cash flows, • expected proceeds from the realization of collateral, • the determination of the expected credit losses of loans and advances to customer which are all inherently uncertain. The impairment allowance is measured as either 12 months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. For defaulted loans that are considered to be individually significant or non-performing corporate exposures exceeding Euro 422 thousand individually, the impairment assessment is based on the knowledge of each individual b\orrower and often on estimation of the fair value of the related collateral.	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. Our audit procedures in this area included, among others: • Reviewing the methodology of the Bank for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 Financial instruments within statutory reporting framework, • obtaining an understanding of the provisioning process, IT applications used therein, as well as key data sources and assumptions for data used in the expected credit loss model, • assessing and testing of IT control environment for data security and access, • evaluating the design, implementation, and operational effectiveness of controls in credit risk management and lending processes, and tested key controls related to the approval, recording and monitoring of loans and advances, • testing the design, implementation, and operational effectiveness of selected key controls in the areas of customer rating, as well as the controls relating to the identification of loss events and default, appropriateness of classification of exposures between performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances, • testing, on a sample basis, whether the definition of default and the staging criteria were consistently applied in accordance with relevant policies, • evaluating the overall modelling approach of calculation of expected credit losses (ECLs), including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD),

Impairment allowances for expected credit losses on loans and advances to customers	
Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis. Impairment allowances for performing exposures and non-performing retail exposures as well as non-performing corporate exposures below Euro 422 thousand individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. The Bank is continuously recalibrating the model parameters which also requires our increased attention in the audit. Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias.	• testing the adequacy of individual loan loss allowances, on a sample basis, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, • conducting an evidentiary test of the selected sample to assess the correctness of the loan classification, • testing on the sample size basis the input information used in the provisioning process through, accuracy of the calculations by the IT applications and output information from the provisioning process for consistency and mathematical accuracy, • in certain cases, we used our own judgment to determine the parameters for calculating impairment losses on loans and compared our calculations with the impairment of the value calculated by the Bank, • critically evaluating the impact of COVID 19 pandemic on impairment allowances for expected credit losses and assessing the local regulatory framework impacted by COVID 19 pandemic, • evaluating the accuracy and completeness of the financial statement disclosures.

Other information in the Annual Report

Management is responsible for the other information. The other information comprises of the information included in the Annual Report but does not include the financial statements and our Independent auditor's report on them.

Our opinion on financial statements does not include other information and, except to the extent otherwise explicitly stated in our report, we do not express any kind of assurance conclusion with on them.

In relation with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. In this sense, we do not have anything to report.

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

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

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

BDO

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 Banks's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO
BDO Kosova L.L.C
audit, accounting and financial advisory
Prishtina,Kosova

BDO Kosova L.L.C.
Amir Dermala
Engagement Partner
March 26, 2021
Rr. Ukshin Hoti, C 4/3, H A, Kati II
Pristina, Kosovo

Banka për Biznes Sh.a.
Statement of Comprehensive Income
For the year ended 31 December 2020

In thousands of EUR	Notes	2020	2019
Interest income at effective interest rate	5	15,589	14,821
Interest expense	5	(2,287)	(2,399)
Net interest income		13,302	12,422
Fee and commission income	6	3,524	3,037
Fee and commission expense	6	(1,190)	(1,047)
Net fee and commission income		2,334	1,990
Recoveries of loans previously written off		475	502
Net foreign exchange gain		39	63
Net gain on financial assets	13	510	1,003
Total operating income		16,660	15,980
Other income	7	163	224
Credit loss expense on loans and advances to customers	14	(3,042)	(692)
Credit loss expense on financial assets	10-13	(20)	(15)
Repossessed assets write-downs	18	(161)	(61)
Other provisions		(129)	(25)
Other operating expenses	8	(8,412)	(8,379)
Profit before tax		5,059	7,032
Income tax expense	9	(530)	(693)
Net profit for the year		4,529	6,339
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net change in fair value of financial assets through other comprehensive loss		(26)	(15)
Total comprehensive income for the year		4,503	6,324
Earnings per share (in thousands of EUR)	23	0.16	0.22

The notes from 1 to 27 are an integral part of these financial statements

Banka për Biznes Sh.a.
Statement of Financial Position
As at 31 December 2020

In thousands of EUR	Notes	2020	2019
Assets			
Cash on hand and at banks	10	25,082	21,600
Balances with Central Bank of Kosovo	11	52,465	42,031
Placements and balances with banks	12	5,261	6,053
Financial assets at fair value through OCI	13	53,535	38,646
Loans and advances to customers	14	192,656	182,164
Other financial assets	15	272	206
Intangible assets	16	605	515
Property and equipment	17	2,318	2,850
Right of use Assets	22	2,553	2,843
Other assets	18	151	203
Total assets		**334,898**	**297,111**
Liabilities			
Due to customers	19	288,883	253,955
Subordinated debt	20	502	502
Borrowings	20	4,074	6,334
Lease liability	22	2,612	2,825
Provisions	21	511	539
Deferred tax liability	9	20	74
Other liabilities	21	2,689	1,778
Total liabilities		**299,291**	**266,007**
Equity			
Share capital	23	11,247	11,247
Other capital reserve	23	769	857
Revaluation reserve	23	96	96
Fair value reserve		(93)	(67)
Retained earnings		23,588	18,971
Total equity		**35,607**	**31,104**
Total liabilities and equity		**334,898**	**297,111**

These financial statements were approved by the management of the Bank on 26 March 2021 and signed on its behalf by:

Arton Celina
Chief Executive Officer

Avni Berisha
Head of Finance Department

The notes from 1 to 27 are an integral part of these financial statements

Banka për Biznes Sh.a.
Statement of Changes in Equity
For the year ended 31 December 2020

In thousands of EUR	Share capital	Other capital reserve	Revaluation reserve	Fair value reserve	Retained earnings	Total
At 1 January 2019	11,247	857	96	(52)	13,631	25,779
Total comprehensive income						
Profit for the year	-	-	-	-	6,339	6,339
Other comprehensive income						
Net change in fair value of financial assets through other comprehensive loss	-	-	-	(15)	-	(15)
Total comprehensive income	-	-	-	(15)	6,339	6,324
Transactions with equity holders						
Dividend distribution	-	-	-	-	(999)	(999)
Balance at 31 December 2019	11,247	857	96	(67)	18,971	31,104
At 1 January 2020	11,247	857	96	(67)	18,971	31,104
Adjustment appropriation of reserves reconciling CBK and IFRS reporting	-	(88)	-	-	88	-
At 1 January 2020 adjusted	11,247	769	96	(67)	19,059	31,104
Total comprehensive income						
Profit for the year	-	-	-	-	4,529	4,529
Other comprehensive income						
Net change in fair value of financial assets through other comprehensive loss	-	-	-	(26)	-	(26)
Total comprehensive income	-	-	-	(26)	4,529	4,503
Balance at 31 December 2020	11,247	769	96	(93)	23,588	35,607

The notes from 1 to 27 are an integral part of these financial statements

Banka për Biznes Sh.a.
Statement of Cash Flows
For the year ended 31 December 2020

In thousands of EUR	Note	2020	2019
Cash flows from operating activities			
Profit for the year before tax		5,059	7,032
Adjustment for:			
Amortization	16	225	237
Depreciation	17	753	755
Adjustment transition effect to IFRS 9		(857)	-
Gain from disposal of property and equipment		(1)	(7)
Gain from sales of repossession of collateral		(110)	(188)
ECL/Impairment losses from loans	14	3,042	692
ECL/Impairment losses from financial assets		20	(15)
Provision for repossessed assets	18.1	161	61
Other provisions		129	25
Gain from sale of FVOCI		(510)	(1,003)
Interest expense	5	2,287	2,399
Interest income	5	(15,589)	(14,821)
		(5,391)	(4,833)
Changes in:			
Placements and balances with banks	12	792	(1,270)
Loans and advances to customers	14	(12,240)	(24,162)
Restricted balances with the CBK	11	(4,017)	(2,937)
Other assets	18	21	239
Other financial assets	15	(66)	172
Due to customers	19	34,788	32,449
Other liabilities and provisions		651	436
Cash generated from operating activities		14,538	94
Interest received		15,618	14,697
Interest paid		(2,121)	(1,946)
Income tax paid	9	(570)	(754)
Net cash generated from operating activities		27,465	12,091
Cash flows from investing activities			
Investments in financial assets at fair value through OCI, net		(14,901)	(8,514)
Purchase of intangible assets	16	(315)	(350)
Purchase of property and equipment	17	(217)	(828)
Proceeds from sale of repossessed assets		110	188
Proceeds from sale of property and equipment		-	77
Net cash used in investing activities		(15,323)	(9,427)
Cash flows from financing activities			
Repayment of borrowings	20	(2,486)	(2,873)
Receipts from borrowings	20	253	4,080
Dividend distributed		-	(999)
Net cash generated from financing activities		(2,233)	208
Net increase in cash and cash equivalents		9,909	2,872
Cash and cash equivalents at beginning of the year	10	43,012	40,140
Cash and cash equivalents at the end of the year	10	52,921	43,012

The notes from 1 to 27 are an integral part of these financial statements

Banka për Biznes Sh.a.
Notes to the financial statements
For the year ended 31 December 2020
(Amounts in thousands of EUR, unless otherwise stated)

1. INTRODUCTION

The Banka për Biznes J.S.C previously known as Banka Private e Biznesit Sh.a. obtained a license for banking activities on 29 March 2001 and commenced operations on 24 April 2001.

Based on the decision of the Board of Directors dated 28 February 2005, and the final approval from the Central Bank of Kosovo ("CBK") dated 22 March 2005, the Bank changed its name to Banka per Biznes (the "Bank"). In 2006, the Bank was registered as a joint stock company ("Sh.a."). The Bank operates as a commercial and savings bank to all categories of customers within Kosovo through its network of 7 branches and 19 subbranches located throughout Kosovo (2019: 7 branches and 19 subbranches).

Financial statements for the year ended 31 December 2020 were authorized for issue in accordance with a resolution of the directors on 26 March 2021.

2. BASIS OF PREPARATION

2.1 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

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

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

The related changes to significant accounting policies are described in Note 3.

2.2 Basis of measurement

These financial statements are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and investment property. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

2.3 New and amended standards and interpretations

2.3.1 Effective standards, amendments to standards and implementations in 2020

Except for the changes below, the Bank has consistently applied the accounting policies as set out in the Notes below to all periods presented in these consolidated financial statements.

In 2020 the following standards, amendments or interpretations came into force:

- Amendments to References to the conceptual Framework in IFRS Standards;
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform;
- Amendments to IFRS 3: Business Combinations;
- Amendment to IFRS 16: Leases COVID-19-Related Rent Concessions.
  These amendments provide lessees with an exemption (permitted and not required) from assessing whether a COVID-19-related rent concession is a lease modification. Entities applying the exemption, available from 1 June 2020, would account for the changes as if they were not lease modifications.
- The bank has not applied the exemption foreseen by the IFRS16 Amendments.

Adoption of these standards has not determined substantial effects on the amounts recognized in balance sheet or income statement.

2. BASIS OF PREPARATION (CONTINUED)

2.3 New and amended standards and interpretations (continued)

2.3.2 Standards, amendments to standards and interpretations issued but not yet effective

The standards, amendments to standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

As at 31 December 2020, the European Commission endorsed the following changes to the Accounting principles applicable to reporting, which entered into force on or after 1 January 2021:

- Amendments to IFRS 4: *Insurance Contracts – deferral of IFRS 19*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2* (August 2020)

As at 31 December 2020 the IASB issued the following standards, amendments, interpretations or revisions, whose application is subject to completion of the endorsement process by the competent bodies of the European Commission, which is still ongoing:

- IFRS17 *Insurance Contracts* (May 2017) including Amendments to IFRS 17: *Insurance Contracts* (June 2020);
- Amendments to IAS 1: *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date* (January 2020 and 15 July 2020, respectively)
- Amendments to IFRS3: *Business combination* (May 2020);
- Amendments to IAS 16: *Property, Plant and Equipment* (May 2020);
- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (May 2020);
- Amendments to *Annual Improvements 2018-2020* (May 2020).

These standards are not expected to significantly affect the Bank's financial statements.

2.4 Functional and presentation currency

These financial statements are presented in EUR, which is the Bank's functional currency. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

2.5 Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 3, 4 and 25.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Interest income and expense

Under both IFRS 9 Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, where appropriate, a shorter period) to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

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

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

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

However, under IFRS 9 for financial assets that have become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

Interest income and expense presented in the statement of profit or loss and Other Comprehensive Income (OCI) include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis; and
- interest on debt instruments measured at FVOCI calculated on an effective interest basis.

b) Fees and commissions

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

Under IFRS 15 the Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations,

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Fees and commissions (continued)

Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

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

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

c) Lease

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

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early 2020.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Lease (continued)

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

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

The Bank presents right-of-use assets and lease liabilities in Note 22 and separately in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

d) Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income. Current tax assets and liabilities are offset only if certain criteria are met.

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Tax expense (continued)

(ii) Deferred tax (continued)

Additional taxes that arise from the distribution of dividends by the Bank are recognized at the same time as the liability to pay the related dividend is recognized.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

e) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot rate exchange rate at that date.

The foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

f) Financial assets and financial liabilities

(i) Recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price. See Note f) vii) for a description of the policy if the fair value of a financial instrument at initial recognition differs from the transaction price.

(ii) Classification

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

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

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

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

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

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

All Bank's financial assets are classified as measured at amortized cost or at FVOCI.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining
- a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

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

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

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

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

Reclassifications

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

(iii) Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

Financial assets (continued)

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

Financial liabilities

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

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

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

Financial liabilities

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Group of similar transactions such as in the Bank's trading activity.

(vi) Amortized cost measurement

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

(vii) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred in FV levels (note 4).

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment

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

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

The Bank will recognize loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized will be 12-month ECLs:

- Debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
- Loans and debt investment securities for which credit risk has not increased significantly since initial recognition.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

When discounting future cash flows, the following discount rates are used:

- *financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables:* the original effective interest rate or an approximation thereof;
- *POCI assets:* a credit-adjusted effective interest rate;
- *lease receivables:* the discount rate used in measuring the lease receivable;
- *undrawn loan commitments:* the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- *financial guarantee contracts issued:* the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Definition of default

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

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

This definition is largely consistent with the definition used for regulatory purposes for loans classified as doubtful or loss (see Note 3 f *vii*).

In assessing whether a borrower is in default, the Bank will consider indicators that are consistent with the risk regulatory requirements for classification of loans as doubtful or lost:

- qualitative: e.g. breaches of contractual covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same borrower to the Bank; and
- Regulatory risk classification of the same borrowers in other banks.

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

Credit risk grades

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

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

Significant increase in credit risk

Significant increase in the risk of default and default itself are key determinants for calculation of the expected credit losses.

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk by comparing: (i) the risk that the loan will default at or after the reporting date with (ii) the risk of default assessed at or after the date of its initial recognition.

When performing this assessment, the Bank considers reasonable and supportable forward-looking and historical information for individual loans, or group of loans when reasonable and supportable information is not available on an individual basis. Measurement of the ECLs pattern reflects the general pattern of deterioration or improvement in the credit quality of financial instruments, expressed in terms of significant increase in credit risk.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

When the financial instruments are initially originated, loss allowance is measured at an amount equal to 12-month expected credit losses. When the instrument's risk of default has significantly increased since its origination, the Bank shall measure loss allowance at an amount equal to lifetime expected credit losses.

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

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

Determining whether credit risk has increased significantly

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

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

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

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

Grouping of loans

Collective assessment of PD

For the purpose of a collective assessment of PDs, BPB groups loans on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

In consideration to credit risk profile of its loans, BPB has selected to group loans based on *customer type* (large and medium businesses, small businesses, individuals) and *product type* (business, housing, consumer).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Grouping of loans (continued)

Collective assessment of PD (continued)

There has been a segmentation of the loan portfolio based on the similar characteristics of risk. Below are presented seven segments of the loan portfolio and credit cards portfolio:

- Corporate
- Micro
- Agro
- Mortgage
- Veterans & Invalids
- Consumer
- Credit Cards

Collective assessment of LGD

For the purpose of a collective assessment of LGDs, loans are group on the basis of:

- the cash recovery cycle for non-performing loans;
- the collateral type (i.e. real estate collateral); and
- the recovery after write-off.

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

Modified financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Modified financial assets (continued)

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

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

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

Inputs into measurement of ECLs

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

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are derived from internally developed statistical models and other historical data that leverage regulatory models. PDs are adjusted to reflect forward-looking information as described below.

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank has employed statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators are likely to include GDP growth, interest rates and unemployment. The Bank's approach to incorporating forward-looking information into this assessment is discussed below.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD.

LGD estimates are calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortization, and prepayments. The EAD of a financial asset is the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which is estimated based on historical observations and forward-looking forecasts.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Inputs into measurement of ECLs (continued)

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

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

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

- instrument type; and
- credit risk grading.

The Rankings will be subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

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

Forward-looking information

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Forward-looking information (continued)

The base case represents a most-likely outcome and be aligned with information used by the Bank for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. The Bank also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.
The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include interest rates, unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed in Note 14.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized (see Note 3 f) (iii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the group assesses whether financial assets carried at amortized cost, debt financial assets carried at FVOCI and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Credit-impaired financial assets (continued)

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of a loan or advance by the bank on terms that the bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition.

Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognized as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Write-off

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

g) Cash and cash equivalents

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

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

h) Deposits, borrowings and subordinated debt

Deposits, borrowings and subordinated debts are the Bank's main sources of debt funding.

Deposits, borrowings and subordinated debts are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Repossessed assets

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

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

j) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is 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.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized within other income in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date they are available for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values over their estimated useful lives. Depreciation is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Property and equipment (continued)

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives for the current and comparative periods are as follows:

	Useful life
Buildings	20 years
Computer and related equipment	5 years
Vehicles	5 years
Furniture, fixtures and equipment	5 years

Leasehold improvements are depreciated using the straight-line basis over the shorter of the lease term and their useful lives. The estimated useful life of the leasehold improvements is 5 years.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

k) Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortization and any 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 over the estimated useful life of the asset, from the date that it is available for use.

Software is amortized using the straight-line method over the estimated useful life of five years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

l) Impairment of non-financial assets

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

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or Amortization, if no impairment loss had been recognized.

m) Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

o) Financial guarantees and loan commitments

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 the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by an approximation to the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognized within Provisions.

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

p) Dividends

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the reporting date are disclosed as events after the end of the reporting period.

q) Equity reserves

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

- Fair value reserve, which comprises changes in fair value of Financial assets at fair value through OCI investments;
- Other capital reserve, which comprises difference between accumulated losses in accordance with IFRS and CBK;
- Revaluation reserve, which comprises on repossessed collateral from Bank.

4. USE OF ESTIMATES AND JUDGMENTS

Management selects and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements is disclosed below.

These disclosures supplement the commentary on financial risk management (see Note 26).

a) Expected Credit Losses

Financial assets measured at amortized cost or FVOCI are assessed for impairment on a basis described in Note 3. (f). (vi). The Bank reviews its assumptions and judgments on a regular basis.

The Bank measures the expected credit losses of a financial instrument in a way that reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money; and

(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

COVID-19 outbreak

COVID-19 outbreak constitutes significant event and source of uncertainty which requires management to apply judgements and estimates in assessing its impact on the financial position and performance.

During the financial year 2020, COVID-19 pandemic has spread in the region in which the Bank operates affecting Banks economic activities and the resulting profitability.

The slow-down of economic activities has impacted some of the categories of revenues (interests from loans) due to the associated downturn of financial markets. Some extraordinary expenses have been also incurred as they were required to grant business continuity communications and security appropriate in light of the pandemic.

The market environment was affected by uncertainties about the economic developments and the degree of the economic recovery in future periods as well as the evolution of the pandemic.

(i) COVID-19 impact on measurement of financial and non-financial assets recognized in the balance sheet

Credit exposures

The slow-down of the economic activity resulting from the pandemic COVID-19 and the associated lock-down measures has affected the estimates on credit exposures recoverability and the calculation of the associated loan loss provisions.

The amount of loan loss provisions is determined considering the current and expected classification of credit exposures and credit parameters (Probability of Default, Loss Given Default and Exposure at Default) which, in accordance with IFRS 9 incorporate among other factors forward looking information and the expected evolution of the macro-economic scenario.

In this context the Bank has updated macro-economic scenarios as at 31 December 2020, considering in addition to a base scenario also an adverse scenario and a positive scenario and applying weighting factors to the scenarios.

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4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

COVID-19 outbreak (continued)

a) Use of estimates and judgements

The table below shows the weights of macroeconomic scenarios before the COVD-19 pandemic and as at December 2020.

Weights for macroeconomics scenarios

Scenario	Before COVID-19	December 2020
Fundamental	34%	34%
Positive	33%	16%
Negative	33%	50%

Based on above mentioned, at the end of 2020 the coverage of the performing portfolio by the expected credit losses increased by 1.25 bp compared to the end of 2019, while the share of Stage 2 loans in total loans in 2020 increased by 7.06 bp, or by EUR 14.35 million.

Performing portfolio ECL coverage

Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020
0.46%	0.68%	1.04%	0.93%	1.71%

Stage 2 loan ratio

Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020
1.83%	1.89%	1.84%	2.08%	8.89%

The measurement is affected by the degree of uncertainty on the evolution of the pandemic, the effect of the relief measures and, ultimately, the start and the degree of economic recovery.

The evolution of these factors may require in future financial years the classification of additional credit exposures as non-performing, thus determining the recognition of additional loan loss provisions related to both these exposures as well as performing exposures following the update in credit parameters. In this context, among other factors, the relevant will be the ability of the customers to service their debt once moratoria measures granted will expire.

Adjustments to the loan loss provisions might be required by the occurrence of a macro-economic scenario different from the one estimated for the calculation of the credit risk parameters, or by the prevalence of non-performing exposures on the market.

(i) COVID-19 Relief programs to customers

To support our corporate and retail clients, the Bank delivered relief measures including moratorium and rescheduling as instructed by the CBK.

As at 31 December 2020 more than 300 clients are benefitting from relief measures. The following table summarizes the associated carrying amounts outstanding for rescheduled loans due to Covid-19 measures.

(Amounts in thousands of EUR, unless otherwise stated)

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

COVID-19 outbreak (continued)

	Number of obligors	Gross carrying amount			Accumulated impairment		
		Total	Performing	Non-performing	Total	Performing	Non-performing
Loans and advances subject to Covid-19 related forbearance measures	301	14,645	14,304	341	1,731	1,553	178
Of which: Non-retail	277	14,480	14,168	311	1,697	1,535	162
Of which: Loans collateralized by commercial immovable property	35	5,923	5,862	61	804	742	61
Of which: Retail	24	165	136	29	34	18	16
Of which: Loans collateralized by residential immovable property	1	18	18	-	-	-	-

The Bank will continue in supporting clients and adequately assessing their creditworthiness, carefully considering the adequacy of risk classification as well as the related impact on financial reporting.

In accordance with the CBK and ECB instructions, the availability of these relief measures to a general population of customers was not itself an automatic trigger for classification into forborne category or to conclude that a significant increase in credit risk has occurred for all clients who utilized the measures.

(ii) Monitoring activities

Following the introduction of COVID-19 measures to help the economy the Bank further intensified the monitoring activities of clients' portfolio, with special priority to clients who use or have used some of the COVID-19 measures. The analysis is performed no later than three months from the contracting of the measure, while the priority is given to clients with the forborne measures or with the delay in payment of obligations to the Bank.

Regular quarterly activities of identifying high-risk portfolio ("COVID-19 Highly sensitive") include the assessment of the industrial sector (clustered in high, medium, low risk industries), of financial indicators, days past due, information from the external Credit register (CRK) as well as the expert assessment of the risk management function.

(iii) COVID-19 outbreak impacts on statement of going concern

The Management considers that the emergence of COVID-19 outbreak during the financial year 2020 and the associated lock-down measures have determined negative effects that are expected to be partially offset by the economic relief measures put in place by the Government.

The Management has considered these circumstances in the assessments of significant items of the financial statements.

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

COVID-19 outbreak (continued)

(iii) COVID-19 outbreak impacts on statement of going concern (continued)

Acknowledging the unpredictability surrounding the economic recovery and the impact of the lock-down measures adopted, the Management believes with reasonable certainty that the Bank will continue to operate profitably in the foreseeable future.

b) Net realizable value of repossessed assets

The Bank has established a policy with respect to the fair values of repossessed assets which are being measured at the lower of cost and net realizable value, which is the estimated selling price of the properties less costs to sell. The estimated selling price is derived from fair value measurements that include the use of external, independent property valuers, having appropriate recognized statutory professional qualifications, which is subsequently reviewed from the Bank Management for significant unobservable inputs and any required write down adjustments.

The Bank generally impairs in full repossessed property if they remain unsold for periods longer than 5 years. The fair value measurements involved in determination of the net realizable value of the Bank's repossessed assets are categorized into Level 3 of the fair value hierarchy.

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of repossessed assets, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Reference to the current market: The valuation model uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business)	Market prices were modified to reflect the following: The level of market transactions when the market activity is low or the price for an identical property is difficult to obtain Specific condition of each property (construction, position etc.)

c) Determining fair values

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

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

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

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4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value

This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimation of the fair value is disclosed in note 5 d) below.

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

Financial instruments – fair value hierarchy

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

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value (continued)

	2020			2019		
	Carrying value	Fair value Level 2	Level 3	Carrying value	Fair value Level 2	Level 3
Financial assets measured at fair value						
Financial investments at fair value through OCI	53,535	53,442	-	38,713	38,646	-
Financial assets not measured at fair value						
Cash on hand and at banks	77,547	-	77,547	63,631	-	63,631
Placements and balances with banks	5,261	-	5,261	6,053	-	6,053
Loans and advances to customers	192,656	-	190,520	182,164	-	180,144
Other financial assets	272	-	272	206	-	206
Financial liabilities not measured at fair value						
Due to customers	288,883	-	289,914	253,955	-	254,863
Subordinated debt	502	-	500	502	-	499
Borrowings	4,074	-	3,471	6,333	-	5,397
Other financial liabilities	2,689	-	2,689	1,778	-	1,778

Financial instruments – fair value hierarchy

Fair value for financial assets and liabilities above have been determined using Level 2 and Level 3 input described above.
Fair value estimates are based on existing financial instruments on the Bank's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Balances with banks

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

Treasury Bills

Treasury Bills include treasury bills issued by the Government of Kosovo which are bought with the intention to hold till maturity. The fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Bonds

Bonds include bonds issued by the Government of Kosovo which are bought with the intention to hold till maturity. Quoted prices in active markets were not available for these securities. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs.

Loans and advances to customers

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value (continued)

The Bank's loan portfolio has an estimated fair value approximately equal to its book value due either to their short-term nature or to underlying interest rates which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Due to customers, borrowings and subordinated debt

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

5. INTEREST INCOME AND EXPENSES

Net interest income is composed as follows:

	2020	2019
Interest income at effective interest rate		
Loans and advances to customers	14,744	14,296
Loans and advances to banks	77	125
Financial investments	768	400
	15,589	14,821
Interest expense		
Due to customers	(2,121)	(1,946)
Subordinated debt	(37)	(275)
Borrowings	(129)	(178)
	(2,287)	(2,399)
Net interest income	13,302	12,422

6. COMMISSION INCOME AND EXPENSES

	2020	2019
Fee and commission income		
Payment transfers and transactions	2,040	1,799
Account maintenance fees	1,097	944
Other fees and commissions	387	294
Total fee and commission income	3,524	3,037
Fee and commission expense		
Fees and commissions on bank accounts	(1,099)	(956)
Fees and commissions on social aid distribution	(35)	(40)
Other fees and commissions	(56)	(51)
Total fee and commission expense	(1,190)	(1,047)
Net fee and commission income	2,334	1,990

7. OTHER INCOME

	2020	2019
Gain from sale of repossessed assets	110	188
Net reversal of provisions for guarantees	-	2
Other income	53	34
Total	163	224

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8. OTHER OPERATING EXPENSES

	2020	2019
Personnel expenses (see below)	4,161	3,909
Depreciation and amortization	977	992
Lease depreciation and expenses	798	773
Insurance and security	657	679
Card issuance costs	424	381
Communications	200	195
Advertising and marketing expenses	153	225
Utilities and fuel	151	185
Repairs and maintenance	124	82
Consultancy	99	92
Legal expense	96	145
E&M banking expenses	95	85
Card expenses outsource	85	123
Cleaning expenses	60	61
Board member remuneration	58	46
Printing expense	39	39
Office materials	36	45
Travel	7	31
Other expenses	192	291
Total	8,412	8,379

The number of employees as at 31 December 2020 is 365 (31 December 2019: 366).

Personnel expenses are details as follows:

	2020	2019
Wages and salaries	3,481	3,143
Pension contribution	178	160
Accrued bonuses	494	600
Other compensations	8	6
Total	4,161	3,909

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9. INCOME TAX EXPENSE

The income tax charge differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the bank as follows:

	Effective tax rate	2020	Effective tax rate	2019
Profit before tax		5,059		7,032
Tax calculated	10%	506	10%	703
Adjustment due to difference on provision for loans based on IFRS 9	1.29%	65	0.54%	(38)
Written off loans tax effect	-	-	0.05%	4
Tax effect of non-deductible expenses	0.08%	4	0.14%	10
Tax effect of the accrued interest on term deposits	0.64%	32	0.77%	54
Interest income from FVOCI investment taxed at source	1.53%	(77)	0.57%	(40)
Utilization of tax loss carried forward	-	-	-	-
Income tax	13.5%	530	9.9%	693

Deferred tax is calculated based on the enacted tax rate of 10%. Deferred tax assets are recognized only to the extent that realization of the related tax benefit is probable.

	2020	2019
Liability at the beginning	234	370
Effect of IFRS 9	(92)	(75)
Liability after adoption	142	295
Additions during the year	530	693
Payments during the year	(570)	(754)
Liability at the year end	102	234

The carry forward period for any tax losses in accordance with the Kosovo Tax Law is four years. Income tax is assessed at the rate of 10% (2019: 10%) of taxable income.

The movements in deferred tax assets and liabilities are presented as follows:

	Movements in Deferred tax Restated
Deferred tax liability as at 31 December 2018	91
Effect of adoption of IFRS 9	74
Deferred tax asset as at 1 January 2019	165
Movement of deferred tax	(90)
Deferred tax liability as at 31 December 2019	75
Effect of adoption of IFRS 9	(55)
Deferred tax liability as at 1 January 2020	20
Movement of deferred tax	-
Deferred tax liability as at 31 December 2020	20

10. CASH ON HAND AND AT BANKS

	2020	2019
Cash on hand	15,630	12,655
Cash at banks	9,470	8,962
Total	25,100	21,617
Allowance for ECL/Impairment losses	(18)	(17)
Cash on hand and at banks after provisions	25,082	21,600

Cash and cash equivalents consist of the following:

	2020	2019
Cash on hand and at banks	25,100	21,617
Unrestricted balances with CBK (Note 11)	27,821	21,395
Total	52,921	43,012

The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all balance are performing.

	2020				2019			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Excellent	-	-	-	-	-	-	-	-
Strong	660	-	-	660	712	-	-	712
Good	24,440	-	-	24,440	20,905	-	-	20,905
Satisfactory	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Credit impaired	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total	25,100	-	-	25,100	21,617	-	-	21,617

(Amounts in thousands of EUR, unless otherwise stated)

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10. CASH ON HAND AND AT BANKS (CONTINUED)

An analysis of changes in the corresponding of Gross carrying amount and ECLs is, as follow:

	Gross carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2019	18,696	-	(17)	-	18,679
All transfers	-	-	-	-	
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	2,921	-	-	-	2,921
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in profit and loss	-	-	-	-	-
As at 31 December 2019	21,617	-	(17)	-	21,600
All transfers	-	-	-	-	
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	3,483	-	(1)	-	3,482
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in profit and loss	-	-	(1)	-	-
As at 31 December 2020	25,100	-	(18)	-	25,082

11. BALANCES WITH CENTRAL BANK OF KOSOVO

	2020	2019
Statutory reserves	24,691	20,674
Current accounts	27,821	21,395
Total	52,512	42,069
Allowance for ECL/Impairment losses	(47)	(38)
Balances with Central Bank of Kosovo after provisions	52,465	42,031

In accordance with the CBK requirements relating to the deposits reserve for liquidity purposes, the Bank should maintain a minimum of 10% of customer deposits with maturities up to one year, as statutory reserves. The statutory reserves represent highly liquid instruments, including cash on hand, accounts at the CBK or at other banks in Kosovo, and the amounts held at the CBK should not be less than half of the total statutory reserves. The assets with which the Bank may satisfy its liquidity requirement are EUR deposits with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base.

11. BALANCES WITH CENTRAL BANK OF KOSOVO (CONTINUED)

The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all are performing.

	2020				2019			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Excellent	-	-	-	-	-	-	-	-
Strong	-	-	-	-	-	-	-	-
Good	52,512	-	-	52,512	42,069	-	-	42,069
Satisfactory	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Credit impaired	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total	52,512	-	-	52,512	42,069	-	-	42,069

An analysis of changes in the corresponding of gross carrying amount and ECLs is, as follow:

	Gross carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2019	39,181	-	(35)	-	39,146
All transfers:					
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	2,888	-	(3)	-	2,885
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in profit and loss	-	-	(3)	-	(3)
As at 31 December 2019	42,069	-	(38)	-	42,031
All transfers:					
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	10,443	-	(9)	-	10,434
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in profit and loss	-	-	(9)	-	(9)
As at 31 December 2020	52,512	-	(47)	-	52,465

(Amounts in thousands of EUR, unless otherwise stated)

12. PLACEMENTS AND BALANCES WITH BANKS

	2020	2019
Term deposits		
Ziraat Bankasi	2,203	2,204
BKT	2,854	1,843
IS Bankasi	-	2,008
	5,057	6,055
Blocked accounts:		
Raiffeisen Bank International	205	-
Ziraat Bankasi	10	10
	215	10
Total	5,272	6,065
Allowance for ECL/Impairment losses	(11)	(12)
Placements and balances with banks after provisions	5,261	6,053

Placements and balances with banks include blocked accounts on behalf of guarantees from customers.

The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all are performing.

	2020				2019			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Excellent	-	-	-	-	-	-	-	-
Strong	-	-	-	-	-	-	-	-
Good	5,272	-	-	5,272	6,065	-	-	6,065
Satisfactory	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Credit impaired	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total	5,272	-	-	5,272	6,065	-	-	6,065

12. PLACEMENTS AND BALANCES WITH BANKS (CONTINUED)

An analysis of changes in the corresponding of Gross carrying amount and ECLs is, as follow:

	Gross carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2019	4,795	-	(7)	-	4,788
All transfers:	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	1,270	-	(5)	-	1,265
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in profit and loss	-	-	(5)	-	(5)
As at 31 December 2019	6,065	-	(12)	-	6,053
All transfers:	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(793)	-	1	-	(792)
New financial assets originated or purchased	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in profit and loss	-	-	1	-	1
As at 31 December 2020	5,272	-	(11)	-	5,261

(Amounts in thousands of EUR, unless otherwise stated)

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13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

	2020	2019
Treasury Bills	-	2,996
Government Bonds	53,578	35,681
Total	53,578	38,677
Allowance for ECL/Impairment losses	(43)	(31)
Net of provisions	53,535	38,646

During the year 2020 Bank has registered 7 trading's of financial instruments. Financial instruments were traded with significant margins that have marked profit from trading. The traders involved were Central Bank of Kosovo and Kosovo Pension Savings Fund (KPSF). Gain was recognized through profit and loss in amount of EUR 510 thousand (2019: 1,003 thousand). The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all are performing.

	2020				2019			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Excellent	-	-	-	-	-	-	-	-
Strong	-	-	-	-	-	-	-	-
Good	53,578	-	-	53,578	38,677	-	-	38,677
Satisfactory	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Credit impaired	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total	53,578	-	-	53,578	38,677	-	-	38,677

An analysis of changes in the corresponding of gross carrying amount and ECLs is, as follow:

	Gross carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2019	30,163	-	(25)	-	30,138
All transfers					
Derecognitions other than write-offs	(17,445)	-	15	-	(17,430)
New financial assets originated or purchased	25,959	-	(21)	-	25,938
Write-offs	-	-	-	-	-
Net change in profit and loss	-	-	(6)	-	(6)
As at 31 December 2019	38,677	-	(31)	-	38,646
All transfers					
Derecognitions other than write-offs	(24,631)	-	20	-	(24,611)
Repayments and change in cash flow	-	-	-	-	-
New financial assets originated or purchased	39,532	-	(32)	-	39,500
Write-offs	-	-	-	-	-
Net change in profit and loss	-	-	(12)	-	(12)
As at 31 December 2020	53,578	-	(43)	-	53,535

14. LOANS AND ADVANCES TO CUSTOMERS

	2020	2019
Loans and advances to customers	199,647	187,407
Accrued interest	1,070	960
Deferred disbursement fees	(734)	(902)
Total	199,983	187,465
Allowance for ECL/impairment losses on loans and advances to customers	(7,327)	(5,301)
Loans and advances to customers, net	192,656	182,164

A reconciliation of non - retail and retail loans are as follows:

	2020	2019
Gross carrying amount		
Non - retail loans	112,630	111,051
Retail loans	87,353	76,414
	199,983	187,465
ECL/impairment losses		
Allowance for ECL/impairment losses – Non – Retail loans	(6,506)	(4,931)
Allowance for ECL/impairment losses – Retail loans	(821)	(370)
Allowance for ECL/impairment losses on loans and advances to customers	(7,327)	(5,301)
Loans and advances to customers, net	192,656	182,164

Movements in the allowance for impairment losses on loans and advances to customers are as follows:

	2020	2019
At 1 January	5,301	4,927
ECL/Loan loss provision	3,042	692
Loans written off	(1,016)	(318)
At 31 December	7,327	5,301

The Bank manages individual counterparty exposures in order to be compliant with the rules of the Central Bank that require individual counterparty exposures not to exceed 15% of Tier I Capital (or EUR 30,298 thousand).

As at 31 December 2020 and 2019 there are no counterparty exposures above 15% of the limit. In addition, the cumulative exposure of the top 10 clients of the bank is EUR 12,045 thousand or 5.96% of the loan portfolio (2019: EUR 11,897 thousand or 6.3%).
Gross carrying amount for total loans are, as follows:

	2020					2019
Internal rating	Stage 1	Stage 2	Stage 3	POCI	Total	Total
A0	176,318	-	-	-	176,318	173,535
A1	519	-	-	-	519	4,937
B	-	13,220	-	-	13,220	1,718
C	-	4,563	-	-	4,563	1,717
Default	-	-	5,363	-	5,363	5,558
Total	176,836	17,783	5,363	-	199,983	187,465

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Total loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2020	178,472	3,435	5,558	187,465
Transfers:				
Transfer from Stage 1 to Stage 2	(7,991)	5,983	-	(2,008)
Transfer from Stage 1 to Stage 3	(707)	-	612	(95)
Transfer from Stage 2 to Stage 1	22	(34)	-	(12)
Transfer from Stage 2 to Stage 3	-	(960)	791	(169)
Transfer from Stage 3 to Stage 2	-	30	(52)	(22)
Transfer from Stage 3 to Stage 1	-	-	-	-
Derecognitions other than write-offs	(58,375)	(1,332)	(500)	(60,207)
Repayments and change in cash flow	(24,613)	(194)	(367)	(25,174)
New loans originated or purchased	90,028	10,855	338	101,221
Write-offs	-	-	(1,016)	(1,016)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2020	176,836	17,783	5,364	199,983

Total loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2019	154,271	4,000	4,762	163,033
Transfers:				
Transfer from Stage 1 to Stage 2	(1,871)	1,443	-	(428)
Transfer from Stage 1 to Stage 3	(619)	-	554	(65)
Transfer from Stage 2 to Stage 1	563	(776)	-	(213)
Transfer from Stage 2 to Stage 3	-	(1,256)	1,013	(243)
Transfer from Stage 3 to Stage 2	-	116	(186)	(70)
Transfer from Stage 3 to Stage 1	7	-	(17)	(10)
Derecognitions other than write-offs	(45,460)	(694)	(276)	(46,430)
Repayment and change in cash flow	(26,253)	(221)	(250)	(26,724)
New loans originated or purchased	97,834	823	277	98,934
Write-offs	-	-	(319)	(319)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2019	178,472	3,435	5,558	187,465

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Total loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2020	348	497	4,456	5,301
Transfers:				
Transfer from Stage 1 to Stage 2	(29)	831	-	802
Transfer from Stage 1 to Stage 3	(4)	-	307	303
Transfer from Stage 2 to Stage 1	-	(3)	-	(3)
Transfer from Stage 2 to Stage 3	-	(148)	509	361
Transfer from Stage 3 to Stage 2	-	9	(26)	(17)
Transfer from Stage 3 to Stage 1	-	-	-	-
Changes in PDs/LGDs/EADs	68	(22)	(25)	21
Derecognitions other than write-offs	(107)	(155)	(363)	(625)
New loans originated or purchased	290	1,760	150	2,200
Write-offs	-	-	(1,016)	(1,016)
FX and other movements	-	-	-	-
Net change in profit and loss	218	2,272	(464)	2,026
ECL amount as at 31 December 2020	566	2,769	3,992	7,327

Total loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2019	373	598	3,956	4,927
Transfers:				
Transfer from Stage 1 to Stage 2	(18)	177	-	159
Transfer from Stage 1 to Stage 3	(3)	-	237	234
Transfer from Stage 2 to Stage 1	4	(114)	-	(110)
Transfer from Stage 2 to Stage 3	-	(198)	584	386
Transfer from Stage 3 to Stage 2	-	19	(86)	(67)
Transfer from Stage 3 to Stage 1	-	-	(9)	(9)
Changes in PDs/LGDs/EADs	(116)	(44)	(32)	(192)
Derecognitions other than write-offs	(84)	(63)	(77)	(224)
New loans originated or purchased	192	122	202	516
Write-offs	-	-	(319)	(319)
FX and other movements	-	-	-	-
Net change in profit and loss	(25)	(101)	500	374
ECL amount as at 31 December 2019	348	497	4,456	5,301

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Gross carrying amount for total non-retail loans are, as follows:

	2020					2019
Internal rating	Stage 1	Stage 2	Stage 3	POCI	Total	Total
A0	91,388	-	-	-	91,388	99,086
A1	374	-	-	-	374	3,795
B	-	11,972	-	-	11,972	1,388
C	-	4,196	-	-	4,196	1,604
Default	-	-	4,700	-	4,700	5,178
Total	91,762	16,168	4,700	-	112,630	111,051

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

Non – retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2020	102,881	2,992	5,178	111,051
Transfers:				
Transfer from Stage 1 to Stage 2	(6,465)	4,740	-	(1,725)
Transfer from Stage 1 to Stage 3	(461)	-	389	(72)
Transfer from Stage 2 to Stage 1	4	(8)	-	(4)
Transfer from Stage 2 to Stage 3	-	(786)	639	(147)
Transfer from Stage 3 to Stage 2	-	11	(30)	(19)
Transfer from Stage 3 to Stage 1	-	-	-	-
Derecognitions other than write-offs	(42,334)	(1,281)	(475)	(44,090)
Repayments and change in cash flow	(13,783)	(154)	(348)	(14,285)
New loans originated or purchased	51,920	10,654	294	62,868
Write-offs	-	-	(947)	(947)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2020	91,762	16,168	4,700	112,630

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Non – retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2019	87,380	3,738	4,366	95,484
Transfers:				
Transfer from Stage 1 to Stage 2	(1,551)	1,179	-	(372)
Transfer from Stage 1 to Stage 3	(451)	-	405	(46)
Transfer from Stage 2 to Stage 1	508	(696)	-	(188)
Transfer from Stage 2 to Stage 3	-	(1,190)	959	(231)
Transfer from Stage 3 to Stage 2	-	65	(123)	(58)
Transfer from Stage 3 to Stage 1	2	-	(8)	(6)
Derecognitions other than write-offs	(33,009)	(663)	(246)	(33,918)
Repayments and change in cash flow	(16,017)	(199)	(232)	(16,448)
New loans originated or purchased	66,019	758	264	67,041
Write-offs	-	-	(207)	(207)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2019	102,881	2,992	5,178	111,051

Non – retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2020	267	452	4,212	4,931
Transfers:				
Transfer from Stage 1 to Stage 2	(27)	650	-	623
Transfer from Stage 1 to Stage 3	(3)	-	190	187
Transfer from Stage 2 to Stage 1	-	(1)	-	(1)
Transfer from Stage 2 to Stage 3	-	(131)	411	280
Transfer from Stage 3 to Stage 2	-	3	(10)	(7)
Transfer from Stage 3 to Stage 1	-	-	-	-
Changes in PDs/LGDs/EADs	59	(22)	(52)	(15)
Derecognitions other than write-offs	(89)	(150)	(376)	(615)
New loans originated or purchased	228	1,715	127	2,070
Write-offs	-	-	(947)	(947)
FX and other movements	-	-	-	-
Net change in profit and loss	168	2,064	(657)	1,575
ECL amount as at 31 December 2020	435	2,516	3,555	6,506

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Non – retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2019	271	566	3,712	4,549
Transfers:				-
Transfer from Stage 1 to Stage 2	(17)	154	-	137
Transfer from Stage 1 to Stage 3	(2)	-	159	157
Transfer from Stage 2 to Stage 1	4	(104)	-	(100)
Transfer from Stage 2 to Stage 3	-	(189)	554	365
Transfer from Stage 3 to Stage 2	-	8	(60)	(52)
Transfer from Stage 3 to Stage 1	-	-	(5)	(5)
Changes in PDs/LGDs/EADs	(82)	(39)	(31)	(152)
Derecognitions other than write-offs	(63)	(59)	(107)	(229)
New loans originated or purchased	156	115	197	468
Write-offs	-	-	(207)	(207)
FX and other movements	-	-	-	-
Net change in profit and loss	(4)	(114)	500	382
ECL amount as at 31 December 2019	267	452	4,212	4,931

Gross carrying amount for total retail loans are, as follows:

	2020					2019
Internal rating	Stage 1	Stage 2	Stage 3	POCI	Total	Total
A0	84,931	-	-	-	84,931	74,449
A1	144	-	-	-	144	1,142
B	-	1,247	-	-	1,247	330
C	-	368	-	-	368	113
Default	-	-	663	-	663	380
Total	85,075	1,615	663	-	87,353	76,414

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2020	75,591	443	380	76,414
Transfers:				
Transfer from Stage 1 to Stage 2	(1,525)	1,243	-	(282)
Transfer from Stage 1 to Stage 3	(246)	-	222	(24)
Transfer from Stage 2 to Stage 1	19	(26)	-	(7)
Transfer from Stage 2 to Stage 3	-	(174)	152	(22)
Transfer from Stage 3 to Stage 2	-	19	(22)	(3)
Transfer from Stage 3 to Stage 1	-	-	-	-
Derecognitions other than write-offs	(16,041)	(51)	(25)	(16,117)
Repayments and change in cash flow	(10,831)	(40)	(19)	(10,890)
New loans originated or purchased	38,108	201	44	38,353
Write-offs	-	-	(69)	(69)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2020	85,075	1,615	663	87,353

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2019	66,891	262	396	67,549
Transfers:				
Transfer from Stage 1 to Stage 2	(320)	264	-	(56)
Transfer from Stage 1 to Stage 3	(168)	-	149	(19)
Transfer from Stage 2 to Stage 1	55	(79)	-	(24)
Transfer from Stage 2 to Stage 3	-	(67)	54	(13)
Transfer from Stage 3 to Stage 2	-	51	(62)	(11)
Transfer from Stage 3 to Stage 1	5	-	(9)	(4)
Derecognitions other than write-offs	(12,451)	(31)	(29)	(12,511)
Repayments and change in cash flow	(10,236)	(22)	(18)	(10,276)
New loans originated or purchased	31,815	65	12	31,892
Write-offs	-	-	(113)	(113)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2019	75,591	443	380	76,414

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2020	80	45	245	370
Transfers:				
Transfer from Stage 1 to Stage 2	(3)	181	-	178
Transfer from Stage 1 to Stage 3	(1)	-	117	116
Transfer from Stage 2 to Stage 1	-	(2)	-	(2)
Transfer from Stage 2 to Stage 3	-	(17)	99	82
Transfer from Stage 3 to Stage 2	-	6	(16)	(10)
Transfer from Stage 3 to Stage 1	-	-	-	-
Changes in PDs/LGDs/EADs	9	-	27	35
Derecognitions other than write-offs	(18)	(5)	13	(10)
New loans originated or purchased	62	45	23	131
Write-offs	-	-	(69)	(69)
FX and other movements	-	-	-	-
Net change in profit and loss	49	208	194	451
ECL amount as at 31 December 2020	129	253	439	821

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2019	102	33	244	379
Transfers:				
Transfer from Stage 1 to Stage 2	(2)	25	-	23
Transfer from Stage 1 to Stage 3	(1)	-	78	77
Transfer from Stage 2 to Stage 1	-	(10)	-	(10)
Transfer from Stage 2 to Stage 3	-	(8)	29	21
Transfer from Stage 3 to Stage 2	-	10	(26)	(16)
Transfer from Stage 3 to Stage 1	-	-	(5)	(5)
Changes in PDs/LGDs/EADs	(34)	(5)	(1)	(40)
Derecognitions other than write-offs	(21)	(6)	30	3
New loans originated or purchased	36	6	7	49
Write-offs	-	-	(111)	(111)
FX and other movements	-	-	-	-
Net change in profit and loss	(22)	12	1	(9)
ECL amount as at 31 December 2019	80	45	245	370

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

A reconciliation of the allowance for impairment losses for loans and advances, by class, is, as follows:

	Non-retail	Retail	Total
At 1 January 2019	4,548	379	4,927
Charge for the year	494	198	692
Amounts written off	(111)	(207)	(318)
At 31 December 2019	4,931	370	5,301
Restated balance under IFRS 9 at 1 January 2019	-	-	-
At 1 January 2020	4,931	370	5,301
Charge for the year	1,644	1,398	3,042
Amounts written off	(69)	(947)	(1,016)
At 31 December 2020	6,506	821	7,327

15. OTHER FINANCIAL ASSETS

	2020	2019
Receivables from customers	121	60
Accrued income from banking services	96	86
Accrued fees and commissions	53	34
Other receivables	2	26
Total	272	206

16. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2019	1,576
Additions	350
At 31 December 2019	1,926
Additions	315
At 31 December 2020	2,241
Accumulated Amortization	
At 1 January 2019	1,174
Charge for the year	237
At 31 December 2019	1,411
Charge for the year	225
At 31 December 2020	1,636
Carrying amount	
At 31 December 2019	515
At 31 December 2020	605

(Amounts in thousands of EUR, unless otherwise stated)

17. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Vehicles	Total
Cost						
At 1 January 2019	683	1,108	661	2,460	765	5,677
Additions during the year	-	318	193	288	29	828
Disposals during the year	-	(418)	(197)	(113)	(15)	(743)
At 31 December 2019	683	1,008	657	2,635	779	5,762
Additions during the year	-	42	43	132	-	217
Disposals during the year	-	-	2	-	-	2
At 31 December 2020	683	1,050	702	2,767	779	5,981
Accumulated depreciation						
At 1 January 2019	32	667	513	1,199	436	2,847
Charge for the year	32	173	84	384	82	755
Disposals for the year	-	(370)	(196)	(109)	(15)	(690)
At 31 December 2019	64	470	401	1,474	503	2,912
Charge for the year	32	165	132	353	71	753
Disposals for the year	-	(2)	-	-	-	(2)
At 31 December 2020	96	633	533	1,827	574	3,663
Carrying amounts						
At 31 December 2019	619	538	256	1,161	276	2,850
At 31 December 2020	587	417	169	940	205	2,318

Property and equipment as of 31 December 2020 are buildings with a carrying amount of EUR 587 thousand (2019: EUR 619 thousand) which represent repossessed collaterals and which management is using in its day to day activities.

In both years, the Bank does not have any property pledged as collateral.

Below are items of Property and Equipment that are fully depreciated but still in use as at 31 December 2020:

Category	Cost	Accumulated depreciation	Net book value
Buildings	9	9	-
Leasehold improvements	290	290	-
Furniture, fixtures and equipment	796	796	-
Computers and related equipment	495	495	-
Vehicles	280	280	-
Software	1,267	1,267	-
Total	3,137	3,137	-

18. OTHER ASSETS

	2020	2019
Prepaid expenses	151	171
Repossessed assets (see note 20.1)	-	32
Total	151	203

18.1 REPOSSESSED ASSETS

Repossessed assets are properties acquired through enforcement of security over loans and advances to customers. The Bank intends and is taking steps to sell these within a reasonable short period of time.

	2020	2019
Residential real estate	687	558
Commercial real estate	108	108
Total	795	666
Less: Provision	(795)	(634)
Net carrying value	-	32

The fair value of these assets is determined with reference to market values by independent external valuers. The values are further written down depending on their location, maintenance and conditions to reflect delays in likely settlement and the length of time for holding the assets.

Movements in the values written down are as follows:

	2020	2019
At 1 January	634	573
Charge for the year	161	61
At 31 December	795	634

19. DUE TO CUSTOMERS

	2020	2019
Current accounts	148,226	110,689
In EUR	144,441	107,858
In foreign currencies	3,785	2,831
Term deposits	140,657	143,266
In EUR	139,832	142,444
In foreign currencies	825	822
Total	288,883	253,955

(Amounts in thousands of EUR, unless otherwise stated)

20. SUBORDINATED DEBT AND BORROWINGS

	2020	2019
Subordinated debt		
Blue Orchard	502	502
Total	502	502

With the approval of CBK, during the year 2019 the Bank has fully prepaid total amount of EUR 840 thousand towards Valon Budima and Armend Skeja, and subsequently closed the subordinated loan agreements with them.

During the year 2018, the Bank entered into a new subordinated loan agreement with Blue Orchard in amount of EUR 500 thousand. The loan bears interest rate of 6.5% per annum, payable on a semiannual basis, and the principal is payable in one single installment on December 12, 2026. As of 31 December 2020, the Bank is in compliance with financial covenants attached to the agreement with Blue Orchard.

Borrowings	2020	2019
Borrowings from EFSE	756	1,566
Borrowings from KOSEP-EBRD	290	580
Borrowings from EBRD	3,028	4,188
Total	4,074	6,334

During the year 2019, the Bank entered into a borrowing agreement with EFSE (European Fund for South-Eastern Europe) for a total amount of EUR 1,500 thousand. The purpose is to support the private individuals and the SME loans portfolios, and it aims to foster economic development and prosperity through the sustainable provision of additional development finance. The borrowing bears an interest rate of 2.8% annually and is repayable within three years. The interest is payable on a semi-annual basis.

During the year 2019, the Bank entered into a credit revolving agreement with EBRD (European Bank for Reconstruction and Development) for an amount of up to EUR 1,000 thousand. The purpose of this fund is to support the development of trade finance. Out of total loan amount of EUR 1,000 thousand, the amount of EUR 183 thousand was received as at 31 December 2020. The borrowing bears an interest rate of 2.15% and is repayable within one year.
During the year 2018, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total loan amount of EUR 5,000 thousand. The purpose is to help finance investments in micro, small and medium sized enterprises. The borrowing bears an interest rate of 2.6% annually and is repayable within four years, while the interest is payable on semi-annual basis.

20. SUBORDINATED DEBT AND BORROWINGS (CONTINUED)

During the year 2016, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total of EUR 1,000 thousand. The purpose is to support the private individuals and SME loan portfolio related with energy efficiency programme. The borrowing bears an interest rate of 3.6% annually and is repayable within five years. The interest is payable on quarterly basis.

During the year 2017, the Bank entered into a borrowing agreement with EFSE (European Fund for South-Eastern Europe) for a total of EUR 1,500 thousand. The objective of the Green for Growth Fund, Southeast Europe is to provide development finance for energy efficiency (EE) and renewable energy (RE) investments. The borrowing bears an interest rate of 3.1% annually and is repayable within three years. The interest is payable on a semi-annual basis. As of 31 December 2020 and 2019 the Bank is in compliance with financial covenants attached to the agreement with EFSE, KOSEP and EBRD.

Changes in liabilities arising from financing activities are presented as follows:

	1 January 2020	Cash inflows	Cash outflows	Accruals of Interest	Declaration of Dividends	31 December 2020
Subordinated debt	502	-	-	-	-	502
Borrowings	6,334	253	(2,486)	(27)	-	4,074
Dividends paid	-	-	-	-	-	-
Total liabilities from financing activities	6,836	253	(2,486)	(27)	-	4,576

	1 January 2019	Cash inflows	Cash outflows	Accruals of Interest	Declaration of Dividends	31 December 2019
Subordinated debt	1,342	-	(800)	(40)	-	502
Borrowings	4,286	4,080	(2,073)	41	-	6,334
Dividends payable	-	-	(999)	-	999	-
Total liabilities from financing activities	5,628	4,080	(3,872)	1	999	6,836

21. OTHER LIABILITIES AND PROVISIONS

	2020	2019
Payables on behalf of third parties	1,500	801
Provisions for letters of guarantee issued by the Bank	24	16
Payable related to clearing transactions with CBK	635	643
Payable on behalf of Ministry of Economy and Finance	115	51
Due to suppliers	369	267
Unused commitments	46	-
Total other liabilities	2,689	1,778
Provisions (see Note 21.1 below)	511	539
Total	3,200	2,317

21. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

21.1 PROVISIONS

The Bank acts as an agent for the transactions performed on behalf of government institutions with third parties. These include payments on behalf of the Ministry of Labor and Social Welfare and Ministry of Economy and Finance.
Other provisions include reserve for third-party active claims. Based on its policies and procedures, the bank determines in each quarter the current reserve through the reassessment of each claim individually.
Following is presented the movement of provision as of 31 December:

	2020	2019
At the beginning	539	482
Additions during the year	-	61
Utilized during the year	(28)	(4)
At the end	511	539

Gross carrying amount for total letters of guarantees are, as follows:

	2020					2019
Internal rating	Stage 1	Stage 2	Stage 3	POCI	Total	Total
A0	1,967	-	-	-	1,967	1,845
A1	41	-	-	-	41	30
B	-	54	-	-	54	-
C	-	10	-	-	10	5
Default	-	-	13	-	13	13
Total	2,008	64	13	-	2,085	1,893

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

	Stage 1	Stage 2	Stage 3	
Letters of guarantees	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 1 January 2020	1,875	5	13	1,893
Transfers:				
Transfer from Stage 1 to Stage 2	(44)	44	-	-
Transfer from Stage 1 to Stage 3	(5)	-	5	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	8	8
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Derecognitions other than write-offs	(443)	(5)	(5)	(453)
Repayments and change in cash flow	(2)	-	(8)	(10)
New guarantees originated or purchased	627	20	-	647
Write-offs	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2020	2,008	64	13	2,085

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Notes to the financial statements
For the year ended 31 December 2020
(Amounts in thousands of EUR, unless otherwise stated)

21. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

	Stage 1	Stage 2	Stage 3	
Letters of guarantees	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 1 January 2019	1,955	12	5	1,972
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	7	(7)	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Derecognitions other than write-offs	(389)	-	-	(389)
Repayments and change in cash flow	1	-	1	2
New guarantees originated or purchased	301	-	7	308
Write-offs	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2019	1,875	5	13	1,893

	Stage 1	Stage 2	Stage 3	
Letters of guarantees	12-month ECL	Lifetime ECL	Lifetime ECL	Total
ECL amount as at 1 January 2020	2	1	13	16
Transfers:				
Transfer from Stage 1 to Stage 2	-	8	-	8
Transfer from Stage 1 to Stage 3	-	-	3	3
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	8	8
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Changes in PDs/LGDs/EADs	1	-	(8)	(7)
Derecognitions other than write-offs	(1)	(1)	(6)	(8)
New guarantees originated or purchased	2	2	-	4
Write-offs	-	-	-	-
FX and other movements	-	-	-	-
Net change in profit and loss	2	9	(2)	8
ECL amount as at 31 December 2020	4	10	10	24

(Amounts in thousands of EUR, unless otherwise stated)

21. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2019	3	2	6	11
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	(2)	-	(2)
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Changes in PDs/LGDs/EADs	(1)	-	1	-
Derecognitions other than write-offs	(1)	-	-	(1)
New guarantees originated or purchased	1	-	7	8
Write-offs	-	-	-	-
FX and other movements	-	-	-	-
Net change in profit and loss	(1)	(2)	8	5
ECL amount as at 31 December 2019	2	-	14	16

22. RIGHT OF USE ASSETS AND LEASE LIABILITY

Right-of-use assets and lease liabilities

The Bank leases various offices. Rental contracts are typically made for fixed periods of 1 year to 10 years, but may have extension options as described below.

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Bank.

The Bank recognized right of use assets as follows:

	Buildings	Total
Carrying amount at 1 January 2019	1,417	1,417
Additions	2,103	2,103
Disposals	(17)	(17)
Depreciation charge	(660)	(660)
Carrying amount at 31 December 2019	2,843	2,843
Additions	389	389
Disposals	(16)	(16)
Depreciation charge	(663)	(663)
Carrying amount at 31 December 2020	2,553	2,553

The Bank recognized lease liabilities as follows:

	31 December 2020	31 December 2019
Short-term lease liabilities	660	613
Long-term lease liabilities	1,952	2,212
Total lease liabilities	2,612	2,825

23. SHAREHOLDER'S EQUITY AND RESERVES

Share capital

In accordance with Law no. 04/L-093 on "Banks, Microfinance Institutions and Non-Bank Financial Institutions", the minimum paid-in capital for domestic banks operating in Kosovo is EUR 7 million. At 31 December 2020, the subscribed capital was divided into 28,530 ordinary shares (2019: 28,530 ordinary shares) with a nominal value of EUR 394.2 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets. The structure of subscribed capital is as follows:

No.	Name of shareholder	2020 %	2020 EUR	2019 %	2019 EUR
1	Afrim Govori	21.27	2,392	21.27	2,392
2	Rrustem Aliaj	17.27	1,942	17.27	1,942
3	Shaqir Palushi	11.81	1,328	11.81	1,328
4	EBRD	10.00	1,125	10.00	1,125
5	Mejdi Rexhepi	9.35	1,052	9.35	1,052
6	Moneta sh.p.k	7.77	874	7.77	874
7	Nazmi Viça	6.89	775	6.89	775
8	Kareman Limani	4.85	545	4.85	545
9	Banka di Cividale	4.62	520	4.62	520
10	Ahmet Arifi	2.39	269	2.39	269
11	Ismet Sylejmani	1.90	214	1.90	214
12	Luani Limited	0.44	49	0.44	49
13	Sokol Krasniqi	0.38	42	0.38	42
14	Naser Aliu	0.31	35	0.31	35
15	Besnik Vrella	0.31	36	0.31	36
16	Agim Bilalli	0.31	35	0.31	35
17	Flamur Bryma	0.09	10	0.09	10
18	Naim Abazi	0.04	4	0.04	4
Total		100.00	11,247	100.00	11,247

Other capital reserve

Based on CBK regulations, starting from January 1, 2020, all Banks in Kosovo are required to prepare and present their financial statements based on IFRS only. Any difference in loan loss provisions between CBK and IFRS framework of reporting will be recognized under Other Equity Reserve. As of January 1, 2020, the amount recognized as a change in loan loss reserve between CBK and IFRS reporting standards is EUR 769K.

Consequently, the balance of Other Capital Reserve in amount of EUR 857K recognized as of 31 December 2011 and valid until December 31, 2019 ceases to exist effectively January 1, 2020. Other capital reserve in amount of EUR 857K was created as of 31 December 2011 as the difference between accumulated losses in accordance with IFRS and CBK which were written off through a reduction in the share capital. As a result, these reserves are restricted and not distributable.

Revaluation reserve

During 2014, the Bank decided to include in the Property and equipment a building which has been previously obtained as repossessed collateral. The building was recognized by the Bank in Property and equipment with a corresponding amount in the revaluation reserve in equity.

Earnings per share

For the purpose of calculating earnings per share, earnings represent the net profit after tax. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares used for basic earnings per share was 28,530 (2019: 28,530). There is no potential dilution effect from any instruments and hence the basic earnings per share are the same as diluted earnings per share.

(Amounts in thousands of EUR, unless otherwise stated)

24. COMMITMENTS AND CONTINGENCIES

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted. Guarantees issued in favor of customers are secured by cash collateral, and non-cash collateral (real estate and movable collateral).

Guarantees extended to customers	2020	2019
Secured by cash deposits	1,407	1,202
Secured by collateral (real estate and movable collateral)	679	690
Less: Provision recognized as liabilities	(24)	(16)
Total	2,062	1,876

Commitments represent the undrawn balances of loans, overdraft and card limits granted to the customers.

Credit commitments	2020	2019
Approved but not disbursed loans	-	-
Unused overdraft limits approved	8,122	7,000
Unused credit card facilities	475	508
Total	8,597	7,508

Legal

The Bank is involved in routine legal proceedings in the ordinary course of business as at 31 December 2020. The Bank's management is of the opinion that no material losses will be incurred in relation to legal claims, except for those already provided for and recognized in profit or loss as disclosed in Note 21.

Lease commitments

Operating lease commitments. The future minimum lease payments under non-cancellable operating leases, where the Bank is the lessee, at 31 December 2020 are EUR 365 (2019: 298).

25. FINANCIAL RISK MANAGEMENT

25.1 Introduction and overview

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

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

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.

Responding to COVID-19 risks

On March 11, 2020, World Health Organization declared (WHO) COVID-19 a global pandemic, which was soon followed by actions taken by the Government of Kosovo through which a number of measures were imposed in order to prevent and contain the outbreak of the coronavirus, such as social distancing measures, travel restrictions, quarantine and stay at home directives.

Under COVID-19, the threat landscape changed as new risks emerged. These risks were mainly related to the operational resiliency of the bank, health and safety of staff, financial strength of customers and overall community, which could affect deeply the financial results of the bank.

Therefore, in response to this dynamic and challenging environment created a crisis management team within the bank was created which handled all the actions to be taken in order to prevent the spread of the virus, to assess the financial difficulties of clients and other necessary measures. This team comprised of smaller teams which were responsible for specific aspects such as: daily liquidity management, creditworthiness assessment of clients and collection management, and operational resiliency. These teams were proactively monitoring and managing the risks by collecting timely information, reporting, performing analysis which served as a basis for decision-making process at the board of directors and management level.

The actions taken by the bank to address the risks faced with are in the following areas:

- Operational resilience – at the beginning the bank had to react quickly in order to implement the measures imposed by the government. This meant that the bank had to shift working arrangement from office to working from home for a number of staff, which in turn increased the level of disruption to bank's operations and also increased the exposure to conduct, cyber and privacy risks. Moreover, vulnerabilities were evident also in the supply chain and this created uncertainty regarding the stability of critical suppliers which, if not available, would affect the stability of bank's operations. Therefore, during this time bank's focus was on protecting these operations while providing support also to customers. In order to provide a faster and better support the bank took different initiatives which would bring the client closer to the bank and provide him with a more customized experience. As such the whole focus in terms of business service was in digitalizing some of the services which were performed in branch prior to COVID-19. We also increased the oversight of our critical suppliers in order to monitor the impact of COVID-19 on their operations. In terms of governance, based on the bank's response plan, with the identification of critical staff, we have also drafted the succession plan and identified the successors of the department heads in order to ensure that the designated staff are ready to take over responsibilities if deemed necessary.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Introduction and overview (continued)

Responding to COVID-19 risks (continued)

- Health and safety of employees – one of the main concerns for us during this period has been the increased risk to the health and safety of our staff. For this purpose, we introduced many measures which would ensure the safety of our workforce and provide protection on the workplace in order to prevent the spread of the virus. In order to ensure that bank's essential services were available for our customers and in order to meet the increase in customer demand for assistance, we quickly adapted our working arrangements, by shifting a part of the working force to remote working, while for the working force who remained in offices we adapted them in order to maintain physical distancing and provided the necessary tools to help prevent the spread (disinfectants and masks).
- Cybersecurity – The emergence of COVID-19 exhibited an increase in cyber-crime whereby vulnerabilities of clients or potential weaknesses introduced due to rapid operational changes were exploited by cyber criminals whose intentions were to gain financially. For this purpose, we worked closely with the team responsible for information security in order to enhance bank's cybersecurity program, which was focused mainly in raising staff awareness, especially those staff working from home whereby they were provided with a set of guidelines to ensure that staff comply with the information security policies of the bank even during this time.
- Financial strength – the disruptive effect of COVID-19 have contributed to economic slowdown to the Global and Kosovo economy as well as causing changes to the macroeconomic environment. Despite the relief measures provided by the central bank and the government to businesses and individuals, the potential impact to the economy continues to be uncertain and as such during this time we have taken different measures to assess the credit quality of our loan portfolio and the liquidity levels of the bank. At the beginning the liquidity indicators were subject of daily monitoring and review at the board and management level, while cash outflows were managed closely and subject to approval from different authority levels. Considering that our main business is providing lending or submitting resources to borrowers, then in order to account for the potential effects of COVID-19 to our clients we monitored our loan portfolio by assessing these clients individually and addressing their needs. In this regard, continuous risk assessments were performed in order to account for the increase in credit risk which would translate in an increase in loan loss provisions. The bank's models used for such assessment are focused on IFRS9 standards and are calibrated as such to take into account the past performance while having a forward looking approach based on the development of macroeconomic factors. Regarding the impact on business, we have analyzed the impact of COVID-19 by conducting stress tests in terms of lending activity, liquidity, capital adequacy and other forecasts related to financial position and profitability of the bank. Despite these scenarios, the results show that the bank will continue to be profitable, have sufficient coverage with liquidity, capital and provisions, and will be in compliance with regulatory requirements set during this time.
- Measures taken by the Government - in response to the threats and risks posed to the economic environment, the Government of Kosovo introduced relief measures which aimed at providing a stimulus for businesses and individuals. Such measures included the introduction of recovery packages (package 1 and 2) through which subventions would be provided for the affected parties in order to help them sustain themselves or their businesses.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Introduction and overview (continued)

Responding to COVID-19 risks (continued)

The first package (emergency fiscal package) was approved by the Government of the Republic of Kosovo on 30.03.2020, with the main aim to provide immediate assistance for the community, mainly in the areas mostly hit by the pandemic. The assistance was provided in different formats, such as: providing partial coverage of wages and leases for a period of time, deferral of loan installments for businesses with financial difficulties, deferral of deadlines for repayment of tax liabilities, and providing additional support for beneficiaries of social schemes and pensions.

As for the emergency package created by the government for the affected parties, the bank has supported this initiative by increasing the efficiency of the account opening process through the introduction of digital channels in order for the affected clients to receive these funds.

On the other side, the second package (economic recovery package) was approved by the Government of Kosovo whose primary focus was to provide credit support for businesses that experienced a decline in economic activity and which are of strategic importance for Kosovo's economy. In this regard, the government will provide state guarantees through the Kosovo Credit Guarantee Fund for loans that businesses and citizens will receive from banks in order to ease access to finance for the affected category of clients and increase liquidity for SMEs.

Apart from credit support, in order to stimulate the aggregate demand, the government allowed for the withdrawal of pension savings (up to 10%) by citizens, whereby for a portion of them reimbursement will be provided starting from 2023. In order to support this process, the bank provided timely information to the Pension Fond of Kosovo in accordance with requirements for law on Economic Recovery.

- Measures taken by the Central Bank of Kosovo (CBK) – considering the impact of COVID-19 in the economy, in line with the relief measures provided by the Government to support the recovery process, the central bank also provided support to the banking sector with the main aim of helping businesses and individuals. According to the CBK decision, banks were required to postpone for a period of 3 months loan instalments for clients that have been affected by COVID-19 (phase 1 from March 16th, 2020). Therefore, in order to incentivize this, the central bank suspended some of the regulatory requirements related to loan loss classification and provisioning from March to December 2020. In this regard, each client requiring postponement of loan instalment was analyzed individually. In order to increase the processing time of these requests and the number of such clients visiting the branch, the bank has provided an online platform where the clients would submit their requests. Despite the suspension of installments for a 3 month period, the CBK also provided additional relief measures for loans restructuring up to 1 year starting from June 2020 (phase 2), with the main aim of helping the creditors who were facing financial difficulties without affecting their credit history. In order to support this incentive, the CBK provided instructions to the banks on the criteria applicable for the restructuring process.

  During this period, the bank performed assessment for each client requiring restructuring of their credit exposure, whereby the financial capacity of clients was analyzed and based on the results it was decided on the restructuring process. Moreover, the bank closely monitored and communicated with its clients in order to provide better support by advising them on the utilization of this opportunity based on their actual or foreseen financial difficulties.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Introduction and overview (continued)

Responding to COVID-19 risks (continued)

At the beginning of this year the CBK has expanded further the deadline on the relief measures provided for loan restructuring, which is valid until end of March 2021. Through this measure it is aimed to support those clients who were not subject of restructuring during the first (postponement of loan installments) and second phase (loan restructuring) and whose credit exposures can be restructured up to 9 months, or those clients who received restructuring during the previous periods, but for less than 9 months.

Also, based on the developments in the sector and overall economic environment, the CBK had in place a program for further easing of some of the regulatory requirements related to liquidity and capital, mainly to decrease the minimum requirement for capital adequacy ratio. These measures would be enacted only if necessary and if banks would be facing troubles.

COVID-19 still continues to affect our employees, customers and the overall community and this has a direct impact on bank's financial results and its business operations. The uncertainty concerning the impact of COVID-19 remains elevated and poses new challenges and risks for the bank. Nevertheless, the bank is closely monitoring the evolution of the situation in order to account for the potential effects and impact on a timely manner.

Risk management framework

The Board of Directors ("the Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established Risk Committee, the Audit Committee, Human Resource and Governance Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas.

The Bank's 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. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations. The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by the Internal Audit Department. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Bank operates in conditions of dynamic economic developments and it is exposed to global financial and economic crisis. The extensions of the crisis might result in negative implications on the financial position of the Bank. The management of the Bank performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets. Based on this, the management analyses profitability, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis. In this way the Bank responds to the challenges of the market environment, maintaining an adequate capital and liquidity position.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 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 to other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

At BPB currently credit risk assessment is done entirely by "human factor" and as an authority, it is separated in two approval lines. Most of these credit assessments and approvals are done by credit risk assessment experts positioned in the Credit Risk Department and the rest by other experts in the front line of the business who are Branch Managers, having the right to approve small limits to a maximum of 30 thousand euros.

Credit exposures larger than EUR 100 thousand and less than 10% of the Bank's Tier I Capital are approved by the Central Credit Committee, while exposures over 10% of the Bank's Tier I Capital are approved by the Board of Directors according to the Credit Risk Policy.

Risk Management is divided into two separated departments, the Risk Management Department who is independent and report directly to the Board, and the Credit Risk Department who report to the Management.

Risk Management Department is organized in three sectors including Credit Risk Sector, the Market and Liquidity Risk Sector as well as the Operational Risk Sector. Risk Management Department is responsible for drafting and/or reviewing policies and procedures related to risk and at the same time is responsible for the process of property valuations, credit classification and weighting of risk capital under the Capital Adequacy Regulation and identification of credit risk arising from new products / processes involving lending.

Credit Risk Department is responsible for managing the process of assessing the creditworthiness and credit capacity, the assessment of collateral adequacy, the decision-making process, monitoring/managing arrears of problematic and nonperforming loans, including loans in loss and write-off managed by outsourced companies, credit monitoring process as well as identification of credit risk arising from new products / processes involving lending. Credit Risk Department includes the lending sector, monitoring and collection.

The Bank has followed the strategy of further diversification and growth in loan portfolio according to the defined segments of the loans, particularly in the individual loans segment - PI, the Micro and Agro segment and SME and Corporate loans segment. During 2020 beside the pandemic, the bank achieved to make a solid increase in the credit portfolio both by volume and by number, and the increase was mainly due to the targeted loan, respectively the PI and Micro loans. To support the growth strategy in small loans, the bank has continued investing in technology and infrastructure, reviewing and improving processes to increase efficiency, and ensuring sustainable and controllable growth, beside that the situation created by the pandemic has slowed down the pace of some projects.

The segmentation of the credit (loan) portfolio is based on the type and size of the subject (borrower), and in general it is grouped in Retail and Business clients.

Retail clients or Private Individuals (PI) are all types of customers who have their main source of repayment from income as wages, stable rents, royalties and other verifiable revenues.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

Management of credit risk (continued)

Business clients are segregated in three main segments; Micro, SME and Corporate. There is also a subcategory of agribusiness clients who are grouped as Agro clients, which are allocated according to the procedures of segregation between main sectors in Micro Agro and SME Agro.

Business clients are considered all types of customers who have their main source of income from business activity. Segregation between the business segments is based on the annual turnover. All business clients that have annual turnover up to EUR 500 thousand are considered as Micro clients. All business clients that have annual turnover from 501 thousand up to EUR 2 million are considered SME clients, while all business clients that have annual turnover above EUR 2 million are considered as corporate clients.

Regarding the regulatory requirements for reporting under IFRS 9, the bank has adopted new reporting forms as required by the CBK by regulation on reporting of banks. During 2020 the bank has also implemented the requirements from the new regulation on non-performing exposures and forbearance in compliance with the IFRS 9 standard. The bank has taken all the measures to do the classifications and fulfill all the requirements in treating the non-performing and rescheduled loans.

Regarding the calculation of the ECL, the bank has further advanced the process and automated some of the inputs also including the information from monitoring module to assess the SICR.

In line with the revised bank's strategy and business model to increase its portfolio and its business in Micro, Agro and SME segments, the Bank continued and increased the cooperation with the Kosovo Credit Guarantee Fund (“KCGF”) for the partial coverage of loans to MSME customers disbursed. Actually the total the amount of contracts with KCGF is EUR 21.3 million.

During 2020, the bank continued to maintain its relations with different International Financial Institutions (EBRD, EFSE, and Blue ORCHARD Finance Ltd) which adds another extra layer of security to its capital.

In line with the business model and strategy, the Bank has continued to improve the credit risk process. In this regard, it has continued with the utilization of the upgrades and developments of new applications made on previous year for credit portfolio management. During 2020, two new modules were operationalized to enhance the process of credit monitoring and the arrears management especially in this period of crisis where these two functions had a tremendous role in maintaining the quality of the loan portfolio.

The monitoring module covers the monitoring of financial exposures and will serve as an early warning system not only to manage and retain credited clients but also to prevent and foresee deteriorations of financial conditions of the clients. This module was extensively used to generate information on time in order to predict and forecast possible increase in credit risk and take appropriate measures in regard to management and classification process.

Whereas arrears management module supported the process of arrears management and collection by providing structured management of data, correspondences, alerts and notifications. These developments have enabled a holistic approach in credit risk management, monitoring and control.

In addition to the growth of the loan portfolio and the reduction of large exposures, the bank has continued to keep and preserve the credit quality although there was a lot of pressure from external factors that affected the clients due to the Covid-19. The bank has further improvement of credit quality, regarding the loan quality indicator – Non-performing loans (NPL) in 2019 it was 2.95%, while in 2020 this indicator is 2.68%.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

Management of credit risk (continued)

Besides the preserving of the loan quality, the bank has allocated additional provisions based on the analysis of the portfolio in order to be prepared and covered if any difficult scenario appears. Also the advanced processes of managing the arrears and high commitment in debt collection, have resulted in return of a descent amount of provisions. In this regard, during 2020, the bank has continued with the increased number of outsource debt management companies, especially for old loans in Loss and Write off categories, in order to get the most from the collection process.

The Bank reviews all credit exposures on a regular basis, while the classification and reporting of loans is performed on a monthly basis in accordance with the requirements of the Central Bank.

Credit exposures above EUR 50 thousand are monitored on a six-month basis. Exposures below EUR 50 thousand are monitored on a yearly basis and include analyzing the client's financial position, including analyzing the state of collateral, exposures to other banks, and other factors that may affect the borrower's financial performance.

Due to Covid-19 the process of monitoring was extended and repeated much frequently especially for clients above EUR 50 thousand in order to get the latest information and updates.

25.2.1 Impairment assessment

Under IFRS 9, Bank shall recognize an impairment allowance measured for the expected credit losses (ECLs) at each reporting date for loans and advances to customers measured at amortized cost (AC).

In addition to loans and advances to customers, under this policy, Bank shall also recognize an impairment allowance measured for the expected credit losses for the following financial instruments, if any:

1. Debt instruments measured at fair value through other comprehensive income (FVOCI);
2. Loan commitments not measured at fair value through profit or loss (FVPL);
3. Financial guarantee contracts to which IFRS 9 is applied and that are not accounted for at fair value through profit or loss; and
4. Lease receivables that are within the scope of IAS 17, Leases, and trade receivables or contract assets within the scope of IFRS 15.

Main principles

Measurement of the ECLs pattern reflects the general pattern of deterioration or improvement in the credit quality of financial instruments, expressed in terms of significant increase in credit risk.

When the financial instruments are initially originated, loss allowance is measured at an amount equal to 12-month expected credit losses. When the instrument’s risk of default has significantly increased since its origination, the Bank shall measure loss allowance at an amount equal to lifetime expected credit losses.

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.2 Impairment assessment (continued)

The three stage model

IFRS 9 general approach to impairment and interest revenue recognition can be summarized in the following three-stage model, where transfers from one stage to another depend on the changes in credit risk since origination until credit defaults.

Stage 1	Stage 2	Stage 3	POCI
Newly originated loans non-credit-impaired	Existing loans with significant increase in risk since origination.	Credit impaired loans (in default)	Credit impaired loans at acquisition
Existing loans with no significant increase in risk			Credit impaired loans at origination
Recognition of expected credit losses			
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest revenue			
Effective interest on gross carrying amount	Effective interest on gross carrying amount	Effective interest on net carrying amount (amortized cost less credit allowance)	Credit-adjusted effective interest on net carrying amount (amortized cost less credit allowance)

Stage 1 includes newly originated loans that are not credit-impaired and existing loans for which credit risk has not significantly increased since initial recognition, at the reporting date. IFRS 9 requires that ECLs for these loans be assessed on 12 months basis considering:

- the probability that exposures will default within the next 12 months after the reporting date (referred as '12-month PD'), and
- the ultimate loss suffered over the lifetime in case of default (referred as 'loss given default' or 'LGD'.

Stage 2 includes loans that have had a significant increase in credit risk since initial recognition but that do not have objective evidence that default has occurred. IFRS 9 requires that ECLs for these loans be assessed on lifetime basis considering:

- the probability that exposures will default within their entire remaining life after the reporting date (referred as 'cumulative lifetime PD'), and
- the ultimate loss suffered over the lifetime in case of default.

Stage 3 includes loans that have objective evidence of default at the reporting date (hence defaulted assets). IFRS 9 requires that lifetime ECLs is assessed based on the ultimate loss suffered.

POCI includes originated credit-impaired loans or credit-impaired loans acquired at deep discount. IFRS 9 requires that these loans are initially recognized at fair value less cumulative credit losses at initial recognition. ECL is re-measured at each reporting date and changes are recognized in profit and loss.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.1 Impairment assessment (continued)

Expected Credit Loss model

For the purposes of ECL measurement, BPB performs the necessary model parameterization based on observed point-in-time data on a granularity of quarterly time intervals, which is considered appropriate for the circumstances. The ECL calculations are based on the following input parameters:

Probability of Default (PD): This expresses the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon. Such would be 12-month for Stage 1 loans and the entire lifetime for Stage 2 loans. For Stage 3 and POCI loans PD is 1, because the default event has occurred.

Exposure at Default (EAD): This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after reporting date, including repayments of principal and interest and expected drawdown on committed facilities and guarantees.

Loss Given Default (LGD): This represents an estimate of the loss arising on a default event. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive based on current and future economic conditions, including from any collateral. It is usually expressed as a percentage of the EAD.

Cure Rate: This expresses the likelihood of exit from Stage 3 status.

Discount Rate: This is used it the discounting of an expected credit loss to a present value at the reporting date. Annex 2 provides discount rate applicable for the assessment of the ECLs.

The following table illustrates how the model applies to the different stages:

Stage	Level	PD	LGD	EAD
Stage 1	Collective	12-months PD (adjusted for macro-economic conditions)	Lifetime losses	Exposure at default over the next 12 months
	Individual	Not applicable*		
Stage 2	Collective	Lifetime PD (adjusted for macro-economic conditions)	Lifetime losses	Exposure at default over the remaining lifetime
	Individual	Not applicable *		
Stage 3	Collective	PD equals 1, because default event has occurred	Lifetime losses depending on the point of the recovery cycle	Exposure in default at the reporting date.
	Individual		Estimated future cash flows discounted at the reporting date	

* Individual assessment of the Point in Time - PiT probability of default and the lifetime losses is inherently difficult when there is no objective evidence of impairment. However, for significant exposures classified in Stage 1 and Stage 2, Bank may wish to corroborate LGD assessed on a collective basis to the expected recovery from the collateral foreclosure strategy in a default event.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.1 Impairment assessment (continued)

The Bank's internal rating and PD Estimation process

The Bank's independent Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from A0 to Default using internal grades.

Below are disclosed internal credit rating grades used by bank with IFRS 9:

Rating	Rating IFRS 9	Outstanding 31 December 2020	ECL 31 December 2020	Average of 12-month PD	Average of LGD
Standard grade	A0	176,318	558	0.8%	41.1%
Standard grade	A1	519	9	4.1%	43.0%
Watch grade	B	13,220	1,624	26.2%	47.3%
Substandard grade	C	4,563	1,144	63.5%	46.1%
Default	Default	5,363	3,992	100.0%	67.3%
Grand Total		199,983	7,327	4.8%	41.9%

Rating	Rating IFRS 9	Outstanding 31 December 2019	ECL 31 December 2019	Average of 12-month PD	Average of LGD
Standard grade	A0	173,535	295	0.6%	35.8%
Standard grade	A1	4,937	53	3.0%	30.4%
Watch grade	B	1,718	155	22.7%	39.8%
Substandard grade	C	1,717	342	58.0%	41.4%
Default	Default	5,558	4,456	100.0%	65.3%
Grand Total		187,465	5,301	2.7%	36.2%

Forborne and modified loans

The Bank sometimes makes 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 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, excluding the situation with Covid-19. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

When the loan has been renegotiated or modified but not derecognized, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria (all of its facilities have to be considered performing):

- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period;
- The customer does not have any contracts that are more than 30 days past due.

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25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.1 Impairment assessment (continued)

Forborne and modified loans (continued)

The following tables provide a summary of the Bank's forborne assets:

		Stage 2		Stage 3			
31 December 2020	Gross carrying amount	Permanent modification to T&Cs	Total performing forborne loans	Permanent modification to T&Cs	Total nonperforming forborne loans	Total forborne loans	Forbearance ratio
Due from banks	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
Nonretail loans	112,630	8,275	8,275	311	311	8,586	7.62%
Retail loans	87,353	80	80	29	29	109	0.13%
Total loans and advances to customers	199,983	8,355	8,355	340	340	8,695	4.35%

31 December 2020	Gross amount of forborne loans			ECLs of forborne loans		
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
Due from banks	-	-	-	-	-	-
Loans and advances to customers						
Nonretail loans	8,275	311	8,586	1,514	162	1,676
Retail loans	80	29	109	18	16	34
Total loans and advances to customers	8,355	340	8,695	1,532	178	1,710

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.1 Impairment assessment (continued)

Forborne and modified loans (continued)

The following tables provide a summary of the Bank's forborne assets as of 31 December 2019

		Stage 2		Stage 3			
31 December 2019	Gross carrying amount	Permanent modification to T&Cs	Total performing forborne loans	Permanent modification to T&Cs	Total non-performing forborne loans	Total forborne loans	Forbearance ratio
Due from banks	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
Nonretail loans	111,051	188	188	189	189	377	0.34%
Retail loans	76,414	37	37	13	13	50	0.06%
Total loans and advances to customers	187,465	225	225	202	202	427	0.23%

31 December 2019	Gross amount of forborne loans			ECLs of forborne loans		
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
Due from banks	-	-	-	-	-	-
Loans and advances to customers						
Non Retail loans	188	189	377	36	164	200
Retail loans	37	13	50	4	7	11
Total loans and advances to customers	225	202	427	40	171	211

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.1 Impairment assessment (continued)

Set out below is an analysis of assets measured at amortized cost during the year ended 31 December 2020:

Assets to be measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying value per asset type				
Agro	12,596	1,812	538	14,946
Corporate	45,889	8,753	3,133	57,775
Credit cards	76	2	42	120
Consumer	24,501	707	357	25,565
Micro	33,276	5,604	1,029	39,909
Mortgage	51,513	843	228	52,584
Veterans &Invalids	8,986	62	36	9,084
Total gross carrying value	176,837	17,783	5,363	199,983
Loss allowance under IFRS 9 per asset type				
Agro	(72)	(257)	(229)	(558)
Corporate	(229)	(1,582)	(2,605)	(4,416)
Credit cards	(2)	(0)	(31)	(33)
Consumer	(49)	(101)	(234)	(384)
Micro	(134)	(676)	(721)	(1,531)
Mortgage	(79)	(151)	(169)	(399)
Veterans & Invalids	(1)	(1)	(4)	(6)
Total loss allowance under IFRS 9	(566)	(2,768)	(3,993)	(7,327)

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.1 Impairment assessment (continued)

Set out below is an analysis of assets measured at amortized cost during the year ended 31 December 2019:

Assets to be measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying value per asset type				
Agro	15,764	155	278	16,197
Corporate	52,349	2,239	4,003	58,591
Credit cards	86	12	27	125
Consumer	26,572	242	238	27,052
Micro	34,769	598	897	36,264
Mortgage	37,765	172	103	38,040
Veterans &Invalids	11,167	17	12	11,196
Total gross carrying value	178,472	3,435	5,558	187,465
Loss allowance under IFRS 9 per asset type				
Agro	(35)	(14)	(61)	(110)
Corporate	(139)	(355)	(3,574)	(4,068)
Credit cards	(2)	(1)	(23)	(26)
Consumer	(47)	(30)	(139)	(216)
Micro	(93)	(83)	(577)	(753)
Mortgage	(31)	(14)	(81)	(126)
Veterans & Invalids	(1)	(0)	(1)	(2)
Total loss allowance under IFRS 9	(348)	(497)	(4,456)	(5,301)

Set out below is an analysis of collateral and credit enhancement obtained during the year ended 31 December 2020:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Retail loans				
Credit cards	120	(33)	87	-
Consumer	25,565	(384)	25,181	7,691
Mortgage	52,584	(399)	52,185	23,148
Veterans & Invalids	9,084	(5)	9,079	150
Total retail loans	87,353	(821)	86,532	30,989
Non – retail loans				
Agro	14,945	(558)	14,387	40,728
Corporate	57,776	(4,416)	53,360	215,662
Micro	39,909	(1,532)	38,377	116,520
Total non – retail loans	112,630	(6,506)	106,124	372,910
Total credit – impaired assets	199,983	(7,327)	192,656	403,899

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.1 Impairment assessment (continued)

Set out below is an analysis of collateral and credit enhancement obtained during the year ended 31 December 2019:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Retail loans				
Credit cards	126	(26)	100	-
Consumer	27,052	(216)	26,836	10,634
Mortgage	38,040	(126)	37,914	22,118
Veterans & Invalids	11,196	(2)	11,194	177
Total retail loans	76,414	(370)	76,044	32,929
Non – retail loans				
Agro	16,197	(110)	16,087	37,454
Corporate	58,589	(4,068)	54,521	214,619
Micro	36,265	(753)	35,512	101,520
Total non – retail loans	111,051	(4,931)	106,120	353,593
Total credit – impaired assets	187,465	(5,301)	182,164	386,522

Financial assets as of 31 December 2020	Financial Institutions	Central Government	Central Bank of Kosova	Total
Cash on hand and at banks	25,082	-	-	25,082
Balances with Central Bank of Kosova	-	-	52,465	52,465
Placements and balances with banks	5,261	-	-	5,261
Financial assets at fair value through other comprehensive income	-	53,535	-	53,535
Total	30,343	53,535	52,465	136,343

Financial assets as of 31 December 2019	Financial Institutions	Central Government	Central Bank of Kosova	Total
Cash on hand and at banks	21,600	-	-	21,600
Balances with Central Bank of Kosova	-	-	42,031	42,031
Placements and balances with banks	6,053	-	-	6,053
Financial assets at fair value through other comprehensive income	-	38,646	-	38,646
Total	27,653	38,646	42,031	108,330

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.3 Analysis of credit quality

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2020 and 2019, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	Cash and balances with banks and CBK		Financial assets at fair value through OCI		Loans and advances to customers		Other financial assets		Financial guarantees	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Maximum exposure to credit risk										
Carrying amount	77,547	63,631	53,535	38,646	192,656	182,164	272	206	-	-
Amount committed/guaranteed	-	-		-		-	-	-	10,682	9,401
	77,547	63,631	53,535	38,646	192,656	182,164	272	206	10,682	9,401
At amortized cost										
Stage 1	77,612	63,686	53,578	38,677	176,837	178,472	272	206	-	-
Stage 2	-	-		-	17,783	3,435	-	-	-	-
Stage 3	-	-		-	5,363	5,558	-	-	-	-
POCI	-	-		-	-	-	-	-	-	-
Total	77,612	63,686	53,578	38,677	199,983	187,465	272	206	-	-
Allowance for impairment (individual and collective)	(65)	(55)	(43)	(31)	(7,327)	(5,301)	-	-	-	-
Net carrying amount	77,547	63,631	53,535	38,646	192,656	182,164	272	206	-	-
Off balance: maximum exposure										
Credit commitments: Low - fair risk	-	-	-	-	-	-	-	-	8,597	7,508
Financial guarantees: Low - fair risk	-	-	-	-	-	-	-	-	2,085	1,893
Total committed/guaranteed	-	-	-	-	-	-	-	-	10,682	9,401
Provisions recognized as liabilities	-	-	-	-	-	-	-	-	(24)	(16)
Total exposure	-	-	-	-	-	-	-	-	10,658	9,385

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.2 Analysis of credit quality (continued)

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2020 and 2019, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	2020			2019		
Loans and advances to customers	Retail	Corporate	Total loans	Retail	Corporate	Total loans
Total gross amount	87,353	112,630	199,983	76,414	111,051	187,465
Allowance for impairment (individual and collective)	(821)	(6,506)	(7,327)	(370)	(4,931)	(5,301)
Net carrying amount	86,532	106,124	192,656	76,044	106,120	182,164
At amortized cost						
Stage 1	85,075	91,761	176,836	75,591	102,881	178,472
Stage 2	1,615	16,169	17,784	443	2,992	3,435
Stage 3	663	4,700	5,363	380	5,178	5,558
POCI	-	-	-	-	-	-
Total gross	87,353	112,630	199,983	76,414	111,051	187,465
Stage 1	(130)	(436)	(566)	(80)	(267)	(347)
Stage 2	(253)	(2,515)	(2,768)	(45)	(452)	(497)
Stage 3	(438)	(3,555)	(3,993)	(245)	(4,212)	(4,457)
POCI	-	-	-	-	-	-
Total allowance for impairment	(821)	(6,506)	(7,327)	(370)	(4,931)	(5,301)
Loans with renegotiated terms						
Carrying amount	247	17,359	17,606	105	4,647	4,752
From which: Impaired	52	1,978	2,030	26	2,562	2,588
Allowance for impairment	(55)	(3,386)	(3,441)	(20)	(2,390)	(2,410)
Net carrying amount	192	13,973	14,165	85	2,257	2,342

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.2 Analysis of credit quality

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are graded A to E in the Bank's internal credit risk grading system where A is Standard while E is Loss. The provisioning policy for these loans is detailed in Note 3. f).

Individual and collective assessment of loan portfolio

For internal management purpose, the Bank segregates the loans into loans that are assessed individually for impairment: these are loans that are classified as Stage 3 and with exposure above EUR 100 thousand. All other loans are analyzed collectively for impairment assessment purposes.

The Bank's policy requires the review of individual loans and advances to customers that are above materiality thresholds of EUR 50 thousand at least quarterly when individual circumstances demand it.

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Write-off policy

The Bank writes off a loan (and any related allowances for impairment), in accordance with the regulations of Central Bank of Kosovo for write off. The total amount written off during 2020 is EUR 1,016 thousand (2019: EUR 319 thousand).

Due from banks

Interbank exposures are closely monitored on a daily basis by risk management and the Treasury Department. The Bank limits its deposits and other banking transactions to sound local or international banks. Before a business relationship is initiated with a given bank, the management and the Risk Department carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's.

In accordance to the new regulation on large exposures of the Central Bank of Republic of Kosovo, banks shall not have any aggregate credit risk exposure to related counterparties exceeding 15% of Tier I Regulatory Capital.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.2 Analysis of credit quality (continued)

Loans and advances to banks are granted without collateral. The table below presents the Bank's current accounts and time deposits with corresponding banks by credit ratings:

	2020	2019
A+ to A-	3,247	801
BBB+ to B-	1,036	3,505
Not rated	10,430	10,721
At 31 December	14,713	15,027

Lending commitments and financial guarantees

The maximum exposure from financial guarantees represents the maximum amount that the Bank should pay if the guarantee is called on, which may be significantly greater than the amount recognized as a liability. The maximum credit exposure for lending commitments is the full amount of the commitment.

Risk limit control and mitigation policies

The Bank manage limits and controls the concentrations of credit risk wherever they are identified in particular to individual counterparties and groups, and to affiliates.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review, if necessary.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other controls and mitigation measures are outlined below.

Collateral held and other credit enhancements, and their financial effect

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property and other movable assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over loans and advances to banks.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances to customers	Maximum exposure to credit risk	Property	Cash Collateral	Equipment	Total collateral used	Surplus collateral	Net uncollateralized exposure
31 December 2020	193,169	281,652	3,991	118,256	403,899	282,579	71,849
31 December 2019	187,465	285,252	4,564	96,705	134,008	(199,056)	53,457

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Credit risk (continued)

25.2.3 Concentration of credit risk

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

	Cash and balances with Banks and CBK		Placements and balances with banks		Financial assets at fair value through OCI		Loans and advances to customers		Other financial assets		Financial guarantees	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Concentration by sector												
Corporate	-	-	-	-	-	-	106,124	106,120	-	-	10,682	9,401
Banks	77,547	63,631	5,261	6,053	53,535	38,646	-	-	-	-	-	-
Retail	-	-	-	-	-	-	86,532	76,044	272	206	-	-
Total	77,547	63,631	5,261	6,053	53,535	38,646	192,656	182,164	272	206	10,682	9,401
Concentration by location												
EU countries	4,078	4,299	205	10	-	-	-	-	-	-	-	-
Republic of Kosovo	73,298	58,822	5,056	6,043	53,535	38,646	192,656	182,164	272	206	10,682	9,401
Other countries	171	510	-	-	-	-	-	-	-	-	-	-
Total	77,547	63,631	5,261	6,053	53,535	38,646	192,656	182,164	272	206	10,682	9,401

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, exchange rates will affect Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The relevant market risks that the bank deals with are foreign currency risk and interest rate risk in the banking book and these risks are managed in accordance with their respective document/policies.

25.3.1 Interest rate risk

Interest rate risk is the risk of suffering losses due to the fluctuation of interest rates in financial instruments and is mainly as a result of maturity mismatches between assets and liabilities. Consequently, this can increase bank's funding costs compared to the return obtained from assets which might remain unchanged and thus, potentially decrease the interest margin.

In order to mitigate this risk, the bank measures and monitors interest rate risk based on repricing gap analysis between assets and liabilities in order to limit its exposure to this risk and ensure compliance with CBK regulation on Interest rate risk on banking book which was enforced since 1st of January 2017. For the purpose of measuring interest rate risk, bank's assets and liabilities are distributed within time buckets according to their maturities and then maturity/ repricing gaps are analyzed. The interest rate gap is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. These scenarios aim to simulate interest rate fluctuations in order to measure the impact on banks financial result and capital. Standard scenarios include a 2% parallel shift in the yield curve as required by the CBK regulation.

The results from these scenarios are reported on a monthly basis to bank's Liquidity Risk Management Committee ("LRMC") and on quarterly basis to Risk Committee on board level. As a result, bank's exposure to interest rate risk remains in line with bank's risk profile and within internal and regulatory limits as set by the CBK. The Bank also uses stress testing scenarios which are prepared at least on a regular annual basis.
The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December are as follows:

	USD		*EUR*	
	2020	2019	2020	2019
Assets				
Cash at banks	-	-	-	-
Placements and balances with banks	0.13%	1.65%	1.40%	1.29%
Loans to customers	-	-	7.25%	7.60%
Financial assets at fair value through OCI	-	-	2.36%	1.37%
Liabilities				
Due to customers	-	-	1.44%	1.48%
Subordinated debt	-	-	6.50%	6.50%
Borrowings	-	-	2.69%	2.76%

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25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk (continued)

25.3.1 Interest rate risk (continued)

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

2020	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(1,118)	1,118	1,342	(1,342)

2019	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(682)	682	869	(869)

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk (continued)

25.3.1 Interest rate risk (continued)

The following table shows the interest bearing and non-interest bearing financial instruments by repricing date.

31 December 2020		Up to 1 Month	1-3 Month	3-6 Month	6-12 Month	Over 1 year	Total
Assets							
Cash on hand and at banks							
Non-interest bearing		22,910	-	-	-	-	22,910
Interest bearing	*Fixed*	2,172	-	-	-	-	2,172
Balances with CBK							
Non-interest bearing		52,465	-	-	-	-	52,465
Placements and balances with banks							
Interest bearing	*Fixed*	80	-	-	5,171	10	5,261
Investment securities							
Interest bearing	*Fixed*	1	224	57	298	52,955	53,535
Loans to customers							
Interest bearing	*Fixed*	5,166	12,447	12,093	34,690	126,889	191,285
Other financial assets							
Non-interest bearing		272	-	-	-	-	272
Total		83,066	12,671	12,150	40,159	179,854	327,900
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	24,591	12,419	12,409	49,246	41,992	140,657
Non-interest bearing		148,226	-	-	-	-	148,226
Subordinated debt							
Interest bearing	*Fixed*	-	-	2	-	500	502
Borrowings							
Interest bearing	*Variable*	-	-	185	290	3,599	4,074
Other liabilities							
Non-interest bearing		2,689	-	-	-	-	2,689
Total		175,506	12,419	12,596	49,536	46,091	296,148
Gap		(92,440)	252	(446)	(9,377)	133,763	31,752
Cumulative gap		(92,440)	(92,188)	(92,634)	(102,011)	31,752	-

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk (continued)

25.3.1 Interest rate risk (continued)

31 December 2019		Up to 1 Month	1-3 Month	3-6 Month	6-12 Month	Over 1 year	Total
Assets							
Cash on hand and at banks							
Non-interest bearing		18,369	-	-	-	-	18,369
Interest bearing	*Fixed*	3,231	-	-	-	-	3,231
Balances with CBK							
Non-interest bearing		42,031	-	-	-	-	42,031
Placements and balances with banks							
Interest bearing	*Fixed*	-	-	-	6,043	10	6,053
Investment securities							
Interest bearing	*Fixed*	12,280	2,988	-	101	23,277	38,646
Loans to customers							
Interest bearing	*Fixed*	7,233	10,638	14,603	34,994	113,594	181,062
Other financial assets							
Non-interest bearing		206	-	-	-	-	206
Total		83,350	13,626	14,603	41,138	136,881	289,598
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	20,724	8,769	11,623	56,059	46,091	143,266
Non-interest bearing		110,689	-	-	-	-	110,689
Subordinated debt							
Interest bearing	*Fixed*	-	-	2	-	500	502
Borrowings							
Interest bearing	*Variable*	823	566	80	1,017	3,848	6,334
Other liabilities							
Non-interest bearing		1,778	-	-	-	-	1,778
Total		134,014	9,335	11,705	57,076	50,439	262,569
Gap		(50,664)	4,291	2,898	(15,938)	86,442	27,029
Cumulative gap		(50,664)	(46,373)	(43,475)	(59,413)	27,029	-

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk (continued)

25.3.2 Exposure to currency risk

Currency risk is the risk of potential losses from open position in foreign currencies due to fluctuations in exchange rates. The Bank is exposed to currency risk through transactions in foreign currencies. The Bank ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short-term balances. The bank manages and monitors currency risk against the limits set in its risk policy and in CBK regulation on Foreign Exchange Risk.
Exposure to currency risk is discussed and reported on monthly basis to liquidity and market risk committee. The foreign currencies the Bank deals with, are predominantly United States Dollars (USD), Swiss Franc (CHF) and Great Britain Pounds (GBP). The rates used for translation as at 31 December are as follows:

Currency	2020 EUR	2019 EUR
1 USD	0.8149	0.8902
1 CHF	0.9258	0.9213
1 GBP	1.1123	1.1754

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

	USD		CHF		GBP	
	2020	2019	2020	2019	2020	2019
Sensitivity rates	5%	5%	5%	5%	5%	5%
Profit or loss						
+5% of Euro	(28.29)	(16.83)	(19.50)	(18.57)	1.07	1.04
- 5% of Euro	28.29	16.83	19.50	18.57	(1.07)	(1.04)

The Bank's exposure to foreign currency risk is as follows:

31 December 2020	EUR	USD	CHF	GBP	Total
Financial assets					
Cash on hand and at banks	23,255	950	856	21	25,082
Balances with CBK	52,465	-	-	-	52,465
Financial assets at fair value through OCI	53,535	-	-	-	53,535
Placements and balances with banks	3,413	-	1,848	-	5,261
Loans and advances to customers	192,656	-	-	-	192,656
Other financial assets	272	-	-	-	272
Total financial assets	325,596	950	2,704	21	329,271
Financial liabilities					
Due to customers	284,273	1,516	3,094	-	288,883
Subordinated debt	502	-	-	-	502
Borrowings	4,074	-	-	-	4,074
Other liabilities	2,689	-	-	-	2,689
Total financial liabilities	291,538	1,516	3,094	0	296,148
Net foreign currency position	34,058	(566)	(390)	21	33,123

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Market risk (continued)

25.3.2 Exposure to currency risk (continued)

31 December 2019	EUR	USD	CHF	GBP	Total
Financial assets					
Cash on hand and at banks	20,473	721	385	21	21,600
Balances with CBK	42,031	-	-	-	42,031
Available-for-sale investments	38,646	-	-	-	38,646
Placements and balances with banks	4,214	-	1,839	-	6,053
Loans and advances to customers	182,164	-	-	-	182,164
Other financial assets	206	-	-	-	206
Total financial assets	287,734	721	2,224	21	290,700
Financial Liabilities					
Due to customers	250,302	1,058	2,595	-	253,955
Subordinated debt	502	-	-	-	502
Borrowings	6,334	-	-	-	6,334
Other liabilities	1,778	-	-	-	1,778
Total financial liabilities	258,916	1,058	2,595	-	262,569
Net foreign currency position	28,818	(337)	(371)	21	28,131

25.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its obligations as they come due and to meet any unexpected demands for funds by its depositors or other creditors. Moreover, liquidity risk also includes the risk that the bank will be unable to fund the growth of assets.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. For this purpose, on daily basis the bank monitors its liquidity position and market conditions. Moreover, continuously assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

In order to ensure an effective management of liquidity risk, and ensure that no liquidity shortfalls occur, the Bank keeps its deposit base diversified. As such, the bank aims to raise funds using a broad range of instruments such as customers' deposits, or funding from IFIs which will ensure that funding base remains stable.

In addition to daily reporting, the bank monitors liquidity risk on monthly basis also. This monitoring includes the liquidity position under normal circumstances and also under stress tests. The results are discussed in Liquidity Risk Management Committee ("LRMC").

Furthermore, the bank has also a liquidity contingency plan which enables the effective management of liquidity in case of unexpected circumstances.

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.4 Liquidity risk (continued)

25.4.1 Management of liquidity risk

The bank measures liquidity risk using liquidity gap analysis which represents the residual maturities of financial assets and liabilities. The residual maturity is the period between the contractual due date of the asset/ liability and the balance sheet date.

The following tables shows the undiscounted cash flows of the Bank's financial liabilities and unused loan commitments and guarantees on the basis of their earliest possible contractual maturity. The Bank's expected cash flows from these instruments vary significantly from this analysis. For example, demand accounts are expected to maintain a stable or increasing balance.

31 December 2020	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
Financial assets						
Cash on hand and at banks	25,082	-	-	-	-	25,082
Balances with CBK	52,465	-	-	-	-	52,465
Placements and balances with banks	80	-	-	5,171	10	5,261
Loans and advances to customers	5,798	12,507	12,165	34,870	127,316	192,656
Financial assets at fair value through OCI	1	224	57	298	52,955	53,535
Other financial assets	272	-	-	-	-	272
Total	83,698	12,731	12,222	40,339	180,281	329,271
Financial liabilities						
Due to customers	172,817	12,419	12,409	49,246	41,992	288,883
Subordinated debt	-	-	2	-	500	502
Borrowings	-	-	185	290	3,599	4,074
Other liabilities	2,689	-	-	-	-	2,689
Guarantees issued	2,085					2,085
Unused credit commitments	8,597					8,597
Total	186,188	12,419	12,596	49,536	46,091	306,830
Liquidity gap	(102,490)	312	(374)	(9,197)	134,190	22,441

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.4 Liquidity risk (continued)

25.4.1 Management of liquidity risk (continued)

31 December 2019	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
Financial assets						
Cash on hand and at banks	21,600	-	-	-	-	21,600
Balances with CBK	42,031	-	-	-	-	42,031
Placements and balances with banks	-	-	-	6,043	10	6,053
Loans and advances to customers	7,631	10,695	14,661	35,126	114,051	182,164
Available-for-sale financial assets	12,280	2,988	-	101	23,277	38,646
Other financial assets	206	-	-	-	-	206
Total	83,748	13,683	14,661	41,270	137,338	290,700
Financial liabilities						
Due to customers	131,413	8,769	11,623	56,059	46,091	253,955
Subordinated debt	-	-	2	-	500	502
Borrowings	822	566	80	1,018	3,848	6,334
Other liabilities	1,778	-	-	-	-	1,778
Guarantees issued-restated	1,893	-	-	-	-	1,893
Unused credit commitments-restated	7,506	-	-	-	-	7,506
Total	143,412	9,335	11,705	57,077	50,439	271,968
Liquidity gap	(59,664)	4,348	2,956	(15,807)	86,899	18,732

25.5 Operational risk

In line with CBK regulation, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. This definition includes legal risk, but excludes strategic and reputational risk. In order to ensure effective management of operational risk the bank has implemented an operational risk framework which includes policies and procedures, techniques and tools for identifying, assessing, mitigating/ controlling and monitoring operational risk.

In order to improve and increase the effectiveness of internal controls in bank's processes and record all operational risk losses, the bank has established a "loss event database" where all events that cause operational losses or potential risks that may cause losses are registered. Limits and reporting lines of these losses are determined in operational risk management policy. Furthermore, operational risk procedure describes in detail the steps that the bank undertakes from collected information on operational risk loss event database.

This database is considered to be the best source of information for the development of models for measuring bank's exposure to operational risk as it offers information on the causes of loss. Furthermore, through the information gathered from this database corrective or preventive measures are set in order to mitigate/ control this risk.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.5 Operational risk (continued)

Yearly assessment for different processes in the bank is part of bank's operational risk management framework. Through this assessment the bank collects useful information for determining bank's operational risk profile and assesses the risks the bank is exposed to, including the degree of control implementation. This enables the improvement of control processes through different measures, thus reducing the impact of losses from operational risk.

Effective management of operational risk means knowing bank's position and risk profile. Therefore, for this purpose, the bank is using Key Risk Indicators (KRIs) to monitor drivers of exposures associated with key risks. These indicators are monitored on regular (monthly/quarterly) basis in order to facilitate operational risk management by providing early warning signals for the changes that may be indicative of risk concerns.

In establishing an effective management of operational risk, the bank has undertaken different activities related to increasing risk awareness mainly through trainings, which are provided for all bank staff on an annual basis. These trainings aim to enhance the knowledge regarding operational risk management through discussion of different scenarios on previous operational risk events. Furthermore, the trainings address the channels through which operational risk events are to be monitored and reported.

In addition, the bank has implemented a process for ensuring that changes in products, services or processes (existing or new) go through risk review and approval. This will ensure that the operational risk that comes from processes, products or new services in the bank is monitored and dealt with promptly.

The bank calculates the capital charge for operational risk using the Basic Indicator Approach (BIA) as defined by the Central Bank regulation on Operational risk management.

25.6 Capital risk management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The equity structure of the Bank comprises share capital, reserves and retained earnings. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets, expressed as a percentage.

As of 1st of January 2020, the CBK regulation on capital adequacy was enforced. The main changes applied in this regulation are in the following areas:

- Capital structure – which is comprised of: Tier 1 capital (Common Equity Tier 1 (CET1) + Additional Tier 1) and Tier 2 capital. In regard to CET1, the main implication is evident in the calculation of retained earnings, whereby the current year earnings are allowed to be included in the capital calculation only with prior approval from the CBK. This approval is subject to the following criteria: that this profit has been verified by external auditors and that the planned dividend distribution has been taken into account.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.6 Capital risk management (continued)

Regulatory capital (continued)

In regard to capital, it is required that the bank keeps a capital conservation buffer of 2.5% in relation to Risk Weighted Assets (RWA).

Total regulatory capital of the bank consists of the sum of the following elements: Tier 1 Capital (Common Equity Tier 1 (CET1) and additional Tier 1) and Tier 2 Capital. The minimum required Capital Adequacy Ratios are as follows:

- Common Equity Tier 1 (CET1) must be at least 4.9% of risk-weighted assets at all times.
- Tier 1 Capital must be at least 9.0% of risk-weighted assets at all times including capital conservation buffer.
- Total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 12.0% of risk-weighted assets at all times.

Risk-Weighted Assets (RWAs)

Assets are weighted according to broad categories of national risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them.

The main changes applied in the new regulation for this part are risk weighted exposure – this exposure is required to be calculated for: credit risk, market risk and operational risk.

In terms of risk weighted exposure for credit risk the following changes were applied: 15 exposure classes were introduced, the risk weight applied for credit risk exposures secured by Kosovo Credit Guarantee Fund (KCGF) is 0%, and new criteria were added for classification of an exposure as retail exposure, short- and long-term exposure, etc.

In terms of risk weighted exposure for market risk, the CBK requires to calculate capital for this type of risk. However, since bank's exposure to this risk is rather limited only in currency risk and the net position is below the limit of 2% of total regulatory capital as set by the CBK, then the bank does not allocate capital for this risk.

In terms of operational risk no changes were made.

For the purpose of calculating risk-weighted exposure amounts, the bank allocates each exposure in the following classes which carry weights from 0% - 150% RWA depending on the set criteria for each exposure class:

- exposures to central governments or central banks;
- exposures to regional governments or local authorities;
- exposures to public sector entities;
- exposures to multilateral development banks;
- exposures to international organizations;
- exposures to institutions;
- exposures to corporates;
- retail exposures;
- exposures secured by mortgages on immovable property;
- exposures in default;
- exposures associated with particularly high risk;
- exposures to institutions and corporates with a short-term credit assessment;
- exposures in the form of investment funds;
- equity exposures;
- other items

(Amounts in thousands of EUR, unless otherwise stated)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.6 Capital risk management (continued)

Risk-Weighted Assets (RWAs)(continued)

In order to ensure that the bank stays well above the minimum requirements for capital adequacy ratio, the bank has approved an internal capital limit which is greater than the minimum set by the CBK. This limit serves as an early warning indicator for the bank and helps us ensure better capital management.

	2020	2019
Total risk weighted assets	183,075	175,493
Total risk weighted off balance exposures	644	673
Total risk weighted assets for operational risk	18,462	17,065
Total	202,181	193,231
Regulatory capital (total capital)	35,901	30,391
Capital adequacy ratio (total capital)	17.76%	15.73%

Despite the COVID-19 situation during 2020, the bank maintained well above the minimum requirements set by the CBK. In this regard, considering that the bank is well capitalized and has a sound capital structure then, the bank has not considered the inclusion of current year profit in the capital structure. Nevertheless, the ratio increase compared to the previous period mainly due to the following factors: lending was slowed down due to the uncertainty considering COVID-19 implications on the economy which translated in less RWAs for credit risk exposures, the increase in credit exposures covered by KCGF which are assigned a 0% risk weight and the decision to not distribute the dividend for 2020 as per CBK requirements.

In order to ensure capital adequacy, the bank has built models that determine the additional capital required under Pillar II to cover the risks to which the bank is exposed as required by the CBK Regulation for the Internal Capital Adequacy Assessment Process (ICAAP).

For this purpose, the bank has allocated additional capital to also cover the other risks not covered under Pillar I in order to ensure that the bank is covered at all times.

The assessment of capital adequacy under ICAAP regulation takes into account the quantitative and qualitative assessment of the risks considered to be material for the bank. The risks covered under Pillar 2 are: currency risk, interest rate risk, concentration risk, and counterparty risk. As for other risks, qualitative assessments have been used or different assumptions employed.

- Concentration risk - to manage this risk and to analyze it in terms of capital allocation for Pillar II purposes, the bank uses the Herfindahl-Hirschman index (HHI) through which the concentration of the loan portfolio is determined based on the sector, as well as on the level of individual concentration. The results of this analysis are also used when analyzing credit exposure requirements, in order to ensure that the bank does not increase its concentration in a particular sector or individual and that would consequently have to allocate additional capital as a result of this additional exposure.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.6 Capital risk management (continued)

Risk-Weighted Assets (RWAs) (continued)

- Counterparty risk - regarding the allocation of capital under Pillar II, to determine the value of exposure to this risk the bank takes into account the probability of default for 1 year based on the rating of one of the credit rating agencies (Fitch, Moody's, S&P) and residual maturity.
- Interest rate risk in banking book (IRRBB) - for the purpose of calculating the capital under Pillar II for this risk, the impact on interest income for the period of 1 year was analyzed as a result of the movement of interest rates by 2%. The balance sheet of the bank that is sensitive to interest rates consists of assets that have a longer maturity than liabilities, therefore the re-pricing of liabilities occurs earlier than that of assets which means that the bank is more sensitive to rising interest rates.
- Currency risk - in order to calculate capital for this risk, the value of the open position in all currencies was taken into account and for this exposure 12% of the amount of capital was allocated, in accordance with the requirements of the regulation on capital adequacy.

26. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of them has the ability to control the other or exercise significant influence over the one making financial and operating decisions. Ultimate controlling parties are shareholders listed in the Note 23 shareholders' equity and reserves.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely to the legal form.

A summary of related party balances at the end of year are as follows:

	31 December 2020		31 December 2019	
Assets: *Loans outstanding at end of year with shareholders and key management*	CBK Rating*		CBK Rating*	
Shareholders	Stage 1	2,080	Stage 1	1,198
	Stage 3	161	Stage 3	129
Management	Stage 1	130	Stage 1	122
Total		2,371		1,448
Guarantees and letters of credit with shareholders	Stage 1	750	Stage 1	661

26. RELATED PARTY TRANSACTIONS (CONTINUED)

Loans to related parties are given at commercial terms.

	2020	2019
Loans to shareholders, gross	2,217	1,290
Allowance for impairment	(129)	(87)
Total Loans to shareholders, net	2,088	1,203
Cash collateral	(1,310)	(647)
Net exposure to shareholders	778	556

	2020	2019
Loans to management and BoD members, gross	154	142
Loans to management, net	154	142
Cash collateral	(40)	(35)
Net exposure to management	114	107

Liabilities:	31 December 2020	31 December 2019
Shareholders	3,016	2,225
Borrowing from EBRD	3,098	4,634
Total Liabilities	6,114	6,859

Following are the transactions made with related parties during the year:

	2020	2019
Income		
Interest income from loans and advances	50	55
Total interest income	50	55
Expenses		
Interest expenses for subordinated debt from EBRD	39	132
Key management compensation	424	403
Board of director's compensation	58	56
Total expenses	521	591

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Notes to the financial statements
For the year ended 31 December 2020
(Amounts in thousands of EUR, unless otherwise stated)

27. SUBSEQUENT EVENTS

No events or transactions have occurred since 31 December 2020 or are pending that would have a material effect on the financial statements of the Bank at that date or for the period then ended, or that are of such significance in relation to the Bank's affairs as to require mention in a note to the financial statements.

The impact of COVID-19 to the Bank

Since the outbreak of the COVID-19 epidemic the Bank closely monitors the development of the situation on the global, European and local level.

Furthermore, the Bank monitors and implements measures proposed by the Government of the Republic of Kosovo and its relevant institutions, as well as additional preventive measures in order to protect its employees, suppliers and ongoing business processes.

The Bank has elaborated crisis scenarios and continuity plans and at this stage, the impact on our business and results has not been significant and based on our experience to date we expect this to remain the case. As we operate in banking sector we have found increased demand for our services and expect this to continue.
Management is actively monitoring the global and local situation on its financial condition, liquidity, operations, suppliers, industry, and workforce.

At this moment, no uncertainty about the entity's ability to continue as a going concern is identified.

Further detailed information's are disclosed in note 25, Financial Risk Management (Responding to COVID-19 risks).

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