NLB Banka

This is Our Home

Annual Report 2020

Wisely without paper

Contents

Financial highlights

Profit and loss account indicators (in EUR thousand)	2020	2019	2020/2019
Net operating income	**38,678**	**37,307**	**4%**
Net interest income	32,286	31,014	4%
Net non-interest income	6,392	6,293	2%
Total operating costs	**-12,287**	**-11,798**	**4%**
Employee costs	-6,158	-6,210	-1%
Other general administrative expenses	-4,099	-3,807	8%
Depreciation	-2,030	-1,781	14%
Profit before provisions	**26,391**	**25,509**	**3%**
Net impairments and Provisions	-11,346	-3,521	222%
Profit before Tax	**15,045**	**21,988**	**-32%**
Tax	-1,711	-2,443	-30%
Profit after Tax	**13,334**	**19,545**	**-32%**

Balance sheet indicators (in EUR thousand)	2020	2019	2020/2019
Total assets	879,064	801,085	10%
Loans to non-banking sector (net)	559,223	540,073	4%
Loans to non-banking sector (gross)	596,076	567,103	5%
Deposits from non-banking sector	748,317	685,385	9%
Total equity	98,335	84,927	16%

Key indicators	2020	2019	2020/2019
ROE a.t (Return on equity after tax)	14.4%	25.1%	-10.6%
ROA a.t (Return on assets after tax)	1.6%	2.7%	-1.1%
RORAC b.t	16.7%	24.4%	-7.7%
CIR (Cost to income ratio)	31.8%	31.6%	0.1%
LTD (net loans NBS/deposits NBS)	74.7%	78.8%	-4.1%
CAR (Capital adequacy ratio as per CBK)	17.8%	16.4%	1.4%
Tier 1 ratio	14.1%	12.7%	1.3%
Interest margin	3.8%	4.1%	-0.2%

Portfolio quality and provisions	2020	2019	2020/2019
Gross NPL (non-performing loans)	17,519	10,939	60%
Share of NPL in total loans to NBS+Banks	2.7%	1.7%	1.0%
Share of NPL in total loans to NBS	2.9%	1.9%	1.0%
Cost of risk	198	33	503%

Other business indicators (IFRS)	2020	2019	2020/2019
Market share of total assets	17.2%	17.6%	0%
Market share of loans to NBS	18.0%	18.5%	-1%
Market share of deposits	17.5%	17.9%	0%
Number of business units	34	35	-3%
Number of ATM's	99	71	39%
Number of clients	340,129	346,493	-2%
Number of employees	463	474	-2%

Statement from the President of the Management Board

Dear stakeholders of NLB Banka,

The year 2020 challenged our health, the way we live and work, and the way we think! The context of extreme uncertainty brought by Covid 19, brought us together on altering operations in order to ensure the protection of health of our teammates and clients while delivering value for our shareholders. Despite the unseen challenges brought by the pandemic we resiliently continued our journey of success through a consistent responsible approach towards growth. We strongly believe we will strive in the future for whatever may come. We are here to serve!

Belief on what we do, kept us through all the challenges which we have faced including the most uncertain challenge of the last century, the pandemic COVID 19. I must begin this letter with the sense of optimism and appreciation to all the employees of the Bank, since we believe on what we do, we do it responsibly, and we strive!

Year 2020 challenged us with the unforeseen and adversely impactful pandemic, which required responsible and agile reaction on way we do our business. Therefore, prompt reaction on protection of health and safety was the first touchpoint with the pandemic, while we served all our clients at their altered needs which were greatly imposed. Knowing that our services are essential for our clients and community, through our commitment we have achieved to bring our services closer to our clients and bring work offices of our employees to their homes.

Understanding our role as a one of the pillars of the economy, we have also played an important role for our clients and the economy overall, on enabling absorption of such an unseen economic shock. Thus, during the year 2020, we have provided three phases of loan moratoriums to our clients in order to support our clients to overcome such financial difficulties caused by pandemic.
With our proactive contribution on our clients well-being during such unprecedent year, we have also supported and promoted our clients business with "Help Frame" campaign throughout NLB Group, where we have provided a advertisement platforms to support the vulnerable SME and micro segment, and helped to promote their business during such difficult times.

Being part of our community, as part of our social responsibility, we have also proactively contributed with our donations to the public health care community with the respirators, medical equipment and materials which were highly needed and scarce at the beginning of pandemic.

Our responsible business approach, which was built for more than a decade, has served us the best during such unconventional year. Moreover, during the year 2020, we have learned significantly on how to deal with the unknown, and calibrate different outcomes deriving from unexpected environments and play our part as an important stakeholder of the society.

All challenges we faced during this year, required us to balance main business objectives in 2020, and we managed to mark positive results, maintained responsible growth, and sound structure of asset quality, work hard towards our ambitious targets, our mission and commitments, corporate social responsibility, while continuing to serve our clients with pride. Moreover, we strived to maintain our strong position in the market with systematic role.

Furthermore, during the year 2020, the Bank has supported capital investments which enabled digital transformation and quality improvement of our services. On the other hand, this was one of the responses to Covid 19 for social distancing and business continuity of banking transactions. Through our investments we are closer to our clients and we gained a better understanding of their needs. We consider our teams as critical success factors, thus, we remained committed on our development plans for the people fostering long term objectives of our institution.

Key highlights of the year would be shortly summarized as follows:

- The Bank has accomplished the operating profit of EUR 26.4 million representing 3% increase YoY.
- Regardless of the pressure and competition on interest rate the bank achieved the net interest income in the amount of EUR 32.3 million which are 4% more YoY
- The net non-interest income has been increased compared with 2019 for 2% reaching EUR 6.4 million indicating the role of systematic bank in the market
- Total assets are EUR 879 million with an increase for EUR 78 million or 10% compared to 2019
- Net loans of non-banking sector as of 31.12.2020 were EUR 559 million, increasing by EUR 19 million or 4% compared to 2019;
- Bank continued to be well capitalized with CAR ratio of 17.8% (2019: 16.4%)

- Cost efficiency further improved as indicated by CIR 31.8%, (2019: 31.6%);
- Sustainable non-performing loans reaching 2.9% to (2019: 1.9%)
- Optimization of internal processes is an ongoing process which underpinned current year results aiming for operational excellence.

The Bank during 2020 has fulfilled a variety of qualitative objectives, which make us proud of our contribution made in different areas especially in health care, social, cultural and sports activities.

Being part of NLB Group, requires further dedication and commitments, which we successfully delivered and achieved the group objectives. We are part of UN Principles of Responsible Banking signed in Group level and part of the MIGA agreement of sustainable banking by undertaking commitments to EBRD and MIGA. We continued to be the bridge for cross border financing of projects of Kosovo's economy, further marking contribution towards being regional champions, always committed on prosperity. Thus, we have delivered our commitments on making our home better while delivering value to our shareholders in terms of profit distribution and proportionately continuing to be well capitalized and resilient financial institution, aiming on long term value creation for our stakeholders and community.
Additionally, I would like to thank all our employees of the bank - without their commitment, dedication and high professionalism, NLB Banka would not be able to maintain its position during this challenging year.
Dear stakeholders of the Bank, the Covid 19 most probably will continue to be present also in 2021 and will continue to impact our health, lifestyle as well as economic activities, but we are prepared to protect our investors, clients, and employees, by ensuring that health protection conditions and services are provided without disruption. We remain committed on overcoming obstacles jointly with our clients, which are presented to us by such unprecedented circumstances, in order to continue with our journey towards delivering our vision.

We understand the challenges ahead us, the lesson learned in 2020 will serve us for becoming stronger and mark the excellent performance on the upcoming years.

Yours truly,
President of the Management Board

Albert Lumezi

Management team of NLB Banka

Albert Lumezi
President of the Management Board

Lavdim Koshutova
Member of the Management Board

Gem Maloku
Member of the Management Board

Macroeconomic environment and market development

Kosovo's economy during 2020 is being faced with an economic and social crisis caused by the COVID-19 pandemics. Movement restriction measures on the citizens and the closure of some certain economic activity have caused an economic shock, being transmitted through the external channels and the domestic demand. Especially, the structure of the Kosovo's economy, which is highly dependent on the income flow from abroad (export of services and remittances, which all together comprise one fourth of the GDP), makes it very sensitive against this global shock. The assessment of the impact on the economic activity continues to be difficult and challenging, since there are still uncertainties about the length of the pandemic-namely if it will be possible to stop it by the end of the third wave, or if there will be a new wave of the virus.

Inflation (CPI) – Kosovo economy was characterized with an inflation of 0.2% as of 31.12.2020. Price movement in Kosovo is similar to the movement of prices in international markets as a result of high dependence of the Kosovo's economy on imports.

Public debt – the lowest public debt in the region at 21.8% of the GDP as of 31.12.2020 (2019: 17.5%), however in the near future it is expected to increase.

Unemployment rate – referring to the latest data (September 2020) from Kosovo Agency of Statistics the unemployment rate is 24.6% which remained highest in the region and EU.

Below are key performance macroeconomic indicators and respective explanation.

Table: Real GDP growth and remittances (period average)

Kosovo	2020	2019
GPD (real growth v %)	0.7	4.2
Inflation - average of the year (in %)	0.2	2.7
Unemployment rate (in %)	*24.6	25.9
Public debt (% of GDP)	21.8	17.5

Source: CBK and ASK reports
* Latest data as of 30.09.2020.

Banking system

There are eleven banks that are operating nowadays in the banking system in Kosovo, representing 67.8 percent of the total assets in the financial sector. Access to these services is enabled through 211 branches and sub-branches, 513 ATMs, 13,175 POS, and 411,347 e-banking accounts. Total assets of banking sector as of December 31, 2020 are worth of EUR 5.1 billion.

Nine banks with foreign ownership continue to dominate the banking sector, and they manage 86.3% of total assets. As regards to the country of origin, Austria, Germany, Slovenia, Albania and Serbia are represented with a single bank each, while Turkey is represented by three banks. There are 3,352 employees of commercial banks.

The profit of banking sector for the year of 2020 despite the pandemic situation was sound and it was at EUR 79.6 million which is less compared to YoY by 10.5%.

Kosovo's banks are well capitalized within an aggregate capital adequacy ratio as of December 31, 2020 by 16.5% (2019: 15.9%). The ratio of loans to deposits was at 74.5% (2019: 77.6%). The total non-performing loans on Kosovo amounted to EUR 87.4 million, (2019: EUR 60.3 million), and the ratio of non-performing loans was 2.7% (2019: 2.0%) based on report from ASK and CBK.

The average interest rate on loans was 6.0% (December 2019 were 6.4%). The average interest rate on deposits was 1.5%, (December 2019 were 1.6%). The interest rate spread in September 2020 was 4.5%, (December 2019 was 4.8%).

Table: Banking sector in Kosova (key indicators)

Bank	Period	Total assets 000 EUR	Loans to NBS 000 EUR	Deposits 000 EUR	Net profit 000 EUR	NPL 000 EUR	NPL %	ROE a.t. %	CAR %	CIR %	LTD %	Interest margin %
Banking Sector	2019	4,542,006	2,913,291	3,838,522	88,942	60,276	2.0%	18.9%	15.9%	40.7%	77.6%	4.8%
	2020	5,122,203	3,115,353	4,269,933	79,592	87,394	2.7%	14.0%	16.5%	38.7%	74.5%	4.5%
NLB Banka	2019	799,428	538,425	685,979	20,379	8,360	1.5%	25.1%	16.4%	31.9%	78.5%	4.1%
	2020	879,065	559,224	748,315	13,334	17,519	2.9%	14.4%	17.8%	31.7%	74.7%	3.8%

* Source: KBA reports

Despite intense competitive environment in the banking market, NLB Bank has achieved to show its presence in the market reaching the total market share of 17.2% compared to total assets. Which ranks the bank in third position in market.

Net Loans to NBS, remains as the second largest bank in Kosovo and had a market share of 18.0% (2019: 18.5%).

Deposits from NBS - had a market share of 17.5% (2019: 17.9%) remains as the second largest bank in Kosovo.

NLB Bank it is ranked as fourth bank in terms of **profitability** in banking sector, owning 16.8% of total profit of banking sector.

CIR in NLB Banka is better than peer group (Raiffeisen Bank, Procredit Bank, TEB Bank, BKT Bank).

CAR the Bank continued to have adequate and appropriate capital position at 17.8% (2019: 16.4%) better capitalized than Banking System which was at 16.5%, while the minimum is 12% as per local requirements.

LTD was 74.7%, which is higher than the average of banking sector 74.5%.

NPL (total loans) – increased to 2.9%, (2019 was 1.5%) whereas market average was 2.7%, (2.0% as of December 31, 2019).

ROE a.t. decreased to 14.4%, (2019 was 25.1%) and is above the market average which was 14.0%, but with stable trend comparing to market benchmark with higher fluctuations on year-to-year basis.

Strategy

NLB Banka is in line with renewed group's five-year comprehensive strategy, mirroring of Kosovo's economy. The aim is protecting and strengthening the market position and actively participate in the growth and consolidation of the market in Kosovo, as further extensive digitalization, significant increase of client centricity, and cost efficiency. NLB Banka will pursue further its strategy with sustainable development, maintaining high quality of loan portfolio, financial stability, while delivering continuously strong results and contributing to the society. The bank is focused in providing higher level of service quality and introducing new modern products. We will achieve this by focusing on the needs of our clients and the community at large, therefore delivering long-term sustainable value to all our stakeholders.

Vision and Mission

Within the bank's strategy, new vision and mission statements were defined, as set out below.
The foundations of our vision are:

- Together we will take care of the financial needs of our clients and will impact the quality of life in our country;
- We will improve the quality of life in our home country.

The foundations of the new mission are:

- We strive to improve and develop our home together for present and future generations;
- We are from this country; therefore, we understand its business environment, customs and, most of all; its people. With our commitment, knowledge, and our innovative solutions, we take superior care for our customers and create a better life, a better future for us all;
- Welcome to our home.

Further, the Bank will keep enforcing the following corporate values inside and outside the bank:

- Responsibility towards clients, employees and social environment;
- Commitment to deliver on our promises and objectives;
- Modern, innovative and professional;
- Open communication and cooperation;
- A win-win player;
- Efficiency in fulfillment of our commitments;
- Serving as bridge between Kosovo market and markets were NLB Group is present;
- Internal capacity building.

As part of NLB Group, NLB Banka will follow the UN Principles of Responsible Banking signed in Group level and it is part of the MIGA agreement of sustainable banking by undertaking commitments to EBRD and MIGA on the Group level.

NLB Banka renewed strategy addresses opportunities to boost growth and improve profitability of its operations. The new strategy puts forward a portfolio of strategic initiatives with short- and medium-term impact that will modernize and improve its operations, increase revenues, reduce costs and improve its growth prospects.

We are committed to developing a culture of client focus, risk awareness, integrity, efficient processes, and social responsibility. Honoring the mutual trust of our clients, employees, shareholders and the society in which we work gives us great responsibility. By incorporating our values in everything we do, we have the power to shape our environment and further contribute to positive changes.

In its core business the Bank will differentiate itself by in depth client understanding, providing high service level and advisory competence, easy accessibility and a competitive product/channel mix under a commonsense approach.

NLB Banka will be focused on upgrading client digital satisfaction and experience, developing and implementing new and innovative solutions by using digital and mobile technologies in order to meet the needs of a modern user and the changing environment.

Dividend Policy

The payment of dividends by the Bank will depend on several factors, including the Bank's capital structure, risk appetite, profits, financial condition, regulatory requirements, general economic and business conditions, as well as future prospects. The Bank's dividend policy envisages yearly distribution of dividends in the approximate amount of 70% of the Bank's result, while fulfilling all regulatory and risk appetite requirements.

Risk Factors

he Bank closely monitors the risk factors that might impact the result of the Bank. Amongst many challenges that the Bank will face during the following years, there are main risk factors that will have the impact on business activity of the bank: unfavorable low interest rate environment, lower interest margins, further deterioration of macroeconomic circumstances and instability in financial markets. The Covid 19 it was one of the biggest challenges in 2020 which will impact directly the macroeconomic indicators and activity of the bank also in 2021. Based on the measures taken by the governments of Kosovo, the Bank has granted an option of moratoriums on the payment of obligations to all eligible borrowers due to COVID-19, which is not treated as a trigger for a significant increase in the credit risk.

Outlook 2021

NLB Banka will pursue further its strategy in 2021 with sustainable development, maintaining high quality of loan portfolio, financial stability fostering resilience of the bank, while delivering continuously strong results and contributing to the society. The Bank foresees further growth of its activity in 2021 and continuing with good financial performance. However, in terms of banking COVID-19 will continue to be one of the biggest challenges in 2021, impacting directly, macroeconomic conditions and indicators, investments projects, consumption – over liquidity as result, pressure on interest rates and margins. Further the granted moratoriums it is expects to influence negatively the cost of risk.

Financial Performance

Table: Statement of profit and loss and other comprehensive income

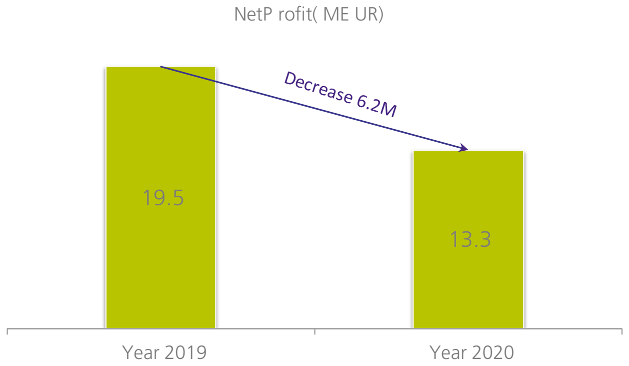
Income statement (000EUR)	2020	2019	2020/2019
Total operating income	**38,678**	**37,307**	**4%**
Net interest income	**32,286**	**31,014**	**4%**
Interest income	36,496	34,454	6%
Interest expenses	-4,210	-3,440	22%
Net non-interest income	**6,392**	**6,293**	**2%**
Net fee and commission income	**7,703**	**7,373**	**4%**
Fee and commission income	11,204	10,612	6%
Fee and commission expenses	-3,501	-3,239	8%
Exchange differences	23	17	35%
Gains/Losses from FA&FL held for trading (net)	316	339	-7%
Other net operating profits/losses	-1,650	-1,436	15%
Total Operating Costs	**-12,287**	**-11,798**	**4%**
Staff expenses	-6,158	-6,210	-1%
General and administrative expenses	-4,099	-3,807	8%
Depreciation	-2,030	-1,781	14%
Profit before impairments and tax	**26,391**	**25,509**	**3%**
Net Impairments and Provisions	-11,346	-3,521	222%
Profit before tax	**15,045**	**21,988**	**-32%**
Tax	-1,711	-2,443	-30%
Net profit	**13,334**	**19,545**	**-32%**

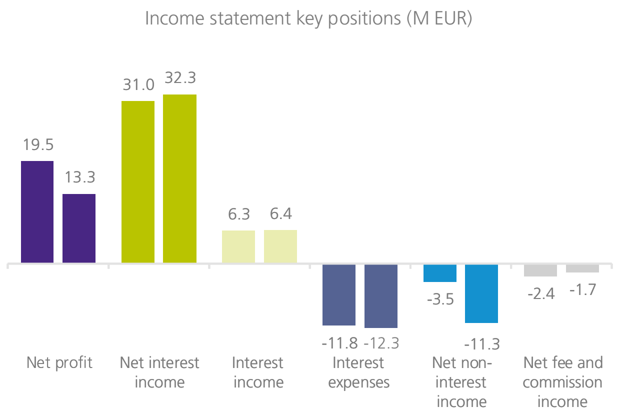
Profit

Despite negative implications deriving from the pandemic situation, the financial figures shown the sustainability of revenue generation, in terms of interest income throughout the year 2020. Additionally, besides the decrease of consumption the bank has shown its role of systematic bank and achieved the objectives of non-interest income. One of the main impacts produced by Covid 19 was the impact on impairment of assets, which during the year 2020 exceeded the risk appetite limit of the Bank. Actual CoR for the year 2020 was Euro 11.5M or 198bps while planed CoR was 52bps and risk appetite is 90bps.

Net profit for the year of 2020 amounted EUR 13.3 million and compared to YoY basis it decreased by EUR 6.2 million or 32%, this due to the prudent approach regarding COVID-19 situation (lockdown of economy) the bank has increased provisions for impairment of loans.

Illustration 1: Profit or Loss and other comprehensive income structure 2019-2020

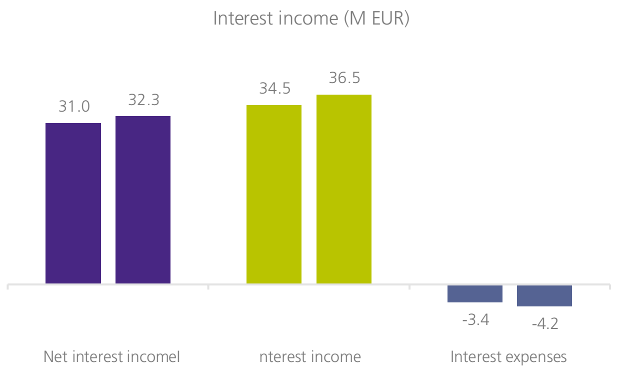




Net interest income

Net interest income amounted to EUR 32.3 million, compared to YoY basis it increased by EUR 1.3 million or 4%. Budget was exceeded by EUR 0.2 million 1% as a result of increasing of loan portfolio. Interest income of the Bank are dominated by revenues generated from loans, which increased in both retail and corporate segment, and another part is as a result of the increase of card business and AFS.

Illustration 2: Net interest income - Interest income/expenses 2019-2020

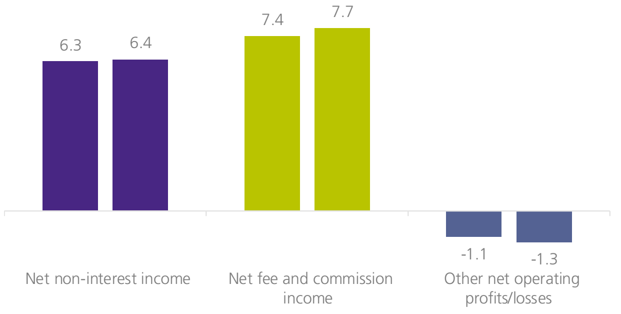


Net Non-interest income

Net noninterest income amounted to EUR 6.4 million and compared to previous year increased by EUR 0.1 million or 2%. Net non – interest income composes of:

- Net fee and commission income
- Net foreign exchange differences.
- Other operating income/expenses

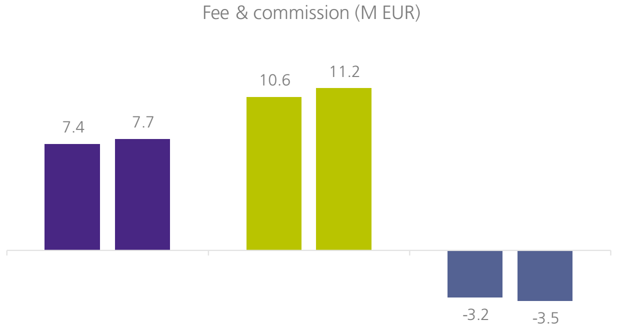
Illustration 3: Non-Interest income/expenses 2019-2020



Net fees and commission's income

Net fees and commissions income amounted to EUR 7.7 million, compared to 2019 increased by EUR 0.3 million or 4% which is driven mainly from income from account maintenance fee (recognition of income based on accrual basis from May 2019), POS and e-banking fee, but struggling on ATM transaction as result of less diaspora visits.

Illustration 4: Non-Interest income/expenses 2019-2020



Costs

Total operating costs amounted to EUR 12.3 million or more by EUR 0.5 million or 4% YoY, mainly impacted from staff expenses as result of decrease of management's salaries, and non-accruing and payment for bonuses.

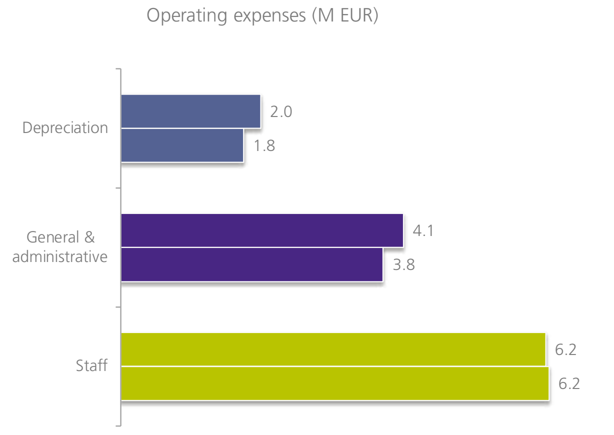
Costs continued to be a focus of management attention and were optimized through effective operations while improving processes and controls. Therefore, CIR decreased further to 31.8% (2019: 31.6%) which is more than previous year by 0.2%, due to increased income overweighting the increase in costs, also being the lowest in banking sector on the country.

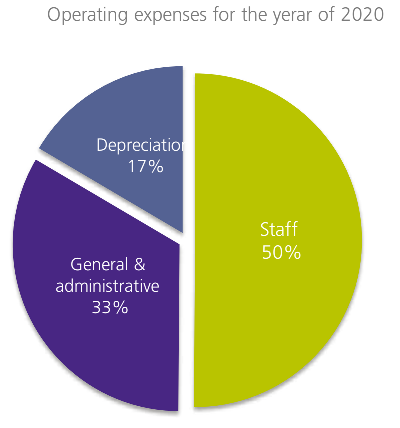
Staff expenses amounted to EUR 6.2 million and compared to 2019 are lower by EUR 0.1 million or 1%.

Depreciation costs amounted to EUR 2 million and are more compared to YoY by EUR 0.2 million or 14% as a result of some projects, investments that were postponed for year 2020.

General and administrative expenses amounted to EUR 4.1 million and compared to YoY are more by EUR 0.3 million or 8%, mainly in communication costs, technology and services costs.

Illustration 5: Operating expenses 2019-2020





Provisions and Impairments

Provisions and Impairments – were much higher compared to the previous year by EUR 7.8 million or 222%. The main drivers that caused such increase of provision is deterioration of portfolio, staging of clients within performing and in non-performing portion of portfolio. Additionally, the deterioration of clients was also deriving from the clients after first wave of moratoriums which expired thus were not able to serve their overdue debt, then individual assessing all the clients which used the second moratorium and based on the risk profile of the clients some of them are entered in to Watch list. And the last but not least is also changing the risk parameters as per IFRS9 methodology.

Cost of risk – net as of 31.12.2020 is EUR 198 bps whereas the annual plan was EUR 51 bps. The bank on continuance reviews the quality of assets and the cost of risk without account maintenance – net for December is 173 bps.

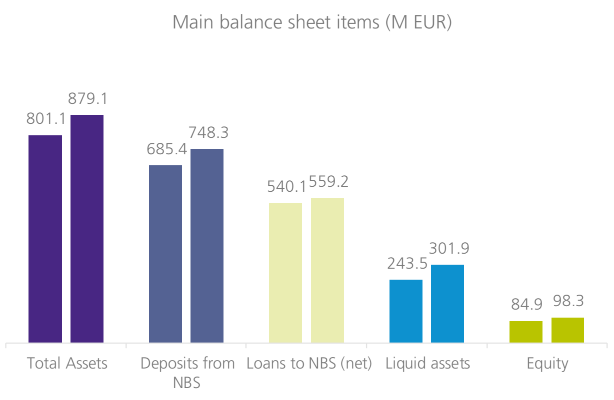
Statement of financial position

Balance Sheet (000EUR)	2020	2019	2020/2019
Total Assets	**879,064**	**801,085**	**10%**
Cash and balances with central banks	169,346	132,491	28%
Placements to banks (net)	29,837	33,008	-10%
Loans to non-banking sector (NBS)- gross	596,076	567,103	5%
Loan impairments to non-banking sector	-36,853	-27,030	36%
Loans to non-banking sector (net)	**559,223**	**540,073**	**4%**
Loans to corporate (net)	*343,287*	*335,332*	*2%*
Loans to retail (net)	*215,927*	*204,741*	*5%*
Loans to state (net)	*9*	*0*	
Securities	102,710	77,977	32%
Fixed assets	14,610	14,753	-1%
Other assets	3,338	2,783	20%
Total Liabilities	**879,064**	**801,085**	**10%**
Total Liabilities	**780,729**	**716,158**	**9%**
Deposits from banks	1,172	594	97%
Borrowings (Leasing)	5	17	-71%
Deposits from non-banking sector	**748,317**	**685,385**	**9%**
Deposits from retail	540,927	476,546	14%
Deposits from corporate & state	207,390	208,839	-1%
Subordinated debt	15,008	15,021	0%
Other liabilities	16,227	15,141	7%
Total equity	**98,335**	**84,927**	**16%**
Issued capital	51,287	51,287	0%
Retained earnings	31,961	12,416	157%
Other	1,753	1,679	4%
Profit/loss for the period	13,334	19,545	-32%
Off balance sheet main items	**43,509**	**45,120**	**-4%**
Guarantees and letters of credit	25,302	26,325	-4%
Written-off loans in off balance	18,207	18,795	-3%

Total assets continued with the increasing trend reaching its peak in amount of EUR 879 million as at 31.12.2020, which is the highest sum of statement of financial position amount since the establishment of the Bank. Compared to the year of 2019 there was an increase of total assets by EUR 78 million or 9.7%.

The main driver of the increase of balance sheet during 2020 it was the decrease of consumption and as consequence increase of deposits base of the bank.

Illustration 6: Main balance sheet items and assets structure 2019-2020



Cash and balances with CBK amounted to EUR 169.3 million. Compared to the end of 2019 increased by EUR 35.1 million or 26.2%. Only liquidity reserve amounted in CBK is EUR 62.9 million. The main driver of such increase is due to inflows of payments from the Government towards its contractors.

Term deposits (Placements with other banks net) amounted to EUR 29.8 million. Compared to the year of 2019, the balance decreased by EUR 3.2 million or -9.6%.

Securities amounted to EUR 102.7 million and compared to the year of 2019 it increased by EUR 24.8 million or 31.7%. Major part of securities are placed in Kosovo Government treasury Debt Securities with maturity from one year up to six and a half years, the other part in securities in US Bonds, Belgium bonds and equity securities investment in VISA.

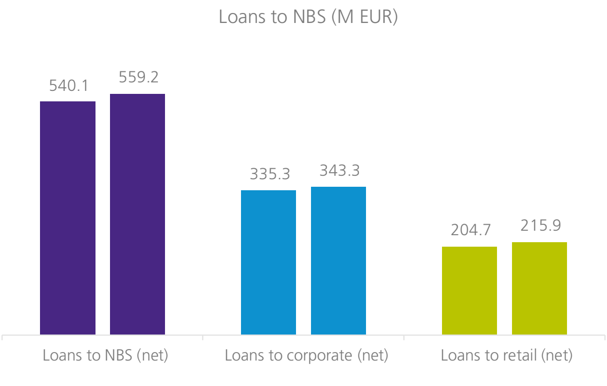
Gross loans of the nonbanking sector amounted to EUR 596 million. Compared to the year of 2019 it increased by EUR 28.9 million (5.1%).

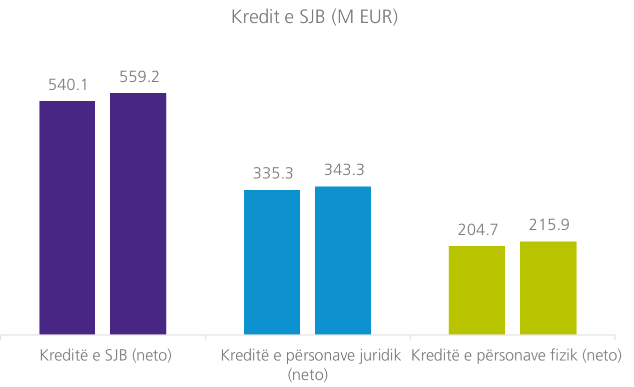
Net loans of the nonbanking sector amounted to EUR 559.2 million. Compared to the year of 2019, portfolio increased by EUR 19.2 million or 3.5%. The structure of net loans to nonbanking sector consists of 61% of loans to corporate and 39% of loans to retail, with sound quality structure of portfolio.

Such increase was driven by an extraordinary engagement of the sales staff, being more active in the market and the positive impact of the marketing campaign.

The LTD ratio (net) of NBS reached 74.7% for the yearend of 2021 and as of end of December 2019 was 78.8%. The bank monitors the trend of deposits and its liquidity position on daily basis.

Illustration 8: Net loans to NBS 2019-2020

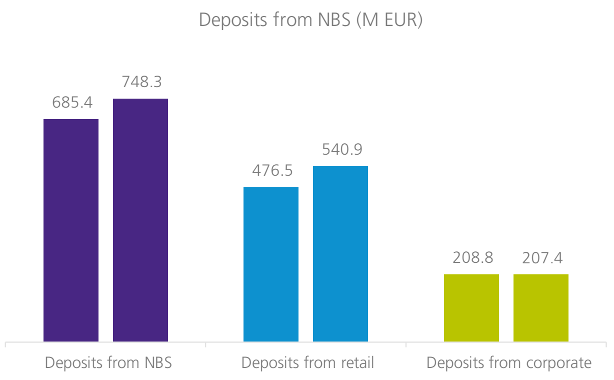




Net impairment and provisions - The Bank continued to have a conservative approach for creating impairment and provisions, especially with the pandemic situation. The amount of provision amounts to EUR 36.8 million, which increased compared to the year 2019 by 36.3%.

The structural share of customers' deposits continued to increase and accounted for 85% of the total funding of the Bank. Deposits of NBS amounted to EUR 748.3 million, compared to previous year increased by 9.2%. The structure of deposits consists of 72% of deposits to retail and 26% of deposits to corporates; the remaining 2% is deposits to government.

Illustration 9: Deposits from NBS 2019-2020



Shareholders` equity

Due to the pandemic situation and restriction from CBK on profit distribution, CAR of the bank has continued to increase and has reached 17.8%, which is both higher than regulatory of 12% and group internal requirements. Therefore, the Bank is in compliance with the regulation of the Central Bank of the Republic of Kosovo regarding the capital adequacy.

The Bank continued to be well capitalized, and as per IFRS shareholders capital amounted to EUR 96 million and compared to 2019 increased by EUR 11 million. In current year, the Bank has not distributed dividends, being in compliance with CBK restriction for the market.

The General Meeting of Shareholders was held on March 26, 2021, where it was decided for no dividend distribution of profit for 2019 and 2020 as a result of the latest development with COVID 19. However, as the situation develops the General Meeting of Shareholders will analyses further and promptly react up where an appropriate decision will be taken.

Activities by business segments

Corporate Banking

18,986 Clients or 0.5% more than 2019;

16,619 debit and credit cards to legal entities, or 7.7% more compared to 2019;

Corporate banking is a key activity of banks globally which plays a pivotal role for the economies they serve. 2020 has been an challenging year for the banking industry. There have been plenty of uncertainties on the horizon and there has been a risk that everything might change far quicker than predicted. Meteorologists draw a distinction between the long-run trends of climate change and the fluctuations of day-to-day weather conditions. We had the same approach to the banking predictions during this year. Despite every attempt by banks to redefine and refocus themselves, this remains the case. Nevertheless, the banking sector needs to master this kind of transformation. Even those who have already worked through the effects of the financial crisis do not yet see a silver lining on the horizon.

We have differentiated our corporate customer business models, our staff maintains close customer relationships and have advised clients on all financial issues. Our effort has been focused being on the side of the clients and helping them for finding the best solutions for their needs and financial difficulties. We managed to postpone more than 50% of their debt's, by facilitating their businesses operations to overcome this pandemic crisis. The Bank has continued to respond to these changes, and it is acting as a strategic partner for its customers. That means properly understanding our client needs and translates them into quick and simple solutions.

Based on the principles that are mentioned above, we are continuing to maintain our position as one of the key banks for all sizes of corporate clients in Kosovo, servicing more than 18,980 companies in 34 branches and sub branches, by offering different products and financial services to our clients, including lending, payment services, as well as trade finance. The Bank continues to be a reliable partner to all segments of enterprises. The strategic focus is to increase support of SME-s.

The business activities with legal entities are continuing to represent the largest share in the Bank's activities. It incorporates short-term loans for current needs, credit lines, overdrafts, long term loans for financing of investment projects, loans for construction of business facilities, letters of credit and guarantees, depositary operations, services of domestic and international payment transactions.

Table: The main/key data on operations with corporate banking

000 EUR	2020	2019	2020/2019
Amount of corporate loans (net)	343,287	335,332	2%
Amount of corporate & state deposits	207,390	208,839	-1%
Number of clients	18,986	18,896	0%
Number of cards (debit)	15,174	13,706	11%
Number of cards (credit)	1,445	1,726	-16%
Number of E-banking	9,512	7,539	26%

Illustration 10: Trend of loans & deposits with corporate banking 2019-2020

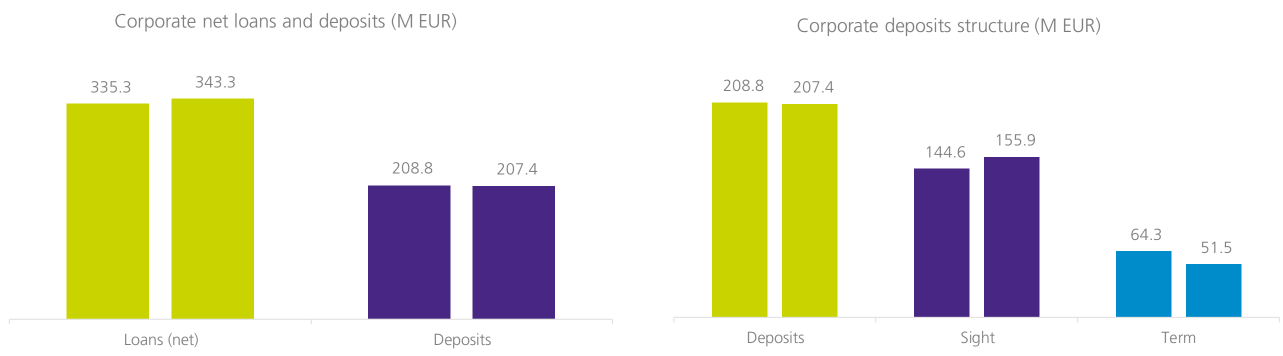
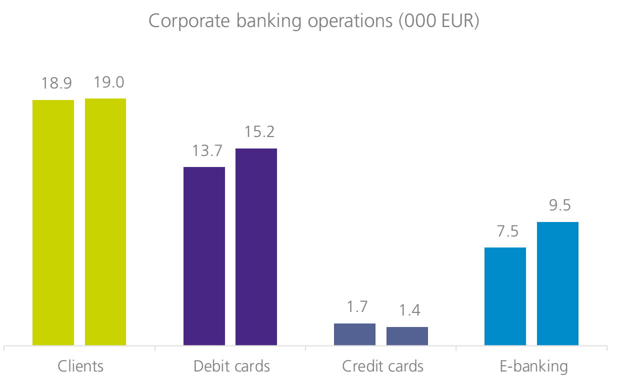


Illustration 11: Trend of number of corporate banking operations 2019-2020



Despite strong competition, CV-19 pandemic circumstances and the economic recession of the Country (-7.2%), the Bank has achieved to raise their business by increasing corporate loans for 16.2M or 4.5% compare to the end of year 2019. In the other side, due to business strategy for decreasing interest expenses, we achieved to decrease corporate & state deposits for 1% compared to the end of year 2019.

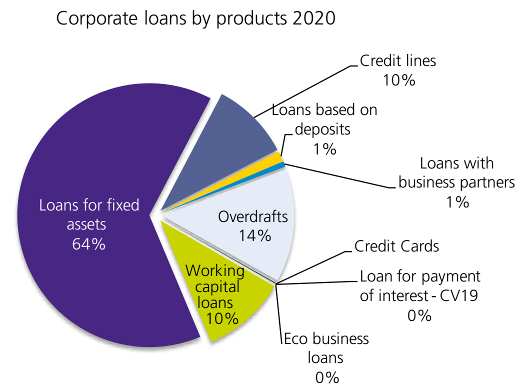
The Bank also ensured optimization of the risk profile by keeping a close monitoring of the loan portfolio focusing centrally on maintaining a qualitative loan portfolio and finding the best solution for their clients. All those results are achieved based on key strengths that we have as follow:

9,512 e-banking users in the segment of legal entities. Continuous growth of users, with yearly growth of 26.2% during 2020;

2,397 POS-es, with yearly growth of 4.6% during 2020.

- Close monitoring and cooperation with clients;
- Professional and specialized staff, agile and costumer oriented, properly understanding client needs, and requests;
- User-friendly e-banking platform for providing customers constant availability of our service, whenever and wherever;
- Extensive range of financing products supported by flexible, tailor-made products and professional service;
- Broad product offer to corporate clients and increasing focus on SME segment;
- New services with Dropbox for cash deposits 24/7 by reducing direct contacts during the pandemic restrictions;
- Very strong and growing position in corporate loans.

Illustration 12. Structure of new loans of corporate by products



Retail Banking

Retail banking during 2020 despite challenges and difficulties continued its development course and success, in line with strategy of the Bank. Our market position is ranked as second bank and remains as one of the best retail banks in the market with 18.9% market share.

In addition to the regular sales activities related to retail banking operations, our main focus continues to be improving the quality of services in line with the highest standards of the NLB Group. Our customer centricity approach toward customer needs will satisfy them by changing life quality in long

321,143 Individual Clients, or -1.9% less compared to 2019, as a result of review and update of customer data;

293,803 Debit and Credit cards, used by individuals, or 7.5% more compared to 2019;

term. On the other hand, improvements to the client's digital experience, and a focus on advisory rather than transaction services by branches will promote customer migration to digital channels.

Through these continuous efforts and initiatives, we have succeeded to retain our retail client base during 2020 as a precondition to increase retail loan portfolio and support of investment plans for retail clientele, so that retail clients can purchase homes and increase their family assets. Retain of retail client base led to increase of retail deposits portfolio, debit and credit cards, e-banking & m-banking users and resulted in achieving higher levels of client satisfaction, confirmed by client satisfaction survey performed by outsource company.

Branch network: The branch network of NLB Banka is an important factor in being as close as possible to customers. Therefore, the allocation of 34 branch network in 9 major cities is a competitive advantage of the bank including the total 34 number of branches and subbranches. The bank has invested in increasing the number of ATMs by 28, thus reaching the total number of 99 ATM's. 67 of them are ATM depositors, which have been located in Branches throughout Kosovo, as well as in the most frequented places outside of Branches.

Every sales initiative is followed by marketing campaigns that enable effective communication with customers. All marketing campaigns have utilized adequate marketing channels and helped not only sell products but also enhance the image of the bank.

New products and services – main activities:

The Bank during 2020 has introduced new projects and products such as:

- New communication channels: Viber Chat, Web Chat and Co-browsing;
- Launch of New platform for m-klik mobile banking;
- Introducing VISA cards to NLB Pay Digital wallet;
- Increase of contactless payments limit from 15€ to 40€;
- ATM network expansion (increase in the number of ATMs up to 99);
- Implementation of moratorium (deferral of loan instalments for all segments: retail and corporate);
- Marketing Communication throughout the year on raising awareness for digital services and online banking, banking tips during COVID-19 (online applications, loans, electronic services, cashless payments, NLB Pay…)
- Consistent sales activities to increase number of tri-partite agreements with real estate companies, furniture, home appliances, universities, auto salons accompanied with specific marketing campaigns published on communication channels;
- Regular marketing campaigns (TV, radio, digital, social networks etc.) to support sales;
- Loan campaigns - Individual loan up to 5,000€, auto loan, loan up to 50,000€ without mortgage, unsecured loan, special offer dedicated for categories such as: Doctor, police officer, Kosovo Army and education staff;
- #Help Frame Project – supporting small and micro businesses with advertising spaces all over Kosovo;
- Continuation of LOPA project (Loan Origination Process Advancing);
- Donations to the University Hospital and Clinical Service of Kosovo (QKUK).

52,015 E-click and M-click individual users, or 31.1% growth of digital users, compared to 2019;

Table: The main data on operations with retail banking

000 EUR	2020	2019	2020/2019
Amount of retail loans (net)	215,927	204,741	5%
Amount of retail deposits (net)	540,927	476,546	14%
Number of clients	321,143	327,597	-2%
Number of cards (debit)	271,977	250,008	9%
Number of cards (credit)	21,826	23,251	-6%
Number of E-banking	22,360	18,402	22%

Illustration 13. Trend of loan & deposit operation with retail banking: 2019-2020

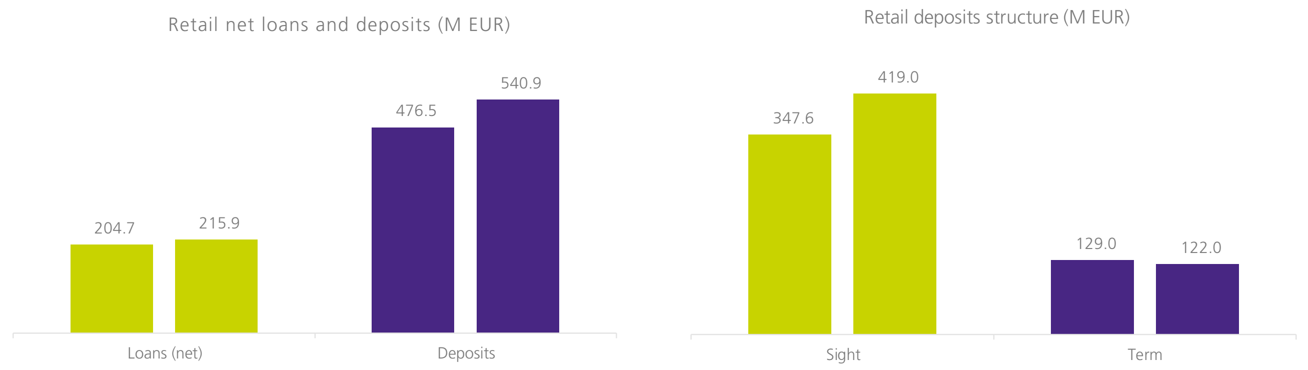


Illustration 14: Trend of retail banking operations 2019-2020

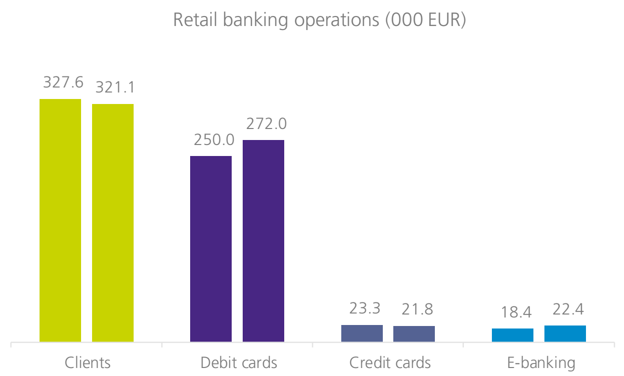
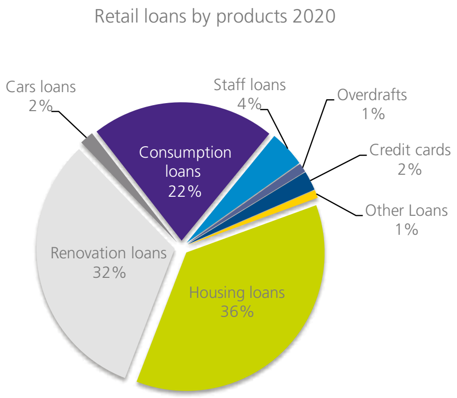


Illustration 15. Structure of new loans of retail by products



34 Branches/ sub-branches, covering the most populated towns in Kosovo;

Modern distribution channels

- The Bank continued to expand the user portfolio of modern payment channel products by successfully adding VISA card portfolio into NLB Pay Wallet thus becoming the only wallet in the market offering inclusion of both Brands in wallet. Also, by introducing the new m-Banking platform which offers our clients new features and modern and user-friendly interface, has led to the increase of the number of users as well as satisfaction in terms of quality of services.

- m-Klik (m-Banking) platform of the Bank now offers to all its users the Personal Finance Manager to keep track of their finances, managing their daily card limits and paying credit card debts amongst other services.

- As a result of development of electronic channels, number of transactions and turnover from the clients using modern channels of distribution has increased continuously. Our ATM's have an increase of 17% in volume and 4% in number of transactions, whilst POS Acquiring business has a 36% increase in volume and 56% in number of transactions compared to year 2019. Similarly, we have an increase in volume of NLB card transactions in POS terminals by 36% and in number of transactions by 56% and also an increase in volume of NLB card transactions in ATM terminals by 21% and by 5% in number of transactions. And finally, the increase of 12% in number of ATM deposit transaction and increase of 11% in volume of ATM deposit transaction.

Financial Markets and Payments Operations

Assets and Liabilities Management

Covid-19 was not a business as usual situation, from the viewpoint of balance sheet and asset liability management, this has tested the banks capabilities to be responsive and agile, which in turn was dependent on the banks balanace sheet risk management infrastructure in terms of reliability of data, adaptability of modeling acititvies, and the adaptability and sophistication of the balance sheet information to be able to stimulate the state of financial activities on a future basis.The balance sheet risks of the banks were managed effectively even during Covid-19, we managed the liquidity situation eeffectively and mainainting at the same time internal and regulators limits, apart from that the bank fulfilled its obligations in normal and during unusual situations. The assets and liabilities were managed continually by analyzing potential risks of liquidity, FX, interest rate risk and operational risks in the balance sheet.

In order to protect from a potential liquidity crisis, the proper liquidity management policy was implemented, by maintaining high liquidity buffers and severe stress testing to exploit entry points and avoid a liquidity trap in case of a deteriorating liquidity situation. Liquidity mismatches happen and Covid-19 outbreak is a reminder of this and that there is a trade off in term of returns and liquidity. Excess liquidity can be harmful in terms of return, but liquidity is crucial in times of crisis.

In order to protect the profitability of the bank, the bank undergoes monitoring this through proper fund transfer pricing policy where units in the banks are guided to achieve their targets by having a centralized interest rate risk management.

The main funding of NLB Bank remains to be our client deposits which indeed even during the crisis we had an increasing trend of deposits in our bank, and one can say that funding risk remains low in our bank. In terms of managing liquidity, on a daily basis main liquidity ratios were being monitored including stress test scenarios were performed based on the new market developments be that ususal and very severe scenarios to see the shocks and the aspect of liquidity positions in case these happen.

During 2020 there was over liquidity in the banking sector eventhough there was the outbreak of the pandemic, deposits in the market reached all time high during 2020, this has led to further decrease the interest rate margins.

Liquidity Risk

The Covid-19 pandemic has triggered the deepest liquidity crisis since the Financial Crisis, highlighting market brittleness and the importance of sound liquidity management. Managing the liquidity risk becomes very important especially in times of crisis in order to retain the customers trust and ensure the stability not only of the bank but the the financial system. We have assessed short- and long-term impact on different areas and defined a staretgic responses to liquidity risk management methodologies and processes. We have revied and monitored daily liquidity stress testing reporting, liquidity coverage ratio and NSFR results, and other liquidity ratios. We have monitored the market activity against the liquidity stress indicators for triggers that would activate the Contigency Funding Plan. Analysis were conducted to determine the size and impact of any liquidity shortfall.

The liquidity crisis has highlighted once again the importance of a powerful and active liquidity management policy through liquidity buffers, stress tests, and access to a wide and varied range of counterparties or instruments that may prove more liquid during market stress.Therefore, the bank was concentrated in proper liquditiy management by investing highly liquid assets mainly by investing in foreign high rated European and US Government securities including Kosovo Government securities. Apart from having invesments in highly liquid assets especially in international market, the bank in this way impacted positively also on lowering the risk weighted assets. NLB Bank has maintained during 2020 all liquidity ratios that are set by internal and regulators which were monitored on the daily basis. We complied fully with the debt ceilings determined by NLB Group methodology of credit rating analysis and classification based on the existing credit rating from international credit rating agencies.

Foreign Currency Risk

Foreign currency risk indicates the risk of negative effects on as exchange rate risk, the possibility depreciation will negatively affect the value of one's assets investments. The foreign exchange positions are monitored on a daily basis and the foreign exchange rates are closely monitored. The FX risk is controlled and managed accordingly based on the internal policies and also in compliance with the Central Bank regulations on foreign exchange and neither internal nor central bank limits were exceeded during 2020. NLB Bank has a very low level of exposure on FX risk and we do not hold any speculative positions, and we are the only bank in Kosovo that offers foreign currency exchange services in the market in nine currencies which includes USD, CHF, GBP, NOK, SEK, AUD, CAD, HRK and DKK.

Payments systems

The Covid-19 pandemic has accelerated some computerized banking activities that were at that point in progress, while giving the chance to additional advancements especially in terms of digitalization. During 2020 our bank has offered its clients solutions in terms of offering electronic advancements in terms of electronic payments in order to be able to complete transactons in an easy, fast and reliable manner. As a result of this we have seen an increase in electornic payments though e-banking both for national and international payments which corresponds to the strategy of the bank even for the future to be in line with developments and soutions to the clients in a more digitalized world.

Nowadays it is very crucial to offer fast and safe worldwide money payments for clients with cross-border aspect. Therefore, we offer the support to make easy, fast and reliable way to make global payments. Having a broad network with correspondent and relationship banks and 10 situation banks, we are able to process international payments to any foreign beneficiary in the world.

As a member of SWIFT network, this puts our bank in advanatage in term sof realizing international payments in a more reliable and secure format be that for outgoing or incoming payments.

During 2020 the Bank has made necessary developments in the application for international payments processing in order to comply with SWIFT's 2020 annual Standards MT release, which confirm when a payment has been credited to the account of the beneficiary, placed on hold or transferred outside of a SWIFT.

Universal confirmation of payments will enable our bank, and other banks as well, to provide an improved customer experience by offering transparency and certainty that the funds have reached their destination; and crucially confirmations enable the building out of new value-added services proof to the customers.

In 2020 it has been implementd IBAN Plus that enables validation of IBANs and deriving the corresponding BIC from IBAN. IBAN Plus provides a worldwide central database that contains IBAN-related data deo financial institutions in SEPA and non-SEPA countries that have adopted IBAN.

In terms of international payments, if we compare the data of 2020 with the previous year, we have an increasing trend for outgoing payments, in the amount of payments we have an increase by 1%, including in the number of payments where we have an increase of 1%. In terms of incoming payments if we compare the data of 2020 with the previous year, we have an increase in the amount of payments by 41%, including in the number of incoming payments where we haven an increase by 30%.

Furthmore, we see an increasing trend in e-baking in international payments, if we compare the data of 2020 with 2019, we have an increase by 15% in amounts and 18% increase in the number of internationalpayments though e-banking compared to last year.

In terms of national payments if we compare the data of 2020 with the previous year, we have a decreasing trend for outgoing payments in the amount of payments by 2%, but an increase in the number of payments where we have an increase by 4%. In terms of incoming payments if we compare the data of 2019 with the previous year, we have an increase in the amount of payments by 1%, including in the number of incoming payments where we haven an increase of 14%.

In addition, we see an increasing trend in e-baking also in national payments, if we compare the data of 2020 with 2019, we have an increase by 12% in amounts and 15% increase in the number of national payments though e-banking compared to last year.

Illustration 16. National payments

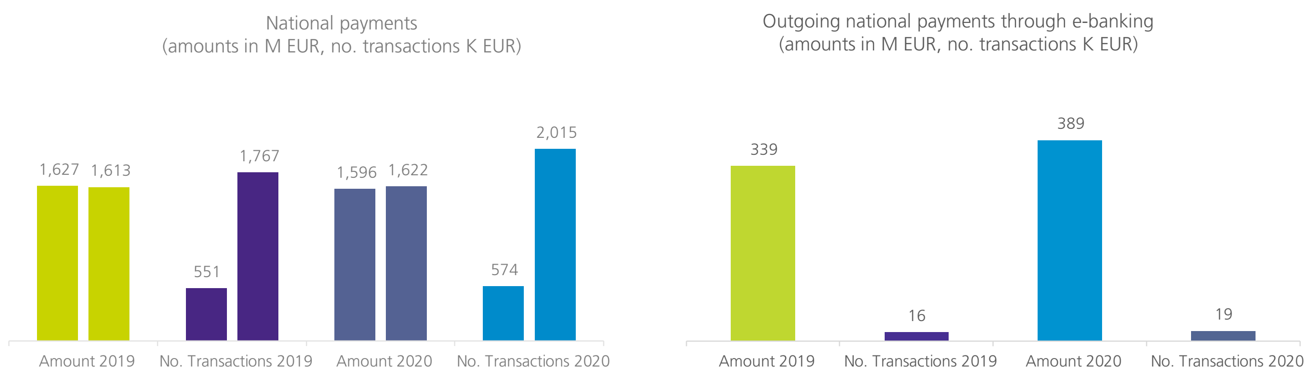
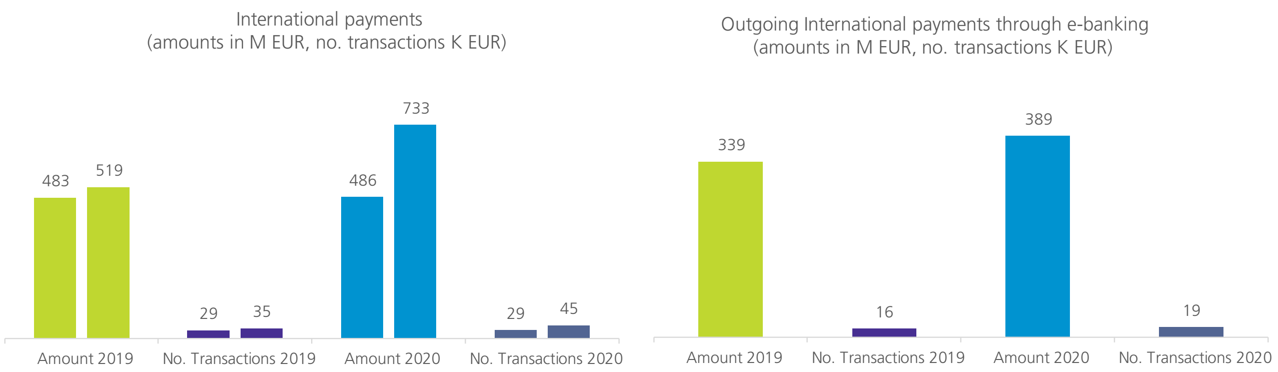


Illustration 17. International payments



Trade Finance

During 2020 we have created and adapated trade finance solutions to fit the business needs for our clients in order to offer the best options for them. The expansion of our network remained also a key aspect to develop more realtionships with other counterparts and banks. Being part of NLB Group which has a wide presence and professional expertise, this offers us an additional advantage in broadening our geographic cover and products.

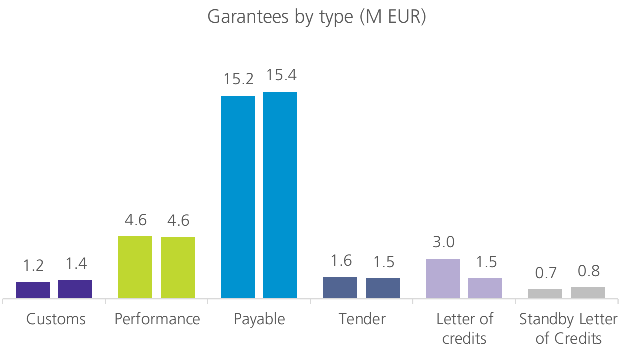
NLB Bank in the year 2020 was awarded for the fourth time, by European Bank for Reconstruction and Development - EBRD as the "Most Active Issuing Bank in Kosovo for 2019" for using the TFP (Trade Facilitation Program) of EBRD.

Under the Trade Facilitation Program, the Bank was enabled to offer a range of trade finance products, thus facilitating international trade for its customers, in different countries of the world where EBRD does operate.

In 2020 there are issued trade finance instruments for the total amount of 23 Million euros, where out of this amount about 15 Million euros were guarantees and 8 Million Euros letters of credit. Payment guarantees and letters of credit comprise the largest portion of the total amount of issued trade finance instruments, followed by tender guarantees, service guarantees and similar.

Total LG and LC portfolio as of 31.12.2020 was lower for 4% compared to last year same period.

Illustration 18. Guarantees and Letter of Credits



In 2020 NLB Bank, has continued, as in the previous years, to support its clients by advising to them guarantees and letters of credit issued by foreign banks in their favor.The Bank has also kept acting as the Intermediary in the concluded escrow agreements; and related to documentary collections. We will continue to support our clients by providing them an option to new opportunities in a professional and expert level which will allow us to guide our clients in this fast-changing market.

Information technology

In 2020, IT continued to play it's role of supporting business operations and ensuring efficiency of operations. Several infrastructure and application projects have been implemented in IT field in order to ensure proper IT support for the business processes and development initiatives that increase productivity, performance, improve the customer experience, streamline communications and enhance managerial decision-making.

One of the biggest challenges faced in 2020 was related to provision of business continuity in a pandemic environment were the necessary infrastructure had to be provided for remote access (work from home). This was achieved in a short period of time for around 170 employees (over 35% of total number of employees). This was achieved by fulfilling all security standards including multifactor authentication (MFA).

The bank has actively participated in regional standardization and optimization initiatives in the fields where such activities were initiated. Based on the standardization strategy for network equipment, the bank has ordered the quantity of network equipment that will completely replace its network infrastructure based on Cisco technology with groupwide adopted strategy for replacement with Juniper technology. All Cisco equipment is replaced with Juniper with total investment of around 700,000 EUR which will contribute in the achievement of a modern and highly scalable network infrastructure capable of implementing networks of the future using SDN (Software Defined Network) technology.

The bank has initiated a project for implementation of NAC (Network Access Control) solution. This project is in line with the defined cybersecurity strategy of the group which requires implementation of a such solution. Total planned investment is 50,000 EUR. RFP has been completed, while the implementation itself is planned to be finished in Q1 2021.

As part of standardization of printing infrastructure, the management of the bank has approved the offer from Konica Minolta. The necessary infrastructure has already been setup and implementation started. The whole project will be completed is expected to be finished in first quarter of 2021. It includes the investment of over 100,000 EUR and will bring to the bank an additional level of security by implementation of SafeQ product for secure printing environment. The project is expected to provide cost benefits to the bank as well.

Based on the standards set at NLB Group level for standardization of server infrastructure, the bank has replaced most of its servers in 2020. Total investment along with purchase of datacenter virtualization licenses is more than 300,000 EUR.

In order to enhance quality and capacity of lines with NLB d.d. and enable higher quality of existing services provided by NLB d.d, IT has implemented new telecommunication lines with NLB d.d. It will serve as a prerequisite for expansion of services that will be used through NLB d.d. and possible dislocation of data centers.

In 2020, the bank actively participated in groupwide implementation of IT Asset Management solution as an IT solution for centralized and automated management of IT assets in NLB Group. Implementation is managed by NLB d.d with significant involvement of NLB Banka Pristina.

The bank has invested 300,000 EUR in replacement of Storage Equipment and Business Continuity solution (data replication) with NLB Group standard equipment based on Hitachi technology. New storage system has been implemented in both, primary and disaster recovery site.

On the other hand, the bank has implemented a new backup software (investment of around 60,000 EUR) which was a prerequisite for developing a business continuity strategy of the bank in case of scenarios like cyberattacks, unauthorized deletion of data, software errors, etc. that cannot be compensated by switching over to secondary location. The recovery form such scenarios was tested successfully.

In support of business requests, IT participated in preparation, modification and testing of API Backend Connectors and Core System to support LOPA project requirements. On the other hand, IT accomplished it's part of tasks relating to implementation of Securities module, swift changes, GPI, setup, configuration, and support for core system and other related modules and reporting to provide moratorium functionality for products such: Loans, Overdrafts and Cards and requirements from Central Bank of Kosovo.

In 2020, IT integrated the core system of the bank with CAK (Cadaster Agency of Kosovo) system. The exchange of data and documents now is in the electronic form using Web API technology.

In 2020, special consideration was paid to develop development and testing of a business continuity strategy of the bank in case of scenarios like cyberattacks, unauthorized deletion of data, software errors, etc. that cannot be compensated by switching over to secondary location. The recovery from such scenarios was tested successfully.

In order to provide even better protection from DDoS (Distributed Denial of Service) attacks, the bank has implemented DDoS protection at the ISP (Internet Service Provider) level. In 2020, the bank managed to keep a low number of vulnerabilities in server environment and achieved almost 100% patching level of servers. In 2020, the management of the bank approved the "Patch Management guidelines" in order to expand patch management coverage from servers to PCs, network equipment and other devices.

Risk Management

As a financial institution the Bank is inherently exposed to various types of risks as part of its business activities. Thus, responsible and efficient risk management enables healthy and sustainable growth of our bank. Having a sound risk management system underpins efficiently meeting our client needs while delivering value for our shareholder and stakeholders.

We take a comprehensive approach towards risk management, which is articulated through our risk strategy and risk appetite. Robust risk management practices are integrated within day to day activities of the Bank, through a well -established organizational structure supported and led by a sound risk management strategy ensuring appropriate overview and accountability within the Bank.

Therefore, the main role of the risk management is reflection and implementation of the risk appetite of NLB Banka sh.a, in integrated and consistent manner, which begins with understanding the specifics of the bank and market specifics, with a sole objective of maintaining and contributing on the effective and efficient risk management.

A well-established risk management function employing a structure of non-executive and executive directors enables independent and efficient risk governance. Employment of a three lines of defense model is the backbone of the risk governance structure of the Bank.

Lending activities as one of the core business activities of the bank exposures the bank towards the credit risk, which is also the key driver of credit risk exposure. Therefore, in order to establish a prudent approach towards risk management, the Bank has employed practices aligned with NLB Group risk management strategy and CBK regulations acknowledging local specifics and differences of business environment prevailing in the Kosovo market. Such an approach enabled installment of an efficient and effective credit risk management system.

Operational Risk - Purpose of risk management is to manage the exposure towards the operational risk and mitigate the potential loss that may occur as a result of inappropriate internal systems, process of control, weaknesses and failures during the process of work, illegal activities and external events which may cause losses to the Bank. In order to enable a sound system of operational risk management, the Bank has established appropriate structures (operational risk management committee) and assigned responsibility and accountability through a decentralized approach with in the organizational structure of the Bank, in order to ensure efficient risk identification, recording, mitigating and monitoring of operational risk. The loss events arising from operational risk were followed on monthly basis, actively monitored and reported to internal bodies of the Bank.

Details on Risk Management including credit risk, liquidity risk, interest rate risk, capital management risk, etc. are disclosed in note (31) in risk management section of the audited financial statements.

Corporate social responsibility

Social and environmental activities

The social responsibility of institutions is an active and voluntary contribution of the institution with the purpose of improving social, economic and environmental conditions and improving their competitive position. From this perspective, NLB Banka which is socially responsible, continuously builds its credibility, enriches its image and makes its brand more powerful, contributes to significant long-term profitability, contributing to the improvement of financial performance, developing employee skills, increasing credibility and customer preference.

As a part of the NLB Group and as a Bank operating in Kosovo, we have an important mission for society and social responsibility for the environment in which we operate, in addition to achieve good financial results, we also contribute to a qualitative life for all citizens. We have a responsible attitude for shareholders, employees, clients, and the whole society. We are aware and pay special attention in gaining new knowledge and lifelong learning, being aware of the rapid social changes, the technical-scientific revolution, where teaching has already become a way of life, and not just preparation for life.

In January 2020, the World Health Organization (WHO) declared the outbreak of the new Coronavirus disease in Hubei Province, China as a Public Health Emergency of international importance. The WHO stated that there is a high risk of spreading the new coronavirus (COVID-19) to other parts of the world. Both our country and consequently our Bank and the employees faced the pandemic starting from March 2020. We were not alone in facing this reality. It took on different dimensions in different places. As such, the concern during the year also took on wide proportions. Therefore, each of us individually and collectively reflected on what we experienced, and on all the concerns that preoccupied us.

This was a difficult year globally. Throughout the year we increased the awareness for extra care, keeping physical distance, personal hygiene and wearing a mask, and at the same time we called for cooperation and coordination with each other, helping everyone who was affected by this virus. We were together in it and it only made us stronger. Together, for whatever may come!

Activities undertaken in supporting of clients/ citizens

NLB Banka with its responsible work has managed to gain trust from customers, trying to always give advice based on knowledge, expertise and experience to help them prepare for everything that follows.
With the development of modern banking, investment and insurance services, the bank offers clients the services that are appropriate to their financial reality by helping them overcome the challenges and make the right solution to maintain their future.

NLB Banka has implemented the #HelpFrame project to support micro and small businesses in recovering from the pandemic and in business development by giving them advertising space on TV channels, information portals, social networks, billboards and citylight all over Kosovo. From this project, 20 local businesses have benefited from all over Kosovo. These businesses are active in the production, trade, services, agriculture and they bring innovative projects for environmental protection and social welfare.

Activities related to Humanitarian solidarity:

- NLB Banka donates 10 oxygen generator machines to University Hospital and Clinical Service of Kosovo thus contributing to the relief of public health emergency caused by COVID-19;
- Seeing the difficult conditions and challenges that the University Clinical Center of Kosovo is facing, NLB Banka has donated medical equipment and medicines in the amount of €19,765 to the Anesthesiology Clinic where patients with the most severe condition caused by Covid-19 are treated, Pediatric Clinic, Infectious Diseases Clinic and the Central Pharmacy at UCCK;
- Taking into consideration the difficult situation created as a result of the global pandemic Covid-19, NLB Banka bought flour which was donated twice a year to families living in poverty. The flour was distributed by the Humanikos association;
- NLB Banka has also supported families from minority communities who have children aged 0-6 with a donation made through Caritas;
- NLB Banka has donated for the recovery of Burbuqe Berisha (director and Director of the National Theatre of Kosovo, diagnosed with cancer) and Nora Saraçi (27-year-old girl from Mitrovica and diagnosed with acute leukaemia aml.);
- Donation to the "Autism" association on a monthly basis;
- Donation to the inter-municipal association of the blind, Prishtine, for the realization of monthly activities.
- Purchase of end of the year postcards made by children from "Down Syndrome Kosovo" Association and purchase "SOS Children Villages" Association

CULTURE AND ENVIRONMENT

Client environment care - With the approval of lending policies and procedures, the Bank has prevented the financing of clients' projects which could risk the pollution of environment. The Bank also adheres to those criteria regarding the credit lines which the Bank obtains from the international financial institutions.

Cultural and sport activities

As a result of the global pandemic, many sports activities for 2020 have been suspended. However, NLB Banka has continued to support and sponsor traditional sports activities.

- On February 16th was organized the Traditional Chess Tournament "Anniversary of Independence
- On November 2nd 2020 was held the eighth Memorial Chess Tournament "Mustafë Ibrahimi"
- NLB Banka is a sponsor of Football Club "FC Prishtina".
- NLB Banka has sponsored also the activities of Swimming Sports Club "H2O".

Human Resources Management

The functioning and performance of NLB Banka is based on a modern approach to human resource development and organization and processes, which are among the fundamental sources of competitive advantage and successful performance of NLB Banka's reputation and sustainable development.

Since the development is based on present and especially future needs, and that it derives from business strategy along with vision, mission, goals, culture, values and planned development, the Human Resource function is a strategic function and as such an important partner of the Management Board of the Bank.

The conveniences and difficulties in life and at work are unknown, and just as life and work creates the unknown. Our unknown that accompanied the whole world during 2020 was the Covid-19 pandemic. This unknown changed everything and everyone. It changed our behavior at work as well. It closed everything else but not our lives.

Therefore, in front of the human being, with or without intention, was placed the demand of internal reflection in the face of external action. In addition, it arose the need for change in behaviour, thought, judgment, and action.

Our confrontation with this unknown created both fear and panic, because its traces spread everywhere within us. Therefore, the Bank also formed the Crisis management team which was committed to make the right decisions for prompt actions in order to protect employees, clients and citizens.

The psychology of change starts from individual behaviour, precisely with the need that arises for a physical distance, for the use of a mask, for more frequent cleaning of hands and mainly for greater personal hygiene.

We changed our behaviour, it was imposed, but not even for a moment did we change our mission. Mission which we carried on with even more dedication, and with more will to be side by side with our employees and clients.

Pandemic forced us to transform our methodology and approach to work, so it was immediate that for conducting necessary work, to ensure the work from home for employees whose nature of work makes it possible.

Besides the activities that the Human Resources Section deal with on daily bases, during 2020 were also conducted the following key activities:

I. Assessment of the Employee engagement, with the external company "Interpretacija" from Slovenia
II. Organization Organizational Culture survey at the NLB Group level with the external company "Human Synergetic";
III. Announcement of various job vacancies, testing of candidates, interviews and the completion of hiring process as well as Compilation of various contracts, decisions.
IV. Signing of contract with the private health insurance company Scardian for the heal insurance of all Bank's employees- process which is conducted annually.
V. Signing of contract with the private laboratory Avicena for conducting COVID-19 testing for the Bank's employees as needed.
VI. Organization of various online and internal trainings;
VII. Organization of performance evaluation and the distribution of bonuses.
VIII. Despite the aggravated pandemic situation in our country during 2020, 30 students completed their internship at the Bank, with a minimum duration of two weeks and a maximum of six months. At the end of the internship, all participants received certificates.

Illustration 19. Structure of employees 2020

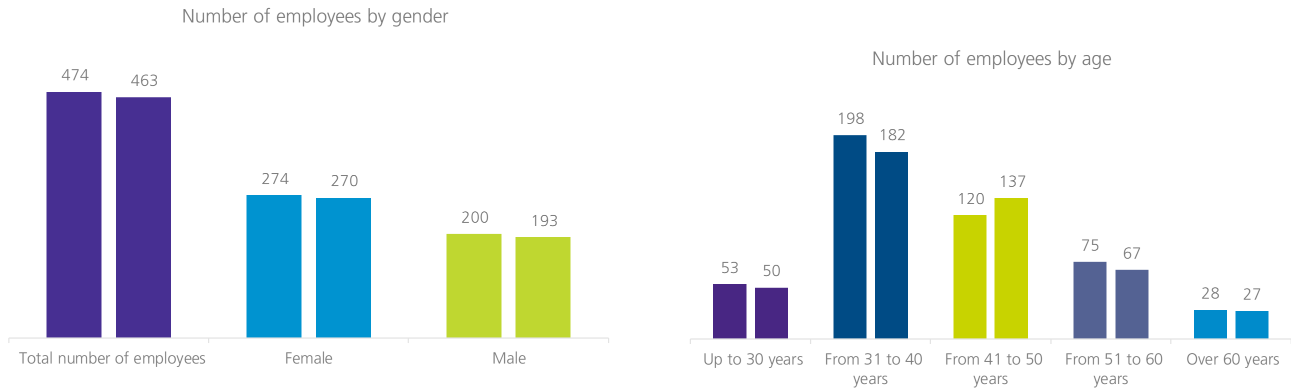


Illustration. Employee trainings

External trainings	2020
No. of external trainings	37
No. of participations	141

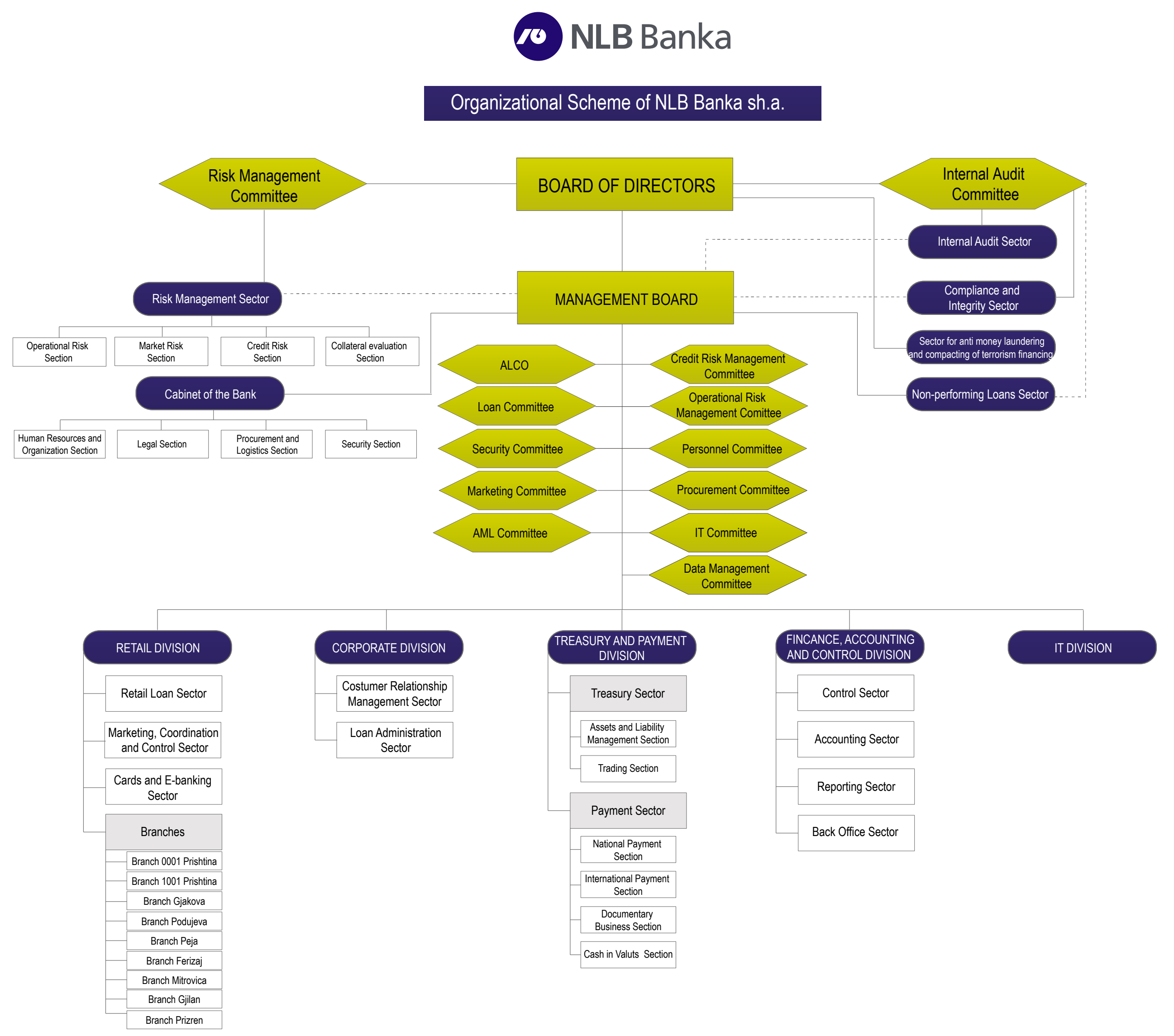
Internal trainings	2020
No. of internal trainings	13
No. of participations in internal trainings	260
No. of participations in trainings in ECHO module	2,895

Corporate Governance

Corporate Governance and Management Bodies

The Bank has a clear organizational structure that precisely defines the rights and responsibilities of the members of the Boards of Directors and other Management Bodies, the other employees as well as the lines of control in the performance of daily duties.

The organizational structure of NLB Banka is as follows:



The Bank's main bodies are:

- General Meeting of Shareholders
- Board of Directors
- Audit Committee
- Risk Committee
- Management Board

General Meeting of Shareholders

The General Meeting of Shareholders of NLB Banka meets and makes decisions at regular and extraordinary meetings, where it adopts resolutions in accordance with the law. The nominal shares assign the owner the right on dividend payment and voting right at the General meeting of Shareholders.

The responsibilities of the General Meeting of NLB Banka j.s.c. Shareholders are stipulated by NLB Banka Statute, which are also in compliance with the requirements set from the regulatory.

During 2020, General Meeting of Shareholders had one regular meeting. The regular meeting was held on March 27, 2020. In the meeting present were 87.95% of shareholders. On this General Meeting of Shareholders were approved several acts, among which the following: External Auditors report for 2019, Business plan for the period 2020-2024, appointment of external auditor for the year 2020 and supplements and amendments of the Statute of NLB Banka j.s.c. Prishtina.

Composition of Board of Directors

Board of Directors is elected by the shareholders of the Bank at the General meeting of Shareholders and they are responsible for the establishment of Bank policies, including the Policies for risk management and supervision of its implementation. The BoD conducts its activities in accordance with the provisions of the laws on governing banks and the Statute of the Bank.

The Board of Directors during the 2020 had 5 meetings.

The structure of BoD of NLB Banka j.s.c. Prishtina as of December 31, 2020, was as follow:

- Mr. Andreas Burkhardt, chairman
- Mrs. Hedvika Usenik, vice chairman
- Mr. Andrej Baričič, member
- Mr. Abdylmenaf Bexheti, member
- Mrs. Ardiana Bunjaku, member
- Mr. Albert Lumezi, member – President of MB of NLB Banka as per function with no voting right.

Audit Committee

The Audit Committee members as of December 31, 2020 were:

- Mr. Andrej Baričič, President of Audit Committee
- Mrs. Ardiana Bunjaku, member of the Audit Committee
- Mr. Borislav Atanasovski, member of Audit Committee

The Audit Committee has been established based on the law for banks and activities are defined in the Rules of Procedure of the Audit Committee. Audit Committee is held on quarterly basis in the Bank. During 2020 in total four (4) Audit Committee sessions were held.

Areas covered by Audit Committee are: approval of the internal audit reports, assessment of audit procedures, assessment of internal controls, review of the compliance report, review of the bank's financial performance, review of the external auditor's management letter and final audited financial statements and recommends the external auditors. In addition, audit committee also performs acknowledgment, assessment and adoption of recommendations and resolutions regarding documents of external regulators.

Risk Committee

As of December 31, 2020, the members of Risk Committee were as follows:

- Mr. Andreas Burkhardt, chairman
- Mrs. Ardiana Bunjaku, member
- Mr. Abdylmenaf Bexheti, member

Risk Management Committee has been established based on the law for banks and operates based on the internal Rules of Procedure for the Risk Management Committee.

Risk Management Committee is the extended arm of the Board of Directors with a specialized focus on the area of risk management. The Committee is employed by three non-executive directors.

Risk Management Committee meets on quarterly basis in order to monitor the risk exposure and risk management of the Bank. During 2020 in total four (4) Audit Committee sessions were held. As such the Risk Committee supervises the area of credit risk, market risk and operational risk, with the aim of efficient and effective implementation of risk management appetite and risk strategy of NLB Banka.

Composition of the Management Board

NLB Banka Management Board governs, represents and acts on behalf of the Bank, independently and on its own responsibility, as provided for by the Statute of Bank. The president and members are appointed for a term of four years and may be reappointed or recalled before their term expires in accordance with Law and Bank's Statute.

The Management Board of NLB Banka consists of three persons:

- Mr. Albert Lumezi as President of the Management Board;
- Mr. Gem Maloku as member of Management Board and
- Mr. Lavdim Koshutova as Member of Management Board.

In order to ensure the proper function of the Bank's business and monitor the regular activities of the Bank, the following operational Committees also operate within the Bank:

- ALCO Committee (Within ALCO Committee is established a sub-committee called Pricing Committee);
- Credit Committee;
- Credit Risk management Committee;
- Security Committee;
- Operational Risk management Committee;
- IT Committee;
- Personnel Committee;
- Procurement Committee;
- Marketing Committee;
- AML Committee;
- Data management Committee.

Internal Audit

Internal Audit function of the NLB Banka is carried out by Internal Audit Sector. Internal Audit Sector is independent function in the Bank that functionally reports directly to the Audit Committee of the Board of Directors of the Bank, whereas administratively reports to a member of Management Board of the Bank. The main objective of the Internal Audit Sector is to provide assurance and advice with the aim of adding value and improving operations in the Bank. This is achieved by using a systematic and professional approach to assess and improve the risk management, system of internal control, governance and the efficiency of operations of the bank. Internal audit gives a significant contribution for the bank to meet its strategic and business objectives and applying best banking practices.

The Internal Audit's work methodology, its competencies and responsibilities are defined in Charter for Internal Audit in NLB Banka Prishtina and Internal Auditing Methodology, which are prepared in accordance with standards of Internal Audit in NLB d.d, international best practices and audit related laws and regulations of Kosovo.

Internal Audit functioncomplies with International Standards for the Professional Practice of Internal Auditing, Code of Ethics of internal auditing and Kosovo rules and regulations

Internal Audit Sector consists of four employees. The internal audit activities are carried out in line with the Internal Audit Plan, which is prepared on annual basis using a risk-based approach consistent with the Internal Audit Methodolgy, best practices, Bank's goals and objectives. The risk based approach is used also in definition of the audit scope of each audit engagement of the plan, including the timing and the resource allocation. Every Internal Audit Plan is approved by the Audit Committee of the Bank. The Internal Audit Plan is updated regularly to reflect the relevant changes that address the key risks of the bank at the certain point of time.

During 2020, Internal Audit Sector has performed 19 audit engagements in line with the audit plan 2020. The internal audit reports mainly consist of the internal auditors' opinion, findings, causes, risks and recommendations as well as actions agreed to be taken from process owner for implementing the given recommendations. The reports are approved by Audit Committee of the Bank on quarterly basis. The given recommendations in the audit reports are regularly followed up and reported to Management Board as well as to Audit Committee of the Bank.

Internal Audit continuously cooperates with Internal Audit of NLB d.d regarding joint audits, audits performed in group level as well as methodology of the audit work. Additionally, quarterly reporting takes place to Internal Audit of NLB d.d regarding key observations, overdue recommendations as well as key recommendations given from the regulators. Internal Audit provides internal audit reports to external auditors and external parties (police, insurance companies, and the regulator) upon their request.

Finally, in 2020 the quality of the work of Internal Audit Sector was assessed from the Competence Line – Internal Audit of NLB d.d and the overall assessment result was that: The quality of work of Internal Audit in NLB Banka Prishtine is adequate. The Internal Audit follows group guidelines, NLB Group Internal Audit Manual and the International Standards for the Professional Practice of Internal Auditing.

Compliance and Integrity Sector

Compliance and Integrity is independent sector in the Bank that informs and advice the senior management and report to the Board of Directors (through Audit Committee). Legal and integrity framework of compliance sector is established in accordance with requirements of NLB Group Minimum Standards of Compliance and Integrity, and Regulation on Corporate Government of Banks (local regulation). The sector is consisting of two employees – Head of sector and one senior compliance officer.

In general, performed compliance and integrity activities cover the implementation of tasks according to the annual working plan 2020, implementation of recommendations issued by Compliance Competence Line NLB d.d., implementation of Enterprise Compliance Risk Assessment recommendations, regular review and updating of Compliance and Integrity Sector internal acts related to the implementation of Standards (Compliance and Integrity Standards in the NLB Group).

Compliance and Integrity sector cooperates closely with Compliance Competence Line in NLB dd, related to implementation of Compliance and Integrity Standards of NLB Group, regarding the methodology of work in compliance issues, preparation of Compliance Report on quarterly basis etc.

In following, are listed the most important activities performed by Compliance and Integrity Sector during 2020:

- Enterprise compliance risk assessment (ECRA) – update for 2020, based on the Instructions for the Implementation of the Enterprise compliance risk assessment (August 2019).
- Research (survey) on ethics and compliance 2020, with the purpose of establishing the employees' view (perception) on the situation in the Bank concerning compliance and ethics, their observations, experience and attitude towards specific practices.
- Identification and monitoring of legal/regulatory changes with effects on the bank's operations; information of bank employees related regarding legal/regulatory changes (periodic e-bulletin) and other awareness activities on compliance and integrity.
- Review of Compliance and Integrity sector internal acts – update in line with requirements of Compliance and Integrity Standards in the NLB Group.
- Intranet page (NLBnet Prishtina) dedicated to the compliance function is updated with necessary information regarding the compliance areas, frequent Q&A related to all areas (ethics, conflicts of interest, fraud prevention and management), including pages dedicated to whistle-blowing channels and explanation of procedures for internal investigations.
- Regular annual e-learning on Compliance & Integrity - e-learning on Ethics, Integrity and Code of Conduct, Prevention of conflict of interest and corruption, Prevention of misconduct and harmful behavior;
- E-notification with regard of employee's obligations related to receiving and giving gifts, regarding performing functions /activities outside the Bank, prevention of conflict of interest, regarding reporting channels and whistlblower protection;
- Supporting OU's by giving opinions, advises and proposals in solving different banking issues;

- Investigation of suspected cases of harmful conduct;
- Investor relations activities based on Rules on Inside Information - Communication with employees in regarding Closed Period (period during which they are prohibited from engaging in transactions involving shares and other financial instruments of NLB d.d., Ljubljana);
- Implementation of Whistler application – is a new application developed for reporting detected misconduct that allows the reporting person to submit a disclosed or anonymous report in good faith.
- FATCA report for the year 2019 (as of 31.12.2019) with information as per requirements of FATCA agreement and its submission to Tax Administration of Kosovo.

Prevention of Money Laundry and Financing Terrorism Sector (PMLFT):

The Bank is fully aware of AML/CFT requirements both locally and internationally and understands the ML/FT risks. Thus, it implements zero tolerance policy toward the use of our bank products and services for illicit purposes. The PMLFT sector continued with further adaption of policies and procedures in line with new PMLFT legal requirements and Group standards, during 2020 the focus was on Client KYC Review and implementation of the Group Set of Siron Scenarios. In coordination and with support of Group AML, other important activities:

- Quantitative and Qualitative AML Risk Assessment – Group methodology
- In co-operation with retail division implementation of Client KYC review and data updating
- Implementation of Group set of Siron scenarios
- Implementation of Group e-learning methodology
- Implementation of Down Jones PEP list and LOU-PEP application
- Appointment of Deputy AML Officer
- Update and approval of the Money Laundering and Terrorist Financing Prevention Procedure
- Prepared and issued numerous instruction and memos for front office

Disclaimer on Events after balance sheet date

As the Covid-19 pandemic evolves, governments are implementing additional measures to address the resulting public health issues and the economic impact. In Kosovo it is not estimated that the mass vaccination will took place in first half of the year 2021, and as result Covid-19 will continue throughout the year 2021, which may result on negative impact in economy. As reflection the Central Bank of Kosovo permits the dividend distribution only 15% of net profit of 2019 and 2020.

No other material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statement.

Financial Report

NLB BANKA SH.A.

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2020

WITH INDEPENDENT AUDITORS' REPORT THEREON

CONTENTS	PAGE

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

To the Shareholders and Board of Directors of NLB Banka

The Management Board hereby confirms its responsibility for the preparation of the financial statements of the Bank for the year ended December 31, 2020, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards to give a true and fair view of the financial position of the Bank as at December 31, 2020 and the financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of the Bank, together with the notes, have been prepared on a going-concern basis and in compliance with the International Financial Reporting Standards.

The Management Board is also responsible for appropriate accounting practices, for the adoption of appropriate measures for the safeguarding of assets, and for the prevention and identification of fraud and other irregularities or illegal acts.

Prishtina, Kosovo
March 4, 2021

Management Board

Lavdim Koshutova	Gem Maloku	Albert Lumezi
Member of the Management Board	Member of the Management Board	President of the Management Board

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Building a better working world

INDEPENDENT AUDITOR'S REPORT

To the shareholders of NLB Banka Sh.a

Opinion

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

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

Basis for opinion

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

Other information included in NLB Banka Sh.a 2020 Annual Report

Other information consists of the information included in Bank's 2020 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2020 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's Responsibility for audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Ernst & Young Certified Auditors Kosovo sh.p.k.

Ernst & Young Certified Auditors Kosovo

17 March 2021

Prishtina, Kosovo

Mario Vangjeli

Certified Auditor

NLB BANKA SH.A.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2020

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

	Note	December 31, 2020	December 31, 2019
ASSETS			
Cash and balances with the Central Bank	4	169,346	132,491
Loans and advances to banks	5	29,837	33,008
Loans and advances to customers	6	559,223	540,073
Financial assets at fair value through OCI	7	102,710	77,977
Other assets	8	2,743	2,535
Prepaid current income tax	25	268	-
Property and equipment	9	10,957	11,086
Right of use assets	9.1	2,515	2,635
Intangible assets	10	1,138	1,032
Deferred tax asset	25	327	248
Total assets		**879,064**	**801,085**
LIABILITIES			
Due to banks	11	1,172	594
Due to customers	12	748,317	685,385
Other financial liabilities	13	8,693	8,194
Provisions and other liabilities	14	7,534	6,819
Corporate tax payable	25	-	118
Borrowings and Subordinated debts	16	15,013	15,048
Total liabilities		**780,729**	**716,158**
SHAREHOLDERS' EQUITY			
Share capital	17	51,287	51,287
Revaluation reserve on FVOCI securities	26	1,753	1,679
Retained earnings		45,295	31,961
Total shareholders' equity		**98,335**	**84,927**
Total liabilities and shareholders' equity		**879,064**	**801,085**

These financial statements have been approved by the Management Board on March 4, 2021 and signed on their behalf by:

Mr. Albert Lumezi
CEO

Mr. Gem Maloku
Deputy CEO/CFO

Mr. Visar Kabashi
Director of Finance Division

The accompanying notes from page 10 to 75 form an integral part of these financial statements.

6

NLB BANKA SH.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

	Note	Year ended December 31, 2020	Year ended December 31, 2019
Interest revenue calculated using the effective interest rate method	18	36,496	34,454
Interest and similar expense	19	(4,210)	(3,440)
Net interest income		**32,286**	**31,014**
Fee and commission income	20	11,204	10,612
Fee and commission expense	21	(3,501)	(3,239)
Net fee and commission income		**7,703**	**7,373**
Credit loss expenses	4,5,6,7,8	(10,670)	(2,350)
Net Operating Income		**29,319**	**36,037**
Other operating income	22	339	356
Other operating expenses	22	(1,650)	(1,436)
Other provisions and off balance sheet ECL	15	(676)	(1,171)
Personnel expenses	23	(6,158)	(6,210)
Depreciation and amortization	9,10	(2,030)	(1,781)
Administrative and other operating expenses	24	(4,099)	(3,807)
Profit before tax		**15,045**	**21,988**
Income tax expense	25	(1,711)	(2,443)
Net profit for the year		**13,334**	**19,545**
Other comprehensive income / (loss):			
Items that are reclassified in profit and loss in subsequent periods			
Net gain on debt instruments at fair value of FVOCI securities		24	815
Net gain on equity instruments at fair value of FVOCI securities		50	210
Other comprehensive (loss)/income for the year	**26**	74	**1,025**
Total comprehensive income for the year		**13,408**	**20,570**
Basic and diluted earnings per share (in EUR per share)	27	312.3	457.7

The accompanying notes from page 10 to 75 form an integral part of these financial statements.

NLB BANKA SH.A.
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

	Share capital	Revaluation reserve for FVOCI securities	Retained earnings	Total
Balance as at January 1, 2019	51,287	654	19,845	71,786
Net profit for the year	-	-	19,545	19,545
Net change in fair value of financial instrument at FVOCI (Note 26)	-	1,025	-	1,025
Total comprehensive income for the year	-	**1,025**	**19,545**	**20,570**
Dividend paid	-	-	(7,429)	(7,429)
Balance as at December 31, 2019	**51,287**	**1,679**	**31,961**	**84,927**
Net profit for the year	-	-	13,334	13,334
Net change in fair value of financial instrument at FVOCI (Note 26)	-	74	-	74
Total comprehensive income for the year	-	**74**	**13,334**	**13,408**
Balance as at December 31, 2020	**51,287**	**1,753**	**45,295**	**98,335**

The accompanying notes from page 10 to 75 form an integral part of these financial statements.

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

	Notes	Year ended December 31, 2020	Year ended December 31, 2019
Cash flows from operating activities			
Profit for the year before taxation		**15,045**	**21,988**
Depreciation and amortization	10,9	2,030	1,781
Credit loss expenses	4,5,6,7,8	10,670	1,900
(Loss)/Gain from sale of PPE		11	(9)
Other impairment losses and provisions	15	676	1,171
Interest income	18	(36,496)	(34,454)
Interest expense	19	4,210	3,440
		(3,854)	**(4,183)**
Increase in mandatory reserve with CBK	4.1	(4,119)	(4,183)
Decrease in loans and advances to banks	5	(1,679)	713
Increase in loans and advances to customers	6	(28,574)	(74,604)
Increase in other assets	8	(1,623)	(1,734)
Increase in due to banks	11	578	202
Increase in due to customers	12	62,932	99,534
Increase in other financial liabilities		499	1,230
Increase in other liabilities		39	591
		24,199	**17,566**
Interest received		36,014	34,227
Interest paid		(4,041)	(3,430)
Income tax paid		(2,137)	(3,021)
Cash inflows from operating activities		**54,035**	**45,342**
Cash flows from investing activities			
Purchases of property and equipment	9	(1,034)	(1,384)
Proceeds from sale of PPE		83	351
Purchases of intangible assets	10	(467)	(645)
Purchases of financial assets at FVOCI	7	(24,690)	(13,034)
Net cash from investing activities		**(26,108)**	**(14,712)**
Cash flows used in financing activities			
Repayments of borrowings	16	(33)	(20)
Payment of dividend		-	(7,429)
Subordinated debts	16	-	15,000
Cash inflows (used in) /from financing activities		**(33)**	**7,551**
Increase in cash and cash equivalents		**27,894**	**38,181**
Cash and cash equivalents at January 1	4.1	133,878	95,697
Cash and cash equivalents at December 31	**4.1**	**161,772**	**133,878**

The accompanying notes from page 10 to 75 form an integral part of these financial statements.

1. GENERAL

NLB Banka sh.a.is a commercial bank (the "Bank") registered with the Kosovo Registry under Certificate of Registration no. 70053484 dated December 18, 2007. The Bank was established by the merger of two banks, NLB Kasabank and NLB New Bank of Kosova (during 2007 both banks were in control of Nova Ljubljanska Banka d.d.) and it obtained the license for banking activities on December 19, 2007 from Central Bank of Kosovo ("CBK").

The Bank is controlled by Nova Ljubljanska Banka d.d. Ljubljana incorporated in Slovenia (Parent), which owns 81.21% of the ordinary shares as at December 31, 2020 (2019: 81.21% ordinary shares). Nova Ljubljanska Banka d.d. Ljubljana was privatized in the year 2018 and listed in London Stock Exchange and Ljubljana Stock Exchange. As of December 31, 2020, 75% minus one share of the Bank, is owned by private international investors each owning not more than 10% of shares, while the Republic of Slovenia remains the major shareholder with 25% plus one share equity stake.

The Bank's registered head office is located at Street. Ukshin Hoti, no.124, Prishtina, Kosovo. The Bank operates as a commercial bank to all categories of customers, through its network of 9 branches in Prishtina, Gjakova, Peja, Ferizaj, Mitrovica, Gjilan, Besiana, Prizren, 25 sub-branches.

The Bank as of December 31, 2020 had 463 employees. (December 31, 2019: 474).

The financial statements of the Bank for the year ended December 31, 2020 were approved by the Management Board on March 4, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The Bank prepares its financial statements according to International Financial Reporting Standards (IFRS). The Bank's financial statements for the year ended December 31, 2020 are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and its predecessor body. Additionally, the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRSIC) and its predecessor body have been applied.

The Bank's IFRS financial statements comprise the statement of financial position, statement of comprehensive income, the statement of changes in equity, the statement of cash flows, significant accounting policies and the notes to the financial statements. These financial statements cover the individual entity as the Bank is not a parent.

2.2 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of Financial assets through other comprehensive income and financial assets and financial liabilities at fair value through profit or loss, if any. The principal accounting policies are set out below.

2.2.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

The outbreak of the COVID-19 pandemic and the measures adopted by the Government in Kosovo to mitigate its spread have impacted the operations of the Bank, The Bank has responded with a cautious approach towards expected credit losses, and increased alertness towards monitoring of loan portfolios. The Bank has assessed its impact and through utilization of increase of ECL and cost of risk has reflected the negative impact of pandemic on financial performance of the Bank. Other financial instruments held by the Bank have not displayed any significant increase in credit risk

The market demand for new loans and banking services has proven strong. The Bank managed to realize a satisfactory level of profit and it has sufficient capital and liquidity buffers to stand resilient towards any shocks from the pandemic, which in Kosovo seems to be subsiding and restrictive measures lifted.

Therefore, the financial statements continue to be prepared on the going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation of financial statements (continued)

2.2.2 Estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Significant estimates are disclosed in more detail in Note 2.27, 2.28, 2.30, 2.31, 2.32 and 2.33. Revision to estimates is recognized prospectively.

2.3 Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative amounts. Where applicable, comparative figures have been reclassified to conform to changes in presentation in the current year, such as some accounts from cash and cash balances were classified under other assets in 2020 and also for 2019, and another reclassification is done from other operating expenses to administrative expenses.

2.4 Functional Currency

The financial statements are presented in EUR which is also the Bank's functional currency.

2.5 Interest income and expense

Interest income and expenses for all financial instruments measured at amortised cost, and financial assets measured at fair value through other comprehensive income are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest rate method. Interest income on all trading assets and financial assets mandatorily required to be measured at fair value through profit or loss is recognised using the contractual interest rate. The effective interest rate method is used to calculate the amortised cost of a financial asset or financial liability, and to allocate the interest income or interest expense over the relevant period. The effective interest rate is the rate that precisely discounts estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period (when appropriate) on the net carrying amount of the financial asset or financial liability. Interest income includes coupons earned on fixed-yield investments and trading securities, and accrued discounts and premiums on securities. The calculation of the effective interest rate includes all fees and points paid or received by parties to the contract and all transaction costs, but excludes future credit risk losses.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets.

2.6 Fee and commission

The fee and commission income and expenses arisen from providing, using of banking services are recorded in the profit and loss as incurred, at the moment the services are provided, used.

Loan management fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee and commission income and expenses also include fees from letters of guarantees and letters of credit issued by the Bank in favor of the clients, fees arising from domestic and international bank charges, and other services provided by the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments

a) Classification and measurement

From a classification and measurement perspective, IFRS 9 requires all debt financial assets to be assessed based on Bank's business model for managing the assets and the instruments' contractual cash flow characteristics. Measurement categories of financial assets are as follows:

- Financial assets, measured at amortised costs (AC);
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets held for trading (FVTPL); and
- Non-trading financial assets, mandatorily at fair value through profit or loss (FVTPL).

Financial assets are measured at AC if they are held within a business model for the purpose of collecting contractual cash flows ('held to collect'), and if cash flows are solely payments of principal and interest on the principal amount outstanding.

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ('held to collect and sell'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at AC in the income statement. Gains and losses, except for expected credit losses and foreign currency translations, are recognised in other comprehensive income until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement, except for dividends that are recognised in the income statement.

All other financial assets are mandatorily measured at FVTPL, including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

IFRS 9 includes an option to designate financial assets at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

The accounting for financial liabilities remained broadly the same as the requirements of IAS 39, except for the treatment of gains or losses arising from bank's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

Assessment of Bank's business model

The Bank has determined its business model separately for each reporting unit and is based on observable factors for different portfolios that best reflect how the Bank manages groups of financial assets to achieve its business objective, such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and, in particular, the way those risks are managed;
- how the managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets or on collection of contractual cash flows); and
- the expected frequency, value, and timing of sales.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

a) Classification and measurement (continued)

The business model assessment is based on reasonably expected scenarios without taking worst-case and stress case scenarios into account. In general, the business model assessment of the Bank can be summarised as follows:

- loans and deposits given are included in a business model 'held to collect' since the primary purpose of NLB Group for the loan portfolio is to collect the contractual cash flows.
- debt securities are divided into three business models:
  - the first group of debt securities presents 'held for trading' category
  - the second group of debt securities are held under a business model 'held to collect and sale' with the aim to collect the contractual cash flows and sale of financial assets, and forms part of the Group's liquidity reserves;
  - the third part of debt securities is held within the business model for holding them in order to collect contractual cash flows.

With regard to debt securities within the 'held to collect' business model, the sales which are related to the increase of the issuers' credit risk, concentrations risk, sales made close to the final maturity, or sales in order to meet liquidity needs in a stress case scenario are permitted. Other sales, which are not due to an increase in credit risk may still be consistent with a held to collect business model if such sales are incidental to the overall business model and;

- are insignificant in value both individually and in aggregate, even when such sales are frequent;
- are infrequent even when they are significant in value.

A review of instruments' contractual cash flow characteristics (the SPPI test – solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being 'held to collect' and 'held to collect and sell' relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only the consideration for the time value of money, credit risk, other basic lending risks, and a profit margin consistent with basic lending features. If the cash flows introduce more than *de minimis* exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVTPL.

The Bank reviewed the portfolio within 'held to collect' and 'held to collect and sale' for standardised products on a level of a product and for non-standardised products on a single exposure level. The Bank established a procedure for SPPI identification as part of regular investment process with defined responsibilities for primary and secondary controls. Special emphasis is put on new and non-standardised characteristics of the loan agreements.

Accounting policy for modified financial assets

When contractual cash flows of a financial asset are modified, the Bank assesses if the terms and conditions have been modified to the extent that, substantially, it becomes a new financial asset. The following factors are, amongst others, considered when making such assessment:

- reason for modification of cash flows (commercial or client's financial difficulties);
- change in currency of the loan;
- introduction of an equity feature;
- replacement of initially agreed debtor with a new debtor that is not related party to initial debtor; and
- if the modification is such that it changes the result of the SPPI test.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

a) Classification and measurement (continued)

If the modification results in derecognition of a financial asset, the new financial asset is initially recognised at fair value, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, NLB Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

b) Reclassification

Financial assets can be reclassified when and only when Bank's business model for managing those assets changes. The reclassification takes place from the start of the reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period. Financial liabilities shall not be reclassified.

c) Day one gains or losses

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by a comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or based on a valuation technique whose variables only include data from observable markets.

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument, or is based on a valuation technique whose variables only include data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement ('day one gains or losses').

In cases where the data used for valuation are not fully observable in financial markets, day one gains or losses are not recognised immediately in the income statement. The timing of recognition of deferred day one gains or losses is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

d) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred and the transfer qualifies for derecognition. A financial liability is derecognised only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled, or expires.

e) Write-offs

The Bank writes off financial assets in their entirety or a portion thereof when it has exhausted all practical recovery efforts and has no reasonable expectations of recovery. Criteria indicating that that there is no reasonable expectation of recovery include default period, quality of collateral and different stages of enforcement procedures. The Bank may write-off financial assets that are still subject to enforcement activities but this does not affect its rights in the enforcements procedures. The Bank still seeks to recover all amounts it is legally entitled to in full. Write-off reduces the gross carrying amount of a financial asset and allowance for the impairment. Any subsequent recoveries are credited to credit loss expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

f) Fair value measurement principles

The fair value of financial instruments traded on active markets is based on the price that would be received to sell the assets or transfer liability (exit price) being measured at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

If discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates; and the discount rate is a market-based rate at the reporting date for an instrument with similar terms and conditions. If pricing models are used, inputs are based on market-based measurements at the reporting date. The methods used by the Bank in estimation of fair value are further detailed in Note 2.33.

2.8 Impairment of financial assets

a) Expected credit losses for collective allowances

IFRS 9 applies an expected credit loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The expected loss model requires the Bank to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses (ECL) is required for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since the initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL). When determining whether the risk of default increased significantly since the initial recognition, the Banks considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Bank's historical data, experience, expert credit assessment, and incorporation of forward-looking information.

Classification into stages

The Bank prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, risk indicators calculation, and the validation of models. The Group classifies financial instruments into Stage 1, Stage 2, and Stage 3, based on the applied ECL allowance methodology as described below:

- Stage 1 – performing portfolio: no significant increase of credit risk since the initial recognition, the Bank recognises an allowance based on 12-month period,
- Stage 2 – underperforming portfolio: significant increase in credit risk since the initial recognition, the Bank recognises an allowance for lifetime period, and
- Stage 3 – impaired portfolio: Defaulted clients are rated D, DF, or E based on the bank's internal rating system and contain clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. The retail clients are rated on the facility level, however the rating can be deteriorated based on the rating of other credit facilities of the same client.

A significant increase in credit risk is assumed:

- when a credit rating significantly deteriorates at the reporting date, in comparison to the credit rating at initial recognition,
- when a financial asset has material delays over 30 days (days-past due are also included in the credit rating assessment),
- if Bank grants the forbearance to the borrower, or
- if the facility is placed on the watch list.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of financial assets (continued)

a) Expected credit losses for collective allowances (continued)

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies Fitch, Moody's, or S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings, the classification is based on the internal methodology of the Bank.

ECL for Stage 1 financial assets is calculated based on 12-month PDs (probability of default) or shorter period PDs, if the maturity of the financial asset is shorter than 1 year. The 12-month PD already includes a macroeconomic impact effect. Allowances in stage 1 are designed to reflect expected credit losses that had been incurred in the performing portfolio, but have not been identified.

LECL for Stage 2 financial assets is calculated on the basis of lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. This calculation is also based on a forward-looking assessment that takes into account the number of economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts.

For financial instruments in Stage 3, the same treatment is applied as for those considered to be credit impaired. Exposures below the materiality threshold obtain collective allowances using PD of 100%. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in the lifetime expected losses since initial recognition are recognised as a loss allowance.

The calculation of collective allowances is performed by multiplying the EAD (exposure at default) at the end of each month with an appropriate PD and LGD (loss-given default). The EAD is determined as the sum of on-balance exposure and off-balance exposure multiplied by the CCF (credit conversion factor). The obtained result for each month is discounted to the present time. For Stage 1 exposures, the ECL only takes a 12-month period into account, while for Stage 2 all potential losses until the maturity date are included.

For the purpose of estimating the LGD parameter, NLB uses collateral HC (hair-cut) at the level of each type of collateral, and URR (unsecured recovery rate) at the level of each client segment. Both parameters are calculated on the bank's historical repayment data.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Forward looking information

The Bank incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECL. The Bank considers forward-looking information such as macroeconomic factors (e.g., unemployment rate, GDP growth, interest rates, and housing prices) and economic forecasts. The baseline scenario represents the more likely outcome resulting from the Group's normal budgeting process, while the better and worst-case scenarios represent more optimistic or pessimistic outcomes (similar as by ICAAP).

Recalculation of all parameters is performed annually or more frequently if the macro environment changes more than it was incorporated in previous forecasts. In such a case all the parameters are recalculated according to new forecasts.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of financial assets (continued)

b) Individual assessment of allowances for impaired financial assets

Assets carried at an amortised cost

The Bank assesses the impairments of financial assets separately for all individually significant assets classified in Stage 3. All other financial assets obtain collective allowances. The materiality threshold is set at EUR 50 thousands.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, which are discounted to the estimation date. The scenario of expected cash flows can be based on the 'going concern' assumption, where the cash flow from operations is taken into account along with the sale of collateral that is not crucial for future business. In the case of the 'gone concern' principle, the repayments are based on expected cash flows from the collateral sale. The expected payment from the collateral is calculated from the appraised market value of the collateral, the haircut used as defined in the Haircut Methodology, and discounted. Off-balance sheet liabilities are also assessed individually and, where necessary, related allowances are recognised as liabilities.

The carrying amount of financial assets measured at amortised cost is reduced through an allowance account and the loss is recognised in the income statement item 'Impairment of financial assets.' If the amount of allowances for ECL decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance account and gain is recognised in the same income statement item. For off-balance exposures, the amount of ECL is recognised in the statement of financial position in item 'Provisions' and in the income statement in item 'Provisions for credit losses.'

The ECLs for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit or loss upon derecognition of the assets or when the amount of allowances for ECL decreases due to an event occurring after the impairment was recognised.

If the amount of allowances for ECL decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance for loan impairment and the gain is recognised in the income statement.

2.9 Cash and cash equivalents

Cash equivalents are items which can be converted into cash at short notice (with less than three months original maturity). Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash equivalent are carried at amortized cost.

2.10 Mandatory liquidity reserve

In accordance with the CBK rules, the Bank should meet the minimum average liquidity requirement. The liquidity requirement is calculated on a weekly basis as 10% of the deposit base, defined as the average total deposit liabilities to the non-banking public in EUR and other currencies, over the business days of the maintenance period. The assets with which the Bank may satisfy its liquidity requirement are the 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. As the respective liquid assets are not available to finance the Bank's day to day operations, they have been excluded from cash and cash equivalents for the purposes of the cash flow statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.12 Foreign currencies

Transactions denominated in currencies other than Euro are translated in the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss (as foreign exchange translation gains and losses).

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2.13 Property and equipment

Property and equipment are accounted for under the cost model of IAS 16. They are stated at cost less accumulated depreciation and accumulated impairment loss, where required. Each year, the Bank assesses whether there are indications that assets may be impaired. If any such indication exists, the recoverable amounts are estimated. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the profit and loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining the operating result for the period. Repairs and maintenance are charged to the profit or loss when the expenditures are incurred.

Depreciation is charged using the straight line method, over the estimated useful lives of each part of an item of property and equipment. For additions depreciation is charged subsequent to the month of purchase while for disposals up to the month of disposal. Depreciation does not begin until the assets are available for use.

The annual depreciation rates used for each category of property and equipment are as follows:

Category of assets	Depreciation rates used
Buildings	3%
Leasehold improvements	Lower of the lease term or 20%
Furniture, fixtures and equipment	20%
Computers and related equipment	20%
Motor vehicles	20%

2.14 Intangible assets

The Bank's intangible assets consist of computer software. Intangible assets acquired by the Bank are recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits will flow to the Bank. Intangible assets are accounted for under the cost model of IAS 38 and are stated at cost less accumulated amortisation and impairment losses, when required. Amortisation is provided on a straight-line basis at an annual rate of 20% or as per contractual period.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred. Amortization does not begin until the assets are available for use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Seized assets

Seized assets represent financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

2.16 Impairment of non-financial assets

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

2.17 Due to banks

Due to banks are recorded when money or other assets are advanced to the bank by counterparty banks. The non-derivative liability is carried at amortised cost.

2.18 Due to customers

Due to customers are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

2.19 Borrowings and subordinated debits

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any interest or fee related to the borrowed funds is expensed using the effective interest method and presented in the profit and loss for the period.

2.20 Share capital and revaluation reserves

Share capital represents the nominal value of issued shares. Revaluation reserve of financial assets through other comprehensive income. On maturity or sale financial assets through other comprehensive income, the fair value reserve is transferred to profit and loss for the year.

2.21 Taxation

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

The income tax charge in the profit and loss for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates enforced or substantially enacted at the balance sheet date. Taxable profit differs from profit as reported in the profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than income taxes are recorded within operating expenses.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Off-balance sheet commitments and contingencies

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The provision for losses on commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees at the date of issue are recognised at fair value which is equal to the amount of the fee received. The fee is amortized to the profit and loss during the contract period using the straight line method. The Bank's liabilities under guarantees are subsequently measured at the greater of the initial measurement, less amortization calculated to recognize fee income over the period of guarantee or the best estimate of the expenditure required settling the obligation.

Guarantee for completion - are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to complete the work when due, in accordance with the terms of contract.

Guarantees at the date of issue are recognised at fair value which is equal to the amount of the fee received. The fee is amortized to the profit and loss during the contract period using the straight-line method. The Bank's liabilities under guarantees are subsequently measured at the greater of:

- The initial measurement, less amortization calculated to recognize fee income over the period of guarantee; or
- The best estimate of the expenditure required to settle the obligation

2.23 Provisions

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

2.24 Employee benefits

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Leases

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

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

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

The right-of-use assets are presented within Note 9 Property, equipment and right-of-use assets.

Lease liabilities

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

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned. For the year ended December 31, 2020 the Bank did not performed any contract as lessor.

2.26 Critical judgements in applying the accounting policies and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in note 2, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

• The Bank's internal credit grading model, which assigns PDs to the individual grades
• The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
• The segmentation of financial assets when their ECL is assessed on a collective basis
• Development of ECL models, including the various formulas and the choice of inputs
• Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
• Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

2.28 Provisions and other contingent liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Goodland and in other jurisdictions, arising in the ordinary course of the Bank's business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

2.29 Effective interest rate

As disclosed in Note 2.5 Interest income and expense are recognised in the profit and loss for all interest bearing instruments on an accrual basis using the effective interest rate 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. The effective interest rate differs from the contractual rate as a result of fees and commission that the Bank may charge, however, the Bank does not have any financial instruments where additional fees and commissions represent significant cash flows in comparison to the contractual rate. The most significant cash flows arise from lending fees that are applied on issuance of the loan. Due to information system constrains, the Bank does not use the effective interest rate to recognise overall interest income from loans, but defers lending fees separately over the life of each loan using a method that approximates the effective interest rate and management estimates that no material differences would arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

2.31 Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The rate used by bank is 2.4% which represent interest rate on 5 years deposits of customers. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

2.32 Taxation

Current tax expense

The Bank is subject to taxation laws in the Republic of Kosovo. Management uses its best estimate and judgment to fully comply with the relevant tax laws. Owing to use of judgment in complying with certain requirements of tax laws and depending on the tax authorities' assessment, tax liabilities may differ compared to the one reported in these financial statements, however Management is confident that no material differences can arise.

Deferred tax assets

Deferred tax assets are recognised in respect of temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Tax losses can be used for a period of 4 years in Kosovo.

2.33 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Bank FVOCI assets are the only assets measured at fair value and they are not significant to overall financial assets. For disclosure purpose of the fair value of other financial assets and liabilities, valuation models are used based on observable market data where possible, but if this is not available, judgement is required to establish fair values. The disclosure of fair value of financial instruments and the methods used are described in more detail in Note 26.

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2020:

- **Conceptual Framework in IFRS standards** - The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.
- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)** - The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Bank. The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.
- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)** - The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Bank as it does not have any interest rate hedge relationships. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Management has assessed the amendments and there is no impact on financial statements as currently the Bank does not have any hedging relationships.
- **IFRS 3: Business Combinations (Amendments)** - The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The amendments are not applicable to the Bank as there are no business combinations.
- **IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)** - The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

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

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

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

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

Management has assessed the amendments and there is no impact on financial statements as it did not receive any rent concessions in this period.

ii) Standards and interpretations issued but not yet effective and not early adopted

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

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** - The amendments are not applicable to the Bank as it neither a parent nor it has significant influence on other entities. .

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)** - The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)** - The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a Bank from deducting from the cost of property, plant and equipment amounts received from selling items produced while the Bank is preparing the asset for its intended use. Instead, a Bank will recognise such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a Bank includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)** - In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

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

4. CASH AND BALANCES WITH THE CENTRAL BANK

	December 31, 2020	December 31, 2019
Cash on hand	27,230	18,286
Cash at banks-current accounts with correspondent banks	18,617	32,652
Amounts held at the CBK		
Current account	60,749	26,972
Statutory reserve account	62,929	54,690
Allowance for ECL	(179)	(109)
Cash and balances with the Central Bank	**169,346**	**132,491**

Movement in allowance for ECL for the years ended December 31, 2020 and 2019, charged to profit and loss is as following:

	December 31, 2020	December 31, 2019
Opening balances	109	91
Charge to profit and loss	70	18
Closing balance	**179**	**109**

During 2020 almost all correspondent banks applied negative interest rates on daily credit balance (very few over a certain threshold balance). The rates varied between from -0.40% to -0.75% for EUR Currency and -0.75% to 2.0 % for other currencies.

Due to transformation of the client deposits' tenors by increasing the liabilities with maturities up to one year, the minimum reserve base requirement increased during 2020 by EUR 4 million compared to 2019.

The high-quality liquid assets increased during the year, mainly due to increase of cash in vault and balances with the Central Bank.

Balance and obligatory reserve with Central Bank of Kosovo ("CBK") represents the mandatory reserve under the CBK regulations as discussed in note 2.11. The statutory reserve is not available for day-to-day use by the bank. The restricted liquidity reserves balance with CBK is excluded from cash and cash equivalents for the purpose of cash flow statement. The Central Bank of Kosovo does not possess external credit rating. Liquidity reserve is calculated as 50% of statutory reserve, based on CBK regulations.

4.1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of cash flows comprise of:

	December 31, 2020	December 31, 2019
Cash and balances with the Central Bank	169,346	132,491
Less: Liquidity reserve	(31,464)	(27,345)
Deposits with maturity with less than 3 months (note 5)	23,890	28,732
Cash and cash equivalents	**161,772**	**133,878**

NLB BANKA SH.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

4. CASH AND BALANCES WITH THE CENTRAL BANK (CONTINUED)

The movement in the allowance for ECL on cash and balances with Central Bank for the year ended December 31, 2020, based on IFRS 9 requirements, is as follows:

December 31, 2020	Balance at 1 January 2020	Transfer	Increases/ (Decreases)	Written offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2020
Stage 1 12 M expected credit losses	**(109)**	-	**(70)**	-	-	-	-	**(179)**
Cash and Cash equivalents	(109)	-	(70)	-	-	-	-	(179)
Stage 2 Lifetime ECL not credit impaired	-	-	-	-	-	-	-	-
Cash and Cash equivalents	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	-	-	-	-	-	-	-	-
Cash and Cash equivalents	-	-	-	-	-	-	-	-
Total	**(109)**	-	**(70)**	-	-	-	-	**(179)**

December 31, 2019	Balance at 1 January 2019	Transfer	Increases/ (Decreases)	Written offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2019
Stage 1 12 M expected credit losses	(91)	-	(26)	-	-	8	-	(109)
Cash and Cash equivalents	(91)	-	(26)			8	-	(109)
Stage 2 Lifetime ECL not credit impaired	-	-	-	-	-	-	-	-
Cash and Cash equivalents	-	-					-	-
Stage 3 Lifetime ECL - credit impaired	-	-	-	-	-	-	-	-
Cash and Cash equivalents	-	-					-	-
Total	**(91)**	-	**(26)**	-	-	**8**	-	**(109)**

27

NLB BANKA SH.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

5. LOANS AND ADVANCES TO BANKS

	December 31, 2020	December 31, 2019
Term deposits with maturity less than three months	23,890	28,732
Term deposits	5,971	4,292
Accrued interest	(11)	(10)
Allowance for ECL	(13)	(6)
Total loans and advances to banks	**29,837**	**33,008**
Current	**29,837**	**31,925**
Non-Current	-	**1,083**

As at December 31, 2020 included in the total term deposits are EUR 4,119 which are blocked funds for Trade Finance activities (2019: EUR 4,292).

Allowance for ECL movement for the years ended December 31, 2020 and 2019 is as following:

	December 31, 2020	December 31, 2019
Opening balances	6	69
Charge to profit and loss	7	(63)
Closing balance	**13**	**6**

28

NLB BANKA SII.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

5. LOANS AND ADVANCES TO BANKS (CONTINUED)

The movement in the allowance for ECL on Loans and advances to Banks for the year ended December 31, 2020, based on IFRS 9 requirements, is as follows:

December 31, 2020	Balance at January 1, 2020	Transfer	Increases/ Decreases	Write offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2020
Stage 1 12 M expected credit losses	(6)	-	(7)	-	-	-	-	(13)
Placements	(6)	-	(7)	-	-	-	-	(13)
Stage 2 Lifetime ECL not credit impaired	-	-	-	-	-	-	-	-
Placements	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	-	-	-	-	-	-	-	-
Placements	-	-	-	-	-	-	-	-
Total	(6)	-	(7)	-	-	-	-	(13)

December 31, 2019	Balance at January 1, 2019	Transfer	Increases/ Decreases	Write offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2019
Stage 1 12 M expected credit losses	(69)	-	59	-	-	4	-	(6)
Placements	(69)	-	59	-	-	4	-	(6)
Stage 2 Lifetime ECL not credit impaired	-	-	-	-	-	-	-	-
Placements	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	-	-	-	-	-	-	-	-
Placements	-	-	-	-	-	-	-	-
Total	(69)	-	59	-	-	4	-	(6)

6. LOANS AND ADVANCES TO CUSTOMERS

Analysis by class of advance

	December 31, 2020	December 31, 2019
Loans to customers	498,701	472,243
Overdrafts	91,659	89,124
Credit cards	5,716	5,736
	596,076	**567,103**
Allowance for ECL on loans to customers	(36,853)	(27,030)
Total loans to customers	**559,223**	**540,073**
Current	192,273	190,706
Non-current	366,950	349,367

Loans and advances to customers include accrued interest income in the amount of EUR 1,949 thousand (December 31, 2019: EUR 1,494 thousand). Loans and advances to customers include deferred disbursement fee that is part of the effective interest rate from loans to customers in the amount of EUR 1,634 thousand (2019: EUR 1,580 thousand). Overdraft facilities represent short term revolving facility and consumer loans.

The Current – Non-Current classification is made based on expected settlement basis.

Analysis by sector is as follows:

Gross carrying amount	December 31, 2020	December 31, 2019
Loans to Corporate	374,884	359,290
Loans to Retail	220,482	207,689
Loans to Finance*	710	124
	596,076	**567,103**

Less: Allowance for ECL	December 31, 2020	December 31, 2019
Corporate	(32,293)	(24,082)
Retail	(4,555)	(2,948)
Finance*	(5)	-
	(36,853)	**(27,030)**

* Non-banking financial institutions

The table below shows the credit quality and the maximum exposure to loans and advances to costumers based on the Bank's internal credit rating system, 12 month Basel III PD range and year-end stage classification. The amounts presented are gross of allowance for ECL.

December 31, 2020

Internal rating grade	12 month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.46% - 3.93%	260,806	64	-	-	**260,870**
Standard grade	3.44% - 31.60%	226,350	32,633	-	-	**258,983**
Sub-standard grade	6.26% - 44.44%	1,257	57,448	-	-	**58,705**
Low grade	100.00%	-	-	-	-	-
Non-performing						
Group impaired	100.00%	-	-	2,311		**2,311**
Individually impaired	100.00%	-	-	15,207	-	**15,207**
Total		**488,413**	**90,145**	**17,518**	-	**596,076**

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

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

December 31, 2019

Internal rating grade	12 month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.27% - 5.24%	267,155	9	-	-	267,164
Standard grade	5.24% - 12.40%	195,714	33,189	-	-	228,903
Sub-standard grade	12.40% - 20.12%	1,988	58,109	-	-	60,097
Low grade	100.00%	-	-	-	-	-
Non-performing						
Group impaired	100.00%	-	-	7,285	-	7,285
Individually impaired	100.00%	-	-	3,654	-	3,654
Total		464,857	91,307	10,939	-	567,103

The table below shows the credit quality and the maximum exposure to loans and advances to costumers on segment level as of December 31, 2020.

Corporate Lending

December 31, 2020 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	1.26% - 3.93%	50,377	-	-	-	50,377
Standard grade	9.23% - 13.12%	223,082	32,422	-	-	255,504
Sub-standard grade	11.25% - 35.95%	730	52,749	-	-	53,479
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	1,107	-	1,107
Individually impaired	100.00%	-	-	14,417	-	14,417
Total		274,189	85,171	15,524	-	374,884

Retail Lending

December 31, 2020 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.46% - 3.24%	209,992	64	-	-	210,056
Standard grade	3.44% - 31.60%	3,022	211	-	-	3,233
Sub-standard grade	6.26% - 44.44%	527	4,672	-	-	5,199
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	1,204	-	1,204
Individually impaired	100.00%	-	-	790	-	790
Total		213,541	4,947	1,994	-	220,482

Finance Lending

December 31, 2020 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	1.26% - 3.93%	437	-	-	-	437
Standard grade	9.23% - 13.12%	246	-	-	-	246
Sub-standard grade	11.25% - 35.95%	-	27	-	-	27
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	-	-	-
Individually impaired	100.00%	-	-	-	-	-
Total		683	27	-	-	710

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The table below shows the credit quality and the maximum exposure to loans and advances to costumers on segment level as of December 31, 2019.

Corporate Lending

December 31, 2019 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.27% - 5.24%	69,804	-	-	-	69,804
Standard grade	5.24% - 12.40%	193,581	32,990	-	-	226,571
Sub-standard grade	12.40% - 20.12%	1,459	51,710	-	-	53,169
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	6,240	-	6,240
Individually impaired	100.00%	-	-	3,506	-	3,506
Total		264,844	84,700	9,746	-	359,290

Retail Lending

December 31, 2019 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.27% - 5.24%	197,242	9	-	-	197,251
Standard grade	5.24% - 12.40%	2,118	199	-	-	2,317
Sub-standard grade	12.40% - 20.12%	529	6,399	-	-	6,928
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	1,045	-	1,045
Individually impaired	100.00%	-	-	148	-	148
Total		199,889	6,607	1,193	-	207,689

Finance Lending

December 31, 2019 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	1.26% - 3.93%	109	-	-	-	109
Standard grade	9.23% - 13.12%	15	-	-	-	15
Sub-standard grade	11.25% - 35.95%	-	-	-	-	-
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	-	-	-
Individually impaired	100.00%	-	-	-	-	-
Total		124	-	-	-	124

The tables below summarize the ageing of stage 2 and stage 3 as of December 31, 2020.

Stage 2 – loans less than 30 days past due (dpd) and loans greater than 30 dpd irrespective of the criteria that triggered their classification in Stage 2).

Stage 3 – loans less than 90 dpd and loans greater than 90 dpd, thus presenting the loans classified as stage 3 due to ageing and those identified at an earlier stage due to other criteria. Stage 3 exposures are further analyzed to indicate those which are no longer credit impaired but in cure period that precedes transfer to stage 2.

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

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

December 31, 2020	Stage 2 Gross carrying amount	Stage 2 ECL	Stage 3 Gross carrying amount	Stage 3 ECL	Total Gross carrying amount	Total ECL
Less than:	**4,298**	**533**	**7,650**	**6,146**	**11,948**	**6,679**
30 dpd	4,298	533	5,371	4,356	9,669	4,889
90 dpd	-	-	2,279	1,790	2,279	1,790
More than:	**451**	**88**	**4,518**	**4,262**	**4,969**	**4,350**
30 dpd	451	88	-	-	451	88
90 dpd	-	-	4,518	4,262	4,518	4,262
Total	**4,749**	**621**	**12,168**	**10,408**	**16,917**	**11,029**

The tables below summaries the ageing of stage 2 and stage 3 as of December 31, 2020 for corporate lending:

Corporate Lending December 31, 2020	Stage 2 Gross carrying amount	Stage 2 ECL	Stage 3 Gross carrying amount	Stage 3 ECL	Total Gross carrying amount	Total ECL
Less than:	**4,003**	**472**	**7,458**	**6,006**	**11,461**	**6,478**
30 dpd	4,003	472	5,247	4,266	9,250	4,738
90 dpd	-	-	2,211	1,740	2,211	1,740
More than:	**114**	**9**	**3,470**	**3,326**	**3,584**	**3,335**
30 dpd	114	9	-	-	114	9
90 dpd	-	-	3,470	3,326	3,470	3,326
Total	**4,117**	**481**	**10,928**	**9,332**	**15,045**	**9,813**

The tables below summaries the ageing of stage 2 and stage 3 as of December 31, 2020 for retail lending:

Retail Lending December 31, 2020	Stage 2 Gross carrying amount	Stage 2 ECL	Stage 3 Gross carrying amount	Stage 3 ECL	Total Gross carrying amount	Total ECL
Less than:	**295**	**61**	**192**	**140**	**487**	**201**
30 dpd	295	61	124	90	419	151
90 dpd	-	-	68	50	68	50
More than:	**337**	**79**	**1,048**	**936**	**1,385**	**1,015**
30 dpd	337	79	-	-	337	79
90 dpd	-	-	1,048	936	1,048	936
Total	**632**	**140**	**1,240**	**1,076**	**1,872**	**1,216**

The tables below summarize the ageing of stage 2 and stage 3 as of December 31, 2019

December 31, 2019	Stage 2 Gross carrying amount	Stage 2 ECL	Stage 3 Gross carrying amount	Stage 3 ECL	Total Gross carrying amount	Total ECL
Less than:	**5,453**	**356**	**5,228**	**4,720**	**10,681**	**5,076**
30 dpd	5,453	356	653	577	6,106	933
90 dpd	0	0	4,575	4,143	4,575	4,143
More than:	**1,005**	**57**	**2,702**	**2,564**	**3,707**	**2,621**
30 dpd	1,005	57	-	-	1,005	57
90 dpd	-	-	2,702	2,564	2,702	2,564
Total	**6,458**	**413**	**7,930**	**7,284**	**14,388**	**7,697**

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The tables below summarize the ageing of stage 2 and stage 3 as of December 31, 2019 for corporate lending:

Corporate Lending December 31, 2019	Stage 2 Gross carrying amount	Stage 2 ECL	Stage 3 Gross carrying amount	Stage 3 ECL	Total Gross carrying amount	Total ECL
Less than:	**5,100**	**288**	**4,801**	**4,429**	**9,901**	**4,717**
30 dpd	5,100	288	419	415	5,519	703
90 dpd	-	-	4,382	4,014	4,382	4,014
More than:	**766**	**25**	**2,201**	**2,098**	**2,967**	**2,123**
30 dpd	766	25	-	-	766	25
90 dpd	-	-	2,201	2,098	2,201	2,098
Total	**5,866**	**313**	**7,002**	**6,527**	**12,868**	**6,840**

The tables below summaries the ageing of stage 2 and stage 3 as of December 31, 2019 for retail lending:

Retail Lending December 31, 2019	Stage 2 Gross carrying amount	Stage 2 ECL	Stage 3 Gross carrying amount	Stage 3 ECL	Total Gross carrying amount	Total ECL
Less than:	**353**	**68**	**427**	**291**	**780**	**359**
30 dpd	353	68	234	162	587	230
90 dpd	-	-	193	129	193	129
More than:	**239**	**32**	**501**	**466**	**740**	**498**
30 dpd	239	32	-	-	239	32
90 dpd	-	-	501	466	501	466
Total	**592**	**100**	**928**	**757**	**1,520**	**857**

Allowance for ECL for loans and advances to customers - Charge to profit or loss

	December 31, 2020	December 31, 2019
ECL charge for the year, net	9,596	2,909
Recovery of previously written of loans	(594)	(534)
Charge to profit and loss	**9,002**	**2,375**

Movement of allowance for ECL for loans and advances to customers

	December 31 2020	December 31, 2019
Allowance for ECL for loans and advances to customers at January 1,	27,030	27,096
Charge during the year	25,704	20,604
Recoveries	(16,108)	(17,695)
ECL charge for the year, net	**9,596**	**2,909**
Written off loans	(42)	(2,975)
Accrued Interest for stage 3 loans	269	-
Allowance for ECL for loans and advances to customers at December 31,	**36,853**	**27,030**

NLB BANKA SH.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The movement in the allowance for ECL on loans to customers for the year ended December 31, 2020 and 2019, based on IFRS 9 requirements, is as follows:

December 31, 2020	Balance at January 1, 2020	Transfer	Increases/ Decreases	Write offs	Repayments of written off receivables	Change in model risk parameter	Foreign exchange and other movements	Balance at December 31, 2020
Stage 1 12 M expected credit losses	**(7,857)**	**(5,200)**	**1,771**	-	-	**295**	-	**(10,991)**
Loan and advances to individuals	(796)	(922)	269	-	-	(259)	-	(1,708)
Loan and advances to legal entities	(7,061)	(4,278)	1,502	-	-	554	-	(9,283)
Stage 2 Lifetime ECL not credit impaired	**(9,769)**	**207**	**252**	-	-	**(2,320)**	-	**(11,630)**
Loan and advances to individuals	(1,267)	(36)	603	-	-	(469)	-	(1,169)
Loan and advances to legal entities	(8,502)	243	(351)	-	-	(1,851)	-	(10,461)
Stage 3 Lifetime ECL - credit impaired	**(9,404)**	**4,993**	**(8,995)**	**42**	**(609)**	**10**	**(269)**	**(14,232)**
Loan and advances to individuals	(884)	958	(1,643)	10	(119)	-	-	(1,678)
Loan and advances to legal entities	(8,520)	4,035	(7,352)	32	(490)	10	(269)	(12,554)
Total	**(27,030)**	-	**(6,972)**	**42**	**(609)**	**(2,015)**	**(269)**	**(36,853)**

December 31, 2019	Balance at January 1, 2019	Transfer	Increases/ Decreases	Write offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2019
Stage 1 12 M expected credit losses	**(3,857)**	**(1,186)**	**(3,344)**	-	-	**529**	-	**(7,858)**
Loan and advances to individuals	(451)	(177)	(223)	-	-	53	-	(798)
Loan and advances to legal entities	(3,406)	(1,009)	(3,121)	-	-	476	-	(7,060)
Stage 2 Lifetime ECL not credit impaired	**(10,459)**	**(140)**	**1,379**	-	-	**(548)**	-	**(9,768)**
Loan and advances to individuals	(2,556)	(59)	1,100	-	-	248	-	(1,267)
Loan and advances to legal entities	(7,903)	(81)	279	-	-	(796)	-	(8,501)
Stage 3 Lifetime ECL - credit impaired	**(12,780)**	**1,326**	**(367)**	**2,975**	**(554)**	**(4)**	-	**(9,404)**
Loan and advances to individuals	(882)	235	(286)	149	(134)	34	-	(884)
Loan and advances to legal entities	(11,898)	1,091	(81)	2,826	(420)	(38)	-	(8,520)
Total	**(27,096)**	-	**(2,332)**	**2,975**	**(554)**	**(23)**	-	**(27,030)**

NLB BANKA SH.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31, 2020	December 31, 2019
Treasury bonds and bills	102,002	77,312
Securities Investment in shares	708	665
Total financial assets at FVOCI	**102,710**	77,977
Current	48,495	21,185
Non-current	54,215	56,792

The Kosovo Government Securities amounted to EUR 75.2 million and compared to 31.12.2019 it increased by EUR 4.9 million or 7%. Structure of securities is as follows:

- Kosovo Bonds EUR 75.2 million, (interest rates 0.87% to 4.5%) and maturity from 2-4.5 years.
- US Bonds USD 12 million (EUR 9.7 million), (interest rate of 0.03%) and maturity of 1-4 months.
- EU Bonds EUR 17 million, (interest rate of -1.10%) and maturity of 15 days.

All financial assets are with fixed interest yield. As of December 31, 2020 there are no pledged debt securities to third parties.

Investment in shares are in amount of 0.7 million and represents investments in shares in VISA Inc, Class C Common stock, quoted in active market. These equity instruments were granted by VISA inc to all of its members at no considerations. The fair value of the instruments on grant date was recognised by the Bank in the current year income.

The table below shows the credit quality and the maximum exposure financial assets at fair value through other comprehensive income as of:

December 31, 2020 Internal rating grade	12 month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.05% - 0.30%	26,780	-	-	-	**26,780**
Standard grade	0.60% - 2.40%	75,222	-	-	-	**75,222**
Sub-standard grade	4.80% - 19.20%	-	-	-	-	-
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	-	-	-
Individually impaired	100.00%	-	-	-	-	-
Total		**102,002**	-	-	-	**102,002**

December 31, 2019

Internal rating grade	12 month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.27% - 5.24%	7,172	-	-	-	7,172
Standard grade	5.24% - 12.40%	70,140	-	-	-	**70,140**
Sub-standard grade	12.40% - 20.12%	-	-	-	-	-
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	-	-	-
Individually impaired	100.00%	-	-	-	-	-
Total		**77,312**	-	-	-	**77,312**

NLB BANKA SII.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Movement in allowance for ECL for financial instruments FVOCI, charged to profit and loss and equity is as following:

	December 31, 2020	December 31, 2019
Opening balances	846	539
Charge to profit and loss	176	307
Closing balance	**1,022**	**846**

Debt Securities: December 31, 2020	Balance at January 1, 2020	Transfer	Increases/Decreases	Write offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2020
Stage 1 12 M expected credit losses	(846)	-	(176)	-	-	-	-	(1,022)
Stage 2 Lifetime ECL not credit impaired	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	-	-	-	-	-	-	-	-
Total	**(846)**	-	**(176)**	-	-	-	-	**(1,022)**

Debt Securities: December 31, 2019	Balance at January 1, 2019	Transfer	Increases/Decreases	Write offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2019
Stage 1 12 M expected credit losses	(539)	-	(473)	-	-	166	-	(846)
Stage 2 Lifetime ECL not credit impaired	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	-	-	-	-	-	-	-	-
Total	**(539)**	-	**(473)**	-	-	**166**	-	**(846)**

NLB BANKA SII.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

8. OTHER ASSETS

	December 31, 2020	December 31, 2019
Prepaid expenses	408	346
Receivables from cards business	2,039	1,713
Inventories	12	16
Other financial assets	284	460
Total other assets	**2,743**	**2,535**
Current	2,743	2,535

Receivables from cards business has been reclassified in 2020 as other assets from cash and cash equivalents.

Inventories include seized collateral on irrecoverable loans in 2019 consists of real estate and equipment with gross value of EUR 259 thousand, fully provided by the Bank. Other financial assets consist of receivables from maintenance of accounts fees, Receivables from insurance Companies, maintenance accounts etc, and their expected credit losses are as follows:

	December 31, 2020			December 31, 2019		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
Other financial assets	2,467	(2,183)	284	1,228	(768)	460
Total	**2,467**	**(2,183)**	**284**	**1,228**	**(768)**	**460**

Allowance for ECL movement for the years ended December 31, 2020 and 2019 is as following:

	December 31, 2020	December 31, 2019
Opening balances	768	1,055
Recoveries	-	(737)
Charge for the year	1,415	450
Closing balance	**2,183**	**768**

Recoveries of impairment are entirely due to decreases other financial asset balances as a result of collection or sale.

NLB BANKA SH.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

9. PROPERTY AND EQUIPMENTS

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Motor vehicles	Total
Cost:						
As at January 1, 2019	**11,127**	**870**	**2,488**	**3,431**	**710**	**18,626**
Adoption to IFRS 16						-
Additions during the year	-	72	780	532	-	1,384
Write offs/disposals	(359)	(17)	(79)	(87)	-	(542)
As at December 31, 2019	**10,768**	**925**	**3,189**	**3,876**	**710**	**19,468**
Additions during the year	-	1	493	540	-	1,034
Transfer	-	-	(595)	595	-	-
Write offs/disposals	(122)	(16)	(54)	(22)	(44)	(258)
As at December 31, 2020	**10,646**	**910**	**3,033**	**4,989**	**666**	**20,244**
Accumulated depreciation:						
As at January 1, 2019	**1,818**	**819**	**2,211**	**2,371**	**537**	**7,756**
Charge for the year	323	29	106	347	72	877
Write offs	(70)	(17)	(79)	(85)	-	(251)
As at December 31, 2019	**2,071**	**831**	**2,238**	**2,633**	**609**	**8,382**
Charge for the year	323	22	149	504	51	1,049
Write offs	(27)	(16)	(54)	(21)	(26)	(144)
As at December 31, 2020	**2,367**	**837**	**2,333**	**3,116**	**634**	**9,287**
Net book value:						
As at December 31, 2019	**8,697**	**94**	**951**	**1,243**	**101**	**11,086**
As at December 31, 2020	**8,279**	**73**	**700**	**1,873**	**32**	**10,957**

NLB BANKA SH.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

9. PROPERTY AND EQUIPMENTS (CONTINUED)

9.1. RIGHT OF USE OF ASSETS

The bank has adopted IFSR 16 as of January 1, 2019 and the table below represents the details for 2020 and 2019.

	Land and buildings at cost-lease	Furniture and equipment at cost-lease	Total
Cost:			
As at January 1, 2019	-	-	-
Adoption to IFRS 16	2,757	510	3,267
Additions during the year	-	-	-
As at December 31, 2019	**2,757**	**510**	**3,267**
Additions during the year	604	102	706
Write offs/disposals	(254)	-	(254)
As at December 31, 2020	**3,107**	**612**	**3,719**
Accumulated depreciation:			
As at January 1, 2019	-	-	-
Charge for the year	530	102	632
As at December 31, 2019	**530**	**102**	**632**
Charge for the year	518	102	620
Write offs	(48)	-	(48)
As at December 31, 2020	**1,000**	**204**	**1,204**
Net book value:			
As at December 31, 2019	**2,227**	**408**	**2,635**
As at December 31, 2020	**2,107**	**408**	**2,515**

9.1.1 Expenses recognized in Statement of Comprehensive Income

	December 31, 2020	December 31, 2019
Depreciation Expenses	620	632
Interest expense (included in finance cost)	58	62
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)	149	146
Total cash outflow for leases	**827**	**840**

9.1.2 Lease Liability

	December 31, 2020	December 31, 2019
Lease Liability opening January 1,	2,627	471
Addition of Right of Use Assets	706	2,788
Write of/Disposal	(206)	-
-less Lease payment	(664)	(694)
Interest on Lease Liabilities	58	62
Total Lease Liability	**2,521**	**2,627**

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

9. PROPERTY AND EQUIPMENTS (CONTINUED)

9.1 RIGHTS OF USE OF ASSETS (CONTINUED)

9.1.3 Maturity Lease Liability

The present value of lease liabilities as at 31 December 2020 and 2019 is as follows:

	December 31, 2020	December 31, 2019
Up to 30 days	53	52
From 1 to 3 months	107	104
From 3 to 6 months	240	235
From 6 to 12 months	240	235
Over 12 months	1,881	2,001
Total	2,521	2,627

10. INTANGIBLE ASSETS

	Software
Cost:	
As at January 1,	3,409
Additions	645
As at December 31, 2019	**4,054**
Additions	467
As at December 31, 2020	**4,521**
Accumulated amortization:	
As at January 1, 2019	2,750
Charge for the year	272
As at December 31, 2019	**3,022**
Charge for the year	361
As at December 31, 2020	**3,383**
Net book value:	
As at December 31, 2019	**1,032**
As at December 31, 2020	**1,138**

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

11. DUE TO BANKS

	December 31, 2020	December 31, 2019
Current accounts	1,172	594
Total due to banks	**1,172**	**594**
Current	1,172	594
Non-current	-	-

Due to banks represents deposits of local and foreign banks, which have accounts in the Bank.

12. DUE TO CUSTOMERS

Demand Deposits	**December 31, 2020**	**December 31, 2019**
Enterprises	156,504	142,417
Citizens	418,972	347,552
Governments	5,888	7,894
	581,364	**497,863**
Term Deposits		
Enterprises	39,972	54,401
Citizens	121,955	128,994
Governments	5,026	4,127
	166,953	**187,522**
Total due to customers	**748,317**	**685,385**
Current	675,835	585,067
Non-Current	72,482	100,318

Due to customers include accrued interest in the amount of EUR 984 thousand (2019: EUR 1,153 thousand). The Current – Non Current distinction is made on contractual basis.

Analysis by class of business for term deposits and current accounts is as follows:

	December 31, 2020	**December 31, 2019**
Sector	**% of total due to customers**	**% of total due to customers**
Citizens	72%	70%
Enterprises, governments and other legal entities	28%	30%
	100%	**100%**
	Amounts total due to customers	**Amounts total due to customers**
Citizens	540,927	476,546
Enterprises, governments and other legal entities	207,390	208,839
	748,317	**685,385**

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

13. OTHER FINANCIAL LIABILITIES

	December 31, 2020	December 31, 2019
Pending clients transfers	3,244	2,992
Accrued expenses	1,044	705
Due to suppliers	103	54
Liabilities for bonuses	611	466
Liabilities on transfers remote on - us	775	1,106
Lease liabilities (note 9.1)	2,521	2,627
Others	395	244
Total other financial liabilities	**8,693**	**8,194**

Pending client's transfers represents the payments collected on behalf of third parties through the clearing system, which remained unpaid to the intended recipients at the year end. In this amount is included amount of EUR 1,334 thousand (2019: EUR 1,730 thousand) payable to Customs Authorities, which was transferred on January 05, 2019 to the customs authorities' bank account. The remaining balance represents amounts payable to other recipients.

14. PROVISIONS AND OTHER LIABILITIES

	December 31, 2020	December 31, 2019
Provisions for legal cases	4,199	4,137
Provisions for fines and penalties	22	22
Allowance for ECL for guarantees	1,387	1,199
Allowance for ECL for unused exposures	1,623	1,197
Other provisions	80	80
Total Provisions	**7,311**	**6,635**
Deferred income from guarantees	111	77
VAT and other tax payable	112	107
Total other liabilities	**223**	**184**
Total provisions and other liabilities	**7,534**	**6,819**

Movements on allowance for ECL on Guarantees and unused exposures as of December 31, 2020 and 2019 are as follows:

December 31, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at January 1, 2020	**(1,329)**	**(300)**	**(767)**	**(2,396)**
Transfer	(32)	16	16	-
Increases/Decreases	(491)	(171)	(20)	(682)
Write offs	-	-	-	-
Changed in models/risk parameters	119	(51)	-	68
Foreign exchange and on movements	-	-	-	-
Balance at December 31, 2020	**(1,733)**	**(506)**	**(771)**	**(3,010)**

December 31, 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at January 1, 2019	**(805)**	**(899)**	**(601)**	**(2,305)**
Transfer	123	(132)	9	-
Increases/Decreases	(429)	760	(175)	156
Write offs	-	-	-	-
Changed in models/risk parameters	(218)	(29)	-	(247)
Foreign exchange and on movements	-	-	-	-
Balance at December 31, 2019	**(1,329)**	**(300)**	**(767)**	**(2,396)**

15. PROVISION FOR LEGAL CASES – OTHER PROVISIONS

Provision expense for legal cases, guarantees and other are as follows:

	December 31, 2020	December 31, 2019
Provisions for legal cases	62	1,081
Provisions for fines and penalties	-	(1)
ECL charges for guarantees	188	72
ECL charges for unused exposures	426	19
Charge to profit and loss	**676**	**1,171**

Movement of Guarantees and unused exposures is presented on the Note 14 above, while movement of provisions for legal cases are as follows,

	December 31, 2020	December 31, 2019
Balance as at January 1, for legal cases	4,137	**3,470**
Charge of the year for provision for legal cases	62	1,081
Utilized during the year	-	(414)
Balance as at December 31, for legal cases	**4,199**	**4,137**

16. BORROWINGS AND SUBORDINATED DEBTS

Current portion	December 31, 2020	December 31, 2019
Leasing for vehicles	5	17
Interest payable ne subordinated debt	8	10
Total current portion	**13**	**27**
Non-current portion		
Leasing for vehicles	-	21
Subordinated debt	15,000	15,000
Total non-current portion	**15,000**	**15,021**
Total borrowings	**15,013**	**15,048**

The subordinated debt represents the loan used for purpose of additional Tier II capital. The agreement has been signed on June 19, 2019 with tenor of 10 years with fixed interest rate of 4.95%.

The bank has signed three contracts for leasing vehicles, two agreements dated April 18, 2016 and maturity March 16, 2021, with fixed interest rate of 7%, and one dated November 11, 2017 and maturity November 11, 2022, and fixed interest rates of 6%. The leases are low value and no right of use assets has been recognised

17. SHARE CAPITAL

As at December 31, 2020, the share capital amounted to EUR 51,287 thousand (2019: EUR 51,287 thousand.

Authorised share capital		
42,739 Ordinary shares at par value of EUR 1,200 each	51,287	51,287
Paid up share capital		
42,739 Ordinary shares at par value of EUR 1,200 each	**51,287**	**51,287**

All shares have rights to dividends and carry equal voting rights. There are no restrictions attached to the shares. The capital of the Bank has been increasing organically during the years through capitalization of retained earnings.

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

17. SHARE CAPITAL (CONTINUED)

During 2020 due to Covid pandemic the bank did not distribute dividends. A summary of share ownership of the Bank is as follows:

Shareholders	Percentage ownership	December 31, 2020	Percentage ownership	December 31, 2019
Nova Ljubljanska Banka d.d	81.21%	41,652	81.21%	41,652
Agjencioni Turizmit "MCM"	4.71%	2,414	4.71%	2,414
Mr. Hashim Deshishku	2.48%	1,271	2.48%	1,271
Mr. Rizah Deshishku	1.24%	636	1.24%	636
Mr. Bashkim Deshishku	1.24%	636	1.24%	636
1Mrs. Nerimane Ejupi	1.22%	625	1.22%	625
Mr. Naim Ejupi	1.21%	622	1.21%	622
Mr. Remzi Ejupi	1.16%	596	1.16%	596
Mr. Metush Deshishku	0.90%	462	0.90%	462
"Dardania - 2" Sh.p.k.	0.63%	323	0.63%	323
Mr. Xhemajl Ismajli	0.60%	310	0.60%	310
NPTSh "Jehona"	0.60%	308	0.60%	308
Mrs. Blerina Ejupi	0.51%	259	0.51%	259
MR. Elez Sylaj	0.44%	223	0.44%	223
Mr. Kadri Shalaku	0.34%	174	0.34%	174
"Raf II" sh.p.k.	0.24%	124	0.24%	124
Others	1.27%	652	1.27%	652
	100%	**51,287**	**100%**	**51,287**

18. INTEREST REVENUE CALCULATED USING THE EFFECTIVE RATE INTEREST METHOD

Analysis by class of assets:

	Year ended December 31, 2020	Year ended December 31, 2019
Income from loans and advances to customers	35,441	33,470
Income from financial assets at FVOCI	1,054	978
Income on loans and advances to banks	1	6
Total interest income	**36,496**	**34,454**

19. INTEREST AND SIMILAR EXPENSES

Analysis by class of liabilities:

	Year ended December 31, 2020	Year ended December 31, 2019
Interest to customers	3,023	2,875
Interest on borrowings	755	437
Interest on due to banks	176	112
Interest on loans and advances to banks	256	16
Total interest expense	**4,210**	**3,440**

20. FEE AND COMMISSION INCOME

Analysis of fee and commission income relating to activities:

	Year ended December 31, 2020	Year ended December 31, 2019
Card and ATM operations	3,662	3,791
Payment transfers and transactions	1,904	1,889
Account maintenance fee	4,487	3,736
Guarantees and letters of credit	486	536
Payments -account maintenance fee for retirees	436	434
Fee for repayment of loan before maturity	184	158
Others	45	68
Total fee and commission income	**11,204**	**10,612**

Payments from account maintenance fee from retirees represents fee income paid by the Ministry of Labour of Kosovo for retirees based on the Memorandum of Understanding concluded between the bank and Ministry of Labour of Kosovo for all retirees having a bank account with the Bank. For each retiree an amount of EUR 5 is paid to the bank on an annual basis.

21. FEE AND COMMISSION EXPENSES

Analysis of fee and commission expenses relating to activities:

	Year ended December 31, 2020	Year ended December 31, 2019
Card and ATM operations	2,630	2,510
Payment transfers and transactions	219	177
Guarantees and Letters of Credit	76	99
Payments –CBK related fees	307	265
Other fees	269	188
Total fee and commission expenses	**3,501**	**3,239**

22. OTHER INCOME/EXPENSES, NET

	Year ended December 31, 2020	Year ended December 31, 2019
Licensing expense	(551)	(485)
Deposit insurance expenses	(1,079)	(978)
Other expense	(66)	(92)
Other Income	46	119
Other operating income/expenses, net	**(1,650)**	**(1,436)**
Foreign exchange translation (loss)/gain	**23**	**17**
Foreign exchange trading income	683	497
Foreign exchange trading expense	(367)	(158)
Foreign exchange trading income	**316**	**339**
Net foreign exchange gain	**339**	**356**
Other operating income/expenses, net	**(1,311)**	**(1,080)**

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

23. PERSONNEL EXPENSES

	Year ended December 31, 2020	Year ended December 31, 2019
Salaries and wages	5,134	4,855
Mandatory staff pension contributions	274	261
Staff health insurance costs	183	184
Employees food costs	207	239
Other staff costs	360	671
Total staff costs	**6,158**	**6,210**

24. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Year ended December 31, 2020	Year ended December 31, 2019
Maintenance	1,383	1,206
Operating lease expenses	185	182
Security and insurance costs	365	375
Office supplies	437	452
Marketing and sponsorship	274	254
Utilities	206	250
Charge for professional services	471	396
Telecommunications	268	219
Cleaning expenses	110	73
Travel	42	79
Representation	38	74
Taxes and commissions	66	63
Others	254	184
Total Administrative and other operating expense	**4,099**	**3,807**

25. INCOME TAX EXPENSE

	Year ended December 31, 2020	Year ended December 31, 2019
Current income tax expense (a)	1,780	2,345
Deferred tax (credit)/expense (b)	(69)	98
Tax expense	**1,711**	**2,443**

(a) Detailed below is the calculation of current income tax expense.

	Year ended December 31, 2020	Year ended December 31, 2019
Profit for the year before taxation	**15,045**	**21,988**
Profit tax on profit at the rate of 10%	1,505	2,199
Tax effect of expenses not deductible for tax purposes	275	146
Current income tax expense	**1,780**	**2,345**

25. INCOME TAX EXPENSE (CONTINUED)

The tax rate on corporate income is set at 10% in accordance with Kosovo tax regulations currently in force, Law no. 06/L-105 "On Corporate Income Tax". According to tax legislation in Kosovo, the tax authorities have the right to examine tax returns six years after their submission. Movement of current tax receivable is as follows:

	Year ended December 31, 2020	Year ended December 31, 2029
Current income tax payable at January 1,	(118)	-
Income tax expense	(1,780)	(2,345)
Income tax expense paid during the year	2,137	3,021
Transfer to prepaid tax for previous years	29	(794)
Current income tax receivable/payable as at December 31	**268**	**(118)**

(b)Deferred tax asset has been recognized as follows for the temporary differences:

	Year ended December 31, 2020	Year ended December 31, 2019
Loan and guarantees impairment provision	-	337
Property and equipment and intangible assets	(1,777)	(1,391)
Interest expense on deposits	1,038	(136)
Provision for legal and other	4,836	4,664
FVOCI revaluation reserve	(827)	(994)
Total deductible temporary difference	**3,270**	**2,480**
Total net deferred tax asset @ 10%	**327**	**248**

The movement in the deferred tax asset account is as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Deferred tax asset as at January 1,	248	426
Deferred tax charge /(income)	69	(98)
FVOCI revaluation reserve (equity)	10	(80)
Deferred tax asset as at December 31,	**327**	**248**

26. OTHER COMPREHENSIVE INCOME

	Year ended December 31, 2020	Year ended December 31, 2019
Gain on change of fair value of FVOCI financial instruments	731	833
Credit/Debit to other comprehensive income	**731**	**833**

The movement in revaluation reserve is as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Market price as at January 1	833	115
Price change of financial instruments FVOCI	(113)	799
Deferred tax on FVOCI	11	(81)
Net as presented in other comprehensive income (a)	**(102)**	**718**
Market price as of December 31 (A)	**731**	**833**
Allowance for ECL of securities at FVOCI at January 1	(846)	(539)
Net as presented in profit or loss (b)	**(176)**	**(307)**
Allowance for ECL of securities at FVOCI at December 31 (B)	**(1,022)**	**(846)**
Revaluation Reserve as at December 31 (A-B)	**1,753**	**1,679**
Fair value change during the year (a-b)	**74**	**1,025**

27. EARNING PER SHARE

Earnings per share are calculated by dividing net profit attributable to the ordinary shareholders by the number of ordinary shares for the period.

	Year ended December 31, 2020	Year ended December 31, 2019
Net profit	13,334	19,545
Number of ordinary shares (in thousands)	42.7	42.7
Earnings per share	**312.3**	**457.7**

28. RELATED PARTY DISCLOSURES

In determination of related parties the Bank applies IAS 24 requirements. Related parties include:

- The parties which directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with the entity,
- Parties in which the Bank has an interest that gives it significant influence or joint control over the entity,
- Private individuals who directly or indirectly have voting power in the Bank that gives them significant influence over the Bank, and entities controlled or jointly controlled by such individuals, members of the key management personnel, i.e. individuals with authority and responsibilities for planning, managing and controlling the Bank's operations, including directors,
- When taking into account each possible transaction with a related party, attention is focused on the substance of the relationship not just the legal form.

The Bank is controlled by Nova Ljubljanska Banka d.d. Ljubljana incorporated in Slovenia (Parent), which owns 81.21% of the ordinary shares as at December 31, 2020 (2019: 81.21% ordinary shares). The remaining shares are held by other small shareholders (18.79%).

The Bank performs a number of related party transactions in the course of its regular operations. The transactions include investments, deposits, borrowings, and foreign currency transactions. These transactions were carried out on normal commercial terms and market prices.

28. RELATED PARTY DISCLOSURES (CONTINUED)

The following table summarizes the scope of related party transactions, balances of assets and liabilities at December 31, 2020 and related income and expenses for the year then ended. These transactions are on contractual terms.

December 31, 2020	NLB d.d. Ljubljana	NLB Tutunska Banka	NLB Montenegro	NLB Leasing	NLB Banka a.d., Beograd	SREAM d.o.o Ljubljana	Key management personnel	Total
Receivables								
Loans and advances to banks	1,181	69	26	-	-	-	-	1,276
Loans and advances to customers	-	-	-	-	-	-	164	164
Securities	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-		-
Total Receivables	**1,181**	**69**	**26**	-	-	-	**164**	**1,440**
Liabilities								
Deposits	62	-	-	-	-	-	1,297	1,359
Borrowings	-	-	-	4	-	-	-	4
Subordinated debt	15,008	-	-	-	-	-	-	15,008
Other liabilities	11	-	-		52	3	97	163
Total Liabilities	**15,081**	-	-	**4**	**52**	**3**	**1,394**	**16,534**
Net Receivables/(Liabilities)	**(13,900)**	**69**	**26**	**(4)**	**(52)**	**(3)**	**(1,230)**	**(15,094)**
Confirmed guarantees	780	403	-	-	-	-	-	1,183
Income								
Interest income	-	-	-	-	-	-	3	3
Fee income	-	-	-	-	-	-	-	-
Foreign exchange gain	151	-	-	-	-	-	-	151
Total Income	**151**	-	-	-	-	-	**3**	**154**
Expenses								
Interest expenses	(757)	-	-	(1)	-	-	(1)	(759)
Fee expenses	(43)	(2)	-	-	-	-	-	(45)
Foreign exchange loss	(135)	-	-	-	-	-	-	(135)
Salaries rents and other expenses	(90)	-	-	-	(61)	(3)	-	(154)
Total Expenses	**(1,025)**	**(2)**		**(1)**	**(61)**	**(3)**	**(1)**	**(1,093)**
Net income/(expense)	**(874)**	**(2)**	-	**(1)**	**(61)**	**(3)**	**2**	**(939)**

NLB BANKA SH.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

28. RELATED PARTY DISCLOSURES (CONTINUED)

The following table summarizes the scope of related party transactions, balances of assets and liabilities at December 31, 2019 and related income and expenses for the year then ended.

	Parent	Entities under joint control					
December 31, 2019	**NLB d.d. Ljubljana**	**NLB Tutunska Banka**	**NLB Montenegro**	**NLB Leasing**	**NLB Banka a.d., Beograd**	**Key management personnel**	**Total**
Receivables							
Loans and advances to banks	6,110	88	39	-	-	-	**6,237**
Loans and advances to customers	-	-	-	-	-	127	**127**
Securities	-	-	-	-	-	-	-
Other receivables	-	-	-	-		-	-
Total Receivables	**6,110**	**88**	**39**	-	-	**127**	**6,364**
Liabilities							
Deposits	-	-	-	-	-	1,496	**1,496**
Borrowings	-	-	-	-	-	-	-
Subordinated debt	15,010	-	-	-	-	-	**15,010**
Other liabilities	10	-	-	38	15	115	**178**
Total Liabilities	**15,020**	-	-	**38**	**15**	**1,611**	**16,684**
Net Receivables/(Liabilities)	**(8,910)**	**88**	**39**	**(38)**	**(15)**	**(1,484)**	**(10,320)**
Confirmed guarantees	2,302	650	-	-	-	-	**2,952**
Income							
Interest income	-	-	-	-	-	1	**1**
Fee income	-	-	-	-	-	-	-
Foreign exchange gain	199	-	-	-	-	-	**199**
Total Income	**199**					**1**	**200**
Expenses							
Interest expenses	(438)	-	-	(3)	-	(3)	**(444)**
Fee expenses	(25)	(4)	-	-	-	-	**(29)**
Foreign exchange loss	(137)	-	-	-	-	-	**(137)**
Salaries rents and other expenses	(55)	-	-	-	(24)	-	**(79)**
Total Expenses	**(655)**	**(4)**		**(3)**	**(24)**	**(3)**	**(689)**
Net income/(expense)	**(456)**	**(4)**		**(3)**	**(24)**	**(2)**	**(489)**

28. RELATED PARTY DISCLOSURES (CONTINUED)

Key management Compensation: Key management consists of the management board of the bank and its compensation was as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Salaries	288	291
Bonus	-	115
Total	**288**	**406**

29. OFF BALANCE SHEET, COMMITMENTS AND CONTINGENCIES

a. Guarantees and letters of credit

Credit related commitments include commitments to extend credit, letters of credit and guarantees given, which are designed to meet the requirements of the Bank's customers. Letters of credit and guarantees given to customers commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total amounts do not necessarily represent cash requirements.

The aggregate outstanding amount of guarantees, letters of credit and stand by letter of credit issued by the Bank are as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Customs	1,398	1,244
Guarantees for payments	15,448	15,150
Public tenders guarantees	1,513	1,613
Letters of Credit	1,512	2,984
Standby letter of Credit	844	699
	20,715	**21,690**
Guarantees for completion of work	4,587	4,634
	25,302	**26,324**
Committed loans to customers not yet issued	62,604	64,231
Total	**87,906**	**90,555**

Guarantees:	Year ended December 31, 2020	Year ended December 31, 2019
Secured		
Secured by cash deposits	3,576	3,618
Secured by other collateral	20,332	21,979
	23,908	**25,597**
Unsecured	1,394	727
Total	**25,302**	**26,324**

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

29. OFF BALANCE SHEET, COMMITMENTS AND CONTINGENCIES (CONTINUED)

a. Guarantees and letters of credit (continued)

The table below shows the credit quality and the maximum exposure of balance sheet commitments and contingencies as of December 31, 2020.

Internal rating grade	12 month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.27% - 5.24%	36,858	-	-	-	**36,858**
Standard grade	5.24% - 12.40%	44,380	3,510	-	-	**47,890**
Sub-standard grade	12.40% - 20.12%	340	2,008	-	-	**2,348**
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	58	-	**58**
Individually impaired	100.00%	-	-	752	-	**752**
Total		**81,578**	**5,518**	**810**	-	**87,906**

The table below shows the credit quality and the maximum exposure of balance sheet commitments and contingencies as of December 31, 2019.

Internal rating grade	12 month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.27% - 5.24%	33,962	1	-	-	**33,963**
Standard grade	5.24% - 12.40%	48,186	1,849	-	-	**50,035**
Sub-standard grade	12.40% - 20.12%	245	5,503	-	-	**5,748**
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	808	-	**808**
Individually impaired	100.00%	-	-	1	-	**1**
Total		**82,393**	**7,353**	**809**	-	**90,555**

b. Legal cases

From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice, management has calculated provision for expected losses, and accordingly provision has been made in these financial statements in the amount of EUR 4,199 thousand (note other liabilities) as at December 31, 2020. The nature of the most significant cases is as follows:

- Disagreement with supplier of headquarter building in relation to the surface are of the property (Eur 1,148 thousand),
- Claimed unfairness of dismissal by former employees,
- Disagreement with Lessors in relation to the amount of rent.

The cases are expected to be closed in the next two or three years. In case of, no reimbursement from insurance or other sources is expected. The Bank has provided the maximum exposure in each legal case.

c. Seized collateral

As at December 31, 2020 Bank has of balance sheet seized collateral on liquidated amount of EUR 5,829 thousand (2019 EUR 4,516 thousand). The Bank has completed legal foreclosure procedures however it still is in the process of obtaining physical control of the properties.

30. FAIR VALUES AND RISK MANAGEMENT

a. Capital Risk Management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.
The capital structure of the Bank consists of debt, which includes the borrowings, and the equity attributable to equity holders, comprising paid up capital and retained earnings.

Tier I capital means a bank's permissible permanent paid-in capital which may be comprised of any or all of the following:

(i) Common equity shares and their related surplus;
(ii) Earnings which have not been distributed.

Additional Tier 1 capital – means:

(i) Perpetual preferred shares (being those which, in the event of liquidation of the bank, are not paid any amounts until all depositors and other creditors have been fully addressed, but are paid in full, (preferred) before any common shareholder is paid and which have rights to agreed dividend payments but which have no maturities or options of their holders to redeem);

(ii) Such other instruments as may be approved by the CBK as permissible permanent capital from time to time by rule or order.

Deductions from Tier 1 Capital:

(i) Goodwill and intangible assets are to be deducted from a bank's Tier 1 capital before the Tier 2 capital portion of the calculation is made;
(ii) Investments in equity of banks or other financial institutions that comprise above ten per cent (10%) of their capital (this percentage shall include also the subordinated rights), or investments in amounts less than 10% of their capital, but with a significant influence in decision making of these financial institutions. Investments in equity of banks and other financial institutions (including here also the subordinated rights) that comprise less than 10% of the bank's equity before deductions, where the amount above the 10% threshold shall be deducted.;
(iii) Deferred tax assets;
(iv) Lending to a Bank-Related Person, except lending covered with cash.

Tier II capital includes a Bank's:

(i) Reserves for loan losses up to a maximum of 1.25% (one point twenty-five percent) of its risk weighted assets at any one time or such other percentage as may be established by the CBK from time to time by rule or order;

(ii) Ordinary preferred shares (being preferred shares which have maturities or are redeemable at the option of their holders and which are cumulative (have the right to payment of past dividends missed) if the bank has the option to defer payment of dividends;

(iii) Term preferred shares (shares whose holders have the right to redeem them and which have terms of 5 years or more). These shares are subject to approval as capital from time to time throughout their terms by the CBK. The amount of long-term preferred shares (shares with maturities in excess of ten (10) years eligible to be included in Tier 2 capital will be reduced by 20 % (twenty percent) of their original amounts at the beginning of each of the last 5 years of their terms;

(iv) Term debt instruments which are fully subordinated to the rights of depositors (those which, in the event of liquidation of the bank, are not paid any amounts until all depositors have been paid. The amount of long-term subordinated debt instruments (those with maturities in excess of ten years) eligible to be included in Tier 2 capital will be reduced by 20% (twenty percent) of their original amounts at the beginning of each of the last five (5) years of the instrument's life;

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

a. Capital Risk Management (continued)

(v) Debt instruments which are mandatory convertible into common shares and which are unsecured and fully paid-in;

(vi) Subordinated term debt are liabilities, but if subordinated term debt was issued with an original term to maturity of over five years, then it may be included as Tier 2 capital to a maximum of 50% (fifty percent) of Tier 1 capital;

(vii) Tier 2 capital cannot be higher than 100% (one hundred percent) of Tier 1 capital.

Minimum Risk-Based Capital Ratios

The bank maintains a minimum total capital to risk-weighted asset ratio of 12% and a Tier I capital to risk-weighted asset ratio of 8% in accordance with the rule on Capital Adequacy issued by the Central Bank of Republic of Kosovo. Also the bank is required to maintain a minimum 7 percent leverage ratio. (Leverage ratio equals total equity / total assets).

i. A bank's risk adjusted capital is obtained by dividing its capital base by its risk weighted assets.
ii. The minimum ratio set forth above may be increased by the CBK by rule or order from time to time.

As of reporting period, the capital adequacy ratios in accordance with CBK's framework for the preparation of financial statements are as follows:

	December 31, 2020	December 31, 2019
Tier 1 capital		
Share capital	51,287	51,287
Reserves	1,753	833
Retained earnings	31,961	31,687
less: deductions from capital	(3,433)	(7,540)
Total qualifying Tier 1 capital	**81,568**	**76,267**
Tier 2 capital		
Subordinated liability	15,000	15,000
Provisions for loan losses (limited to 1.25% of RWA)	6,657	6,953
Total qualifying Tier 2 capital	**21,657**	**21,953**
Total regulatory capital	**103,225**	**98,220**
Risk-weighted assets:		
On-balance sheet	506,318	536,465
Off-balance sheet	26,284	19,775
Risk assets for operational risk	47,133	42,903
Total risk-weighted assets	**579,735**	**599,143**
Tier I capital to risk- weighted asset ratio	**14.1%**	**12.7%**
Total capital to risk-weighted asset ratio	**17.8%**	**16.4%**
Total equity to total assets	**11.2%**	**10.6%**

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

b. Categories of Financial Instruments

The table below is reconciliation of financial instruments classes as per IFRS 9 measurement categories. As at the year end the Bank has the following financial instruments:

	December 31, 2020	December 31, 2019
Loans and advances		
Cash and balances with Central bank	169,346	132,491
Loans and advances to banks	29,837	33,008
Loans and advances to customers	559,223	540,073
Financial instruments through other comprehensive income	102,710	77,977
Other financial assets	284	460
Total financial assets	**861,400**	**784,009**
Financial liabilities at amortized cost		
Due to banks	1,172	594
Due to customers	748,317	685,385
Other financial liabilities	8,693	8,194
Borrowings from banks	15,013	15,048
Total financial liabilities	**773,195**	**709,221**

c. Financial Risk Management Objectives

The Bank's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk), credit risk and liquidity risk.

Compliance with policies and exposure limits is reviewed by the management committees and internal auditors on a continuous basis. The Bank does not enter into or trade significant derivative financial instruments.

d. Market Risk

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The market risk is not concentrated to currency risk or interest rate risk, as major transactions of the Bank are in local currency and majority of the interest rates are fixed.

In EUR Thousands	Carrying amount	Traded risk	Non-traded risk	Carrying amount	Traded risk	Non-traded risk	Primary risk sensitivity
	2020	2020	2020	2019	2019	2019	
Assets							
Cash and balances with central banks	169,346	-	169,346	132,491	-	132,491	Interest rate
Due from banks	29,837		29,837	33,008	-	33,008	Interest rate FX
Debt instruments at FVOCI	102,002	-	102,002	77,312	-	77,312	Interest rate
Equity instruments at FVOCI	708	-	708	665	-	665	FX
Loans and advances to customers	559,223	-	559,223	540,073	-	540,073	Interest rate FX
Total	**861,116**	-	**861,116**	**783,549**	-	**783,549**	
Liabilities							
Due to banks	1,172	-	1,172	594	-	594	Interest rate FX
Due to customers	748,317	-	748,317	685,385	-	685,385	Interest rate FX
Debt issued and other borrowed funds	15,013	-	15,013	15,048	-	15,048	Interest rate
Other liabilities	8,693	-	8,693	8,194	-	8,194	Interest rate FX
Total	**773,195**	-	**773,195**	**709,221**	-	**709,221**	

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

e. Foreign Currency Risk

The Policy on Management of the currency risk of NLB Banka, defines the methods of currency risk management in the bank. The purpose of currency risk management policy is the management and limitation of the potential loss, which is created as a result of changes on the foreign currency rates and, reflected on the business results and capital adequacy of the bank. The currency risk presents the probability of realizing the losses as per on balance and off balance sheet items, as a result of changes on the currency rates and/or non-harmonization on the level of assets, liabilities and off balance items in the same currency. The Bank manages foreign currency risk through managing currency structure of assets and liabilities in line with expected changes in foreign currency rates. Foreign exchange rate risk is managed and governed according to the policies of the NLB group. As such NLB Banka continuously monitors exchange rate movements and foreign currency markets, and determines its currency positions on a daily basis. Any exception to the policy shall be subject of approval by the Supervisory Board of NLB Banka and the Risk Management Department of NLB group. The bank and group policy forbids the bank to maintain open currency position for speculative purposes. Nevertheless, foreign exchange derivatives may be used for hedging purposes to close certain positions, in which case they are closely monitored at both local and group level.

The Bank undertakes transactions in both Euro and foreign currencies. The Bank has not entered into significant forward exchange or any embedded derivative transactions during the year ended December 31, 2020 and 2019.

The Bank is exposed to currency risk through transactions in foreign currencies. As the currency in which the Bank presents its financial statements is Euro, the Bank's financial statements are effected by movements in the exchange rates between the Euro and other currencies.

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

Foreign currency sensitivity analysis

The Bank is mainly exposed to US Dollar (USD) and Swiss Franc (CHF). The following table details the Bank's sensitivity to the respective increase and decrease in the value of Euro against the foreign currencies. The percentage used is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a respective change in foreign currency rates. The Bank has applied a 10% increase or decrease to the current currency exchange rates. A positive number below indicates an increase in profit and other equity where the Euro strengthens with respective percentages against the relevant currency.

	+10% of Euro	-10% of Euro
Assets:		
Impact on cash and due from banks	2,781	(2,781)
Liabilities:		
Impact on due to banks and customers	(2,763)	2,763
Net impact on profit and loss and equity	**18**	**(18)**

As at December 31, 2019

	+10% of Euro	-10% of Euro
Assets:		
Impact on cash and due from banks	2,411	(2,411)
Liabilities:		
Impact on due to banks and customers	(2,381)	2,381
Net impact on profit and loss and equity	**30**	**(30)**

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

e. Foreign Currency Risk (continued)

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

	EURO	USD	CHF	Others	Total
Financial assets					
Cash and balances with CBK	159,632	1,728	7,255	731	**169,346**
Due from banks	23,415	-	4,622	1,800	**29,837**
Loans to customers – net	559,223	-	-	-	**559,223**
Financial assets at FVOCI	92,228	10,482	-	-	**102,710**
Total financial assets	**834,498**	**12,210**	**11,877**	**2,531**	**861,116**
Financial liabilities					
Due to banks	1,070	23	24	55	**1,172**
Due to customers	721,955	12,015	11,864	2,483	**748,317**
Borrowings and Subordinated Debts	15,013	-	-	-	**15,013**
Other financial liabilities	8,693	-	-	-	**8,693**
Total financial liabilities	**746,731**	**12,038**	**11,888**	**2,538**	**773,195**
Net currency position	**87,767**	**172**	**(11)**	**(7)**	**87,921**

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

	EURO	USD	CHF	Others	Total
Financial assets					
Cash and balances with CBK	126,572	915	4,837	167	**132,491**
Due from banks	22,682	891	7,364	2,071	**33,008**
Loans to customers – net	540,073	-	-	-	**540,073**
Financial assets at FVOCI	70,140	7,837	-	-	77,977
Total financial assets	**759,467**	**9,643**	**12,201**	**2,238**	**783,549**
Financial liabilities					
Due to banks	567	25	2	-	**594**
Due to customers	661,581	9,359	12,207	2,238	**685,385**
Borrowings and Subordinated Debts	15,048	-	-	-	**15,048**
Other financial liabilities	8,194	0	0	-	**8,194**
Total financial liabilities	**685,390**	**9,384**	**12,209**	**2,238**	**709,221**
Net currency position	**74,077**	**259**	**(8)**	-	**74,328**

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

e. Foreign Currency Risk (continued)

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

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

f. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets (re-pricing risk). The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The assets and customer term deposits of the bank carry fixed interest rates while borrowings are at variable interest rate. The interest rates applicable to financial assets and liabilities are disclosed in relevant note to these financial statements. Interest rate risk management policy of the bank defines the method of identification, measurement, following up and controlling the risk in the event of interest rate modification. The purpose of policy is management on the exposure to interest rate risk and limitation of potential loss, which is created as a result of modification of levels of interest rates in the market and the effect of those changes on business results and the market value of bank capital.

With the policy are defined methodologies of risk assessment from the interest rate:

- Gap analysis
- NII (Net Interest Income) methodology – sensitivity of NII
- Basis Point Value ("BPV") methodology

The risk management department monitors exposure to interest-rate risk using the interest-rate gap analysis methodology. To that end, NLB Banka defines a set of input data that are based on cash flows by individual time interval. The principle of residual maturity is applied to agreements with a fixed interest rate, while the interest rate re-pricing date is taken into account for agreements with a variable interest rate.

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

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

At the current stage trading activities are not applicable for NLB Banka, as per required criteria of NLB Group policies. As part of NLB group NLB Banka is subject to NLB policies and procedures.

Management believes that the Bank is not exposed to interest rate risk on its financial instruments except borrowings which are at variable interest rates. Funds and obligations which do not have defined maturity (such as deposits due on demand) or which have variable maturities in relation with original achievement specified with contract, are classified in the category as demand to deposits for the purpose of gap analysis.

NLB BANKA SH.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

f. Interest rate risk (continued)

Interest rate risk management in the Bank's book is carried out based on Gap analysis and Basis Point Value methodology.

Gap analysis relates to an interest rate risk measurement technique by means of which asset, liabilities and off-balance sheet assets are categorized into corresponding time buckets by the earlier of contractual re-pricing (for instruments with floating interest rate) or maturity date (for instruments with fixed interest rate).

Assets and liabilities with no maturity date (e.g. on-demand deposits) or with maturity dates which may be different from the original maturity dates defined by the contracts are categorised into corresponding time buckets based on the Bank's estimate and considering its previous experience.

With a view to more adequate interest rate risk management and measurement, BPV (Basis Point Value) methodology is used, measuring the financial instruments' sensitivity to changes of market interest rates. Based on this method, it is estimated how the position value will change if the market interest rates change by +/- 200 basis points.

The main tool for management of interest rate exposure is gap analysis, i.e. gap analysis for interest bearing assets and liabilities. The Assets and Liabilities Committee (ALCO) based on the proposal suggested by expert services, adopts the strategy of adjusting the assets and liabilities items based on the estimated changes in market interest rates.

Sensitivity analysis

Interest rate risk management is supplemented by monitoring the sensitivity of the Banks profit or loss and equity to various floating interest rate scenarios. The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. The analysis assumes a parallel increase of interest rates of 200 basis points (± 2%) on the level of net profit and equity.

Exposure to interest rate risk and its impact on the bank's statement of changes in equity and profit and loss is measured through Basis Point Value methodology. Results presented below represent the changes in profit and loss and equity, which would occur if interest rates will increase or decrease by 200 basis points.

The effect of interest rate risk on equity is similar to that on Profit and Loss. Analysis of the sensitivity of profit or loss and equity to changes in interest rates is as follows:

	Sensitivity of the profit and loss and equity	
Interest rate sensitivity	**2020**	**2019**
Increase in basic points +200 bps parallel shift	(7,103)	(5,517)

Interest rate sensitivity	2020	2019
Decrease in basic points -200 bps parallel shift	5,373	3,179

Economic Value of Equity (EVE) results as at December 31, 2020 is -8.71% of capital (2019: -7.23%). As per interest rate risk management policy the maximum limit of EVE result is -12% of total capital.

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

f. Interest rate risk (continued)

The table below gives the contractual maturity on net interest rate position for financial assets and financial liabilities as monitored by management.

December 31, 2020	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-Interest bearing
Assets						
Cash and balances with central banks	169,346	79,187				90,159
Due from banks	29,837	26,530	3,307	-	-	-
Debt and equity instruments at FVOCI	102,710	30,941	17,554	53,507	-	708
Loans and advances to customers	559,223	50,614	141,659	268,659	98,291	-
Total financial assets	**861,116**	**187,272**	**162,520**	**322,166**	**98,291**	**90,867**
Liabilities						
Due to banks	1,172	-	-	-	-	1172
Due to customers	748,317	11,990	82,483	72,482	-	581,362
Debt issued and other borrowed funds	15,013	13	-	-	15,000	-
Total financial liabilities	**764,502**	**12,003**	**82,483**	**72,482**	**15,000**	**582,534**
Total interest sensitivity gap after risk management	**96,614**	**175,269**	**80,037**	**249,684**	**83291**	**(491,667)**

December 31, 2029	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-Interest bearing
Assets						
Cash and balances with central banks	132,491	59,515	-	-	-	72,976
Due from banks	33,008	29,782	2,143	1,083	-	-
Debt and equity instruments at FVOCI	77,977	12,040	9,145	55,061	1,066	665
Loans and advances to customers	540,073	48,748	141,958	258,744	90,623	-
	783,549	**150,085**	**153,246**	**314,888**	**91,689**	**73,641**
Liabilities						
Due to banks	594	-	-	-		594
Due to customers	685,385	14,240	72,964	100,318	-	497,863
Debt issued and other borrowed funds	15,048	15	16	17	15,000	-
Total financial liabilities	**701,027**	**14,255**	**72,980**	**100,335**	**15,000**	**498,457**
Total interest sensitivity gap after risk management	**82,522**	**135,830**	**80,266**	**214,553**	**76689**	**(424,816)**

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

g. Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

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

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by type of customer in relation to the Bank's loans and advances, and guarantees issued.

For subsequent measurement and impairment of assets the bank assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Kosovo Government as reflection of Covid19 outbreak, has implemented the law on economic recovery which foresees the increase of credit guarantee scheme (from 50% to 80% coverage) and us such the Bank has signed the agreement with Kosovo Credit Guarantee Fund for disbursement of loans under such scheme. In addition, the Central Bank of Kosovo since March 2020 has introduced the loan moratorium period in which 47% of existing clients on its peak has applied for temporary deferral in payments. Furthermore, the CBK has introduced the second wave of moratoriums for which only 10% of the portfolio applied for and are active as of date of financial statements.

The Covid19 outbreak impacted significantly macroeconomic environment which was reflected on risk parameters but also on the quality of portfolio which resulted in elevated cost of risk for 2020 at 198 bps.

On the table below are presented active loans under moratorium of non-financial corporations and households:

December 31, 2020	Number of clients	Gross Book Value	ECL Allowance	Net Book Value
Non-financial corporations	217	62,157	(9,056)	53,101
Households	74	900	(34)	866
Total active moratoriums	**291**	**63,057**	**(9,090)**	**53,967**
Classification under stages is as follows:				
Stage 1		29,287	(1,249)	28,038
Stage 2		31,712	(6,407)	25,305
Stage 3		2,058	(1,434)	624
Total active moratoriums		**63,057**	**(9,090)**	**53,967**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

g. Credit risk (continued)

Terms and conditions of use of collateral

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.

In addition, the Bank recognises seized collateral as an asset only when it has full legal title and physical possession of the collateral and the fair value of collateral can be determined reliably.

The Bank cannot sell, transfer or re-pledge the collateral while the borrowers are performing or legal procedures for transfer of ownership as a result of default have not been completed.

Maximum exposure to credit risk:

December 31, 2020	Gross maximum exposure	Impairment	Net maximum exposure	Fair value of collateral
Cash, cash balances at central banks, and other demand deposits as banks	169,525	(179)	169,346	44,742
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-
Financial assets at amortised cost	**625,926**	**(36,866)**	**589,060**	**1,030,638**
Debt securities	-	-	-	-
Loans to government	10	-	10	-
Loans to banks	29,850	(13)	29,837	-
Loans to financial organizations	710	(5)	705	1,709
Loans to individuals	**220,482**	**(4,555)**	**215,927**	**190,148**
Granted overdrafts	2,302	(77)	2,225	447
Loans for houses and flats	159,361	(2,823)	156,538	168,622
Consumer loans	53,569	(1,509)	52,060	21,040
Other loans	5,250	(146)	5,104	39
Loans to other customers	**374,874**	**(32,293)**	**342,581**	**838,781**
Loans to large corporate customers	13,236	(1,465)	11,771	27,951
Loans to small- and medium- sized enterprises	361,638	(30,828)	330,810	810,830
Financial assets at fair value through OCI	102,002	(1,022)	100,980	-
Other financial assets	4,506	(2,183)	2,323	-
Total net financial assets	**901,959**	**(40,250)**	**861,709**	**1,075,380**
Guarantees	-	-	22,947	35,731
Financial guarantees	-	-	15,454	21,858
Non-financial guarantees	-	-	7,493	13,873
Loan commitments	-	-	62,604	96,572
Other potential liabilities	-	-	2,356	4,153
Total contingent liabilities	-	-	87,907	136,456
Total maximum exposure to credit risk	**901,959**	**(40,250)**	**949,616**	**1,211,836**

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

g. Credit risk (continued)

Maximum exposure to credit risk:

December 31, 2019	Gross maximum exposure	Impairment	Net maximum exposure	Fair value of collateral
Cash, cash balances at central banks, and other demand deposits as banks	**132,600**	**(109)**	**132,491**	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-
Financial assets at amortised cost	**600,117**	**(27,036)**	**573,081**	**1,034,732**
Debt securities	-	-	-	-
Loans to government	-	-	-	-
Loans to banks	33,014	(6)	33,008	-
Loans to financial organizations	124	-	124	372
Loans to individuals	**207,689**	**(2,948)**	**204,741**	**181,592**
Granted overdrafts	3,054	(53)	3,001	390
Loans for houses and flats	140,798	(1,491)	139,307	157,637
Consumer loans	58,101	(1,286)	56,815	23,222
Other loans	5,736	(118)	5,618	343
Loans to other customers	**359,290**	**(24,082)**	**335,208**	**852,768**
Loans to large corporate customers	11,343	(323)	11,020	27,757
Loans to small- and medium- sized enterprises	347,947	(23,759)	324,188	825,011
Financial assets at fair value through OCI	77,312	(846)	76,466	-
Other financial assets	2,941	(768)	2,173	-
Total net financial assets	**812,970**	**-28,759**	**784,211**	**1,034,732**
Guarantees	-	-	**22,642**	**39,781**
Financial guarantees	-	-	15,156	27,213
Non-financial guarantees	-	-	7,486	12,568
Loan commitments	-	-	64,232	105,550
Other potential liabilities	-	-	3,683	5,368
Total contingent liabilities	-	-	**90,557**	**150,699**
Total maximum exposure to credit risk	**812,970**	**(28,759)**	**874,768**	**1,185,431**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Loans and advances

Financial assets measured at amortised cost as per Internal rating of Bank as of December 31, 2020

December 31, 2020	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	290,653	64	-	-	290,717
B	226,350	32,633	-	-	258,983
C	1,258	57,449	-	-	58,707
D and E	-	-	17,519	-	17,519
Loss allowance	(11,004)	(11,630)	(14,232)	-	(36,866)
Carrying amount	507,257	78,516	3,287	-	589,060

Financial assets measured at amortised cost as per Internal rating of Bank as of December 31, 2019

December 31, 2019	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	300,169	9	-	-	300,178
B	195,714	33,189	-	-	228,903
C	1,988	58,109	-	-	60,097
D and E	-	-	10,939	-	10,939
Loss allowance	(7,864)	(9,768)	(9,404)	-	(27,036)
Carrying amount	490,007	81,539	1,535	-	573,081

Debt instruments at fair value through other comprehensive income as per Internal rating of Bank.

December 31, 2020	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	26,780	-	-	-	26,780
B	75,222	-	-	-	75,222
C	-	-	-	-	-
D and E	-	-	-	-	-
Loss allowance	(1,022)	-	-	-	(1,022)
Carrying amount	100,980	-	-	-	100,980

December 31, 2019	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	7,172	-	-	-	7,172
B	70,140	-	-	-	70,140
C	-	-	-	-	-
D and E	-	-	-	-	-
Loss allowance	(846)	-	-	-	(846)
Carrying amount	76,466	-	-	-	76,466

Loan commitments and financial guarantee contracts as per Internal rating of Bank.

December 31, 2020	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	36,857	1	-	-	36,858
B	44,380	3,511	-	-	47,891
C	340	2,008	-	-	2,348
D and E	-	-	810	-	810
Loss allowance	(1,734)	(506)	(772)	-	(3,012)
Carrying amount	79,843	5,014	38	-	84,895

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Loans and advances (continued)

December 31, 2019	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	33,964	1	-	-	33,965
B	48,186	1,849	-	-	50,035
C	245	5,503	-	-	5,748
D and E	-	-	809	-	809
Loss allowance	(1,329)	(299)	(767)	-	(2,395)
Carrying amount	81,066	7,054	42	-	88,162

Category A

All direct loans or facilities and off-balance sheet exposures of the bank that carry normal banking risk. Available information concerning the credit exposure, the performance of the customer's account, and the financial data all indicate that the settlement of the exposure is reasonably certain without difficulties, (or the obligation is fully secured by eligible collateral). Similarly within A graded clients/exposures *are* all direct loans or facilities and off-balance sheet exposures of the bank which are risk free. Exposures which have as collateral cash deposit or a guarantee issued by a bank which has an external credit rating of grater the BBB, grade evaluated by Moody's or S&P credit rating agencies.

Category B- Watch

Special Attention (or Watch) - This classification is used to identify and monitor exposures which contain weaknesses or potential weaknesses that, at the time of review, do not jeopardize the repayment of the credit or reflect a potential for loss, but which, if not addressed or corrected could result in the deterioration of the credit to a substandard or more severe classification. Absent any documented evidence to the contrary, the bank classifies as "special attention" those exposures that are overdue more than 30 days but less than 60 days or those with continuous indebtedness in excess of 5% of approved lines for more than 30 days but less than 60 days. This category of classification is intended to identify and address potentially weak relationships at an early stage.

Category C-Substandard

Substandard - Exposures which, based upon a review of all factors attendant to the credit, have well defined credit weaknesses that jeopardize repayment of the credit in the normal course. A substandard credit is one which, by an analysis of financial data and other factors, is not currently protected by the sound worth and paying capacity of the borrower or guarantors or the value of the collateral, if any. Recourse to a responsible and able guarantor for repayment that would involve prolonged negotiations before liquidation of the credit would invoke a substandard classification. The need for recourse to the collateral as the means of satisfying the obligation also would be the basis for a substandard classification. Absent any documented evidence to the contrary, an exposure is classified at least substandard if any of the following criteria apply:

(a) If deposits/cash flows into the customer's overdraft account are insufficient to liquidate the outstanding balance within 60 days from the expiration date of the facility.
(b) If the customer exceeded the authorized limit of the facility by 5% or more for over 60 days without paying this excess or without bank management formally raising the authorized limit.
(c) If the customer is overdue in repaying contractual instalments (including interest) for over 60 days.
(d) If the maturity of the loan or facility is over 60 days past due without repayment.

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Loans and advances (continued)

Category D-Doubtful

Doubtful - Exposures which, based upon a review of all factors attendant to the credit, contain all the weaknesses that are inherent in a substandard credit, but which are so pronounced that there is a strong probability that a significant portion of the principal amount will not be paid. There is a likelihood of loss, but the exact amount cannot be clearly defined at the time of review or is dependent upon the occurrence of a future act or event. Although the possibility of loss is thus extremely high, because of significant pending factors, reasonably specific, which could be expected to work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until more exact status may be determined. Such pending factors include but are not limited to mergers, acquisitions, capital restructuring, and the furnishing of new collateral or realistic refinancing plans. Uncooperative guarantors or those who are in weak financial condition should not be considered as being able to provide strength to the credit.

Recourse to any available collateral that would not be sufficient to cover the amount owing may also justify a doubtful classification.

vi. Impairment of financial assets

Absent any documented evidence to the contrary, an exposure is classified at least doubtful if any of the following criteria apply:

(a) If deposits/cash flows into the customer's overdraft account are insufficient to liquidate the outstanding balance within 90 days from the date of expiration of the overdraft facility.
(b) If the customer exceeded the authorized limit of the facility by 5% or more for over 90 days without paying this excess or without bank management formally raising the authorized limit.
(c) If the customer is overdue in repaying any contractual instalment (including interest) for over 90 days.
(d) If there are deficiencies in the customer's financial condition that have caused negative equity.
(e) If the maturity/expiration date of the loan or facility is over 90 days past due without repayment.

Category E- Loss

Bad (Loss) - Exposures which, based upon a review of all factors attendant to the credit are of such little value or will require such an extended period to realize any value, are no longer justifiable for carrying on the active books of the bank.

An exposure is classified bad (loss) if any of the following criteria apply:
(a) If deposits/cash flows into the customer's overdraft account are insufficient to liquidate the balance of the outstanding overdraft within 180 days from the expiration date of the overdraft facility.
(b) If the customer exceeded the authorized limit of the facility by 5% or more for over 180 days without paying the excess or without bank management formally raising the authorized limit.
(c) If the customer fails to repay a contractual instalment (including interest) for over 180 days.
(d) If the maturity/expiration date of the loan or facility is over 180 days past due without repayment.

Impairments and provisions for the remaining part of the portfolio of companies, sole proprietors and retail clients (receivables from clients which are not individually relevant) and for the receivables from individually significant clients (except banks) for which there is no evidence of impairment is calculated on group basis (portfolio approach). Loans in group are further divided in categories, as companies and sole proprietors' group of retail clients on balance sheet. All the three groups are further divided in to five sub categories A, B, C, D, and E.

When a loan is considered to be uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the profit or loss.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the profit of loss.

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Loans and advances (continued)

Category E- Loss (continued)

As of December 31, 2020 there were written off EUR 39 thousand loan principal and EUR 3 thousand interests, based on the CBK rules and regulations and NLB Ljubljana standards. All these written off loans, were provisioned 100%, and as such there was no effect on the financial statements for the year ended December 31, 2020.

The effect of collateral of financial assets that are credit impaired at December 31, 2020:

December 31, 2020	Fully/over collateralized financial assets		Financial assets not or not fully covered with collateral	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	-	-	-	-
Loans to government	-	-	-	-
Loans to banks	-	-	-	-
Loans to financial organizations	-	-	-	-
Loans te individuals	**192**	**2,795**	**125**	**146**
Granted overdrafts	-	-	5	3
Loans for houses and flats	172	2,539	52	72
Consumer loans	20	256	55	71
Other loans	0	0	13	0
Loans to other customers	**2,967**	**39,648**	**3**	**79**
Loans to large corporate customers	-	-	-	-
Loans to small- and medium- sized enterprises	2,967	39,648	3	79
Financial assets at fair value through OCI	-	-	-	-
Other financial assets	-	-	-	-
Total	**3,159**	**42,443**	**128**	**225**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Loans and advances (continued)

The effect of collateral of financial assets that are credit impaired at December 31, 2019:

December 31, 2019	Fully/over collateralized financial assets		Financial assets not or not fully covered with collateral	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	-	-	-	-
Loans to government	-	-	-	-
Loans to banks	-	-	-	-
Loans to financial organizations	-	-	-	-
Loans te individuals	**235**	**2,258**	**73**	**83**
Granted overdrafts	-	2	1	1
Loans for houses and flats	228	2,115	32	37
Consumer loans	7	120	25	45
Other loans	-	21	15	0
Loans to other customers	**1,227**	**32,453**	-	**7**
Loans to large corporate customers	-	-	-	-
Loans to small- and medium- sized enterprises	1,227	32,453	-	7
Financial assets at fair value through OCI	-	-	-	-
Other financial assets	-	-	-	-
Total	**1,462**	**34,711**	**73**	**90**

The analysis of identification of over or under collateralized loans is performed by the Bank at the gross carrying amount of loans. The table above presents total net loans against total collateral.

The collaterals taken in consideration for the mitigation of the credit risk consists of immoveable properties such as land and buildings and pledge on moveable properties such as stocks and any other moveable property which could be converted in to liquid assets on an arm's length transaction. As prescribed by the credit policy the exposure of the Bank should be covered at least 163% with residential property and/or 200% with commercial property in correlation with the market value of the collateral. Risk free items include loans covered by cash or any other easily converted asset into liquid assets in an arms' length transaction, as defined by the Credit risk management policy of the Bank and the CBK Rule on large exposures.

Collateral security is taken into consideration in the impairment loss calculation process. The fair market and liquidation values of the collateral are documented by a current appraisal made by a competent party. The Bank's ability to access and liquidate the collateral within a reasonable period also is considered. Within the collaterals are included movable and immovable properties of the counterparties, in order to cover the exposure towards the credit risk and the risk of failure to repay the loan.

i. Financial assets at fair value through other comprehensive income

The table below presents the whole portfolio of financial assets at fair value through other comprehensive income and their credit grade assigned by Moody's or Fitch credit rating agencies:

December 31, 2020

Ratings	Financial assets at FVOCI	Total
AAA	9,775	9,775
AA	17,005	17,005
A+	708	708
Not-rated	75,222	75,222
Total	**102,710**	**102,710**

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

i. Financial assets at fair value through other comprehensive income (continued)

December 31, 2019

Ratings	Financial assets at FVOCI	Total
AA	7,172	7,172
A+	665	665
Not-rated	70,140	70,140
Total	**77,977**	**77,977**

j. Concentrations

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

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

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

	December 31, 2020		December 31, 2019	
Industry sector	**Net loans**	**%**	**Net loans**	**%**
Banks	29,837	5.0%	33,008	5.7%
Finances	707	0.1%	123	0.0%
Government	9	0.0%	-	0.0%
Citizens	215,926	36.5%	204,742	35.6%
Electricity, gas and water	3,804	0.6%	3,152	0.5%
Constructions	76,534	12.9%	56,181	9.8%
Industry	60,795	10.3%	37,919	6.6%
Education	4,829	0.8%	1,485	0.3%
Agriculture	3,700	0.6%	193	0.0%
Mining	11,936	2.0%	459	0.1%
Services	23,285	3.9%	99,225	17.2%
Services-tourism	19,937	3.4%	9,729	1.7%
Transport and communication	20,985	3.5%	6,193	1.1%
Trade	114,266	19.3%	116,355	20.2%
Health service and social security	2,510	0.4%	4,318	0.8%
Other financial assets	2,323	0.4%	2,173	0.4%
Total	**591,383**	**100%**	**575,255**	**100%**

k. Liquidity risk

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

Funds are raised using a broad range of instruments including deposits, borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required for meeting business goals and targets set in terms of the overall Bank strategy. In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy. The amount disclosed in tables below is contractual undiscounted cash flows.

NLB BANKA SH.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

k. Liquidity risk (continued)

Analysis of financial assets and liabilities by contractual maturities:

December 31, 2020	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets						
Cash and balances with the Central Bank	169,346	-	-	-	-	**169,346**
Of which restricted balance	(62,929)	-	-	-	-	**(62,929)**
Due from banks	24,766	1,764	3,307	-	-	**29,837**
Loans and advances to customers	18,058	32,556	141,659	268,659	98,291	**559,223**
Financial instruments held at FVOCI	30,941	-	17,554	53,507	708	**102,710**
Other financial assets	284	-	-	-	-	**284**
Total undiscounted financial assets	**180,466**	**34,320**	**162,520**	**322,166**	**98,999**	**798,471**
Financial liabilities						
Due to banks	1,172	-	-	-	-	**1,172**
Due to customers	585,798	7,554	82,483	72,482	-	**748,317**
Debt issued and other borrowed funds Subordinated	8	5	-	-	15,000	**15,013**
Lease liabilities	53	107	480	1,881	-	**2,521**
Other financial liabilities	6,172	-	-	-	-	**6,172**
Total undiscounted financial liabilities	**593,203**	**7,666**	**82,963**	**74,363**	**15,000**	**773,195**
Net undiscounted financial assets/(liabilities)	**(412,737)**	**26,654**	**79,557**	**247,803**	**83,999**	**25,276**
Future contractual interests						
Financial Assets						
Contractual amounts receivables	2,460	4,451	19,849	51,392	12,236	**90,388**
	2,460	**4,451**	**19,849**	**51,392**	**12,236**	**90,388**
Financial liabilities						
Contractual amounts payable	(191)	(376)	(2,070)	(4,980)	(2,615)	**(10,232)**
	(191)	**(376)**	**(2,070)**	**(4,980)**	**(2,615)**	**(10,232)**
Total net financial assets/(liabilities)	**(410,468)**	**30,729**	**97,336**	**294,215**	**93,620**	**105,432**

The required minimum liquidity ratio for local currency is 20% and the actual ratio as at December 31, 2020 is 43%. The bank is also in compliance with foreign currency liquidity ratios, which however are less significant to its operations.

NLB BANKA SH.A.
NOTES TO THE IFRS FINANCIAL STATEMENTS
For the year ended December 31, 2020
(All amounts expressed in EUR thousand, unless otherwise stated)

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

k. Liquidity risk (continued)

Analysis of financial assets and liabilities by contractual maturities

December 31, 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets						
Cash and balances with the Central Bank	132,491	-	-	-	-	**132,491**
Of which restricted balance	(54,690)	-	-	-	-	**(54,690)**
Due from banks	21,221	8,561	2,143	1,083	-	**33,008**
Loans and advances to customers	16,610	32,138	141,958	258,744	90,623	**540,073**
Financial instruments held at FVOCI	5,802	6,238	9,145	55,061	1,731	77,977
Other financial assets	460	-	-	-	-	**460**
Total undiscounted financial assets	**121,894**	**46,937**	**153,246**	**314888**	**92,354**	**729,319**
Financial liabilities						
Due to banks	594	-	-	-	-	**594**
Due to customers	501,118	10,985	72,964	100,318	-	**685,385**
Debt issued and other borrowed funds Subordinated	11	4	16	17	15,000	**15,048**
Lease liabilities	58	126	570	1,873	-	**2,627**
Other financial liabilities	5,567	-	-	-	-	**5,567**
Total undiscounted financial liabilities	**507,348**	**11,115**	**73,550**	**102,208**	**15,000**	**709,221**
Net undiscounted financial assets/(liabilities)	**(385,454)**	**35,822**	**79,696**	**212680**	**77,354**	**20,098**
Future contractual interests						
Financial Assets						
Contractual amounts receivables	2,408	4,558	18,395	48,549	10,888	**84,798**
	2,408	**4,558**	**18,395**	**48,549**	**10,888**	**84,798**
Financial liabilities						
Contractual amounts payable	(226)	(448)	(2,485)	(7,301)	(1,865)	**(12,325)**
	(226)	**(448)**	**(2,485)**	**(7301)**	**(1,865)**	**(12,325)**
Total net financial assets/(liabilities)	**(383,272)**	**39,932**	**95,606**	**253,928**	**86,377**	**92,571**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

I. Fair value of financial instruments

(a) Fair values of financial instruments carried at amortised cost

IFRS 13 defines fair value as 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. Fair values have been based on management assumptions according to the profile of the asset and liability base.

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities not presented on the statement of financial position at their fair value.

	December 31, 2020		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Loans to banks	**29,837**	**29,922**	**33,008**	**33,066**
Loans to financial organizations	**705**	**735**	**124**	**128**
Loans to individuals	**215,927**	**228,069**	**204,741**	**213,598**
Granted overdraft	2,094	3,148	2,901	4,095
Credit Cards	5,104	6,174	5,619	6,848
Loans for houses and flats	148,691	155,819	132,840	136,239
Consumer loans	50,140	53,013	53,380	56,412
Other loans	9,898	9,915	10,001	10,004
Loans to other customers	**342,591**	**349,253**	**335,208**	**345,773**
Loans to large corporate customers	11,781	11,826	11,020	11,021
Loans to small and medium size enterprises	330,810	337,427	324,188	334,752
TOTAL LOANS	**589,060**	**607,979**	**573,081**	**592,565**
LIABILITIES				
Due from banks	1,172	1,172	594	594
Due to customers	748,317	753,433	685,385	691,890
Borrowings and Subordinated liabilities	15,013	15,447	15,048	22,537
Lease Liabilities	2,521	2,543	2,627	2,648
TOTAL DEPOSITS AND BORROWINGS	**767,023**	**772,595**	**703,654**	**717,669**

All fair value disclosures are based on management estimates and valuation techniques and fall under Level 2 of the fair value hierarchy. The valuation techniques and estimates for most significant assets and liabilities are described below:

Loans to banks

Loans and advances to other banks comprise inter-bank placements. The fair value of placements and overnight deposits is their carrying amount due to their short-term nature.

Loans to customers

Loans to customers in the balance sheet are presented in net amount, i.e. net of allowances for impairment. For the purpose of calculating the fair value, the Bank used discounted cash flow method. Thus, the calculation is based on contractual cash flows. Credit risk of individual clients is taken into consideration through the expected impairment.

Deposits and borrowings

The estimated fair value of deposits and borrowings is based on discounted contractual cash flows, taking into consideration market interest rates, which would have been payable by the Bank in need of replacing the old sources with the new ones of equal remaining maturity.

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

I. Fair value of financial instruments (continued)

b) Analysis by fair value hierarchy of financial instruments carried at fair value

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

a) **Level 1**: Quoted market price (unadjusted) in an active market for an identical instrument

b) **Level 2**: Valuation techniques based on observable inputs other than quoted prices, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or 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.

c) **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 have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows the distribution of fair values over the different fair value hierarchies.

December 31, 2020	Total Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Debt instruments	102,002	26,780	75,222	-
Equity instruments	708	-	708	-
Total financial instruments through other comprehensive income	**102,710**	**26,780**	**75,930**	-

December 31, 2019	Total Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Debt instruments	77,312	7,172	70,140	-
Equity instruments	665	-	665	-
Total financial instruments through other comprehensive income	77,977	**7,172**	**70,805**	-

The availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the future markets.

The Bank does not possess instruments that are subject to possible movements from one level to another of fair value category.

Debt instruments - Kosovo government securities

Kosovo government securities are not traded actively in secondary markets. Management estimates the current required market yield based on the latest primary auction of securities. Subsequently it estimates fair value of securities by comparison with the trading price of the instruments with the most similar maturity to the remaining maturity of the instruments held.

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

31. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	December 31, 2020			December 31, 2019		
Assets	**Within 12 months**	**After 12 months**	**Total**	**Within 12 months**	**After 12 months**	**Total**
Cash and balances with the Central Bank	169,346	-	**169,346**	132,491	-	**132,491**
Due from other banks	29,837	-	**29,837**	31,925	1,083	**33,008**
Loans to customers, net	192,273	366,950	**559,223**	190,706	349,367	**540,073**
Financial assets designated at fair value through OCI	48,495	54,215	**102,710**	21,185	56,792	**77,977**
Other assets	2,743	-	**2,743**	2,535	-	**2,535**
Property, equipment and right-of-use assets	-	13,472	**13,472**	-	13,721	**13,721**
Intangible assets	-	1,138	**1,138**	-	1,032	**1,032**
Current Tax Asset tax asset	268	-	**268**	-	-	-
Deferred tax asset	327	-	**327**	248	-	**248**
Total assets	**443,289**	**435,775**	**879,064**	**379,090**	**421,995**	**801,085**
Liabilities						
Deposits from banks	1,172	-	**1,172**	594	-	**594**
Customer accounts	135,167	613,150	**748,317**	117,013	568,372	**685,385**
Other financial liabilities	6,172	-	**6,172**	5,567	-	**5,567**
Provision and other Liabilities	5,943	1,591	**7,534**	5,374	1,445	**6,819**
Corporate tax payable	-	-	-	118	-	**118**
Lease liabilities	640	1,881	**2,521**	626	2,001	**2,627**
Borrowings and Subordinated debts	13	15,000	**15,013**	31	15,017	**15,048**
Total liabilities	**149,107**	**631,622**	**780,729**	**129,323**	**586,835**	**716,158**
Net	**294,182**	**(195,847)**	**98,335**	**249,767**	**(164,840)**	**84,927**

Expected maturities are in general similar to contractual maturities for most of the assets and liabilities, except for customer current account and short-term deposits which have a high renewal rate. Management has estimated the current and long-term portion of contractually current customer accounts based on the minimum regulatory liquidity ratio of 20%, with the assumption that since liquid assets are required to cover 20% of liabilities, the remaining 80% will be renewed or rolled over.

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

As the Covid-19 pandemic evolves, governments are implementing additional measures to address the resulting public health issues and the economic impact. In Kosovo it is not estimated that the mass vaccination will took place in first half of the year 2021, and as result Covid-19 will continue throughout the year 2021, which may result on negative impact in economy. As reflection the Central Bank of Kosovo permits the dividend distribution only 15% of net profit of 2019 and 2020.

No other material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statements.