BANKA PËR BIZNES SH.A.

Independent Auditor's Report and Financial Statements for the year ended 31 December 2021

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Independent Auditor's Report

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To the Shareholders of

Banka për Biznes Sh.a.

Opinion

We have audited the accompanying financial statements of Banka për Biznes Sh.a. ("the Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Other matter

The financial statements of Banka për Biznes Sh.a. as of and for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion in their report on 26 March 2021.

Other information in the Annual Report

Management is responsible for the other information presented in the annual report as of and for the year ended 31 December 2021. The other information comprises the information included in the Annual report but does not include the financial statements and our Independent Auditor's report on them.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Grant Thornton LLC
Prishtina,
30 March 2022

GRANT THORNTON L.L.C. KOSOVO

Suzana Stavrik
Statutory Auditor

	Notes	2021	2020
In thousands of EUR			
Interest income at effective interest rate	5	17,263	15,589
Interest expense	5	(2,015)	(2,287)
Net interest income		**15,248**	**13,302**
Fee and commission income	6	4,178	3,524
Fee and commission expense	6	(2,024)	(1,738)
Net fee and commission income		**2,154**	**1,786**
Recoveries of loans previously written off		543	475
Net foreign exchange gain		54	39
Net gain on financial assets		1,010	510
Total operating income		**19,009**	**16,112**
Other income	7	383	163
Credit loss expense on loans and advances to customers	14	(1,228)	(3,042)
Credit loss expense on financial assets	10-13	(139)	(20)
Repossessed assets write-downs	18.1	(171)	(161)
Other provisions		(7)	(129)
Other operating expenses	8	(9,222)	(7,864)
Profit before tax		**8,625**	**5,059**
Income tax expense	**9**	**(748)**	**(530)**
Net profit for the year		**7,877**	**4,529**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net change in fair value of financial assets through other comprehensive loss		569	(26)
Total comprehensive income for the year		**8,446**	**4,503**
Earnings per share (in thousands of EUR)	**25**	**0.30**	**0.16**

The notes from 1 to 29 are an integral part of these financial statements

In thousands of EUR	Notes	2021	2020
Assets			
Cash on hand and at banks	10	26,427	25,082
Balances with Central Bank of Kosovo	11	61,530	52,465
Placements and balances with banks	12	5,237	5,261
Financial assets at fair value through OCI	13	47,620	53,535
Loans and advances to customers	14	232,234	192,656
Other financial assets	15	265	272
Intangible assets	16	688	605
Property and equipment	17	2,513	2,318
Right of use Assets	23	2,378	2,553
Deferred tax asset	9	7	-
Other assets	18	260	151
Total assets		**379,159**	**334,898**
Liabilities			
Due to customers	19	319,614	286,022
Due to banks	20	2,533	2,861
Subordinated debt	21	502	502
Borrowings	22	6,832	4,074
Lease liability	23	2,452	2,612
Provisions	24	523	511
Deferred tax liability	9	-	20
Other liabilities	24	4,235	2,689
Total liabilities		**336,691**	**299,291**
Equity			
Share capital	25	11,247	11,247
Other capital reserve	25	769	769
Revaluation reserve	25	96	96
Fair value reserve		519	(93)
Retained earnings		29,837	23,588
Total equity		**42,468**	**35,607**
Total liabilities and equity		**379,159**	**334,898**

These financial statements were approved by the management of the Bank on 25 March 2022 and signed on its behalf by:

Arton Celina
Chief Executive Officer

Gresa Godeni
Head of Finance Department

The notes from 1 to 29 are an integral part of these financial statements

In thousands of EUR	**Share capital**	**Other capital reserve**	**Revaluation reserve**	**Revaluation reserve for FVOCI securities**	**Retained earnings**	**Total**
At January 1, 2020	**11,247**	**769**	**96**	**(67)**	**19,059**	**31,104**
Net profit for the year	-	-	-	-	4,529	4,529
Net change in fair value of financial instrument at FVOCI (Note 13.1)	-	-	-	(26)	0	(26)
Total comprehensive income for the year	**0**	**0**	**0**	**(26)**	**4,529**	**4,503**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2020	**11,247**	**769**	**96**	**(93)**	**23,588**	**35,607**
At January 1, 2021 as stated	11,247	769	96	(93)	23,588	35,607
At January 1, 2021 correction	-	-	-	43	-	43
At January 1, 2021 restated	**11,247**	**769**	**96**	**(50)**	**23,588**	**35,650**
Net profit for the year	-	-	-	-	7,877	7,877
Net change in fair value of financial instrument at FVOCI (Note 13.1)	-	-	-	569	-	569
Total comprehensive income for the year	**0**	**0**	**0**	**569**	**7,877**	**8,446**
Dividend paid	**-**	**-**	**-**	-	(1,628)	**(1,628)**
Balance at December 31, 2021	**11,247**	**769**	**96**	**519**	**29,837**	**42,468**

The notes from 1 to 29 are an integral part of these financial statements

In thousands of EUR	Note	2021	2020
Cash flows from operating activities			
Profit for the year before tax		8,625	5,059
Adjustment for:			
Amortization	16	321	225
Depreciation	17	760	753
Adjustment transition effect to IFRS 9		-	(857)
Gain from disposal of property and equipment		(94)	(1)
Gain from sales of repossession of collateral		(266)	(110)
ECL/Impairment losses from loans	14	1,228	3,042
ECL/Impairment losses from financial assets		139	20
Provision for repossessed assets	18.1	171	161
Other provisions		7	129
Gain from sale of FVOCI		(1,010)	(510)
Interest expense	5	2,015	2,287
Interest income	5	(17,263)	(15,589)
		(5,367)	**(5,391)**
Changes in:			
Placements and balances with banks	12	(4)	792
Loans and advances to customers	14	(39,529)	(12,240)
Restricted balances with the CBK	11	(3,217)	(4,017)
Other assets	18	(110)	21
Other financial assets	15	6	(66)
Due to customers	19	33,163	34,788
Other liabilities and provisions		2,127	1,303
Proceeds from sale of repossessed assets		260	110
Cash generated from operating activities		**(12,671)**	**15,300**
Interest received		17,164	15,618
Interest paid		(1,992)	(2,121)
Income tax paid	9	(619)	(570)
Income tax adjustment		162	
Deferred tax asset		(7)	
Net cash generated from operating activities		**2,037**	**28,227**
Cash flows from investing activities			
Sale of Investments in available for sale assets		50,086	24,631
Purchase of Investments in available for sale assets		(44,128)	(39,532)
Purchase of intangible assets	16	(381)	(315)
Purchase of property and equipment	17	(978)	(217)
Proceeds from sale of property and equipment	16	94	-
Net cash used in investing activities		**4,693**	**(15,432)**
Cash flows from financing activities			
Repayment of leased liabilities		(748)	(656)
Repayment of borrowings	20	(2,219)	(2,486)
Receipts from borrowings	20	5,000	253
Dividend distributed		(1,628)	-
Net cash generated from financing activities		**405**	**(2,889)**
Net increase in cash and cash equivalents		**7,135**	**9,909**
Cash and cash equivalents at beginning of the year	10	52,921	43,012
Cash and cash equivalents at the end of the year	10	**60,056**	**52,921**

The notes from 1 to 29 are an integral part of these financial statements

1. INTRODUCTION

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

Based on the decision of the Board of Directors dated 28 February 2005, and the final approval from the Central Bank of Kosovo ("CBK") dated 22 March 2005, the Bank changed its name to Banka per Biznes (the "Bank"). In 2006, the Bank was registered as a joint stock company ("Sh.a."). The Bank operates as a commercial and savings bank to all categories of customers within Kosovo through its network of 7 branches and 19 subbranches located throughout Kosovo (2020: 7 branches and 19 subbranches).

Financial statements for the year ended 31 December 2021 were authorized for issue in accordance with a resolution of the directors on 25 March 2022.

2. BASIS OF PREPARATION

2.1 Statement of compliance and basis of measurement

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

The financial statements have been prepared on the historical cost basis, except for the financial assets listed below, which are measured at fair value:
- Debt instruments held under the business model held to collect and sale.

The significant accounting policies are described in Note 3.

The financial statements have been prepared as of and for the years ended 31 December 2021 and 2020.

2.2 Basis of measurement

These financial statements have been prepared using the going concern assumption.

More information about circumstances caused by the global pandemic of COVID-19 that affected Bank's operations and activities in 2021 and Conflict in Ukraine is disclosed in Notes 27 and 29. These circumstances did not affect the appropriateness of the going concern assumption of the Bank.

2.3 New and revised standards and interpretations

2.3.1 Effective standards, amendments to standards and implementations in 2021

Standards and amendments that are effective for the first time in 2021 are as follows:

- COVID-19-related rent concessions beyond 30 June 2021 (Amendments to IFRS 16)
- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

These amendments do not have a significant impact on the financial statements and therefore the disclosures have not been made.

2. BASIS OF PREPARATION (CONTINUED)

2.3 New and revised standards and interpretations (continued)

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

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB as follows:
- IFRS 17 Insurance Contracts;
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4);
- References to the Conceptual Framework;
- Proceeds before Intended Use (Amendments to IAS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Deferred Tax related to Assets and Liabilities from a Single Transaction.

None of these Standards or amendments to existing Standards have been adopted early by the Bank. Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Bank's financial statements.

2.4 Functional and presentation currency

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

2.5 Use of judgments and estimates

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 3, 4 and 27

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Interest income and expense

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

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

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

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

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

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

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

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

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

b) Fees and commissions

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Fees and commissions (continued)

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

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

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

c) Lease

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

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

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

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

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

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

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Lease (continued)

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

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

The Bank presents right-of-use assets and lease liabilities in Note 23and separately in the statement of financial position.

Short-term leases and leases of low-value assets

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

d) Tax expense

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Tax expense (continued)

(ii) Deferred tax (continued)

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

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

(iii) Tax exposures

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

e) Foreign currency transactions

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

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

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

f) Financial assets and financial liabilities

(i) Recognition and initial measurement

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

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

(ii) Classification

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

As at 31 December 2021 and 2020, all Bank's financial assets are classified as measured at amortized cost or at FVOCI.

Business model assessment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

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

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

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

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

Reclassifications

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

(iii) Derecognition of financial assets

Financial assets

The Bank de-recognizes a financial asset, such as a loan to a customer, when the terms are renegotiated to the extent that it essentially becomes a new loan, with the difference known as profit or loss from derecognition. In assessing whether a financial asset will be derecognized, the Bank considers both qualitative and quantitative criteria. One of the key criteria when assessing de-recognition of financial assets is exceeding the threshold of 10% of the gross value of the modified financial asset against the gross value of the original asset (before modification).

At the time of derecognition, the modified financial asset is recognized as a new asset initially measured at its fair value plus acceptable transaction costs. Recognition of new financial assets means the measurement of expected 12-month credit losses until the requirements for recognition of expected loss over a lifetime are met. There are cases when the modified financial asset is impaired at its initial recognition, where in such cases these assets are known as POCI. If the modification does not result in substantially different cash flows, where the Bank uses the 10% threshold, then the modification does not result in derecognition. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount that arises from the modification as profit or loss in the income statement. For the recognition of profit or loss, the Bank discounts the cash flows of the modified financial asset and the initial financial asset at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(iii) De-recognition (continued)

Financial assets (continued)

When assets are sold to a third party at a total rate of return on the transferred assets, the transaction is treated as a secured financing transaction, similar to the sale and repurchase transactions, because the Bank bears all or substantially all the risks and rewards of ownership of such assets.

Financial liabilities

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

(iv) Modifications of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(v) Offsetting

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

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

(vi) Amortized cost measurement

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

(vii) Fair value measurement

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment

The model for recognizing expected credit losses is applicable to financial instruments that are measured at amortized cost or fair value through other comprehensive income. Those financial instruments are as follows:

- Loans and advances to banks;
- Loans and advances to customers;
- Securities;
- Receivables from financial and operating lease recognized by the lessor;
- Loan commitments;
- Financial guarantee contracts.

The amount of expected losses is updated at each reporting date to reflect changes in credit risk since the initial recognition of the particular financial instrument.

Depending on the credit risk assessment, the Bank groups its financial assets into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: includes all financial assets for which credit risk has not increased since initial recognition as well as all financial assets of which credit risk has been improved and are reclassified from Stage 2. Bank, for these financial assets, recognizes 12 months expected credit losses.

Stage 2: includes all financial assets that have had a significant increase in credit risk since initial recognition as well as all financial assets of which credit risk has been improved and are reclassified from Stage 3. Bank, for these financial assets, recognizes lifetime expected credit losses.

Stage 3: includes all financial assets that have objective evidence of default at reporting date, referred also as impaired financial assets. Bank, for these financial assets, recognizes lifetime expected credit losses.

POCI: Originated or credit-impaired financial assets are those financial assets that have suffered credit impairment since their initial recognition. POCI assets are recorded at fair value at initial recognition and interest income are recognized based on credit-adjusted effective interest rate. Expected credit losses are recognized only to the extent that there is a subsequent change in expected credit losses. For financial assets for which the Bank has no reasonable expectation of recovering all or part of the outstanding amount, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of financial assets.

Definition of default

The definition of default is also critical in determining expected credit losses. The moment the borrower meets the default criteria, then it is classified in Stage 3.

In defining default, the Bank takes into account quantitative and qualitative criteria.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Quantitative Criteria

The borrower is in arrears for more than 90 days. The Bank estimates delays of over 90 days on an ongoing basis based on materiality thresholds set for the Business and Retail portfolio. The materiality threshold consists of an absolute and relative component:

- The absolute threshold component is equal to 100 Euros for Retail portfolio and 500 Euros for Business portfolio.
- The relative threshold component is equal to 1% of the total exposure amount in the balance sheet. This threshold is defined as the percentage of overdue credit liability in relation to the borrower's balance sheet exposure, excluding equity exposures.

In both Retail and Business portfolios, materiality thresholds are calculated at the borrower level.

Qualitative Criteria

The qualitative criteria used by the Bank which have an impact on the definition of default are:

- Occurrence of continuous delays in one instrument of the borrower, which has pooling effect on other instruments;
- Credit liability undergoes a difficult restructuring;
- The borrower is subject to restructuring conditions for the second time;
- The borrower is dead;
- The borrower has gone bankrupt / is unable to pay;
- The borrower's continuing sources of income are no longer available to meet installment payments;
- Fraud cases, which cases have a significant impact on the solvency and performance of the borrower;
- The sale of the credit obligation was made with a material economic loss for the bank;
- Enforcement / court proceedings have been initiated against the borrower with a potential impact on his ability to repay the debt;
- Acquisition of originated or credit-impaired financial assets (POCI).

Significant increase in credit risk

The Bank determines each exposure to a degree of credit risk based on internal criteria, using qualitative and quantitative factors that are indicators of default risk. Each exposure will be allocated to a degree of credit risk upon initial recognition based on information available about the borrower. Exposures will be subject to ongoing monitoring, which may result in credit exposure experiencing different degree of credit risk.

In determining whether the risk of default has increased significantly in a financial instrument since its initial recognition, the Bank considers reasonable and supportive information that is readily available at undue cost or effort. This includes qualitative and quantitative information and analysis based on the Bank's historical experience, proper credit rating and the inclusion of forward-looking information.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

The Bank uses different criteria to determine if there has been a significant increase in credit risk:

- The quantitative criterion called "backstop" where there is a rebuttable presumption that the credit risk in a financial asset has increased significantly since the initial recognition when contractual payments are more than 30 days past due.
- Qualitative criteria based on internal evaluations and judgments in accordance with the requirements of the standard.

At the moment when the Bank estimates that a financial instrument has had a significant increase in credit risk, then the lifetime expected credit losses are recongised and the instrument is classified in Stage 2.

Quantitative Criterion

The quantitative criterion is applied and measured individually in each financial instrument. For the use of quantitative criteria, the Bank does not group credit exposures, which means that the measurement of significant increase in credit risk is not performed on a collective basis.

Qualitative Criteria

In general, the qualitative criteria used by the Bank to determine the significant increase in credit risk include:

- Changes in the borrower's credit risk management approach in relation to the financial instrument;
- Changes in the terms of the contract;
- Significant changes in external credit market risk indicators for a particular financial instrument or similar financial instruments.

<u>Internal Criteria</u>

To determine the significant increase in credit risk, the Bank includes internal criteria, which criteria may vary depending on the Bank's portfolio, namely Retail and Business portfolio.

Internal criteria for the Retail portfolio are considered as follows:

- Significant increase in credit risk in other financial instruments of the same borrower - pooling effect;
- Significant changes in the performance and expected behavior of the borrower;
- Significant changes in the initial terms of the borrower's contract.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

Internal criteria for the Business portfolio are considered as follows:

- Significant increase in credit risk in other financial instruments of the same borrower - the pooling effect;
- A significant change in the sales level of the borrower's activity;
- Planned regulatory changes leading to events such as financial deterioration of the business, bankruptcy;
- Significant current or expected negative change in the borrower's regulatory, economic or technological environment;
- Increased financial difficulties of the borrower affecting non-compliance with laws and regulations;
- Significant changes in the industry in which the borrower operates and which may have an effect on financial information.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk through regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is overdue.

Inputs and Measurement of Expected Credit Losses (ECL)

Expected credit loss is measured on the basis of a 12-month period or during lifetime, depending on whether there has been a significant increase in credit risk since the initial recognition or whether a financial asset is considered impaired.

The key inputs for measuring ECL are as follows:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

<u>Probability of Default (PD):</u>

PD is an assessment of the possibility of non-payment over a certain time horizon. It is estimated as a point in time.

The calculation is based on statistical evaluation models and evaluated using evaluation tools tailored to different categories of counterparties and exposures.

These statistical models are based on market data (where available) as well as internal data involving quantitative and qualitative factors. PDs are assessed taking into account contractual maturities of exposures and projected prepayment rates. The assessment is based on current conditions, adapted to take into account assessments of future conditions that will affect the PD. The PD analysis will include identifying and calibrating the relationships between changes in default rates and changes in key macroeconomic factors.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Grouping of financial instruments with similar characteristics

The Bank, based on the requirements of the standard, groups the financial instruments based on similar credit risk characteristics in order to assess the risk of default and its related changes, when reasonable supporting information for a particular instrument is not available without undue costs and effort, at the reporting date. Examples of common credit risk characteristics may include, but are not limited to:

a. the type of instrument;
b. credit risk assessment;
c. type of collateral;
d. date of initial recognition;
e. remaining maturity;
f. industry;
g. the geographical location of the borrower; and
h. the value of the collateral in relation to the financial asset if the collateral has an impact on the likelihood of default (for example, non-recourse loans in some jurisdictions or the loan / collateral ratio).

The collection of financial instruments to assess whether there is a change in credit risk on a collective basis may change over time, as new information on individual financial instruments or groups of instruments may become available.

Grouping of portfolio with similar credit risk profile

The Bank, for the purposes of modeling the PD, for separate credit exposures classifies them into segments with the same or similar risk profile - referred to as homogeneous groups.

The groupings used by the Bank are as follows:

- Corporate & SME
- Micro
- Agro
- Mortgages
- Veterans & Invalids
- Consumer
- Credit Cards.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Loss Given Default (LGD)

The loss given default represents the sum of the potential loss on an outstanding exposure. The Bank estimates the LGD parameter based on the history of recovery rates of defaulted parties. The LGD model also considers the structure as well as the costs of recovery from collateral which is an integral part of the financial asset. These are calculated on discounted cash flows using the effective interest rate as the discount factor.

Collateral recoveries for modelling LGD

The Bank, for the purposes of assessing possible recoveries from different credit agreements, also considers collateral as a possible recovery of the LGD. Collateral does not necessarily mean that a covered financial instrument does not have a significant increase in credit risk, but their impact is observed in the percentage of LGD. The collateral that the Bank considers available for recovery is as follows:

- Cash coverage;
- Coverage with the Kosovo Credit Guarantee Fund (KCGF);
- Real estate coverage.

For each type of coverage there is a certain level that helps mitigate credit risk, thereby reducing LGD.

For financial instruments covered by real estate, the Bank has based its historical sales experience. They will be calculated on the basis of discounted cash flow using the effective interest rate as the discount factor.

Exposure at default (EAD)

The EAD is an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including principal and interest repayments, and expected withdrawals for committed contracts.

The Bank's EAD modeling approach reflects the expected changes in the residual value over the life of the credit exposure, which are permitted by current contractual terms, such as amortization profiles, early repayments, changes in the use of commitments non-withdrawals and actions taken to mitigate credit risk prior to default. The Bank uses EAD models that best reflect the characteristics of its loan portfolio.

CCF approximation

The Bank performs annual analyzes to measure the credit conversion factor, observing a 5-year period for evaluating commitments by measuring the average utilization ratio of commitments at the date of default. The analyzes have resulted that this ratio is very close to the value 100%, therefore the CCF is set 100% for all segments in all periods.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Discounting factor

In general, for a non-POCI balance sheet exposure, the discount factor for calculating expected credit losses is the effective interest rate or an approximation thereof.

As for POCI exposures, an adjusted effective interest rate is used.

Measurement of Expected Credit Losses (ECL)

The measurement of ECL reflects the general pattern of deterioration or improvement in the credit quality of financial instruments, expressed as a significant or non-significant increase in credit risk.

For new financial instruments, impairment allowance is measured at an amount equal to the expected 12-month credit losses. When the risk of default of the financial instrument increases significantly compared to the risk measured in its origination, the Bank will measure lifetime expected credit losses.

So, as specified above, the Bank groups its financial instruments as follows:

Stage 1: includes newly created financial instruments that are not impaired as a result of default, as well as existing financial instruments for which credit risk has not increased significantly since initial recognition. The ECLs for these assets are measured on a 12-month basis considering:

- The probability that loans will default within 12 months after the reporting date (referred as “12 month PD”), and
- The loss that will occur during the lifetime of the loan in case of default (referred as loss given default or “LGD”).

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

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

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

POCI: includes instruments that are credit-impaired at the date of acquisition or origin (generally these instruments are purchased at a deep discount due to impairment). These instruments are initially recognized at fair value less compensation for impairment measured at the date of origin or acquisition. The ECL is then re-measured at each reporting date and changes are recognized in the income statement.

Collective assessment of ECL

The bank generally measures and evaluates ECLs in groups, in cases where there is little or no specific information for borrowers. Collective assessment of ECL has different characteristics for each of the Stages.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Measurement of ECL for Stage 1

Stage 1 covers expected losses from default events expected up to 12 months after the balance sheet date. It does not cover losses on financial instruments that may result in non-payment after the 12-month period. The parameters included in the calculation of ECL have a 12-month horizon. However, all short-term financial instruments (with a maturity of less than 1 year) are treated in accordance with the lifetime expected credit loss approach.

Measurement of ECL for Stage 2

For Stage 2 financial instruments, ECL is estimated over the period in which the Bank is exposed to credit risk, ie over the life of the financial instrument. Lifetime credit losses are defined as the expected credit losses arising from all possible non-performing events over the life of a financial instrument.

The same equation is used to calculate the expected credit loss for Stage1 and Stage 2. The only difference between Stage 1 and Stage 2, except for the different time horizon, is that for Stage 2, the expected credit loss is deducted at the effective interest rate for all financial instruments, while in Stage 1, only the expected losses for financial instruments at maturity at 12 months are deducted by EIR.

Measurement of ECL for Stage 3

Default is no longer expected, but it has occurred for loans classified in Stage 3, therefore, the probability of default is equal to 1. Expected credit losses are estimated at the extent of irrecoverable losses after considering the expected payments from all strategies of recovery, reflected in the estimated LGDs for each month after default.

Individual assessment of ECL

The Bank assesses financial instruments individually after they default and are classified in Stage 3 and have an exposure above Eur 100,000.
To conduct the individual assessment, the Bank must identify and anticipate expected payments under all recovery strategies.
Estimated payments will be included in determining the losses to be discounted at the reporting date using the specific effective interest rate of the particular exposure.
Expected credit losses for individually assessed financial instruments are estimated as the difference between the gross carrying amount and the discounted payments.

Forward-looking information

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Forward-looking information (continued)

This process involves developing three economic scenarios and considering the relative probabilities of each outcome. Probabilities determined for each scenario are as follows:

- Baseline scenario: 50%
- Optimistic scenario: 22.6%
- Pessimistic scenario: 27.4%

External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organizations such as the Organization for Economic Co-operation and Development and the International Monetary Fund, as well as the private sector including research organizations.

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

Off balance sheet items

Financial guarantees and loan commitments

The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative Amortization recognized in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by an approximation to the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognized within Provisions.
Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Such financial commitments are recorded in the statement of financial position if and when they become payable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Restructured and modified financial assets

The Bank sometimes makes modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

The Bank considers a loan restructured when such modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before modifying the terms of the contract. It is the bank's policy to monitor rescheduled loans to ensure that future payments continue to be possible. De-recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

Once an asset has been classified as restructured, it will remain restructured for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

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

Write-off of credit products

Financial instruments are written-off from the balance sheet at the moment when the Bank has no reasonable expectations for the recovery of those financial instruments (either in whole or in part).

At the time of write-off of the financial instruments, the Bank considers that the borrower does not have sufficient source of income that can generate sufficient cash flows to make contractual payments.

Bank performs the write-off of financial instruments based on requirements of credit risk management regulation also based on policy for write-off of credit products, where at the moment when financial instruments are classified as default (or non-performing) are taken into account also the criteria for coverage of loans with collateral:

a. if financial instruments are not covered by any type of collateral, then the repayment must be made within a maximum of 18 months,
b. if the coverage is with movable collateral, the repayment must be made within a maximum of 36 months,
c. if the coverage is with mortgage, then the repayment can be made within a maximum of 60 months, and
d. if the coverage is combined, where over 50% of the exposure is covered by the mortgage, then the repayment is made according to point c.

All financial instruments must be covered with provision by 100% before being written-off.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed in Note 13.

g) Cash and cash equivalents

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

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

h) Deposits, borrowings and subordinated debt

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Repossessed assets

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

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

j) Property and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Property and equipment (continued)

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

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

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

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

k) Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss over the estimated useful life of the asset, from the date that it is available for use.

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

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

l) Impairment of non-financial assets

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

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

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

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

m) Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

o) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by an approximation to the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognized within other provisions.

Loan commitments are Bank commitments to provide credit under pre-specified terms and conditions. Such financial commitments are recorded in the statement of financial position if and when they become payable. Bank, in its financial instruments portfolio includes also the loan commitments which are defined to be revocable. For those financial instruments, although that the Bank has the ability to cancel the undrawn commitment, it recognizes expected credit losses. The bank measures expected credit losses for those undrawn commitments over the period that the bank is exposed to credit risk and which risk cannot be mitigated by credit risk management actions.

p) Dividends

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

q) Equity reserves

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

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

4. USE OF ESTIMATES AND JUDGMENTS

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

These disclosures supplement the commentary on financial risk management (see Note 27).

a) Expected Credit Losses

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

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

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

(ii) the time value of money; and

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

b) Net realizable value of repossessed assets

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

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

Valuation techniques and significant unobservable inputs

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

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

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

c) Determining fair values

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

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

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

d) Disclosure and estimation of fair value

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

The estimation of the fair value is disclosed in note 4 d) below.

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

Financial instruments – fair value hierarchy

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

(Amounts in thousands of EUR, unless otherwise stated)

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value (continued)

	2021			2020		
	Carrying value	Fair value Level 2	Fair value Level 3	Carrying value	Fair value Level 2	Fair value Level 3
Financial assets measured at fair value						
Financial investments at fair value through OCI	47,312	47,620	-	53,535	53,442	-
Financial assets not measured at fair value						
Cash on hand and at banks	87,957	-	87,957	77,547	-	77,547
Placements and balances with banks	5,237	-	5,237	5,261	-	5,261
Loans and advances to customers	232,234	-	232,234	192,656	-	192,658
Other financial assets	265	-	265	272	-	272
Financial liabilities not measured at fair value						
Due to customers	319,614	-	319,614	288,883	-	288,883
Due to banks	2,533	-	2,533	2,861	-	2,861
Subordinated debt	502	-	502	502	-	502
Borrowings	6,832	-	6,832	4,074	-	4,074
Other financial liabilities	4,235	-	4,235	2,689	-	2,689

Financial instruments – fair value hierarchy

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

Balances with banks

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

Bonds

Bonds include bonds issued by the Government of Kosovo which are bought and classified as investments at fair value through OCI. Quoted prices in active markets were not available for these securities. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs.

Loans and advances to customers

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

(Amounts in thousands of EUR, unless otherwise stated)

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value (continued)

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

Due to customers, borrowings and subordinated debt

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

5. INTEREST INCOME AND EXPENSES

Net interest income is composed as follows:

	2021	2020
Interest income at effective interest rate		
Loans and advances to customers	16,173	14,744
Placements and balances with banks	73	77
Financial investments	1,017	768
	17,263	**15,589**
Interest expense		
Due to customers	(1,907)	(2,121)
Subordinated debt	(37)	(37)
Borrowings	(71)	(129)
	(2,015)	**(2,287)**
Net interest income	**15,248**	**13,302**

6. FEE AND COMMISSION INCOME AND EXPENSES

	2021	2020
Fee and commission income		
Payment transfers and transactions	2,123	2,040
Account maintenance fees	1,286	1,097
Other fees and commissions	769	387
Total fee and commission income	**4,178**	**3,524**
Fee and commission expense		
Fees and commissions on bank accounts	(1,276)	(1,099)
Fees and commissions on social aid distribution	(20)	(35)
Other fees and commissions	(728)	(604)
Total fee and commission expense	**(2,024)**	**(1,737)**
Net fee and commission income	**2,154**	**1,786**

(Amounts in thousands of EUR, unless otherwise stated)

7. OTHER INCOME

	2021	2020
Gain from sale of repossessed assets	266	110
Other income	117	53
Total	**383**	**163**

8. OTHER OPERATING EXPENSES

	2021	2020
Personnel expenses (see below)	4,821	4,161
Depreciation and amortization	1,081	977
Lease depreciation and other lease expenses	829	798
Insurance and security	745	657
Advertising and marketing expenses	328	153
Communications	207	200
Utilities and fuel	193	151
Repairs and maintenance	135	124
Legal expense	92	96
Card expenses outsource	58	56
Consultancy	81	99
Board member remuneration	77	58
Office materials	69	36
Cleaning expenses	62	60
Printing expense	40	39
Travel	17	7
Provisions for legal cases (note 26.1)	12	-
Other expenses	375	192
Total	**9,222**	**7,864**

The number of employees as at 31 December 2021 is 394 (31 December 2020: 365).

Personnel expenses are details as follows:

	2021	2020
Wages and salaries	3,793	3,481
Pension contribution	194	178
Accrued bonuses	808	494
Other compensations	26	8
Total	**4,821**	**4,161**

(Amounts in thousands of EUR, unless otherwise stated)

9. INCOME TAX EXPENSE

Income tax expense comprises of:

	2021	2020
Current income tax expense	775	530
Deferred tax	(27)	-
	748	**530**

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

	Effective tax rate	2021	Effective tax rate	2020
Profit before tax		**8,625**		**5,059**
Tax calculated	10%	863	10%	506
Adjustment due to difference on provision for loans based on IFRS 9	0.35%	30	1.29%	65
Written off loans tax effect	-	-	-	-
Tax effect of non-deductible expenses	0.17%	15	0.08%	4
Tax effect of the accrued interest on term deposits	0.36%	31	0.64%	32
Interest income from FVOCI investment taxed at source	1.18%	(102)	1.53%	(77)
Sponsorship	0.71%	(62)	**-**	**-**
Income tax	**12.77%**	**775**	**13.5%**	**530**

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

	2021	2020
Liability at the beginning	102	234
Effect of IFRS 9	80	(92)
Liability after adoption	**182**	**142**
Additions during the year	775	530
Payments during the year	(619)	(570)
Liability at the year end	**338**	**102**

The carry forward period for any tax losses in accordance with the Kosovo Tax Law is four years. Income tax is assessed at the rate of 10% (2020: 10%) of taxable income.

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

	Movements in deferred tax
Deferred tax liability as at 31 December 2019	(75)
Effect of adoption of IFRS 9	55
Deferred tax liability as at 1 January 2020	**(20)**
Movement of deferred tax	-
Deferred tax liability as at 31 December 2020	**(20)**
Deferred depreciation	(1)
Deferred interest expenses	28
Movement of deferred tax	**27**
Deferred tax asset as at 31 December 2021	**7**

(Amounts in thousands of EUR, unless otherwise stated)

10. CASH ON HAND AND AT BANKS

	2021	2020
Cash on hand	17,332	15,630
Cash at banks	9,097	9,470
Total	**26,429**	**25,100**
Allowance for ECL/Impairment losses	(2)	(18)
Cash on hand and at banks after provisions	**26,427**	**25,082**

Cash and cash equivalents consist of the following:

	2021	2020
Cash on hand and at banks	26,429	25,100
Unrestricted balances with CBK (Note 11)	33,627	27,821
Total	**60,056**	**52,921**

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

	2021				**2020**			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	-	-	-	-	-
Strong	706	-	-	706	660	-	-	660
Good	25,723	-	-	25,723	24,440	-	-	24,440
Satisfactory	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Credit impaired	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total	**26,429**	**-**	**-**	**26,429**	**25,100**	**-**	**-**	**25,100**

(Amounts in thousands of EUR, unless otherwise stated)

10. CASH ON HAND AND AT BANKS (CONTINUED)

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

	Gross carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2020	**21,617**	**-**	**(17)**	**-**	**21,600**
All transfers	-	-	-	-	
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	3,483	-	(1)	-	**3,482**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change in profit and loss	**-**	**-**	**(1)**	**-**	**-**
As at 31 December 2020	**25,100**	**-**	**(18)**	**-**	**25,082**
All transfers	-	-	-	-	
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	1,329	-	16	-	**1,345**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change in profit and loss	**-**	**-**		**-**	**-**
As at 31 December 2021	**26,429**	**-**	**(2)**	**-**	**26,427**

An analysis of changes in the ECLs for cash on hand and at banks for 2021 is, as follow:

Movement of ECL for cash on hand and at banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2021	**18**	**-**	**-**	**18**
Transfers:				
Derecognitions other than write-offs	(16)	-	-	**(16)**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2021	**2**	**-**	**-**	**2**

(Amounts in thousands of EUR, unless otherwise stated)

10. CASH ON HAND AND AT BANKS (CONTINUED)

An analysis of changes in the ECLs for cash on hand and at banks for 2020 is, as follow:

Movement of ECL for cash on hand and at banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2020	**17**	**-**	**-**	**17**
Transfers:				
Derecognitions other than write-offs	(3)	-	-	**(3)**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	4	-	-	**4**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2020	**18**	**-**	**-**	**18**

11. BALANCES WITH CENTRAL BANK OF KOSOVO

	2021	**2020**
Statutory reserves	27,908	24,691
Current accounts	33,627	27,821
Total	**61,535**	**52,512**
Allowance for ECL/Impairment losses	(5)	(47)
Balances with Central Bank of Kosovo after provisions	**61,530**	**52,465**

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

(Amounts in thousands of EUR, unless otherwise stated)

11. BALANCES WITH CENTRAL BANK OF KOSOVO (CONTINUED)

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

	2021				2020			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	61,535	-	-	**61,535**	52,512	-	-	**52,512**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**61,535**	**-**	**-**	**61,535**	**52,512**	**-**	**-**	**52,512**

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

	Gross carrying amount		ECL		Total
	Stage 1	**Stage 2, 3 and POCI**	**Stage 1**	**Stage 2, 3 and POCI**	
	12-month ECL	**Lifetime ECL**	**12-month ECL**	**Lifetime ECL**	
As at 1 January 2020	**42,069**	**-**	**(38)**	**-**	**42,031**
All transfers:					
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	10,443	-	(9)	-	**10,434**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change in profit and loss	**-**	**-**	(9)	**-**	**(9)**
As at 31 December 2020	**52,512**	**-**	**(47)**	**-**	**52,465**
All transfers:					
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	9,023	-	42	-	**9,065**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change in profit and loss	**-**	**-**		**-**	
As at 31 December 2021	**61,535**	**-**	**(5)**	**-**	**61,530**

(Amounts in thousands of EUR, unless otherwise stated)

11. BALANCES WITH CENTRAL BANK OF KOSOVO (CONTINUED)

An analysis of changes in the ECLs for balances with Central Bank of Kosovo for 2021 is, as follow:

Movement of ECL for balances with Central Bank of Kosovo	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2021	**47**	**-**	**-**	**47**
Transfers:				
Derecognitions other than write-offs	(42)	-	-	**(42)**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2021	**5**	**-**	**-**	**5**

An analysis of changes in the ECLs for balances with Central Bank of Kosovo for 2020 is, as follow:

Movement of ECL for balances with Central Bank of Kosovo	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2020	**38**	**-**	**-**	**38**
Transfers:				
Derecognitions other than write-offs		-	-	**-**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	9	-	-	**9**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2020	**47**	**-**	**-**	**47**

(Amounts in thousands of EUR, unless otherwise stated)

12. PLACEMENTS AND BALANCES WITH BANKS

	2021	2020
Term deposits		
Ziraat Bankasi	2,938	2,203
BKT	2,203	2,854
	5,141	**5,057**
restricted accounts:		
Raiffeisen Bank International	125	205
Ziraat Bankasi	10	10
	135	**215**
Total	**5,276**	**5,272**
Allowance for ECL/Impairment losses	(39)	(11)
Placements and balances with banks after provisions	**5,237**	**5,261**

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

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

	2021				**2020**			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	5,276	-	-	**5,276**	5,272	-	-	**5,272**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**5,276**	**-**	**-**	**5,276**	**5,272**	**-**	**-**	**5,272**

(Amounts in thousands of EUR, unless otherwise stated)

12. PLACEMENTS AND BALANCES WITH BANKS (CONTINUED)

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

	Gross carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2020	**6,065**	-	**(12)**	-	**6,053**
All transfers:	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	(793)	-	1	-	**(792)**
New financial assets originated or purchased	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in profit and loss	-	-	**1**	-	**1**
As at 31 December 2020	**5,272**	-	**(11)**	-	**5,261**
All transfers:	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-
Repayments and change in cash flow	4	-	(28)	-	**(24)**
New financial assets originated or purchased	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign currency effect and other movements	-	-	-	-	-
Net change in profit and loss	4	-	**(28)**	-	**(28)**
As at 31 December 2021	**5,276**	**-**	**(39)**	**-**	**5,237**

(Amounts in thousands of EUR, unless otherwise stated)

12. PLACEMENTS AND BALANCES WITH BANKS (CONTINUED)

An analysis of changes in the ECLs for balances with banks for 2021 is, as follow:

Movements of ECL for balances with banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2021	**11**	**-**	**-**	**11**
Transfers:				
Derecognitions other than write-offs	(11)	-	-	**(11)**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	39	-	-	**39**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2021	**39**	**-**	**-**	**39**

An analysis of changes in the ECLs for balances with banks for 2020 is, as follow:

Movements of ECL for balances with banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2020	**12**	**-**	**-**	**12**
Transfers:				
Derecognitions other than write-offs	(12)	-	-	**(12)**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	11	-	-	**11**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2020	**11**	**-**	**-**	**11**

(Amounts in thousands of EUR, unless otherwise stated)

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

	2021	2020
Government Bonds	47,620	53,578
Allowance for ECL/impairment losses	-	(43)
Total	**47,620**	**53,535**

During the year 2021 Bank has registered 11 trading of financial instruments. Financial instruments were traded with significant margins that have marked profit from trading. The traders involved were Central Bank of Kosovo and Kosovo Pension Savings Trust (KPST). Gain was recognized through profit and loss in amount of EUR 1,010 thousand (2020: 510 thousand).
The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and all are performing.

	2021				2020			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	47,620	-	-	**47,620**	53,578	-	-	**53,578**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**47,620**	**-**	**-**	**47,620**	**53,578**	**-**	**-**	**53,578**

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

	Gross carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2,3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2020	**38,677**	-	**(31)**		**38,646**
All transfers					
Derecognitions other than write-offs	(24,631)	**-**	**20**	**-**	**(24,611)**
New financial assets originated or purchased	**39,532**	**-**	**(32)**	**-**	**39,500**
Write-offs	-	**-**	**-**	**-**	
Net change in profit and loss	-	-	**(12)**	**-**	**(12)-**
As at 31 December 2020	**53,578**	-	**(43)**	**-**	**53,535**
Correction of the opening balances	**-**	-	**43**	**-**	**43**
All transfers					
Derecognitions other than write-offs	(50,086)	**-**	**-**	**-**	**(50,086)**
Repayments and change in cash flow	**-**	**-**	**-**	**-**	
New financial assets originated or purchased	44,128	**-**	**-**	**-**	**44,128**
Write-offs	**-**	**-**	**-**	**-**	**-**
Net change in profit and loss	-	-	**-**	**-**	**-**
As at 31 December 2021	**47,620**	-	**-**	**-**	**47,620**

(Amounts in thousands of EUR, unless otherwise stated)

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI (CONTINUED)

An analysis of changes in the ECLs for financial assets at fair value through OCI for 2021 is, as follow:

Movement of ECL for financial assets at fair value through OCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2021	**(43)**	**-**	**-**	**(43)**
Transfers:				
Derecognitions other than write-offs	28	-	-	**28**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	(196)	-	-	**(196)**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2021	**(211)**	**-**	**-**	**(211)**

An analysis of changes in the ECLs for financial assets at fair value through OCI for 2020 is, as follow:

Movement of ECL for financial assets at fair value through OCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2020	**(31)**	**-**	**-**	**(31)**
Transfers:				
Derecognitions other than write-offs	20	-	-	**20**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	(32)	-	-	**(32)**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2020	**(43)**	**-**	**-**	**(43)**

(Amounts in thousands of EUR, unless otherwise stated)

13.1 Revaluation reserve for FVOCI securities

	For the year ended 31-Dec-21	For the year ended 31-Dec-20
Gain (loss) on change of fair value FVOCI financial instruments	308	(93)
Credit/Debit to other comprehensive income	**308**	**(93)**

The movement in revaluation reserve is as follows:

	For the year ended 31-Dec-21	For the year ended 31-Dec-20
Market price as at January 1	**(93)**	**(67)**
Price change of financial instruments FVOCI (a)	401	(26)
Net as presented in other comprehensive income	**401**	**(26)**
Market price as of December 31 (A)	**308**	**(93)**
Allowance for ECL of securities at FVOCI at 01 January – as stated	-	-
Allowance for ECL of securities at FVOCI at 01 January - correction	(43)	-
Allowance for ECL of securities at FVOCI at 01 January – restated	(43)	-
Net presented in profit or loss (b)	(168)	-
Allowance for ECL of securities at FVOCI at December 31 (B)	**(211)**	**-**
Revaluation Reserve for FVOCI as at December 31 (A-B)	**519**	**(93)**
Change in Revaluation reserve for FVOCI securities during the year (a-b)	**569**	**(26)**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS

	2021	2020
Loans and advances to customers	**239,176**	**199,647**
Accrued interest	1,169	1,070
Deferred disbursement fees	(754)	(734)
Total	**239,591**	**199,983**
Allowance for ECL/impairment losses on loans and advances to customers	**(7,357)**	**(7,327)**
Loans and advances to customers, net	**232,234**	**192,656**

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

	2021	2020
Gross carrying amount		
Non - retail loans	128,997	112,630
Retail loans	110,594	87,353
	239,591	**199,983**
ECL/impairment losses		
Allowance for ECL/impairment losses – Non – Retail loans	(6,108)	(6,506)
Allowance for ECL/impairment losses – Retail loans	(1,249)	(821)
Allowance for ECL/impairment losses on loans and advances to customers	**(7,357)**	**(7,327)**
Loans and advances to customers, net	**232,234**	**192,656**

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

	2020	2020
At 1 January	7,327	5,301
ECL/Loan loss provision	1,228	3,042
Loans written off	(1,198)	(1,016)
At 31 December	**7,357**	**7,327**

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

As at 31 December 2021 and 2020 there are no counterparty exposures above 15% of the limit. In addition, the cumulative exposure of the top 10 clients of the bank is EUR 14,740 thousand or 6.09% of the loan portfolio (2020: EUR 12,045 thousand or 5.96%).
Gross carrying amount for total loans are, as follows:

	2021					2020
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
A0	215,631	-	-	-	**215,631**	**176,317**
A1	436	-	-	-	**436**	**519**
B	-	14,393	-	-	**14,393**	**13,220**
C	-	3,268	-	-	**3,268**	**4,563**
Default	-	-	5,863	-	**5,863**	**5,364**
Total	**216,067**	**17,661**	**5,863**	-	**239,591**	**199,983**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Stage 1	Stage 2	Stage 3	
Total loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2021	**176,836**	**17,783**	**5,364**	**199,983**
Transfers:				
Transfer from Stage 1 to Stage 2	(3,429)	3,429	-	**-**
Transfer from Stage 1 to Stage 3	(305)	-	305	**-**
Transfer from Stage 2 to Stage 1	403	(403)	-	**-**
Transfer from Stage 2 to Stage 3	-	(1,530)	1,530	**-**
Transfer from Stage 3 to Stage 2	-	66	(66)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Derecognitions other than write-offs	(50,105)	(5,427)	(491)	**(56,023)**
Repayment and change in cash flow	(29,431)	(2,422)	(448)	**(32,301)**
New loans originated or purchased	122,098	6,165	867	**129,130**
Write-offs	-	-	(1,198)	**(1,198)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2021	**216,067**	**17,661**	**5,863**	**239,591**

	Stage 1	Stage 2	Stage 3	
Total loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2020	**178,472**	**3,435**	**5,558**	**187,465**
Transfers:				
Transfer from Stage 1 to Stage 2	(5,983)	5,983	-	**-**
Transfer from Stage 1 to Stage 3	(612)	-	612	**-**
Transfer from Stage 2 to Stage 1	22	(22)	-	**-**
Transfer from Stage 2 to Stage 3	-	(791)	791	**-**
Transfer from Stage 3 to Stage 2	-	30	(30)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Derecognitions other than write-offs	(60,478)	(1,513)	(522)	**(62,513)**
Repayment and change in cash flow	(24,613)	(194)	(367)	**(25,174)**
New loans originated or purchased	90,028	10,855	338	**101,221**
Write-offs	-	-	(1,016)	**(1,016)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2020	**176,836**	**17,783**	**5,364**	**199,983**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Total loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2021	**566**	**2,769**	**3,992**	**7,327**
Transfers:				
Transfer from Stage 1 to Stage 2	(477)	477	-	**-**
Transfer from Stage 1 to Stage 3	(178)	-	178	**-**
Transfer from Stage 2 to Stage 1	1	(1)	-	**-**
Transfer from Stage 2 to Stage 3	-	(971)	971	**-**
Transfer from Stage 3 to Stage 2	-	21	(21)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	410	(43)	271	**638**
Derecognitions other than write-offs	(131)	(582)	(277)	**(990)**
New loans originated or purchased	240	784	556	**1,580**
Write-offs	-	-	(1,198)	**(1,198)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**(135)**	**(315)**	**480**	**30**
ECL amount as at 31 December 2021	**431**	**2,454**	**4,472**	**7,357**

Total loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2020	**348**	**497**	**4,456**	**5,301**
Transfers:				
Transfer from Stage 1 to Stage 2	(829)	829	-	**-**
Transfer from Stage 1 to Stage 3	(307)	-	307	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(509)	509	**-**
Transfer from Stage 3 to Stage 2	-	9	(9)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	1,171	338	(42)	**1,467**
Derecognitions other than write-offs	(107)	(155)	(363)	**(625)**
New loans originated or purchased	290	1,760	150	**2,200**
Write-offs	-	-	(1,016)	**(1,016)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**218**	**2,272**	**(464)**	**2,026**
ECL amount as at 31 December 2020	**566**	**2,769**	**3,992**	**7,327**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	2021					2020
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
A0	108,800	-	-	-	**108,800**	**91,387**
A1	292	-	-	-	**292**	**374**
B	-	11,845	-	-	**11,845**	**11,972**
C	-	3,060	-	-	**3,060**	**4,196**
Default	-	-	5,000	-	**5,000**	**4,701**
Total	**109,092**	**14,905**	**5,000**	**-**	**128,997**	**112,630**

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

Non – retail loans	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Gross carrying amount as at 1 January 2021	**91,762**	**16,168**	**4,700**	**112,630**
Transfers:				
Transfer from Stage 1 to Stage 2	(2,160)	2,160	-	**-**
Transfer from Stage 1 to Stage 3	(66)	-	66	**-**
Transfer from Stage 2 to Stage 1	393	(393)	-	**-**
Transfer from Stage 2 to Stage 3	-	(1,314)	1,314	**-**
Transfer from Stage 3 to Stage 2	-	22	(22)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Derecognitions other than write-offs	(28,587)	(5,125)	(331)	**(34,043)**
Repayments and change in cash flow	(18,013)	(2,179)	(417)	**(20,609)**
New loans originated or purchased	65,763	5,566	803	**72,132**
Write-offs	-	-	(1,113)	**(1,113)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2021	**109,092**	**14,905**	**5,000**	**128,997**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Non – retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2020	**102,881**	**2,992**	**5,178**	**111,051**
Transfers:				
Transfer from Stage 1 to Stage 2	(4,740)	4,740	-	**-**
Transfer from Stage 1 to Stage 3	(389)	-	389	**-**
Transfer from Stage 2 to Stage 1	4	(4)	-	**-**
Transfer from Stage 2 to Stage 3	-	(639)	639	**-**
Transfer from Stage 3 to Stage 2	-	11	(11)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Derecognitions other than write-offs	(44,132)	(1,432)	(493)	**(46,057)**
Repayments and change in cash flow	(13,783)	(154)	(348)	**(14,285)**
New loans originated or purchased	51,920	10,654	294	**62,868**
Write-offs	-	-	(947)	**(947)**
FX and other movements	-	-	-	**-**
ECL amount as at 31 December 2020	**91,761**	**16,168**	**4,701**	**112,630**

Non – retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2021	**435**	**2,516**	**3,555**	**6,506**
Transfers:				
Transfer from Stage 1 to Stage 2	(281)	281	-	**-**
Transfer from Stage 1 to Stage 3	(43)	-	43	**-**
Transfer from Stage 2 to Stage 1	1	(1)	-	**-**
Transfer from Stage 2 to Stage 3	-	(820)	820	**-**
Transfer from Stage 3 to Stage 2	-	4	(4)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	114	(117)	197	**194**
Derecognitions other than write-offs	(98)	(544)	(197)	**(839)**
New loans originated or purchased	167	676	517	**1,360**
Write-offs	-	-	(1,113)	**(1,113)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**(140)**	**(521)**	**263**	**(398)**
ECL amount as at 31 December 2021	**295**	**1,995**	**3,818**	**6,108**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Non – retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2020	**267**	**452**	**4,212**	**4,931**
Transfers:				**-**
Transfer from Stage 1 to Stage 2	(649)	649	-	**-**
Transfer from Stage 1 to Stage 3	(190)	-	190	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(411)	411	**-**
Transfer from Stage 3 to Stage 2	-	3	(3)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	869	258	(60)	**1,067**
Derecognitions other than write-offs	(88)	(150)	(377)	**(615)**
New loans originated or purchased	228	1,715	127	**2,070**
Write-offs	-	-	(947)	**(947)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**170**	**2,064**	**(659)**	**1,575**
ECL amount as at 31 December 2020	**437**	**2,516**	**3,553**	**6,506**

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

	2021					2020
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
A0	106,831	-	-	-	**106,831**	**84,931**
A1	144	-	-	-	**144**	**144**
B	-	2,547	-	-	**2,547**	**1,247**
C	-	209	-	-	**209**	**368**
Default	-	-	863	-	**863**	**663**
Total	**106,975**	**2,756**	**863**	**-**	**110,594**	**87,353**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2021	**85,075**	**1,615**	**663**	**87,353**
Transfers:				
Transfer from Stage 1 to Stage 2	(1,269)	1,269	-	**-**
Transfer from Stage 1 to Stage 3	(239)	-	239	**-**
Transfer from Stage 2 to Stage 1	10	(10)	-	**-**
Transfer from Stage 2 to Stage 3	-	(216)	216	**-**
Transfer from Stage 3 to Stage 2	-	44	(44)	**-**
Transfer from Stage 3 to Stage 1	-	-		
Derecognitions other than write-offs	(21,520)	(299)	(161)	**(21,980)**
Repayments and change in cash flow	(11,417)	(245)	(29)	**(11,691)**
New loans originated or purchased	56,335	598	64	**56,997**
Write-offs	-	-	(85)	**(85)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2021	**106,975**	**2,756**	**863**	**110,594**

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2020	**75,591**	**443**	**380**	**76,414**
Transfers:				
Transfer from Stage 1 to Stage 2	(1,243)	1,243	-	**-**
Transfer from Stage 1 to Stage 3	(222)	-	222	**-**
Transfer from Stage 2 to Stage 1	19	(19)	-	**-**
Transfer from Stage 2 to Stage 3	-	(152)	152	**-**
Transfer from Stage 3 to Stage 2	-	19	(19)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Derecognitions other than write-offs	(16,347)	(80)	(28)	**(16,455)**
Repayments and change in cash flow	(10,831)	(40)	(19)	**(10,890)**
New loans originated or purchased	38,108	201	44	**38,353**
Write-offs	-	-	(69)	**(69)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2020	**85,075**	**1,615**	**663**	**87,353**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	Stage 1	Stage 2	Stage 3	
Retail loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
ECL amount as at 1 January 2021	**129**	**253**	**439**	**821**
Transfers:				
Transfer from Stage 1 to Stage 2	(196)	196	-	**-**
Transfer from Stage 1 to Stage 3	(135)	-	135	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(151)	151	**-**
Transfer from Stage 3 to Stage 2	-	16	(16)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	298	74	72	**444**
Derecognitions other than write-offs	(34)	(38)	(81)	**(153)**
New loans originated or purchased	74	109	39	**222**
Write-offs	-	-	(85)	**(85)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**7**	**206**	**215**	**428**
ECL amount as at 31 December 2021	**136**	**459**	**654**	**1,249**

	Stage 1	Stage 2	Stage 3	
Retail loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
ECL amount as at 1 January 2020	**80**	**45**	**245**	**370**
Transfers:				
Transfer from Stage 1 to Stage 2	(181)	181	-	**-**
Transfer from Stage 1 to Stage 3	(117)	-	117	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(99)	99	**-**
Transfer from Stage 3 to Stage 2	-	6	(6)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	303	80	17	**400**
Derecognitions other than write-offs	(18)	(5)	13	**(10)**
New loans originated or purchased	62	45	23	**130**
Write-offs	-	-	(69)	**(69)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**49**	**208**	**194**	**451**
ECL amount as at 31 December 2020	**129**	**253**	**439**	**821**

(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Non-retail	Retail	Total
At 1 January 2020	**4,931**	**370**	**5,301**
Charge for the year	1,644	1,398	**3,042**
Amounts written off	(69)	(947)	**(1,016)**
At 31 December 2020	**6,506**	**821**	**7,327**
Restated balance under IFRS 9 at 1 January 2020	-	-	-
At 1 January 2021	**6,506**	**821**	**7,327**
Charge for the year	715	513	1,228
Amounts written off	(1,113)	(85)	(1,198)
At 31 December 2021	**6,108**	**1,249**	**7,357**

15. OTHER FINANCIAL ASSETS

	2021	2020
Receivables from customers	116	121
Accrued income from banking services	17	96
Accrued fees and commissions	27	53
Other receivables	105	2
Total	**265**	**272**

16. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2020	1,926
Additions	315
At 31 December 2020	**2,241**
Corrections of the opening balances	23
Additions	381
At 31 December 2021	**2,645**
Accumulated Amortization	
At 1 January 2020	**1,411**
Charge for the year	224
At 31 December 2020	**1,635**
Corrections of the opening balances	1
Charge for the year	321
At 31 December 2021	**1,957**
Carrying amount	
At 31 December 2020	**606**
At 31 December 2021	**688**

(Amounts in thousands of EUR, unless otherwise stated)

17. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Vehicles	Total
Cost						
At 1 January 2020	**683**	**1,008**	**657**	**2,635**	**779**	**5,762**
Additions during the year	-	42	43	132	-	217
Disposals during the year	-	-	2	-	-	2
At 31 December 2020	**683**	**1,050**	**702**	**2,767**	**779**	**5,981**
Corrections of the opening balances	22	7	196	(57)	(189)	(21)
Additions during the year	-	123	127	347	381	978
Disposals during the year	-	-	-	-	(276)	(276)
At 31 December 2021	**705**	**1,180**	**1,025**	**3,057**	**695**	**6,662**
Accumulated depreciation						
At 1 January 2020	**64**	**470**	**401**	**1,474**	**503**	**2,912**
Charge for the year	32	165	132	353	71	753
Disposals for the year	-	(2)	-	-	-	(2)
At 31 December 2020	**96**	**633**	**533**	**1,827**	**574**	**3,663**
Corrections of the opening balances	21	7	102	(17)	(112)	1
Charge for the year	33	154	124	360	90	761
Disposals for the year	-	-	-	-	(276)	(276)
At 31 December 2021	**150**	**794**	**759**	**2,170**	**276**	**4,149**
Carrying amounts						
At 31 December 2020	**587**	**417**	**169**	**940**	**205**	**2,318**
At 31 December 2021	**555**	**386**	**266**	**887**	**419**	**2,513**

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

Below are items of Property and Equipment and Intangibles that are fully depreciated but still in use as at 31 December 2021:

Category	**Cost**	**Accumulated depreciation**	**Net book value**
Buildings	9	9	-
Leasehold improvements	395	395	-
Furniture, fixtures and equipment	472	472	-
Computers and related equipment	962	962	-
Vehicles	37	37	-
Software	1,396	1,396	-
Total	**3,271**	**3,271**	**-**

(Amounts in thousands of EUR, unless otherwise stated)

18. OTHER ASSETS

	2021	2020
Prepaid expenses	260	151
Repossessed assets (see note 18.1)	-	-
Total	**260**	**151**

18.1 REPOSSESED ASSETS

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

	2021	2020
Residential real estate	-	558
Commercial real estate	-	108
Addition during the year	171	129
Reversal on disposal	(171)	(129)
Total	**-**	**666**
Less: Impairment provision	-	(666)
Net carrying value	-	-

The fair value of these assets is determined with reference to market values by independent external valuers and as of December 2021 was EUR 127 thousand. The values are further written down depending on their location, maintenance and conditions to reflect delays in likely settlement and the length of time for holding the assets.

Movements in the impairment provision are as follows:

	2021	2020
At 1 January	666	634
Allowance for impairment during the year	171	161
Reversal on Disposal	(171)	(129)
Write off	(666)	-
At 31 December	**-**	**666**

(Amounts in thousands of EUR, unless otherwise stated)

19. DUE TO CUSTOMERS

Out of the total amount of EUR 319,614 thousand, the amount of EUR 1,067 thousand represents the accrued interest as at December 31, 2021 (December 31, 2020 EUR 286,025 thousand: EUR 1,165 thousand).

	2021	2020
Current accounts	**168,846**	**145,365**
In EUR	165,908	141,580
In foreign currencies	2,938	3,785
Add: Current maturity of long-term customer deposits	109,671	98,665
Total short-term customer deposits	**278,517**	**244,030**
Term deposits	**150,768**	**140,657**
In EUR	149,806	139,832
In foreign currencies	962	825
Less: Current maturity of long-term customer	(109,671)	(98,665)
Total long-term customer deposits	**41,097**	**41,992**
Total	**319,614**	**286,022**

20. DUE TO BANKS

Out of the total amount EUR 2,533 thousand, the amount of 169 thousand comes from the foreign banks (December 31.2020 EUR 2,767 thousand, EUR 94 thousand) and the others is domestic and all are current accounts with no interests.

DUE TO BANKS	**2021**	**2020**
In EUR	**2,364**	**2,767**
In foreign currencies	**169**	**94**
Total	**2,533**	**2,861**

(Amounts in thousands of EUR, unless otherwise stated)

21. SUBORDINATED DEBT

	2021	2020
Subordinated debt		
EMF MICROFINANCE FUND AGMVK	502	502
Total	**502**	**502**

During the year 2018, the Bank entered into a new subordinated loan agreement with Blue Orchard in amount of EUR 500 thousand. The loan bears interest rate of 6.5% per annum, payable on a semiannual basis, and the principal is payable in one single installment on December 12, 2026. As of 31 December 2021, the Bank is in compliance with financial covenants attached to the agreement with EMF Microfinance Fund AGMVK.

22. BORROWINGS

Borrowings	**2021**	**2020**
Borrowings from EFSE	250	756
Borrowings from KOSEP-EBRD	-	290
Borrowings from EBRD	6,582	3,028
Total	**6,832**	**4,074**

During the year 2021, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total amount of EUR 5,000 thousand. The purpose is to support SME competitiveness, and it aims to foster economic development and prosperity through the sustainable provision of additional development finance. The borrowing bears an interest rate of 1.8% annually and is repayable within three years. The interest is payable on a semi-annual basis.

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

During the year 2019, the Bank entered into a credit revolving agreement with EBRD (European Bank for Reconstruction and Development) for an amount of up to EUR 1,000 thousand. The purpose of this fund is to support the development of trade finance. Out of total loan amount of EUR 1,000 thousand, the amount of EUR 183 thousand was received as at 31 December 2020. The borrowing bears an interest rate of 2.15% and is repayable within one year.

During the year 2018, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total loan amount of EUR 5,000 thousand. The purpose is to help finance investments in micro, small and medium sized enterprises. The borrowing bears an interest rate of 2.6% annually and is repayable within four years, while the interest is payable on semi-annual basis.

(Amounts in thousands of EUR, unless otherwise stated)

22. BORROWINGS (CONTINUED)

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

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

	1 January 2021	Cash inflows	Cash outflows	Accruals of Interest	Declaration of Dividends	31 December 2021
Borrowings	**4,074**	5,000	(2,219)	(23)	-	**6,832**
Dividends paid	**-**	-	-	-	-	**-**
Total liabilities from financing activities	**4,074**	**5,000**	**(2,219)**	**(23)**	**-**	**6,832**

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

(Amounts in thousands of EUR, unless otherwise stated)

23. RIGHT OF USE ASSETS AND LEASE LIABILITY

Right-of-use assets and lease liabilities

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

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

The Bank recognized right of use assets as follows:

	Buildings	Total
Carrying amount at 1 January 2020	**2,843**	**2,843**
Additions	389	389
Disposals	(16)	(16)
Depreciation charge	(663)	(663)
Carrying amount at 31 December 2020	**2,553**	**2,553**
Additions	514	514
Disposals	-	-
Depreciation charge	(689)	(689)
Carrying amount at 31 December 2021	**2,379**	**2,379**

The Bank recognized lease liabilities as follows:

	31 December 2021	31 December 2020
Short-term lease liabilities	644	660
Long-term lease liabilities	1,808	1,952
Total lease liabilities	**2,452**	**2,612**

Lease commitments

Operating lease commitments. The future minimum lease payments under non-cancellable operating leases, where the Bank is the lessee, at 31 December 2021 are EUR 363 (2020: 365).

(Amounts in thousands of EUR, unless otherwise stated)

24. OTHER LIABILITIES AND PROVISIONS

	2021	2020
Payables on behalf of third parties	1,763	1,500
Allowance for ECL for letters of guarantees issued by the Bank	21	24
Payable related to clearing transactions with CBK	538	635
Payable on behalf of Ministry of Economy and Finance	46	115
Other creditors	1,134	-
Due to suppliers	683	369
Allowance for ECL for unused commitments	50	46
Total other liabilities	**4,235**	**2,689**
Provisions (see Note 26.1 below)	523	511
Total	**4,758**	**3,200**

An analysis of changes in the ECLs for unused commitments for 2021 and 2020 is, as follow:

Unused commitments 2021	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Gross carrying amount as at 1 January 2021	**34**	**12**	**0**	**46**
Transfers:				
Transfer from Stage 1 to Stage 2	(3)	3	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-		
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	1	-	-	**1**
Derecognitions other than write-offs	(22)	(12)	-	**(34)**
Repayments and change in cash flow	-	-	-	**-**
New commitments originated or purchased	16	19	2	**37**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**(8)**	**10**	**2**	**4**
Gross carrying amount as at 31 December 2021	**26**	**22**	**2**	**50**

Unused commitments 2020	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Gross carrying amount as at 1 January 2020	**16**	**1**	**0**	**17**
Transfers:				
Transfer from Stage 1 to Stage 2	(1)	1	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-		
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	1	-	-	**1**

(Amounts in thousands of EUR, unless otherwise stated)

24. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

Derecognitions other than write-offs	(8)	-	-	**(28)**
Repayments and change in cash flow	-	-	-	**-**
New commitments originated or purchased	26	10	-	**36**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**18**	**10**	**2**	**30**
Gross carrying amount as at 31 December 2020	**34**	**12**	**-**	**46**

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

	Stage 1	**Stage 2**	**Stage 3**	
Letters of guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2021	**2,008**	**64**	**13**	**2,085**
Transfers:				
Transfer from Stage 1 to Stage 2	(17)	17	-	**-**
Transfer from Stage 1 to Stage 3	(5)	-	5	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-		
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	-	-	-	**-**
Derecognitions other than write-offs	(253)	(20)	-	**(273)**
Repayments and change in cash flow	4	-	(8)	**(4)**
New guarantees originated or purchased	563	5	-	**568**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2021	**2,300**	**66**	**10**	**2,376**

(Amounts in thousands of EUR, unless otherwise stated)

24. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

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

Letters of guarantees	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
ECL amount as at 1 January 2021	**4**	**10**	**10**	**24**
Transfers:				
Transfer from Stage 1 to Stage 2	(6)	6	-	**-**
Transfer from Stage 1 to Stage 3	(3)	-	3	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-		
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	8	(2)	(6)	**-**
Derecognitions other than write-offs	(1)	(2)		**(3)**
New guarantees originated or purchased			-	
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**(2)**	**2**	**(3)**	**(3)**
ECL amount as at 31 December 2021	**2**	**12**	**7**	**21**

(Amounts in thousands of EUR, unless otherwise stated)

24. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

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

25. SHAREHOLDER'S EQUITY AND RESERVES

Share capital

In accordance with Law no. 04/L-093 on "Banks, Microfinance Institutions and Non-Bank Financial Institutions", the minimum paid-in capital for domestic banks operating in Kosovo is EUR 7 million. At 31 December 2021, the subscribed capital was divided into 28,530 ordinary shares (2020: 28,530 ordinary shares) with a nominal value of EUR 394.2 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets. The structure of subscribed capital is as follows:

No.	**Name of shareholder**	**2021**		**2020**	
		%	**EUR**	**%**	**EUR**
1	Afrim Govori	21.27	2,392	21.27	2,392
2	Rrustem Aliaj	17.27	1,942	17.27	1,942
3	Shaqir Palushi	11.81	1,328	11.81	1,328
4	EBRD	10.00	1,125	10.00	1,125
5	Mejdi Rexhepi	9.35	1,052	9.35	1,052
6	Nazmi Viça	8.75	984	6.89	775
7	Moneta sh.p.k	7.77	874	7.77	874
8	Kareman Limani	4.85	545	4.85	545
9	Banka di Cividale	4.62	520	4.62	520
10	Ahmet Arifi	2.39	269	2.39	269
11	Luani Limited	0.44	49	0.44	49
12	Sokol Krasniqi	0.38	42	0.38	42
13	Habibe Aliu	0.31	35	0.31	35
14	Besnik Vrella	0.31	36	0.31	36
15	Agim Bilalli	0.31	35	0.31	35
16	Flamur Bryma	0.09	10	0.09	10
17	Ismet Sylejmani	0.04	5	1.90	214
18	Naim Abazi	0.04	4	0.04	4
Total		**100.00**	**11,247**	**100.00**	**11,247**

25. SHAREHOLDER'S EQUITY AND RESERVES (CONITINUED)

Dividend distribution

During 2021 a dividend was paid for year 2020 and 2019. The payment was made based on the decision of the CBK no. 38-12 / 2021. The value of the dividend paid is Eur 1,627.6 thousand, or 15% of the profit for two years (Eur 679.3 thousand for year 2020 and Eur 948.3 thousand for year 2019). The value paid per share was Eur 57.05.

Other capital reserve

Based on CBK regulations, starting from January 1, 2020, all Banks in Kosovo were required to prepare and present their financial statements based on IFRS only. The difference in loan loss provisions between CBK and IFRS framework of reporting as at that date was recognized under Other Equity Reserve. As of January 1, 2020, the amount recognized as a change in loan loss reserve between CBK and IFRS reporting standards is EUR 769 thousand.
This reserve is restricted and not distributable.

Revaluation reserve

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

Earnings per share

For the purpose of calculating earnings per share, earnings represent the net profit after tax. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares used for basic earnings per share was 28,530 (2020: 28,530). There is no potential dilution effect from any instruments and hence the basic earnings per share are the same as diluted earnings per share.

(Amounts in thousands of EUR, unless otherwise stated)

26. COMMITMENTS AND CONTINGENCIES

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

Guarantees extended to customers	2021	2020
Secured by cash deposits	1,256	1,407
Secured by collateral (real estate and movable collateral)	1,119	679
Less: Allowance for ECL for letters of guarantees recognized as other liabilities	(21)	(24)
Total	**2,354**	**2,062**

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

Credit commitments	2021	2020
Approved but not disbursed loans	-	-
Unused overdraft limits approved	8,249	8,122
Unused credit card facilities	493	475
Allowance for ECL for unused credit card facilities recognized as other liabilities	(50)	(46)
Total	**8,692**	**8,551**

Legal

The Bank is involved in routine legal proceedings in the ordinary course of business as at 31 December 2021 and 2020. The Bank's management is of the opinion that no material losses will be incurred in relation to legal claims, except for those already provided for and recognized in profit or loss as disclosed in Note 23.

26.1 PROVISIONS

Other provisions include reserve for third-party active claims. Based on its policies and procedures, the bank determines in each quarter the current reserve through the reassessment of each claim individually.
Following is presented the movement of provisions as of 31 December:

	2021	2020
At the beginning	511	539
Additions during the year	83	-
Utilized during the year	(71)	(28)
At the end	**523**	**511**

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

	2021					2020
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
A0	1,641	-	-	-	**1,641**	**1,967**
A1	659	-	-	-	**659**	**41**
B	-	39	-	-	**39**	**54**
C	-	27	-	-	**27**	**10**
Default	-	-	10	-	**10**	**13**
Total	**2,300**	**66**	**10**	**-**	**2,376**	**2,085**

27. FINANCIAL RISK MANAGEMENT

27.1 Introduction and overview

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

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

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

COVID – 19 Considerations

The pandemic continued during 2021 and depending on the circumstances, the Government of Kosovo has taken measures to prevent and slow down the spread of the virus, which is reflected in the economy, thus affecting businesses operating in the country.

During the year, due to the decrease of active cases, the Government of Kosovo has removed almost all measures, which has affected the growth of economic activity, especially during the summer.

The Bank, however, considering the continuance of the pandemic as well as the emergence of new variants, has partially changed the aspect of risk management. This is due to the fact that some economic activities in Kosovo still continue to have limitations in the normal performance of their activity. Considering these limitations, the credit risk to these activities is by default considered higher and therefore some proportionate measures are considered necessary to continue.

Recognition and measurement of ECL due to COVID-19

Mitigation measures on credit products by offering moratoriums or restructurings, imposed by the Central Bank of Kosovo last year, do not continue this year.

However, the Bank's practices are that those credit products that have previously been subject to these measures are monitored and reported on a regular basis.

For the purposes of credit risk management, the bank during 2021 has maintained levels of conservatism regarding those credit products that have been subject to easing measures, considering that they still have a significant increase in credit risk.

The Bank's policies and methodologies, which define credit risk management, have determined additional qualitative criteria which have resulted due to COVID 19. This has resulted in the Bank considering additional qualitative criteria for assessing the significant increase in credit risk as well as definition of default.

Assessment of significant increase in credit risk due to COVID-19

The Bank's approach to determining the significant increase in credit risk has changed over the collective assessment of credit groups. The collective assessment takes into account the grouping of economic activities with the same credit risk, where the bank then in line with the measures applied by the government but also using professional judgment determines the sensitivity of credit risk.

The evaluation of economic activities is done on a regular basis and is updated in accordance with current conditions.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.1 Introduction and overview (continued)

Definition of default due to COVID-19

The bank's decisions on the definition of default are also related to the assessment of economic activities, where for all those economies which have stopped their activity, the bank considers the as defaulted exposures.

27.2 Credit risk

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

The Bank assumes exposure to credit risk which is the risk that the other party will not be able to repay the full amounts on time. The Bank structures the levels of credit risk it assumes by setting limits on the amount of risk accepted in relation to a borrower and a geographical or industrial segment. Such risks are regularly monitored and subject to monthly or more frequent review. Limits on the level of credit risk from the borrower are approved by Management.

Management of credit risk

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

The Bank has followed the strategy of further diversification and growth in loan portfolio according to the defined segments of the loans, particularly in the individual loans segment - PI, the Micro and Agro segment and SME and Corporate loans segment. During 2021 the bank achieved to make a solid increase in the credit portfolio both by volume and by number, and the increase was mainly due to the targeted loan, respectively the PI, Micro and Agro loans. To support the growth strategy in small loans, the bank has continued investing in technology and infrastructure, reviewing and improving processes to increase efficiency, and ensuring sustainable and controllable growth, beside that the situation created by the pandemic has slowed down the pace of some projects.

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

In line with the revised bank's strategy and business model to increase its portfolio and its business in Micro, Agro and SME segments, the Bank continued and increased the cooperation with the Kosovo Credit Guarantee Fund ("KCGF") for the partial coverage of loans that disburses to its clients. Actually the volume of loans covered with KCGF has increased significantly during year 2021, this is also due to the government's economic recovery program.

In line with the business model and strategy, the Bank has continued to improve the credit risk process. In this regard, it has continued with the utilization of the upgrades and developments of new applications made on previous year for credit portfolio management.

In addition to the growth of the loan portfolio and the reduction of large exposures, the bank has continued to keep and preserve the credit quality although there was a lot of pressure from external factors that affected the clients due to the Covid-19. The bank has further improved the credit quality, regarding the loan quality indicator – Non-performing loans (NPL) in 2020 it was 2.68%, while in 2021 this indicator is 2.45%.

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

Impairment assessment (continued)

The Bank's internal rating and PD Estimation process

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

Rating	Rating IFRS 9	Outstanding 31 December 2021	ECL 31 December 2021	Average of 12-month PD	Average of LGD
Standard grade	A0	215,632	427	0.6%	46.4%
Standard grade	A1	436	4	2.3%	49.6%
Watch grade	B	14,392	1,658	18.6%	51.6%
Substandard grade	C	3,268	796	57.5%	50.2%
Default	Default	5,863	4,472	100.0%	66.6%
Grand Total		**239,591**	**7,357**	**4.1%**	**47.0%**

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

Restructured and modified loans

Bank sometimes makes changes to the original loan terms in response to the borrower's financial difficulties, rather than taking possession or forcing the collection of collateral.
The Bank considers a restructured loan when these modifications are granted as a result of the borrower's current or expected financial difficulties and the Bank would not have agreed to those conditions if the borrower had been financially healthy. Indicators of financial difficulty include delays of covenants or significant concerns raised by the Risk Department. Restructuring can include extending payment agreements and agreeing new loan terms.
The Bank, at the time of assessing whether a credit exposure will be subject to restructuring conditions, assesses whether that exposure has had a significant increase in credit risk, or meets the default criteria and is recognized as a non-performing loan.

Reclassification criteria

Once a financial asset will have the restructuring flag, it will keep this flag for the minimum probationary period of 24 months. In order for the loan to be reclassified from the restructured category, the client must meet all of the following criteria:

- The probationary period of two years has elapsed from the date when the restructuring contract was considered performing
- The client does not have a contract that is more than 30 days past due

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (continued)

Restructured and modified loans (continued)

Furthermore, if the credit exposure at the time of restructuring was classified as non-performing, all of the following criteria must be met to be classified as performing:

- Applying for restructuring does not result in de-recognition of the asset or defaulted;
- One year period (12 months) has passed since it was restructured;
- Under the terms of the restructuring there is no amount of arrears or concerns about the full repayment of the restructured exposure, which must be determined according to an analysis of the borrower's financial condition.

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (continued)

Restructured and modified loans (continued)

The following tables present a summary of financial assets that have been regularly restructured and restructured due to Covid-19 as at 31 December 2021:

31-Dec-21	Gross carrying amount	Permanent modification to T&Cs	Total performing forborne loans	Permanent modification to T&Cs	Total performing forborne loans	Permanent modification to T&Cs	Total nonperforming forborne loans	Total forborne loans	Forbearance ratio
Due from banks	-	-	-	-	-	-	-	-	0.0%
Loans and advances to customers									
Nonretail loans	128,997	-	4,342	6,121	6,121	2,621	2,621	13,084	10.10%
Retail loans	110,594	-	63	74	74	77	77	214	0.20%
Total loans and advances to customers	**239,591**	**-**	**4,405**	**6,195**	**6,195**	**2,698**	**2,698**	**13,298**	**5.60%**

31-Dec-21	Gross amount of forborne loans				ECLs of forborne loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Due from banks		-	-	-		-	-	-
Loans and advances to customers								
Nonretail loans	4,342	6,121	2,621	13,084	15	962	1,888	2,864
Retail loans	63	74	77	214	-	19	53	73
Total loans and advances to customers	**4,405**	**6,195**	**2,698**	**13,298**	**15**	**981**	**1,941**	**2,937**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (continued)

Restructured and modified loans (continued)

The following tables provide a summary of the Bank's forborne assets as of 31 December 2020

31-Dec-20	Gross carrying amount	Permanent modification to T&Cs	Total performing forborne loans	Permanent modification to T&Cs	Total performing forborne loans	Permanent modification to T&Cs	Total nonperforming forborne loans	Total forborne loans	Forbearance ratio
Due from banks	-	-	-	-	-	-	-	-	0.0%
Loans and advances to customers									
Nonretail loans	112,630	6,265	6,265	9,116	9,116	1,978	1,978	17,359	15.4%
Retail loans	87,353	82	82	113	113	52	52	247	0.3%
Total loans and advances to customers	**199,983**	**6,347**	**6,347**	**9,229**	**9,229**	**2,030**	**2,030**	**17,606**	**8.8%**

31-Dec-20	Gross amount of forborne loans				ECLs of forborne loans			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Due from banks		-	-	-		-	-	-
Loans and advances to customers								
Nonretail loans	6,265	9,116	1,978	17,359	39	1,679	1,669	3,386
Retail loans	82	113	52	247	0	23	32	55
Total loans and advances to customers	**6,347**	**9,229**	**2,030**	**17,606**	**39**	**1,702**	**1,701**	**3,441**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (continued)

Set out below is an analysis of assets measured at amortized cost during the year ended 31 December 2021:

	Stage 1	Stage 2	Stage 3	
Assets to be measured at amortized cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying value per asset type				
Agro	13,429	1,480	674	**15,583**
Corporate	53,590	7,439	3,125	**64,154**
Credit cards	125	5	26	**156**
Consumer	24,258	1,083	377	**25,718**
Micro	42,073	5,987	1,202	**49,262**
Mortgage	75,279	1,600	377	**77,256**
Veterans &Invalids	7,313	67	82	**7,462**
Total gross carrying value	**216,067**	**17,661**	**5,863**	**239,591**
Loss allowance per asset type				
Agro	(58)	(275)	(542)	**(875)**
Corporate	(51)	(180)	(298)	**(529)**
Credit cards	(141)	(992)	(2,380)	**(3,513)**
Consumer	(3)	(1)	(22)	**(26)**
Micro	(95)	(727)	(897)	**(1,719)**
Mortgage	(80)	(277)	(298)	**(655)**
Veterans & Invalids	(2)	(1)	(37)	**(40)**
Total loss allowance	**(430)**	**(2,453)**	**(4,474)**	**(7,357)**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (continued)

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

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

Set out below is an analysis of collateral and credit enhancement obtained during the year ended 31 December 2021:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Retail loans				
Credit cards	157	(25)	131	-
Consumer	25,718	(529)	25,189	6,030
Mortgage	77,257	(655)	76,601	22,778
Veterans & Invalids	7,462	(40)	7,422	203
Total retail loans	**110,594**	**(1,249)**	**109,345**	**29,011**
Non – retail loans				
Agro	15,582	(876)	14,707	40,497
Corporate	64,154	(3,513)	60,641	254,684
Micro	49,261	(1,719)	47,541	144,258
Total non – retail loans	**128,997**	**(6,108)**	**122,889**	**439,439**
Total credit	**239,591**	**(7,357)**	**232,234**	**468,450**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.1 Impairment assessment (continued)

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

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

Financial assets as of 31 December 2021	**Financial Institutions**	**Central Government**	**Central Bank of Kosova**	**Total**
Cash on hand and at banks	26,427	-	-	**26,427**
Balances with Central Bank of Kosova	-	-	61,530	**61,530**
Placements and balances with banks	5,237	-	-	**5,237**
Financial assets at fair value through other comprehensive income	-	47,620	-	**47,620**
Total	**31,664**	**47,620**	**61,530**	**140,814**

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

Analysis of credit quality

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2021 and 2020, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	Cash and balances with banks and CBK		**Placements and balances with banks**		**Financial assets at fair value through OCI**		**Loans and advances to customers**		**Other financial assets**		**Financial guarantees and credit commitments**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Maximum exposure to credit risk												
Carrying amount	87,957	77,547	5,237	5,261	47,620	53,535	232,234	192,656	265	272	-	-
Amount committed/guaranteed	-	-				-	-	-	-	-	11,118	10,682
	87,957	**77,547**	**5,237**	**5,261**	**47,620**	**53,535**	**232,234**	**192,656**	**265**	**272**	**11,118**	**10,682**
At amortized cost												
Stage 1	87,964	77,612	5,276	5,272	47,620	53,578	216,067	176,837	265	272	-	-
Stage 2	-	-				-	17,661	17,783	-	-	-	-
Stage 3	-	-				-	5,863	5,363	-	-	-	-
POCI	-	-				-	-	-	-	-	-	-
Total	**87,964**	**77,612**	**5,276**	**5,272**	**47,620**	**53,578**	**239,591**	**199,983**	**265**	**272**	**-**	**-**
Allowance for impairment (individual and collective)	(7)	(65)	(39)	(11)	(212)	(43)	(7,357)	(7,327)	-	-	-	-
Net carrying amount	**87,957**	**77,547**	**5,237**	**5,261**	**47,408**	**53,535**	**232,234**	**192,656**	**265**	**272**	-	-
Off balance: maximum exposure												
Credit commitments: Low - fair risk	-	-			-	-	-	-	-	-	8,742	8,597
Financial guarantees: Low - fair risk	-	-			-	-	-	-	-	-	2,376	2,085
Total committed/guaranteed	**-**	**-**			**-**	**-**	**-**	**-**	**-**	**-**	**11,118**	**10,682**
Allowance for ECL recognized as other liabilities	-	-			-	-	-	-	-	-	(71)	(70)
Total exposure	**-**	**-**			**-**	**-**	**-**	**-**	**-**	**-**	**11,046**	**10,612**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.2 Analysis of credit quality (continued)

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2021 and 2020, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	2021			2020		
Loans and advances to customers	**Retail**	**Corporate**	**Total loans**	**Retail**	**Corporate**	**Total loans**
Total gross amount	**110,594**	**128,997**	**239,591**	**87,353**	**112,630**	**199,983**
Allowance for impairment (individual and collective)	(1,249)	(6,108)	(7,357)	(821)	(6,506)	**(7,327)**
Net carrying amount	**109,345**	**122,889**	**232,234**	**86,532**	**106,124**	**192,656**
At amortized cost						
Stage 1	106,975	109,092	**216,067**	85,075	91,761	**176,836**
Stage 2	2,756	14,905	**17,661**	1,615	16,169	**17,784**
Stage 3	863	5,000	**5,863**	663	4,700	**5,363**
POCI	-	-	**-**	-	-	-
Total gross	**110,594**	**128,997**	**239,591**	**87,353**	**112,630**	**199,983**
Stage 1	(136)	(295)	**(431)**	(130)	(436)	**(566)**
Stage 2	(459)	(1,995)	**(2,454)**	(253)	(2,515)	**(2,768)**
Stage 3	(654)	(3,818)	**(4,472)**	(438)	(3,555)	**(3,993)**
POCI	-	-	**-**	-	-	-
Total allowance for impairment	**(1,249)**	**(6,108)**	**(7,357)**	**(821)**	**(6,506)**	**(7,327)**
Loans with renegotiated terms						
Carrying amount	214	13,084	**13,298**	247	17,359	**17,606**
From which: Impaired	77	2,622	**2,699**	52	1,978	**2,030**
Allowance for impairment	(73)	(2,864)	**(2,937)**	(55)	(3,386)	**(3,441)**
Net carrying amount	**141**	**10,220**	**10,361**	**192**	**13,973**	**14,165**

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.2 Analysis of credit quality (continued)

Impaired loans

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

Individual and collective assessment of loan portfolio

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

Write-off policy

The Bank writes off a loan (and any related allowances for impairment), in accordance with the regulations of Central Bank of Kosovo for write off. The total amount written off during 2021 is EUR 1,198 thousand (2020: EUR 1,016 thousand).

Due from banks

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

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

27.2.2 Analysis of credit quality (continued)

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

	2021	2020
A+ to A-	3,094	3,247
BBB+ to B-	1,008	1,036
Not rated	10,229	10,430
At 31 December	**14,331**	**14,713**

Lending commitments and financial guarantees

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

Risk limit control and mitigation policies

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

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

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

Collateral held and other credit enhancements, and their financial effect

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

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

Loans and advances to customers	Maximum exposure to credit risk	Property	Cash Collateral	Equipment	Total collateral used	Surplus collateral	Net uncollateralized exposure
31 December 2021	232,234	320,877	3,660	143,911	468,448	332,154	95,940
31 December 2020	193,169	281,652	3,991	118,256	403,899	282,579	71,849

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

Concentration of credit risk

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

	Cash and balances with Banks and CBK		Placements and balances with banks		Financial assets at fair value through OCI		Loans and advances to customers		Other financial assets		Financial guarantees	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Concentration by sector												
Corporate	-	-	-	-	-	-	122,889	106,124	-	-	11,046	10,612
Banks	87,957	77,547	5,237	5,261	47,620	53,535	-	-	-	-	-	-
Retail	-	-	-	-	-	-	109,345	86,532	265	272	-	-
Total	**87,957**	**77,547**	**5,237**	**5,261**	**47,620**	**53,535**	**232,234**	**192,656**	**265**	**272**	**11,046**	**10,612**
Concentration by location												
EU countries	3,468	4,078	125	205	-	-	-	-	-	-	-	-
Republic of Kosovo	83,667	73,298	5,112	5,056	47,620	53,535	232,234	192,656	265	272	11,046	10,612
Other countries	822	171	-	-	-	-	-	-	-	-	-	-
Total	**87,957**	**77,547**	**5,237**	**5,261**	**47,620**	**53,535**	**232,234**	**192,656**	**265**	**272**	**11,046**	**10,612**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk

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

27.3.1 Interest rate risk

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

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

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

	USD		*EUR*	
	2021	**2020**	**2021**	**2020**
Assets				
Cash at banks	-	-	-	-
Placements and balances with banks	0.20%	0.13%	1.06%	1.40%
Loans to customers	-	-	6.92%	7.25%
Financial assets at fair value through OCI	-	-	2.16%	2.36%
Liabilities				
Due to customers	-	-	1.42%	1.44%
Subordinated debt	-	-	6.50%	6.50%
Borrowings	-	-	2.13%	2.69%

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 *Market risk (continued)*

27.3.1 Interest rate risk (continued)

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

2021	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(1,221)	1,221	1,532	(1,532)
2020	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(1,118)	1,118	1,342	(1,342)

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

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

31 December 2021		Up to 1 Month	1-3 Month	3-6 Month	6-12 Month	Over 1 year	Total
Assets							
Cash on hand and at banks							
Non-interest bearing		24,197	-	-	-	-	**24,197**
Interest bearing	*Fixed*	2,230	-	-	-	-	**2,230**
Balances with CBK							
Non-interest bearing		61,530	-	-	-	-	**61,530**
Placements and balances with banks							
Interest bearing	*Fixed*	-	-	10	5,162	65	**5,237**
Investment securities							
Interest bearing	*Fixed*	142	160	38	3,314	43,966	**47,620**
Loans to customers							
Interest bearing	*Fixed*	8,063	13,148	16,327	37,339	157,357	**232,234**
Other financial assets							
Non-interest bearing		265	-	-	-	-	**265**
Total		**96,427**	**13,308**	**16,375**	**45,815**	**201,388**	**373,313**
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	29,390	10,753	13,391	56,138	41,097	**150,769**
Non-interest bearing		168,845	-	-	-	-	**168,845**
Due to Banks							
Interest bearing		-	-	-	-	-	**-**
Non-interest bearing		2,533	-	-	-	-	**2,533**
Subordinated debt							
Interest bearing	*Fixed*	-	-	2	-	500	**502**
Borrowings							
Interest bearing	*Variable*	-	252	-	-	6,580	**6,832**
Other liabilities							
Non-interest bearing		4,235	-	-	-	-	**4,235**
Total		**205,003**	**11,005**	**13,393**	**56,138**	**48,177**	**333,716**
Gap		**(108,576)**	**2,303**	**2,982**	**(10,323)**	**153,211**	**39,597**
Cumulative gap		**(108,576)**	**(106,273)**	**(103,291)**	**(113,614)**	**39,597**	**-**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

31 December 2020		**Up to 1 Month**	**1-3 Month**	**3-6 Month**	**6-12 Month**	**Over 1 year**	**Total**
Assets							
Cash on hand and at banks							
Non-interest bearing		22,910	-	-	-	-	**22,910**
Interest bearing	*Fixed*	2,172	-	-	-	-	**2,172**
Balances with CBK							
Non-interest bearing		52,465	-	-	-	-	**52,465**
Placements and balances with banks							
Interest bearing	*Fixed*	80	-	-	5,171	10	**5,261**
Investment securities							
Interest bearing	*Fixed*	1	224	57	298	52,955	**53,535**
Loans to customers							
Interest bearing	*Fixed*	5,166	12,447	12,093	34,690	126,889	**191,285**
Other financial assets							
Non-interest bearing		272	-	-	-	-	**272**
Total		**83,066**	**12,671**	**12,150**	**40,159**	**179,854**	**327,900**
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	24,591	12,419	12,409	49,246	41,992	**140,657**
Non-interest bearing		145,365	-	-	-	-	**145,365**
Due to Banks							
Interest bearing		-	-	-	-	-	**-**
Non-interest bearing		2,861	-	-	-	-	**2,861**
Subordinated debt							
Interest bearing	*Fixed*	-	-	2	-	500	**502**
Borrowings							
Interest bearing	*Variable*	-	-	185	290	3,599	**4,074**
Other liabilities							
Non-interest bearing		2,689	-	-	-	-	**2,689**
Total		**175,506**	**12,419**	**12,596**	**49,536**	**46,091**	**296,148**
Gap		**(92,440)**	**252**	**(446)**	**(9,377)**	**133,763**	**31,752**
Cumulative gap		**(92,440)**	**(92,188)**	**(92,634)**	**(102,011)**	**31,752**	**-**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.2 Exposure to currency risk

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

	2021	**2020**
Currency	**EUR**	**EUR**
1 USD	0.8829	0.8149
1 CHF	0.968	0.9258
1 GBP	1.1901	1.1123

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

	USD		**CHF**		**GBP**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Sensitivity rates	5%	5%	5%	5%	5%	5%
Profit or loss						
+5% of Euro	(22.75)	(28.29)	(2.64)	(19.50)	1.05	1.07
- 5% of Euro	22.75	28.29	2.64	19.50	(1.05)	(1.07)

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

31 December 2021	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Financial assets					
Cash on hand and at banks	24,932	855	619	21	**26,427**
Balances with CBK	61,530	-	-	-	**61,530**
Financial assets at fair value through OCI	47,620	-	-	-	**47,620**
Placements and balances with banks	3,314	-	1,923	-	**5,237**
Loans and advances to customers	232,234	-	-	-	**232,234**
Other financial assets	265	-	-	-	**265**
Total financial assets	**369,895**	**855**	**2,542**	**21**	**373,313**
Financial liabilities					
Due to customers	315,710	1,310	2,594	-	**319,614**
Due to Banks	2,533	-		-	**2,533**
Subordinated debt	502	-	-	-	**502**
Borrowings	6,832	-	-	-	**6,832**
Other liabilities	4,235	-	-	-	**4,235**
Total financial liabilities	**329,812**	**1,310**	**2,594**	**0**	**333,716**
Net foreign currency position	**40,083**	**(455)**	**(52)**	**21**	**39,597**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Market risk (continued)

27.3.2 Exposure to currency risk (continued)

31 December 2020	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Financial assets					
Cash on hand and at banks	23,255	950	856	21	**25,082**
Balances with CBK	52,465	-	-	-	**52,465**
Available-for-sale investments	53,535	-	-	-	**53,535**
Placements and balances with banks	3,413	-	1,848	-	**5,261**
Loans and advances to customers	192,656	-	-	-	**192,656**
Other financial assets	272	-	-	-	**272**
Total financial assets	**325,596**	**950**	**2,704**	**21**	**329,271**
Financial Liabilities					
Due to customers	281,412	1,516	3,094	-	**286,022**
Due to Banks	2,861	-	-	-	**2,861**
Subordinated debt	502	-	-	-	**502**
Borrowings	4,074	-	-	-	**4,074**
Other liabilities	2,689	-	-	-	**2,689**
Total financial liabilities	**291,538**	**1,516**	**3,094**	**0**	**296,148**
Net foreign currency position	**34,058**	**(566)**	**(390)**	**21**	**33,123**

27.4 Liquidity risk

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

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

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

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

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.4 Liquidity risk (continued)

27.4.1 Management of liquidity risk

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

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

31 December 2021	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
Financial assets						
Cash on hand and at banks	26,427	-	-	-	-	**26,427**
Balances with CBK	61,530	-	-	-	-	**61,530**
Placements and balances with banks	-	-	10	5,162	65	**5,237**
Loans and advances to customers	8,063	13,148	16,327	37,339	157,357	**232,234**
Financial assets at fair value through OCI	142	160	38	3,314	43,966	**47,620**
Other financial assets	265	-	-	-	-	**265**
Total	**96,427**	**13,308**	**16,375**	**45,815**	**201,388**	**373,313**
Financial liabilities						
Due to customers	198,235	10,753	13,391	56,138	41,097	**319,614**
Due to banks	2,533	-	-	-	-	**2,533**
Subordinated debt	-	-	2	-	500	**502**
Borrowings	-	252	-	-	6,580	**6,832**
Other liabilities	4,235	-	-	-	-	**4,235**
Guarantees issued	2,354					**2,354**
Unused credit commitments	8,692					**8,692**
Total	**216,049**	**11,005**	**13,393**	**56,138**	**48,177**	**344,762**
Liquidity gap	**(119,622)**	**2,303**	**2,982**	**(10,323)**	**153,211**	**28,551**

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.4 Liquidity risk (continued)

27.4.1 Management of liquidity risk (continued)

31 December 2020	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
Financial assets						
Cash on hand and at banks	25,082	-	-	-	-	**25,082**
Balances with CBK	52,465	-	-	-	-	**52,465**
Placements and balances with banks	80	-	-	5,171	10	**5,261**
Loans and advances to customers	5,798	12,507	12,165	34,870	127,316	**192,656**
Available-for-sale financial assets	1	224	57	298	52,955	**53,535**
Other financial assets	272	-	-	-	-	**272**
Total	**83,698**	**12,731**	**12,222**	**40,339**	**180,281**	**329,271**
Financial liabilities						
Due to customers	169,956	12,419	12,409	49,246	41,992	**286,022**
Due to banks	2,861					**2,861**
Subordinated debt	-	-	2	-	500	**502**
Borrowings	-	-	185	290	3,599	**4,074**
Other liabilities	2,689	-	-	-	-	**2,689**
Guarantees issued-restated	2,062					**2,062**
Unused credit commitments-restated	8,551					**8,551**
Total	**186,11**	**12,419**	**12,596**	**49,536**	**46,091**	**306,761**
Liquidity gap	**(102,421)**	**312**	**(374)**	**(9,197)**	**134,190**	**22,512**

27.5 Operational risk

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

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

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.5 Operational risk (continued)

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

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

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

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

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

27.6 Capital risk management

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

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

Regulatory capital

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

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

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.6 Capital risk management (continued)

Regulatory capital (continued)

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

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

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

Risk-Weighted Assets (RWAs)

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

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

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

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

In terms of operational risk no changes were made.

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

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

(Amounts in thousands of EUR, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.6 Capital risk management (continued)

Risk-Weighted Assets (RWAs)(continued)

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

	2021	**2020**
Total risk weighted assets	213,593	183,075
Total risk weighted off balance exposures	1,024	644
Total risk weighted assets for operational risk	19,535	18,462
Total	**234,152**	**202,181**
Regulatory capital (total capital)	42,515	35,901
Capital adequacy ratio (total capital)	**18.15%**	**17.76%**

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

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

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

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.6 Capital risk management (continued)

Risk-Weighted Assets (RWAs)(continued)

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

28. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of them has the ability to control the other or exercise significant influence over the one making financial and operating decisions. Ultimate controlling parties are shareholders listed in the Note 25 shareholders' equity and reserves.

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

(Amounts in thousands of EUR, unless otherwise stated)

28. RELATED PARTY TRANSACTIONS (CONTINUED)

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

		31-Dec-21		31-Dec-20
Assets: *Loans outstanding at end of year with shareholders and key management*	**Stage**		**Stage**	
Shareholders	Stage 1	1,095	Stage 1	839
	Stage 2	77	Stage 2	-
	Stage 3	127	Stage 3	127
	Total	**1,299**	**Total**	**966**
Management	Stage 1	96	Stage 1	129
	Stage 2	-	Stage 1	-
	Stage 3	-	Stage 1	-
	Total	**96**	**Total**	**129**
Total		**1,395**		**1,095**
Guarantees and letters of credit with shareholders	Stage 1	815	Stage 1	814

Loans to related parties are given at commercial terms.

	2021	2020
Loans to shareholders, gross	1,299	966
Allowance for impairment	(133)	(125)
Total Loans to shareholders, net	**1,166**	**841**
Cash collateral	(560)	(610)
Net exposure to shareholders	**606**	**231**

	2021	2020
Loans to management and BoD members, gross	97	129
Allowance for impairment	(1)	
Loans to management, net	**96**	**129**
Cash collateral	(32)	(40)
Net exposure to management	**64**	**89**

(Amounts in thousands of EUR, unless otherwise stated)

28. RELATED PARTY TRANSACTIONS (CONTINUED)

Liabilities:	**31-Dec-2021**	**31-Dec-2020**
Customer accounts		
Shareholders and Management	3,433	3,015
Total	**3,433**	**3,015**
Borrowing from EBRD	6,580	3,098
Total	**10,013**	**6,113**

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

	2021	**2020**
Income		
Interest income from loans and advances	18	50
Total interest income	**18**	**50**
Expenses		
Interest expenses for subordinated debt from EBRD	54	39
Key management compensation	553	424
Board of director’s compensation	77	58
Total expenses	**684**	**521**

29. SUBSEQUENT EVENTS

No events or transactions have occurred since 31 December 2021 or are pending that would have a material effect on the financial statements of the Bank at that date or for the period then ended, or that are of such significance in relation to the Bank’s affairs as to require mention in a note to the financial statements.

Impact of Ukraine conflict

The current conflict between Ukraine and Russia presents a challenge to financial institutions around the world that operate globally and especially to those exposed to customers and suppliers who are, or will become, subject to sanctions.

The conflict is having an impact on energy prices such as oil and natural gas, as well as food and commodity prices which seems to further push up the level of inflation, which is expected to last for a longer period of time.

However, as a local bank we are not exposed to transactions related to companies subject to sanctions and therefore we do not forecast any negative impact. Moreover, there is still too early to predict any possible negative impact of the conflict in our country’s economy and we do not anticipate to have any significant negative impact. Nevertheless the situation can lead to some minor changes of risk management policies and possibly additional risk assessment judgments.

As such, there is no uncertainty of our bank to its ability to continue as a going concern.