

ANNUAL REPORT

2021
YEARS



Banka e vendit tënd

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CHAIRMAN'S LETTER



Ansis Grasmanis
CHAIRMAN OF THE BOARD

Dear readers,

The global economy has marked a return to a new normality in 2021, despite the fact that the world is still facing the pandemic. Kosovo has mostly recovered from the 2020 recession, thanks to faster growth than expected over the last year, helped by easing the restrictions on citizens and businesses for protection from the Covid-19, the higher influx of visitors from diaspora, support measures from governmental and non-governmental institutions, as well as increased economic activity by businesses.

Recent reports hint at an economic growth of around 10%. This growth is expected to continue throughout 2022, although at a slower pace compared to 2021. The banking sector has managed to increase lending in the economy of Kosovo with about 500 million euros, marking an increase of about 15%, while 2021 for BPB has marked one of the most successful years of operation.

BPB has demonstrated a good market position with a solid foundation supported by the key parameters of banking and lending services, financial performance and risk management.

The bank's business model, focused on lending and financial support to micro-businesses, SMEs and individual clients, has been successful throughout 2021 by exploiting its advantages in the market.

In relative terms, the growth of lending by BPB has been above the market average, staying attentive to the diversification and quality of its portfolio which has improved throughout the year. Customer deposits have also grown steadily. BPB financial results, market positioning, controlled risks, adequate staffing and infrastructure all resulted in the culmination of an extraordinary year.

Thanks to the contribution of all lines of business, BPB has closed the year with a profit of 7.9 million euros, while continuing to serve tens of thousands of active customers throughout Kosovo.

Dealing with the pandemic has proven that BPB is resilient enough to withstand the shock of crises by offering the necessary flexibility to our customers. BPB has adapted to this new way of life, and is rapidly moving toward the transformation where innovative technologies have led to the digitalization of banking products.

There has been an increase in banking transactions, and work is underway to improve electronic platforms. The project of cashless branches, with the first branch in operation as such for months now, makes us more enthusiastic about exploring new technological innovations to create new experiences, and to remain the recommended bank for our customers.

This year, BPB has celebrated two decades of operation, and therefore, on behalf of the Board of Directors, I wish to express our gratitude for the results and progress achieved.

At the time of writing this letter, new global challenges have erupted due Russia's invasion of Ukraine. Global supply chains disrupted by the pandemic are experiencing another heavy hit. Global trade, energy and other commodity prices will experience a volatility not seen in decades. This will have a significant impact in Kosovo as well. BPB's strategy, with a focus on SME's and private individuals along with wide diversification amongst various industries, is ready to face these new challenges.

I would like to thank our customers for staying with us throughout these pandemic times, the shareholders for their support, executive management for the leadership and all of our colleagues for their dedication and commitment, remaining enthusiastic about the long-term plans that await the bank.

On behalf of the Board of Directors,

Ansis Grasmanis

Chairman of the Board of Directors

CEO'S LETTER



Arton Celina

CHIEF EXECUTIVE OFFICER

Dear readers,

The 20th anniversary of the BPB has found our institution with the best financial performance since the beginning of operation. Despite the general difficulties due to the pandemic, BPB has had continuity of commitments and projects to advance our processes and services to customers in the country.

The continuous growth of the bank has caused BPB to expand to 26 branches throughout Kosovo with almost 400 employees, serving more than one hundred thousand of customers that are growing day by day. The repositioning of the BPB, as the main partner of small and medium businesses, as well as for households, has expanded the possibility for access to finance for the economy of our country through our Bank, thus increasing the loan and deposit portfolio.

Our business model is based on customer development in terms of financial and non-financial services. BPB has indicated that it intends to be the bank of choice for our target customers. BPB's strategy turned out to be right. BPB already provides a business ecosystem for the banking industry that enables banks and customers to dare and demand more from their banking and business partners.

Only in the last year, the BPB has organized Business Academies in the main regions of Kosovo where over 250 businesses have gained knowledge in the field of business management from field experts from abroad and Kosovo. Business academies will continue to be organized this year as well, ensuring the outreach of those interested and who want to receive the knowledge they require from BPB programs expands to other cities too.

The sector for microfinance clients has also been established, initially preparing the necessary infrastructure and providing financial and non-financial services for this category of clients.

We are committed to continuously improving the quality of customer service and increasing the

competencies and knowledge of our employees. This year, the BPB becomes the only banking institution with the Human Resources Academy, a project for which I am most enthusiastic and which will assist the bank in training and educating new and existing staff.

The increase of BPB along with the financial performance enables our institution to be in coherence with the investments towards digitalization, a transformation that is going with faster steps due to the pandemic and the need to adapt to the clients with the latest innovations.

BPB continues to remain committed to maintaining its role in the domestic banking sector, holding a key position, specifically recognizing the need to play our role to society. The Bank of the country is, therefore, continuously committed to have the role of active citizen through the support of projects that have a direct impact on raising awareness on important topics.

Of course, for next year, it is planned to expand both the offers of services and banking ones.

I would like to thank the staff and all the leaders for a well-done job and their tireless work, being convinced that the joint successes will be just a continuation of the work done so far.

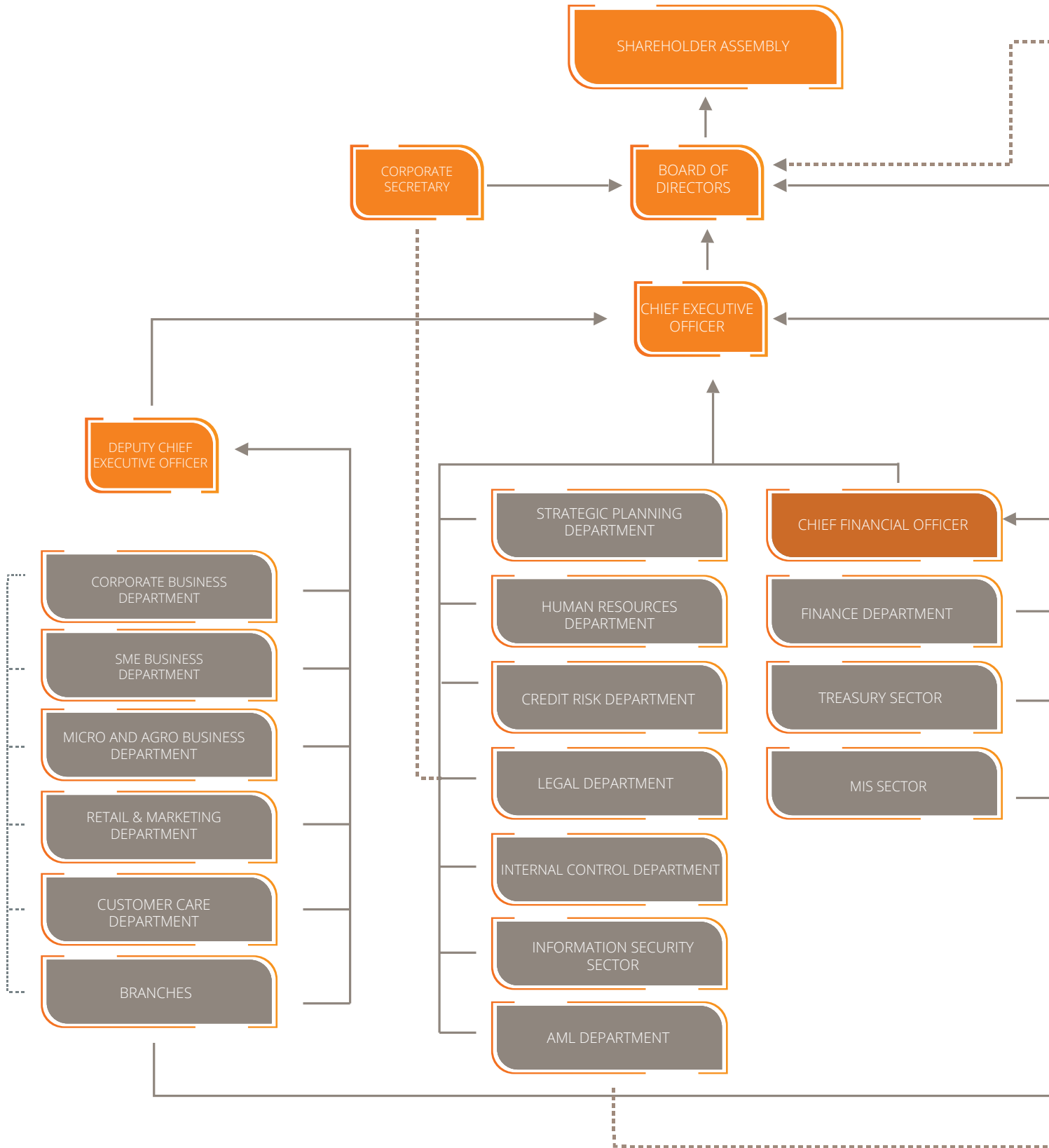
I would also like to thank the shareholders and the board of the Bank for the trust in this institution and the clients who stayed close to us all this time.

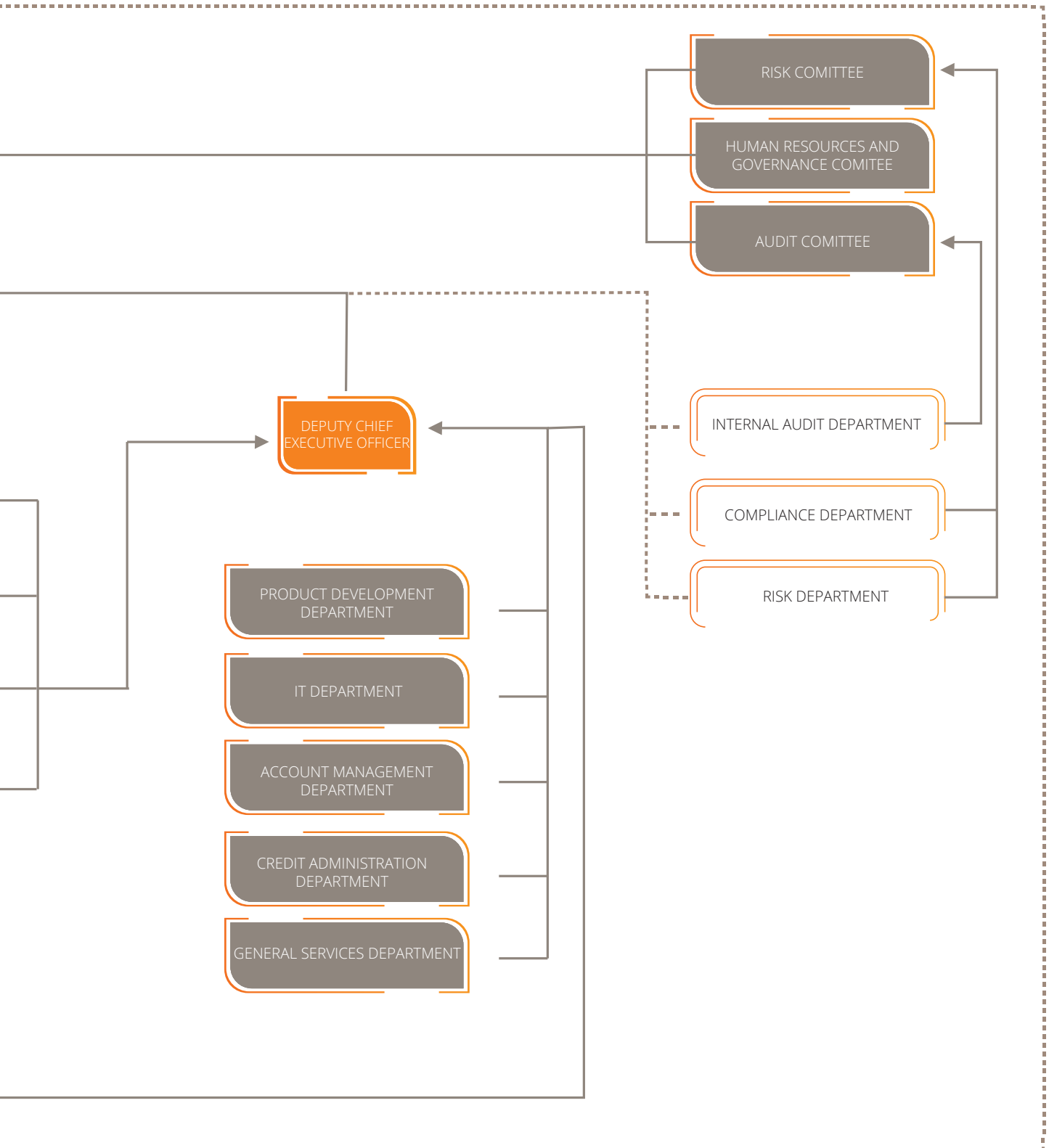
On behalf of BPB,

Arton Celina

Chief Executive Officer

ORGANIZATIONAL STRUCTURE





ECONOMIC DEVELOPMENTS AND BANKING INDUSTRY

After a relatively challenging year for the country's economy in 2020, which was characterized by mobility and operation restriction measures due to the Covid-19 pandemic, 2021 brought a turning point in economic and social terms due to the lifting of those measures following the vaccination campaigns and an economic acceleration especially from the second quarter onwards.

In 2021, economic growth returned to positive trends and ended with an annual growth of close to 10%. Significant growth was shown in the sectors of accommodation and food, transport, agriculture, etc. Exports increased, mainly due to the increase in exports of travel and transport services. While the negative trade balance of goods continues to deepen.

In addition to the release of restrictive measures, among the main impacts in this acceleration of economic growth, during the year, was the large number of visitors from diaspora in contrast to the previous year and measures taken by the Government of the Republic of Kosovo within the economic recovery package. The country's economy continues to be heavily dependent on remittances which in 2021 reached over 1.1 billion euros. Along with economic growth, among the elements worth noting were the highest level of inflation in recent years, with an annual average rate of 3.4%, driven by rising prices for transport, energy and construction materials.

Similarly, like the economy in general, the banking industry had a good performance in 2021. This year, there were a total of 11 banks operating in the country with 199 units distributed in the territory of Kosovo. The number of employees in the banking industry at the end of the year was about 3,500.



The value of bank assets in Kosovo reached 5,960 million euros, which represents an annual increase of 11%. Credit exposures, which represent the main position of the balance of banks' assets in Kosovo, had an increase of 15.5% amounting to 3.7 billion euros at the end of the year. The majority of credit exposures continue to be towards businesses and other non-financial institutions, which account for about 62% of the total loan portfolio of banks, while the rest belongs to credit exposures to households. The quality of the portfolio measured through the non-performing loans parameter remains at satisfactory levels, further improving in 2021 to 2.3%, which is covered by provisions at over 150%.

Bank deposits also increased during the year by 12.4% and reached 4.9 billion euros. Most of the deposits are from households and the structure of deposits in the country is dominated mainly by transferable deposits held in current accounts which account for over 67% of all deposits. The industry continues to have a good loan-to-deposit ratio of 76%.

The average interest rate (for new loans) decreased by 0.2pp, from 6.0% to 5.8% at the end of the year, following the same downward trend of recent years. The average new deposit rate also declined slightly, reaching 1.3% compared to 1.5% in the previous year. Interest income increased by about 6.9% amounting to 227 million euros, while interest expenses increased slightly by 3.5 million euros reaching 24.4 million euros. The total profit of the banking industry marked a record of 117 million euros, marking an increase from 2020 of about 47%, and producing an average return on capital of 19.5%.

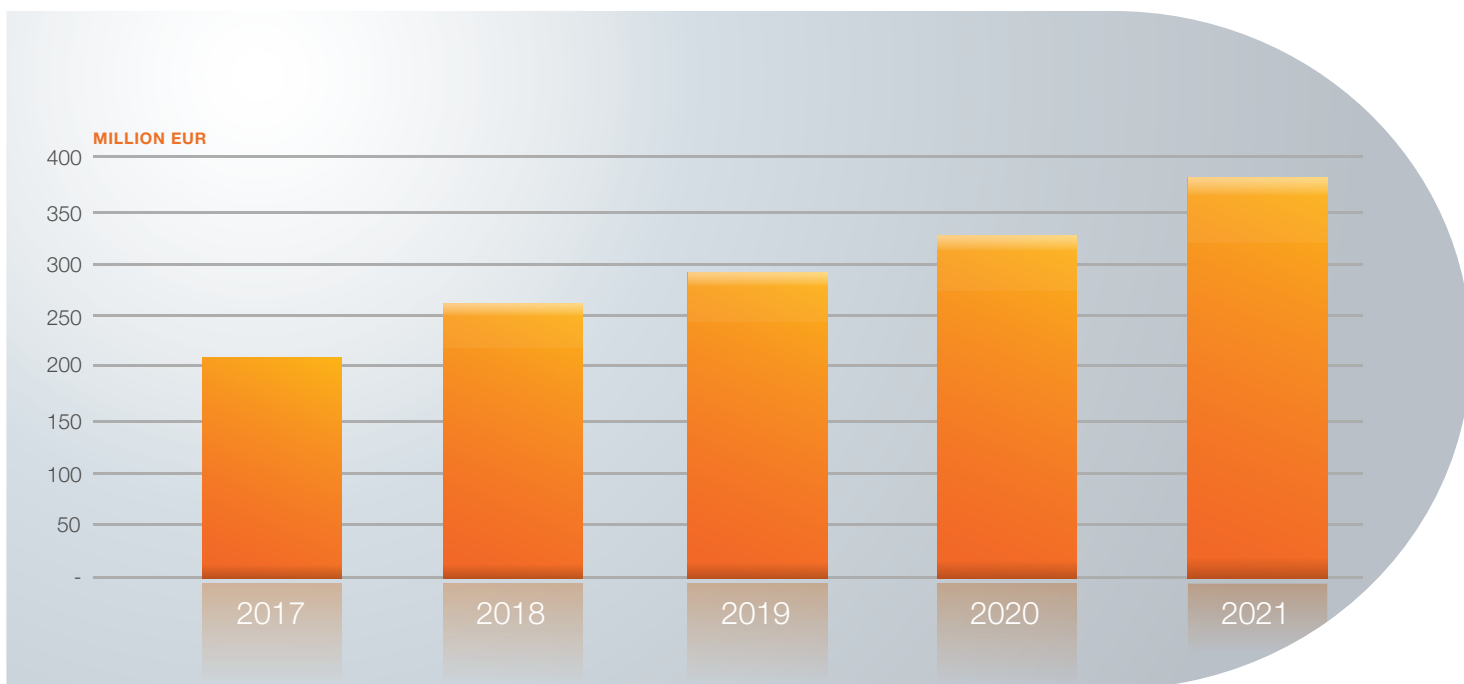
BANK'S FINANCIAL PERFORMANCE

2021 marked an increase in demand in many economic sectors, which directly boosted the demand for banking services. During the year, the bank marked a positive growth following the market and economic trends and we can look at 2021 as a year of achievements with a successful financial performance.

This good financial performance has enabled and will enable our Bank to have a very good financial stability in the future, to make the necessary investments in the further modernization of services and to further advance the internal processes to meet the needs of our customers and be prepared to face new challenges.

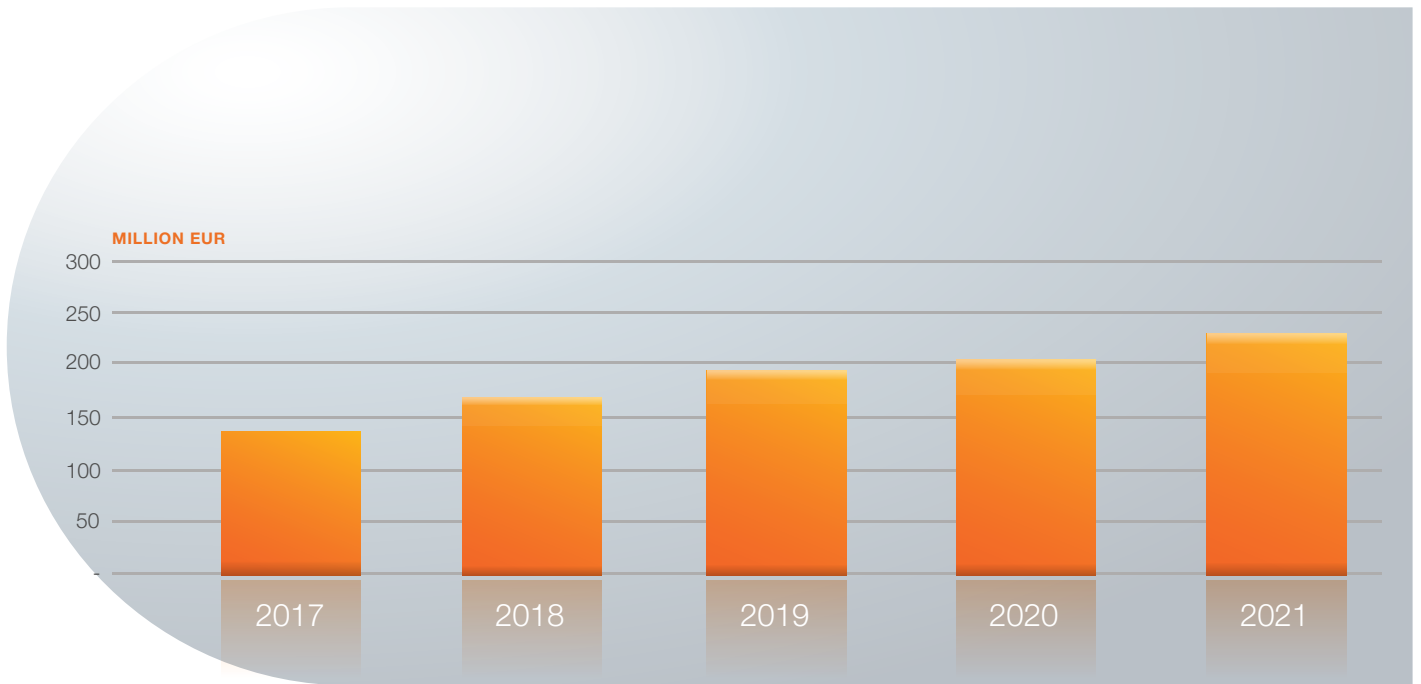
The Bank has a strong balance sheet, strong capital and liquidity position and a satisfactory level of non-performing loans. At the end of 2021, the Bank closed the year with total assets of 379 million euros or 13.2% increase compared to 2020.

ASSETS

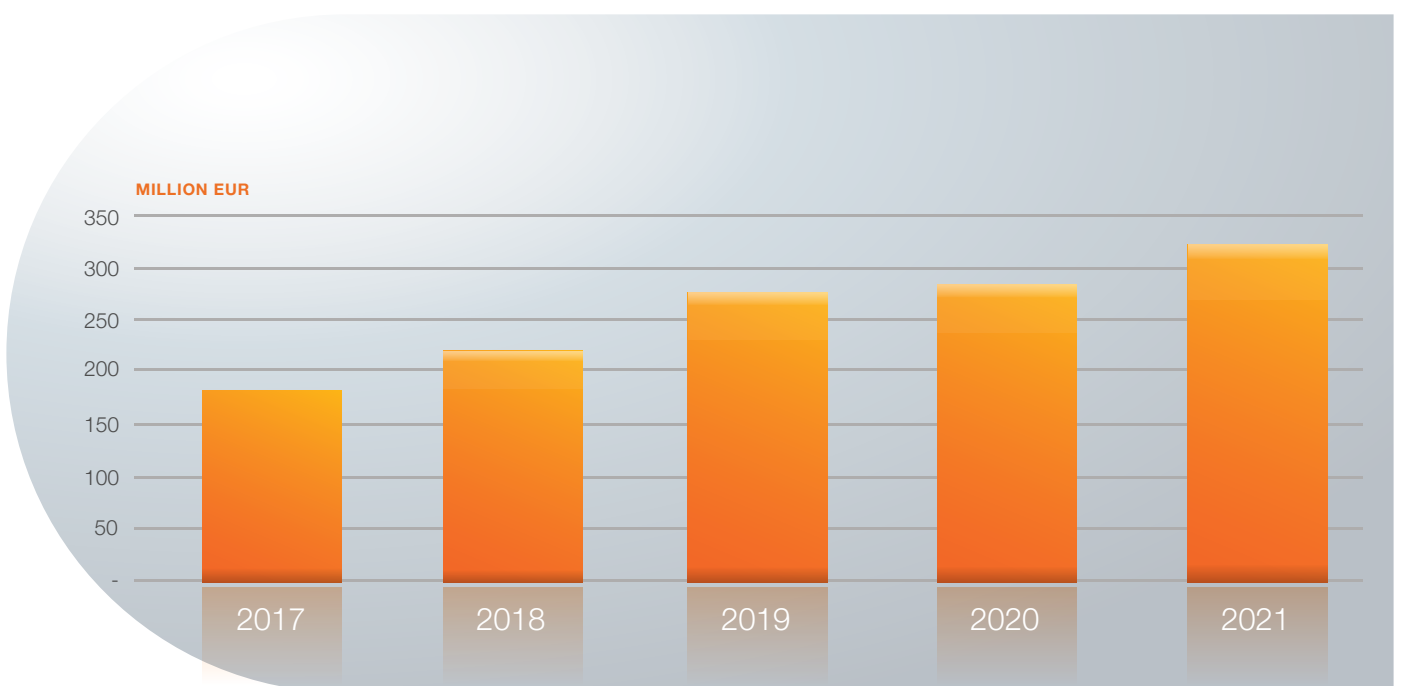


The asset structure of the BPB continued to be dominated by loans and advance payments to customers, reaching 61.3% of the bank's total assets. Gross loans reached a total of 240 million euros at the end of the year, reflecting an increase of 19.8% compared to the previous year. The Bank continues to maintain a stable loan portfolio with 2.45% of non-performing loans from 2.68% in 2020.

GROSS LOANS

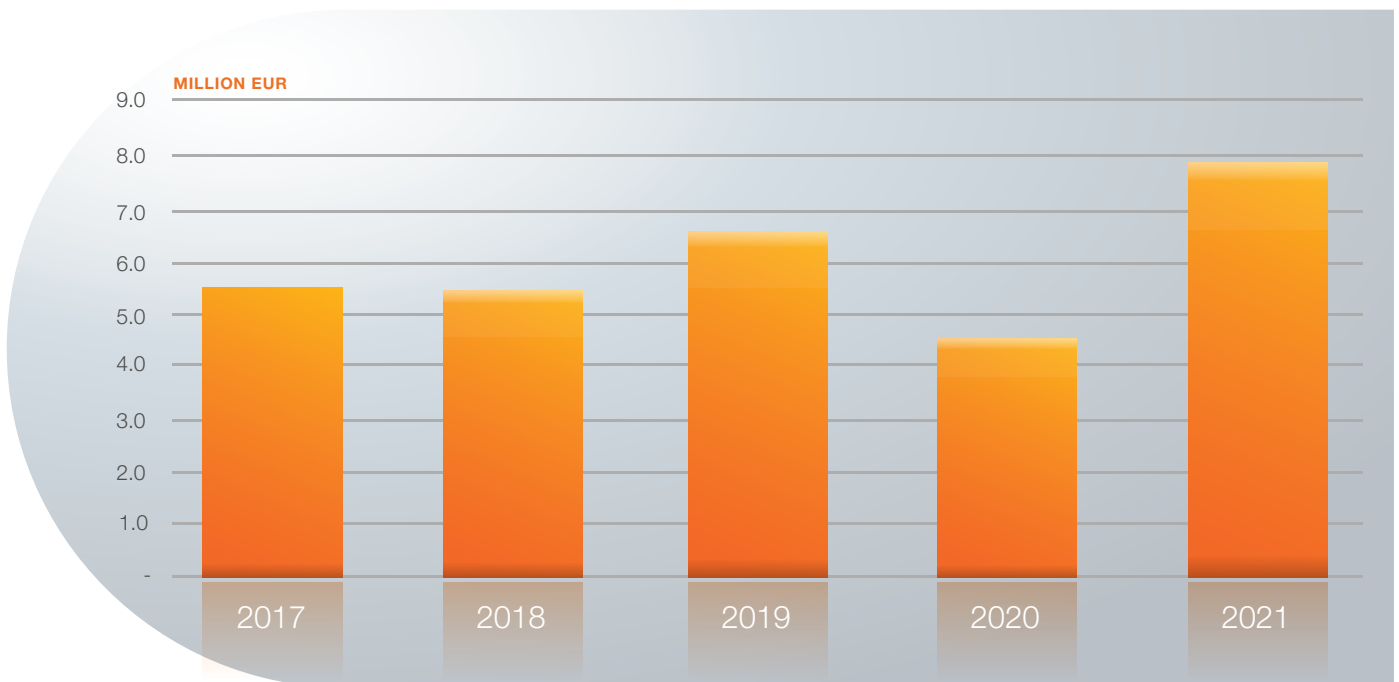


DEPOSITS



Customer deposits continued to grow and accounted for 85% of the Bank's total liabilities. Total customer deposits amounted to 322 million euros in 2021, marking an increase of 11.5% compared to a year earlier.

NET PROFIT



Net interest income for 2021 was 15.2 million euros, an annual increase of 14.6%, while net income from fees and commissions was 2.2 million euros, an increase of 20.5% compared to the previous year. The Bank has managed to maintain a targeted interest income margin, while maintaining a low cost of financing.

Operating expenses for 2021 were 9.2 million euros. The increase in total operating expenses consists of the increase in general expenses as a continuation of business activity and investments in the professional development of staff.

In terms of profitability indicators, at the end of 2021, the Bank achieved a net profit of 7.9 million euros, which is the highest profit in the history of the bank. Return on equity at the end of 2021 was 20.2%, compared to 13.73% in 2020. The capital adequacy ratio at the end of the year was 18.15%, well above the regulatory limits.

The financial performance of 2021, which resulted in a positive increase in all the main financial parameters of the bank, will enable the Bank in 2022 to continue this growth by increasing the loan portfolio and banking services, as well as expanding its business lines with innovative services.



BUSINESS DEVELOPMENTS

BUSINESS CLIENTS

The main focus of BPB remains the provision of quality financial and non-financial services to business clients in the country. Considering the fact that micro, small and medium-sized enterprises (MSMEs) make up the majority of businesses operating in Kosovo and have an important role in economic development by creating jobs, BPB continues specifically to focus on further development of Micro businesses by offering a wide variety of banking products and services.

BPB has shown the determination for being the leading bank for micro business clients in the market, hence during 2021, the bank has disbursed more than 34 million euros of loans to 1,700 Micro business clients, out of which 42% were new clients. Comparing to 2020, BPB-s Micro business sector has increased by 18% with a well-diversified and high-quality loan portfolio. The bank has continued in improvement and updates of electronic channels, where the number of Micro business clients using these platforms has increased by 30%. In addition, 80% of national outgoing transfers have been channelled through our electronic platforms with more favourable pricing conditions.

In regards to SMEs, with an outstanding portfolio of 34.4 million euros mainly focused in manufacturing and trade sectors, the bank has put to life the strategy to expand in financing this segment. Except access to finance, the bank's support to businesses extended in consultancy services with emphasis towards advancing and expanding capacities in multidimensional aspects starting from, strategic planning, growth strategy, and corporate governance.

The consultancy services were one of a kind program offered for SME clients that was made possible through strategic partnership with European Fund for Southeastern Europe (EFSE), resulting in joint organization of Business Academies. Such events contributed to a step forward in education of businesses, offered in a unique form of Non-Financial Services aiming the growth and development of business processes and business owners as well. The importance of elevating the level of literacy of SMEs is going to remain an objective of the bank. In 2021, in collaboration with external consultants, the bank has trained over 250 businesses in 7 main regions of Kosovo. Rather than providing lectures, the objective of the bank is to provide business owners with specific necessary tools that enable clients for self-evaluation in current and future position of their business operations and orientation.

We truly believe that BPB contributed significantly and advanced the general knowledge in strategic business management, financial management, planning, sustainable business growth and other important topics of interest. On the other hand, the bank applies a special strategy in the agribusiness sector by providing services based on the specific needs of agribusinesses. This is done by maintaining a good control in portfolio quality considering the fragility of this specific segment.

In addition, BPB remains aware that financial inclusion continues to be a challenge in the domestic market. As a result the bank has undertaken a plain strategy in this direction by establishing the microfinance sector within the bank.

This sector is already addressing several issues for unbanked but bankable clients which includes individual professionals among others. The logic behind this business line is expected to play an important role by opening the development path of such client profile. In conclusion with microfinance, the bank is certain that it has created a clear focussed business ecosystem from the micro business to SME while applying the graduation principle.

The positive trends were aided in some aspects by the Economic Recovery Package approved by the Government of Kosovo in response to pandemic impact on enterprises. It enabled and ensured financial liquidity through Kosovo Guarantee Credit Fund that made possible access to finance with more relaxed collateral requirements and risk sharing programs. Through this fund, the bank increased the lending and helped businesses to further expand their capacities in a very delicate period of time by providing access to finance in amount of 14 million euros, including some start up projects.

All things considered, as an agile financial institution, BPB has renewed and signed a 5 million euros fund agreement with EBRD, which will be used to finance our clients for the upcoming year (2022) with a focus on increasing their competitiveness and presence by fulfilling the latest EU standards and requirements. The fund will be available for new and existing clients who will invest in capacity building of their businesses in accordance with eligibility criteria's of the program, having in mind international terms and conditions of doing business. As a package the program has the incentive component as well, by providing 15% grant of total investment made by client.

The bank will further continue to introduce innovative banking services. The necessary infrastructure for Factoring services to business clients was designed and tested. In the beginning of year 2022, the bank plans to launch the product which will enable the settlement of invoices in much easier way with favourable conditions in terms of timing and pricing. The greatest competitive advantage is that the Factoring service will be offered to both purchase and supply chain finance.



INDIVIDUAL CUSTOMERS

BPB continued to develop significantly in retail portfolio through controlled growth, staying loyal to its specific client profile, specifically budgetary salary receivers. The bank has disbursed over 64 million euros to private individuals during last year that resulted in growth by 24 million euros in loan side, while reaching the total outstanding portfolio of 111 million euros. The total number of loan clients peaked at 12,200 clients of which 1,100 were new budget salary receivers, confirming that Retail remains one of the most important pillars of the bank in terms of performance and portfolio quality.

The position of BPB, as a bank dedicated to customer care, has influenced the further expansion of the Bank, reflecting stability and credibility of customers to the Bank. As a result, this has led to significant progress in stable and diversified deposits. The portfolio on the deposit side has exceeded the total amount of 320 million, of which absolute majority belongs to individual clients.

Likewise, BPB has continued to progress and provide different modalities of banking services which are defined in its business model. Being committed to this category of clients, the Bank has designed offers through various campaigns focused on meeting the needs of our existing and new potential clients. These offers, in addition to bringing indisputable results, have also facilitated and improved the quality of life for many of our clients by offering consultancies about home renovation and energy efficiency features. Taking into account the requirements and opportunities of customers in the market, BPB has designed its specific credit products by offering controlled relaxation of mortgage loan coverage, longer maturities for long-term family investments, loan eased conditions up to € 15,000 without co-borrowers, and opportunity to open accounts for all salary receivers by offering one year of free maintenance.



In addition to offers, the Bank has expanded the range of non-financial services during 2021 by providing for all private individuals the service "Credit Life Insurance/CLI" in four different packages which enable different features in the insurance package for the beneficiary client. Furthermore, in order to meet the requirements and needs of customers and in line with the bank's strategy, the bank implemented the first cashless branch in 2021, offering all cashless banking services for customers in 24/7 area. In these areas, customers will have uninterrupted access to fulfil their banking needs, such as depositing and withdrawing money, money transfers and other services that are carried out by the most modern ATM-s. From this investment, customers will save their time by being served without limitation of working hours.

This concept has only started to yield its benefits and it will continue to further expand in other branches in the coming years. As a result, the bank will continue its commitment in additional advancement, by always remaining applying customer centric approach.



CUSTOMER CARE

2021 has been a year not only oriented towards meeting the requirements and needs of customers, but also maintaining and increasing their level of satisfaction along with services that they take. In order to be as close as possible to its customers, BPB has facilitated the client's access to our bank through the use of various platforms, including online ones for application services, 24/7 call center and other communication channels. The bank continues to measure regularly through various tools the customer experience that use our different channels and platforms.

Success and customer orientation are also shown by the results of the independent customer satisfaction (NPS) survey. This indicator has shown that during 2021, BPB has managed to keep the same indicators in very satisfactory levels with the highest NPS score in the market, which shows that BPB is one of the banks with the most loyal customers.



To further increase the focus, the Bank has also established a special department with ancillary infrastructure within the line of business dedicated to customer care. Automating some processes within the grievance process and investing in new platforms such as CRM have added value to customer management. The implementation of the new CRM platform for the call center has enabled, for the first time, to have a history of interaction with customers, a profile created for each customer served at the call center, real-time results, etc.

Similarly, in order to continuously help improve customer service, a branch rapid response system known as the 'QR Code Evaluation' has been established, which enables the collection of opinions from customers to further improve services and processes in the bank.



PRODUCT DEVELOPMENT AND INFORMATION TECHNOLOGY

Investments in the development of products influenced by technology upgrades globally, have continued to be the focus of the bank during the past year, so that the services provided are competitive, qualitative and meet the needs of customers.

As a result, in order to make the work process smooth and always focused on customers, the bank has continued to work on diversifying service channels that will enable customers to meet their needs. The transformation of services into digital channels was further driven by the circumstances created as a result of the Covid-19 pandemic and limited movement, and the bank made sure to orient the employees towards distance work, which turned out to be motivating, attractive to employees and did not jeopardize the quality of customer service.

In line with this strategy, the Bank is committed to supporting business in the development of new products. At the same time, work has been done to increase the quality of services, to enable customers to independently and easily carry out their transactions 24/7. Given the fact that electronic banking platforms today are an integral part of the daily life management of each individual, the bank has taken care to implement mechanisms that enable real-time performance monitoring to ensure high availability.

To further support the goal of providing sustainable services, investments have been deepened in the disaster recovery center which guarantee the continuity of business in the branch and the operation of alternative channels without interruption.

Deepening investments in product expansion, quality of existing services and infrastructure, has produced excellent results in the usability of electronic channels, respectively in increasing the number of users of electronic platforms, card holders and the number of transactions. In addition to this increase, work has been done to increase the security of digital services through additional mechanisms that enable the monitoring of transactions.

Regardless of the path of digital transformation, the branch and the staff in the branch will remain the main and most important actors, towards the fulfillment of the Bank's objectives. This is because through the staff of the branches, relationships are established, deepened and maintained with customers, which turns out to be the key to the success of any institution. If until yesterday only meeting the needs of customers was enough, today the bank is interested not only in providing services but also in making them impressive and attractive to customers.

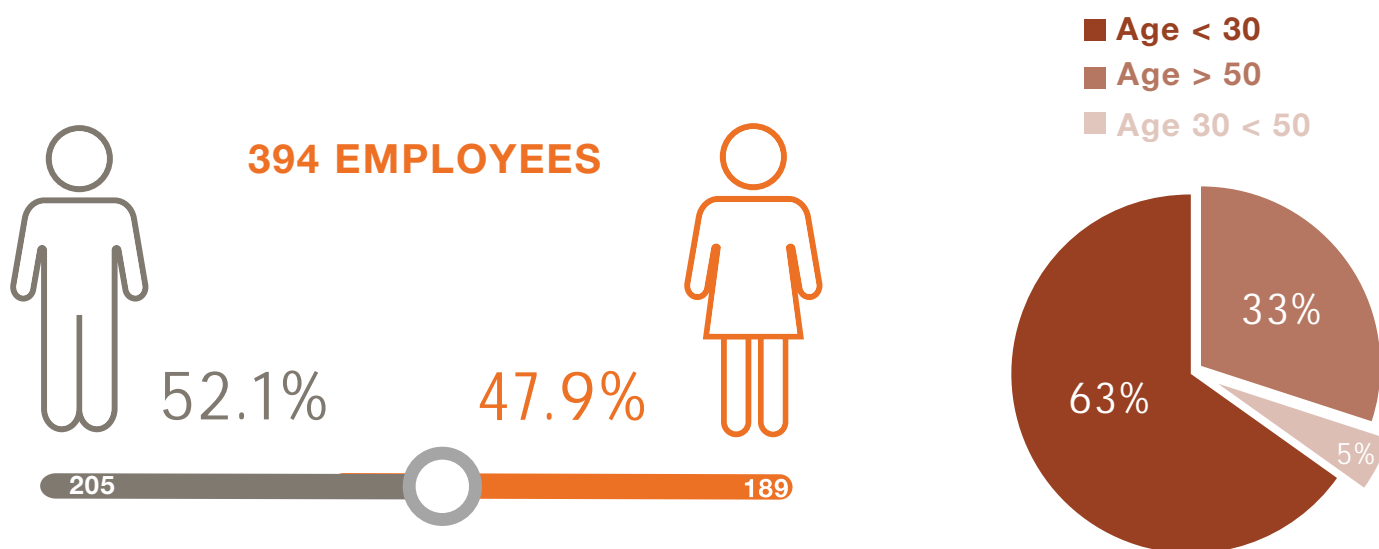
Shpejtë, Lehtë, Sigurtë



HUMAN RESOURCES AND TRAININGS

At BPB, we know that our people stand at the foundation of the institution and drive our continued success. This is why we strive to recruit, develop and retain highly talented employees in all areas of our institution and offer a comprehensive and innovative workplace where everyone can grow and prosper.

Our human capital at a glance



Organizational culture is the basis of our success

Organizational culture is an essential component of our institution that results in a significant impact on individual performance, but also organizational performance. The BPB aims to provide each of the employees with a suitable employment environment, by providing them a wide range of opportunities for promotion.

Employees are at the core of our organizational culture and we seek their input to help us improve. Surveys regularly collect employee feedback on their commitment, training, work environment, line manager effectiveness, and expectations. In collaboration with external companies, our employee survey anonymously surveys all bank employees, measuring views in several dimensions. The average score for 2021 of the Employee Net Promoter Score (eNPS) is 22.1, an index which shows the willingness of our bank employees to recommend BPB as a good place to work. Survey responses show that our employees feel involved and proud to work at BPB. Through this questionnaire, we encourage employees to present ideas for improvement and cooperate for solutions so that the bank also addresses issues of importance to them and the institution.

Moreover, we are convinced that leaders play a key role, as leaders lead the culture and the latter directs performance. Thus, our view of leadership describes the attitude towards employees, customers, and business activities that is expected of every BPB executive. The training of line managers includes key concepts such as leadership development programs, staff training, recruitment processes, etc.

Our commitment to developing employees and fair treatment for all

In a dynamic environment like ours, diversified human capital is a competitive advantage. Our strategy is to continue to form this diverse and inclusive institution that is innovative, offers exceptional service to our customers, contains equal opportunities for everyone and is a great place to work for everyone.

As an integral part of our strategy for employees, it is the recruitment of potential candidates and cultural adaptation using innovative technologies and assessing the person's experience, competencies, learning skills and analytical skills. We have recruited 95 employees and 31 interns in 2021 as well as promoted 40 staff. Promotion and relocation within the bank affect greater employee engagement, enhanced collaboration, increased productivity, and benefits for our employees, the bank, and our customers. At the beginning of the year, BPB launched the employment platform enabling potential candidates and bank employees to explore career paths in roles that match their interests within the institution.

The “BPB Junior” program launched in 2018, continues to increase the training and recruitment of young people before graduation or recent graduates in BPB. This program is the best possible transition for students at the beginning of their banking career. In 2021, this program has developed and transformed 21 juniors, of whom 16 students have been given the opportunity to start a career in our bank in critical functions.

Training and development within BPB play a key role in building skills and abilities for the future. At the beginning of 2021, we launched the branch employee development program entitled “Senior Program”, going through several stages of evaluation, training modules and involvement in specific projects, to graduate and help in professional promotion within our institution.

We aim to harmonize the interests of our employees with our own interests, and reflect this approach of ours in our development philosophy and programs. Launched during 2021, the “Successor Program” provides training with four different leadership modules by international trainers. In total, our employees completed over 100 training and teaching activities throughout the year.

The future of work, and the preparation of employees within BPB for the future

We believe that the future of work will require human capital and teamwork to respond to ever-changing circumstances, as well as the behavior and demands of evolving clients. Drawing on our experience and skills, we embrace cultural and digital transformation to enable our employees to succeed in new environments and remain an employer of choice.

BPB is committed to establishing an Employee Development Academy. The main goal of the Academy will be to disseminate the bank's strategy to all employees, so that everyone feels part and committed to its vision, and can contribute daily to long-term strategic goals. In addition, ongoing employee development programs will be provided. It should be noted that BPB is oriented towards internal promotions and the Academy will help our staff to develop these skills further. Dedicated teams in the bank will follow and monitor the employee development cycle and their career path step by step by training and building their necessary skills according to their career path.

Electronic learning, i.e., E-learning, will be another method of holding multiple trainings for our bank employees. Online training is significantly supported during the pandemic by increasing the enthusiasm, flexibility and efficiency of the staff. BPB is committed to aligning its business strategy to be in line with the company's goals to contribute to them. In short, BPB is not just about providing a job, but it is about providing career and development opportunities.





APLIKO KĚTU

BPB
junior



PROGRAMI
BPB JUNIOR

RISK MANAGEMENT

2021 was better in terms of risk management than 2020, considering the ongoing pandemic situation. The easing of Covid-19 measures has helped the banking sector recover from last year's potential losses.

In terms of liquidity management, considering the continuity of Covid-19, the bank has continued with efficient liquidity management while maintaining high levels of liquidity throughout the year in order to meet the needs and obligations of customers at all times. The bank has also maintained and ensured the proper level of liquid assets to comply with regulatory requirements and internal limits, as well as to cope with even the most stressful and unfavorable situations.

For operational risk management, during 2021 the best practices have been reviewed and upgraded so that any exposure to this risk is controllable and at an acceptable level. Considering the challenges against the pandemic situation, the bank through the operational risk management function, has achieved stability and experience in managing any unknown situation that may arise. The operational risk sector has continued to manage and improve ongoing processes, with a major focus on key risk indicators and contingencies that may occur at any time.

In terms of credit risk management, during 2021 there has been an improvement due to the growth of the economy as a whole. The easing of pandemic measures has had a positive impact on the growth of exports of goods and services, industrial products and retail trade. This has helped to better manage the loan portfolio, especially the portfolio that has been subject to moratoriums and restructurings. Despite the positive effect on the recovery of the economy, due to the pandemic situation, the economic climate has continued with new changes in the economy of our country, also at the global level. The total lockdown during 2020 and the rapid growth during 2021, has affected the economic imbalances by massively increasing the energy crisis and inflation globally. This has also been reflected in our country with some energy related problems, but the most obvious has been the rise in prices as a result of inflation. Inflation is expected to continue in the coming years, for which risk management has put in place appropriate monitoring measures and the impact it may have on borrowers' solvency.

The Bank has had a larger increase in loans compared to 2020, where the main focus has been the further growth and diversification of the loan portfolio in low credit risk segments, such as individual loans, micro and a smaller increase in loans of SMEs, where a significant part of credit growth has been done through the KCGF, respectively the new window of the Economic Recovery Plan. This strategy of the bank has also contributed to the further improvement of the quality of the loan portfolio, compared to previous years.

The level of coverage with provisions in 2021 has been satisfactory, where the Bank based on the pandemic situation, has maintained a level of conservatism in terms of provisions, especially for credit products which have been subject to easing conditions. Risk management within the Bank is ensured on the compliance of regulatory requirements related to the qualitative assessment of the loan portfolio. Based on this, even during 2021, risk management is ensured for the use of qualitative criteria to determine the credit risk sensitivity of the portfolio.

Furthermore, during 2021, in order to achieve a better management of credit risk sensitivity, new information and factors that are likely to impact have been incorporated. Consequently, several models have been updated and implemented through which better monitoring of the provision level has been achieved.

As of December 2021, the Bank has fully implemented the new default definition based on European Banking Authority (EBA) requirements. The new definition of default is based on the materiality thresholds of the borrowers' credit obligations past due. The Bank has also implemented an updated model of macroeconomic factors, thus considering the time period based on the deteriorating situation as a result of the pandemic.



COMPLIANCE

The Bank is committed to have its activities in compliance with laws, regulations, instructions and local and international standards of good corporate governance, in order to increase clients' trust and ensure sound growth of the bank.

In our bank, compliance consists of continuous engagement in adhering to principles of integrity, transparency and professionalism, and respecting rules and principles that are essential to our way of doing business and maintaining the bank's reputation in the market.

The bank carries out regular review of internal documents, thus achieving a higher level of policy and internal procedure harmonization with legal and regulatory requirements at country level. Also, the bank has continuously assessed and monitored implementation of regulations of the Central Bank of Kosovo, and consecutively contributed to identification of areas in need of further improvement in terms of compliance.

The bank has in due time identified legal and regulatory changes that could affect the banks activities, consequently necessary step have been taken both in terms of informing responsible parties within the bank and in terms of updating internal documents and processes in order to harmonize such changes with the banks activities.

In the area of compliance with the Prevention of Money Laundering and Combating Terrorism Financing (AML), compliance with local legal and regulatory framework, with EU directives and regulations, as well as best international practices remains a priority for the Bank as defined by "The Financial Action Task Force (FATF). The Bank has made continuous improvements in key areas such as the risk-based approach, due diligence to customers, database, analysis and reporting of suspicious activities, and employee training.

The bank applies a special AML policy and has an adequate structure for its management by having a responsible official designated independently from other functions in the bank. The Bank has also further advanced the relevant system and application that supports monitoring, analysis and reporting of potentially suspicious activities based on various data, thus creating a complete overview of activities within the system and its customers.

Bank staff training in the field of compliance has been one of our priorities, in which case training sessions were organized for all staff, in order to inform and raise their awareness about legal and regulatory requirements, compliance activities and communication channels, emphasizing in particular the role of the whistle-blowers in the bank.

Among Bank's main objectives related to compliance is to provide greatest possible support for the various functions of the bank in terms of interpretation and implementation of legal and regulatory requirements, contributing to a sounder environment which will serve as grounds for achieving the bank's objectives and growth in accordance with applicable laws and regulations. In the future, the Bank is committed to strictly comply with legal and regulatory requirements, in addition to continuing the implementation of processes mentioned above and working on carrying out additional activities, which aim to emphasize importance of banking activities compliance with local laws and regulations.



INFORMATION SECURITY AND PROTECTION OF PERSONAL DATA

In a time when the information technology is evolving at a very fast pace and more and more customers are using electronic services, BPB continues to pay special attention to information security and customers data protection.

In this context, during 2021 we continued with investments in infrastructure and advancements of various processes in order to minimize risks in this area. In addition to regular activities, systematic and ad-hoc controls, all measures have been taken to prevent and manage cyber security threats, assess and address vulnerabilities, and we have also organized awareness campaigns and trainings for bank employees in the field of information security.

The Bank aims to create a culture of privacy by fully respecting legal requirements as defined in the legal and regulatory framework for personal data protection. Data privacy protection is implemented through a governance model with roles and responsibilities clearly defined in internal documents, processes and standardized controls.



The data protection policy is the basis for proper handling of personal data related to the data subject. This policy includes principles applicable to all regarding collection, processing, use or national and international transfer of personal data.

To fulfil the commitment for protection of personal data and client interests in maintaining the privacy of their data, Banka pë Biznes has appointed an official responsible for personal data protection to oversee privacy practices, provide assistance and recommendations for all Bank units and monitor compliance with legal provisions for data protection.

For the purpose of raising awareness that data protection is a vital part of the institution, using adequate expertise and competence in the field of data protection, the Bank provides regular training for staff on data protection and security issues.

For 2022, in addition to the continuous staff advancement, we have planned investments in various banking systems, regular system testing, advancement of intelligence processing for cyber threats, as well as other activities aimed at continuous monitoring of security vulnerabilities and measures for protecting the bank's systems and its customers.



SOCIAL RESPONSIBILITY

BPB during 2021 contributed to the community through collaborations that significantly improved service delivery quality by some organizations that are already our partners. As a domestic bank, it is always important for BPB to show that it is the main door to those seeking to work for the common good of the community, by providing opportunities for diverse engagements on several areas.

The BPB has commenced 2021 by celebrating two decades of operation marking this date through the promotion of tourism and local culture. The bank has prepared a guide for the historic capital of Albanians, Prizren, emphasising the reasons, through a video, why this city should be visited. In addition to Prizren, the guide also showed the beauties of Rahovec.

Organizations focusing on women and children have also been our main partners this year. BPB has assisted projects focused on social welfare implemented by organisations "Action for Mothers and Children", "SOS Villages" and "Down Syndrome Kosovo" (DSK).

A partnership has been signed with DSK, guaranteeing a 5-year cooperation, which started with the project that allows for some children on the waiting list to receive services from the organization, to be financed by the Bank.

Also, we funded a training organized by EU experts "Building a comprehensive school". Now the key goal of BPB in partnership with DSK is to guarantee sustainability of therapeutic and social services in this organization.



Sustainable development in society certainly depends on development of sports, so in 2021, BPB was the main partner of the Tennis Federation in Kosovo, a very promising sport for our country, especially in recent years. BPB also remained loyal to local basketball, while cooperation agreements have been signed with Trepça BC and Ballkani BC.

The Bank intends and certainly has long-term plans to continue supporting targeted categories with which already has a partnership; however, it will always remain engaged in projects that are to the overall benefit of the society, and which require special attention.



FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL
STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

To the Shareholders of
Banka për Biznes Sh.a.

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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.

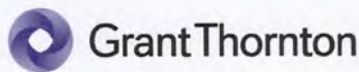
In relation with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with our knowledge obtained in the audit, or otherwise appears to be materially 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


Suzana Stavrik
Statutory Auditor



Banka për Biznes Sh.a.
Statement of Comprehensive Income
For the year ended 31 December 2021

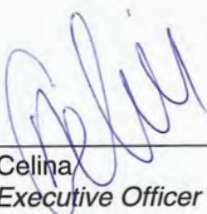
	Notes	2021	2020
<i>In thousands of EUR</i>			
Interest income at effective interest rate	5	17,263	15,589
Interest expense	5	(2,015)	(2,287)
Net interest income		15,248	13,302
Fee and commission income	6	4,178	3,524
Fee and commission expense	6	(2,024)	(1,738)
Net fee and commission income		2,154	1,786
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

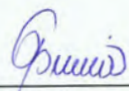
The notes from 1 to 29 are an integral part of these financial statements

Banka për Biznes Sh.a.
Statement of Financial Position
 As at 31 December 2021

<i>In thousands of EUR</i>	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

Banka për Biznes Sh.a.
Statement of Changes in Equity
For the year ended 31 December 2021

<i>In thousands of EUR</i>	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

Banka për Biznes Sh.a.
Statement of Cash Flows
For the year ended 31 December 2021

<i>In thousands of EUR</i>	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
		(12,671)	15,300
Cash generated from operating activities			
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)	-
		2,037	28,227
Net cash generated from operating activities			
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	-
		4,693	(15,432)
Net cash used in investing activities			
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)	-
		405	(2,889)
Net cash generated from financing activities			
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
		60,056	52,921
Cash and cash equivalents at the end of the year			

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

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

(Amounts in thousands of EUR, unless otherwise stated)

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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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,

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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 23 and separately in the statement of financial position.

Short-term leases and leases of low-value assets

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

d) Tax expense

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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).

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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.

Banka për Biznes Sh.a.

Notes to the financial statements

For the year ended 31 December 2021

(Amounts in thousands of EUR, unless otherwise stated)

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 recognised 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.

Internal Criteria

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.

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For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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).

Probability of Default (PD):

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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

(Amounts in thousands of EUR, unless otherwise stated)

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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

(Amounts in thousands of EUR, unless otherwise stated)

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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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 Stage 1 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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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 forbore 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 forbore 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.

Banka për Biznes Sh.a.**Notes to the financial statements**

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(Amounts in thousands of EUR, unless otherwise stated)

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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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 repledge 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.

Banka për Biznes Sh.a.

Notes to the financial statements

For the year ended 31 December 2021

(Amounts in thousands of EUR, unless otherwise stated)

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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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.

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Notes to the financial statements

For the year ended 31 December 2021

(Amounts in thousands of EUR, unless otherwise stated)

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.)

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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.

Banka për Biznes Sh.a.

Notes to the financial statements

For the year ended 31 December 2021

(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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(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

Banka për Biznes Sh.a.

Notes to the financial statements

For the year ended 31 December 2021

(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

Banka për Biznes Sh.a.**Notes to the financial statements**

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*(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

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Notes to the financial statements

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(Amounts in thousands of EUR, unless otherwise stated)

10. CASH ON HAND AND AT BANKS

	<u>2021</u>	<u>2020</u>
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:		
	<u>2021</u>	<u>2020</u>
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.

Internal rating grade	2021				2020			
	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

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(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)	-	(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	-	-	16	-	16
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:

	Stage 1	Stage 2	Stage 3	Total
Movement of ECL for cash on hand and at banks				
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

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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.

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*(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.

Internal rating grade	2021				2020			
	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	-	-	42	-	42
As at 31 December 2021	61,535	-	(5)	-	61,530

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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

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*(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.

Internal rating grade	2021				2020			
	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

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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

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*(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

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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.

Internal rating grade	2021				2020			
	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

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*(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)

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(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)

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*(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:

Internal rating	2021					2020
	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

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14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Total loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
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

Total loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
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

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*(Amounts in thousands of EUR, unless otherwise stated)***14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Total loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
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	Stage 2	Stage 3	Total
	12- month ECL	Lifetime ECL	Lifetime ECL	
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

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14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Internal rating	2021					2020
	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	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
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

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(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Non – retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
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	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
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

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(Amounts in thousands of EUR, unless otherwise stated)

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Non – retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
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:

Internal rating	2021				2020	
	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

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For the year ended 31 December 2021

*(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	Stage 2	Stage 3	Total
	12-	Lifetime	Lifetime	
	month	ECL	ECL	
	ECL	ECL	ECL	
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
	Stage 1	Stage 2	Stage 3	
	12-	Lifetime	Lifetime	
	month	ECL	ECL	
	ECL	ECL	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

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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
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

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For the year ended 31 December 2021

*(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

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Notes to the financial statements

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(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	-

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(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 REPOSSESSED ASSETS

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

	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

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For the year ended 31 December 2021

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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 deposits	(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.

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

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(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

	2021	2020
Borrowings		
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.

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(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

Banka për Biznes Sh.a.**Notes to the financial statements**

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*(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	515	515
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).

Banka për Biznes Sh.a.

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(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:

	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	Total
Unused commitments 2021				
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

	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	Total
Unused commitments 2020				
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

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*(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	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	Total
Letters of guarantees				
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

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(Amounts in thousands of EUR, unless otherwise stated)

24. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

	Stage 1	Stage 2	Stage 3	
Letters of guarantees	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 1 January 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	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

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*(Amounts in thousands of EUR, unless otherwise stated)***24. OTHER LIABILITIES AND PROVISIONS (CONTINUED)**

Letters of guarantees	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
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

Banka për Biznes Sh.a.**Notes to the financial statements**

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(Amounts in thousands of EUR, unless otherwise stated)

25. SHAREHOLDER'S EQUITY AND RESERVES (CONTINUED)***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.

Banka për Biznes Sh.a.**Notes to the financial statements**

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*(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:

Internal rating	2021					2020	
	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	

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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.

Banka për Biznes Sh.a.**Notes to the financial statements**

For the year ended 31 December 2021

*(Amounts in thousands of EUR, unless otherwise stated)***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%.

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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

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(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)**

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.

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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

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*(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

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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	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Assets to be measured at amortized cost				
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)

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*(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	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
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

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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 Institutions	Central Government	Central Bank of Kosova	Total
Financial assets as of 31 December 2021				
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 Institutions	Central Government	Central Bank of Kosova	Total
Financial assets as of 31 December 2020				
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

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*(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	-	-
<i>Off balance: maximum exposure</i>												
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

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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		
	Retail	Corporate	Total loans	Retail	Corporate	Total loans
Loans and advances to customers						
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

Banka për Biznes Sh.a.**Notes to the financial statements**

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*(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)***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.

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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	Cash			Total collateral used	Surplus collateral	Net uncollateralized exposure
		Property	Collateral	Equipment			
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

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*(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

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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%

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*(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)

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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	<i>Fixed</i>	2,230	-	-	-	-	2,230
Balances with CBK							
Non-interest bearing		61,530	-	-	-	-	61,530
Placements and balances with banks							
Interest bearing	<i>Fixed</i>	-	-	10	5,162	65	5,237
Investment securities							
Interest bearing	<i>Fixed</i>	142	160	38	3,314	43,966	47,620
Loans to customers							
Interest bearing	<i>Fixed</i>	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	<i>Fixed</i>	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	<i>Fixed</i>	-	-	2	-	500	502
Borrowings							
Interest bearing	<i>Variable</i>	-	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	-

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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	<i>Fixed</i>	2,172	-	-	-	-	2,172
Balances with CBK							
Non-interest bearing		52,465	-	-	-	-	52,465
Placements and balances with banks							
Interest bearing	<i>Fixed</i>	80	-	-	5,171	10	5,261
Investment securities							
Interest bearing	<i>Fixed</i>	1	224	57	298	52,955	53,535
Loans to customers							
Interest bearing	<i>Fixed</i>	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	<i>Fixed</i>	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	<i>Fixed</i>	-	-	2	-	500	502
Borrowings							
Interest bearing	<i>Variable</i>	-	-	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	-

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(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:

Currency	2021	2020
	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

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*(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.

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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

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*(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.

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*(Amounts in thousands of EUR, unless otherwise stated)***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.

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*(Amounts in thousands of EUR, unless otherwise stated)***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

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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)	42,508	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.

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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 repricing 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.

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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:			Stage	
<i>Loans outstanding at end of year with shareholders and key management</i>			Stage	
	Stage 1	1,095	Stage 1	839
	Stage 2	77	Stage 2	-
	Stage 3	127	Stage 3	127
	Total	1,299	Total	966
	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

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*(Amounts in thousands of EUR, unless otherwise stated)***28. RELATED PARTY TRANSACTIONS (CONTINUED)**

Liabilities:	31-Dec-2021	31-Dec-2020
<i>Customer accounts</i>		
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

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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.

ANNUAL REPORT 2021



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