ANNUAL REPORT 2022

BPB

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LETTER OF THE CHAIRMAN OF THE BOARD

ANSIS GRASMANIS

CHAIRMAN OF THE BOARD OF DIRECTORS

Dear readers,

The new economic reality that the world faced in 2022 after Russia's full-scale invasion of Ukraine has been reflected in the high volatility of commodity prices, re-established supply chains, and extreme rates of inflation which all led to an increased cost of living. Both the FED and ECB raised interest rates to levels not seen since 2008 in an attempt to temper this inflation. Governments across the globe, including Kosovo, have been stepping in with various subsidies to amortise increased energy costs for households and businesses.

During this challenging year, the banking industry in Kosovo had a record performance. The value of banks' assets and deposits throughout the country has increased by 13% and the growth of the loan portfolio was 16%. Loan quality remains very good with sector's non-performing loans standing at 2% (2.3% in 2021). The total profit of the banking sector was 19.4% higher than in 2021.

Similarly, BPB showed a solid performance, reflected in an improved market share, outstanding credit portfolio quality, the growth of its loan portfolio in both retail and business segments, and, consequently, a record profit of 8.5 million euro. All business lines contributed to this positive result, while maintaining a strong liquidity and capital position. On behalf of the Board of Directors, I would like to express our appreciation to our valued staff for the results and progress achieved which was above and beyond expectations.

The Board of Directors is positive and enthusiastic about new prospects together with the new CEO who was appointed at the end of 2022, Ms. Mimoza Godanci-Aliu. We are convinced that Ms. Godanci-Aliu's expertise and long-standing experience in the banking industry are aligned with the bank's strategies, and BPB will further strengthen its market position under her leadership.

BPB's results in 2022 show that we are well-placed to cater to the growing demands of our clients and further improve our services to Kosovo businesses and private clients.

Our goal is to continue to create further value for shareholders, customers of the Bank, and also for our employees. We are convinced that we have created capacities and are well placed in the market to deliver to our stakeholders. Our prudent risk management policy makes us confident in our potential to handle possible uncertainties that we may face with the latest developments in the global economy.

On behalf of the Board of Directors, I want to thank our customers for their continued trust in BPB, the shareholders for their support, the Bank's Management for their leadership, and our colleagues for their dedication and commitment.

On behalf of the Board of Directors,

Ansis Grasmanis
Chairman of the Board of Directors

LETTER FROM THE CEO

MIMOZA GODANCI

CHIEF EXECUTIVE OFFICER

Dear readers,

2022 marks another successful year for BPB, demonstrating once again that the bank is highly prepared to meet the needs and demands of its clients, as well as the commitment to fulfill the interests of its shareholders and employees.

During 2022, BPB recorded an increase in assets by 9.5%, reaching a total of 415 million euro, driven by a significant increase in the loan portfolio of 16.9%, which brought the credit portfolio to 280 million euro and an increase of deposits to 9.7%, thus closing the year with a deposit base of more than 353 million euro. This increase has exceeded the bank's expectations and accompanied by a healthy diversification, leads to an improvement in credit risk, marking a drop in the rate of non-performing loans from 2.45% as it was in 2021, to 2.05% at the end of 2022. This has produced a return on investment of 18.9%, or 8.5 million euro net profit.

As a part of our strategy to improve customer service and acquisition of new clients, we continue to invest in digital transformation. Our aim is to offer our clients a seamless and more efficient experience when they bank with us. In this regard, we have made significant investments in upgrading our digital infrastructure and creating new digital products and services.

We understand that maintaining a physical presence is essential to ensuring better connections with small and medium sized enterprises. Therefore, we will continue to maintain our branch network, while also leveraging digital channels to improve our customer's convenience.

Our retail segment has shown solid growth mostly driven by strong acquisition of regular salaried clients. Similarly the segment of MSMEs has grown beyond our expectations, a result of the activity of our well-trained and dedicated sales team.

We are also proud to offer non-financial services to our MSME clients through our Business Academies program. More than 300 MSME's have attended the academy, which provides training and resources to help them grow and succeed. To further enhance our advisory services and accelerate outreach, we have created an informative web-portal "InfoMat". This portal provides our clients with a wealth of information and resources, allowing them to make better and more informed decisions.

The bank recognizes the importance of work-life balance, and we are committed to creating a hybrid environment that will enable our staff to achieve this balance. This approach will help us retain our talented staff and attract new talents to our bank. To ensure growth of staff potential and in order to adjust the skill set to the ever changing environment, BPB Academy regularly up-dates and up-grades its training curriculum.

Thankful for all achievements during 2022 and convinced on on-going commitment and dedication of all our stakeholders and staff, we look forward for further ongoing success.

On behalf of BPB,

Mimoza Godanci
Chief Executive Officer

ECONOMIC DEVELOPMENTS AND BANKING INDUSTRY

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ECONOMIC DEVELOPMENTS AND BANKING INDUSTRY

Despite the economic acceleration in 2021, the world economy witnessed a slowdown in growth during 2022. The post-pandemic period and war in Ukraine brought two main economic challenges, namely high-level inflation rates and energy crises. While inflation was triggered by an increased demand as economies recovered from the pandemic, supply chain disruptions, and monetary and fiscal stimulus, on the other hand, world energy crisis was caused by geopolitical tensions, extreme weather events, and a lack of investment in energy infrastructure.

The economic growth of Kosovo in 2022 was 3.55%, which represents a significant decrease from previous year's double-digit growth (10.75%). The highest annual growth was noted in the sectors of accommodation and food, transport, agriculture, etc. Exports also boosted, mainly due to the increase in exports of travel and transport services. However, the negative trade balance of goods continues to grow. Notwithstanding, the economic growth was followed by a high increase of prices. The inflation in 2022 hit a record high of 11.6% driven by a rise of prices for consumer goods, energy and construction materials.

In line with the general economic growth, the Kosovan banking industry witnessed a good performance as well. In 2022, our banking industry consisted of 12 banks operating with a total of 200 branches and 3,781 employees.

The value of bank assets in Kosovo reached 6.8 billion euro, which represents an annual increase of 13.5%. Of this amount, loan portfolio which represent the main position of the balance of banks' assets, reached 4.4 billion euro or 16.1% increase compared to 2021. The majority of loan portfolio (61.8%) is dedicated to businesses and other non-financial institutions, while the rest belongs to credit exposures to households. Non-performing loans consisted only 2.0% of the total portfolio, which represents an improvement from 2.3% in 2021 and are covered by provisions at 149.7%.

Bank deposits also increased during the year by 13.3% and reaching 5.6 billion euro. 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 approximately 65.8% of all deposits. As a result, the loan-to-deposit ratio in the industry reached 78.3% up from 76.5% in 2021.

The measures taken by financial institutions around the globe to fight the inflation were mirrored in our system as well. After a downward trend during recent years, the average interest rate (for new loans) increased by 0.5pp, from 5.8% to 6.3% at the end of the year. Whereas, the average rate of new deposits reached 1.67%, which is 0.34% higher than a year before. Interest income increased by 16.0% amounting to 264 million euro, whereas interest expenses increased by 9.0% reaching 27 million euro.

The total profit of the banks in Kosovo reached 140 million euro, or 19.4% higher than in 2021, thus producing an average return on capital of 20.6%.

BANK'S FINANCIAL PERFORMANCE

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KEY FINANCIAL INDICATORS

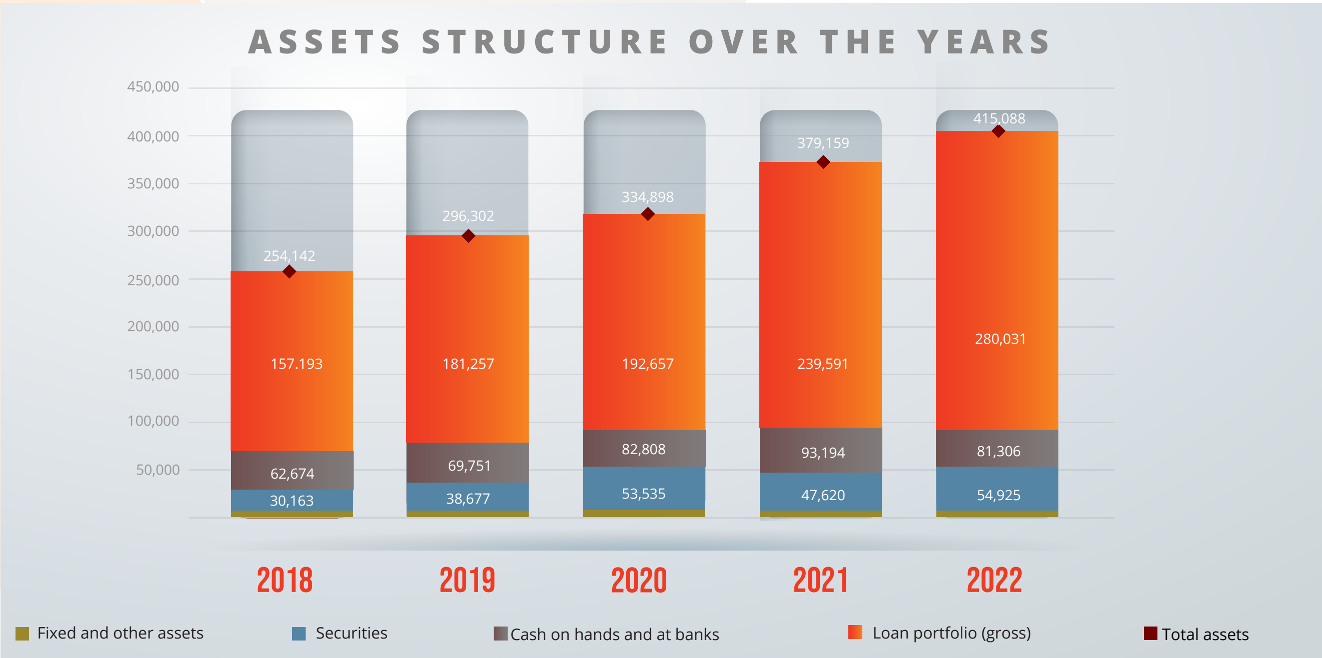
	In 000 EUR		CHANGES	
STATEMENT OF FINANCIAL POSITION	**2022**	**2021**	**2022**	**2021**
Total Assets	415,088	379,159	9.5%	13.2%
Loan portfolio (gross)	280,031	239,591	16.9%	19.8%
Cash on hands and placements with banks	81,306	93,194	-12.8%	12.5%
Securities	54,295	47,620	-15.3%	-11.0%
Deposit portfolio	353,474	322,147	9.7%	11.5%
Total Equity	47,700	42,468	12.3%	19.3%
STATEMENT OF COMPREHENSIVE INCOME				
Net interest income	16,793	15,248	10.1%	14.6%
Net commision income	2,639	2,154	22.5%	20.6%
Other net income	1,713	1,553	10.3%	51.7%
Operating income	21,145	18,955	11.6%	17.6%
Total operating expenses including credit losses and other financial assets	9,252	8,625	7.3%	70.5%
Net profit	8,533	7,877	8.3%	73.9%
STATISTICS				
Staff number	423	394	29	29
Number of branches	26	26	-	-
KEY FINANCIAL INDICATORS				
Return on equity	18.93%	20.18%	-1.3%	6.4%
Cost to income ratio	51.76%	48.92%	2.8%	-2.6%
Non-performing loans	2.05%	2.45%	-0.4%	-0.2%
Capital adequacy ratio	17.48%	18.15%	-0.7%	0.4%
Assets for staff	981	962	19.0%	44.8%

Despite the slowdown in economic growth and the high rate of inflation caused by the outbreak of the war in Ukraine, the year 2022 was characterized by a stable financial performance for both BPB and the banking industry as a whole, supported by key financial indicators and a record profit in the history of the banking sector in Kosovo.

In general, all the bank's business units have contributed to these results and this shows our dynamism that underlines our success, commitment and sustainability.

BPB with a careful approach to lending and continuous support to individual clients and businesses continues to have stable financial results, well-defined positioning in the market, and well-diversified portfolio with reduced and mitigated risks.

With an experienced staff, infrastructure and a suitable and stable network of branches, BPB manages to ensure business continuity.



BPB's total assets at the end of 2022 reached over 415 million euro, an increase of 35.9 million euro, which is 9.5% higher than the previous year. The structure of the bank assets continued to be dominated by net loans and advances to customers at 65.6% (61.2% in 2021).

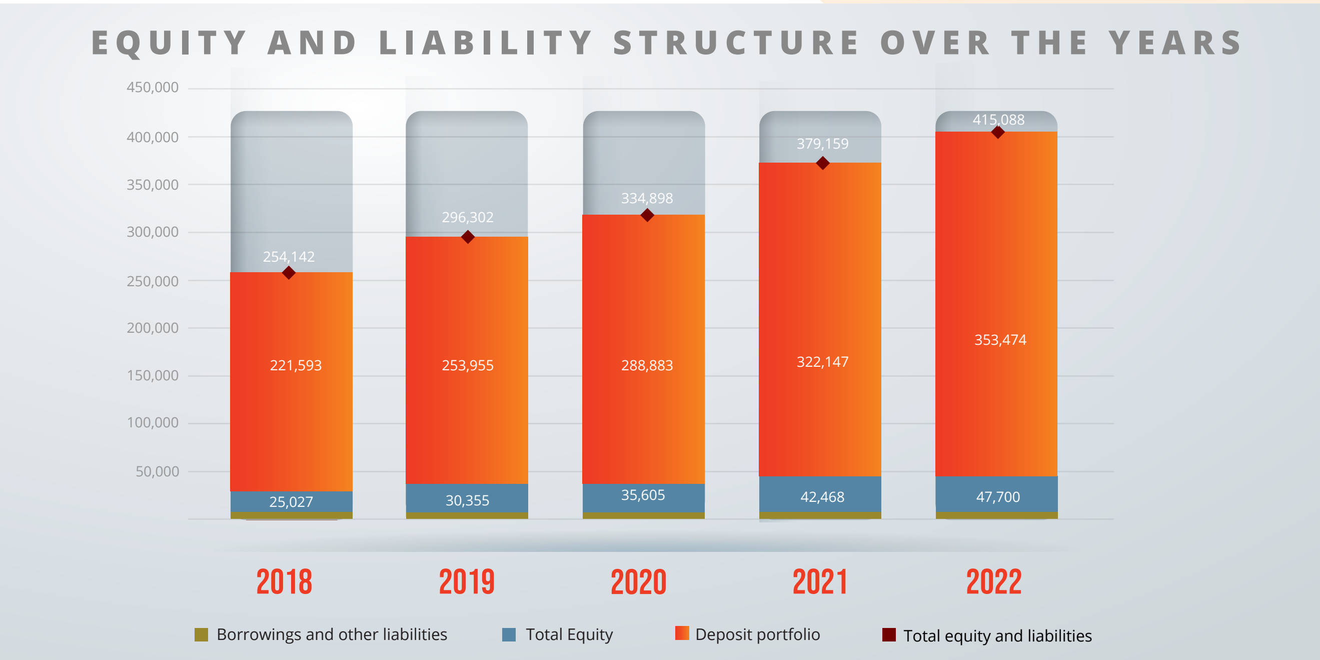
Investments in securities comprised of exclusively investments in securities of the Government of Kosovo, contain 13.2% of the Bank's total assets for 2022 (12.6% in 2021).

Cash and bank accounts make up 19.6% of the banks total assets (24.6% in 2021), while fixed and other assets make up about 1.5% of total assets (1.5% in 2021).

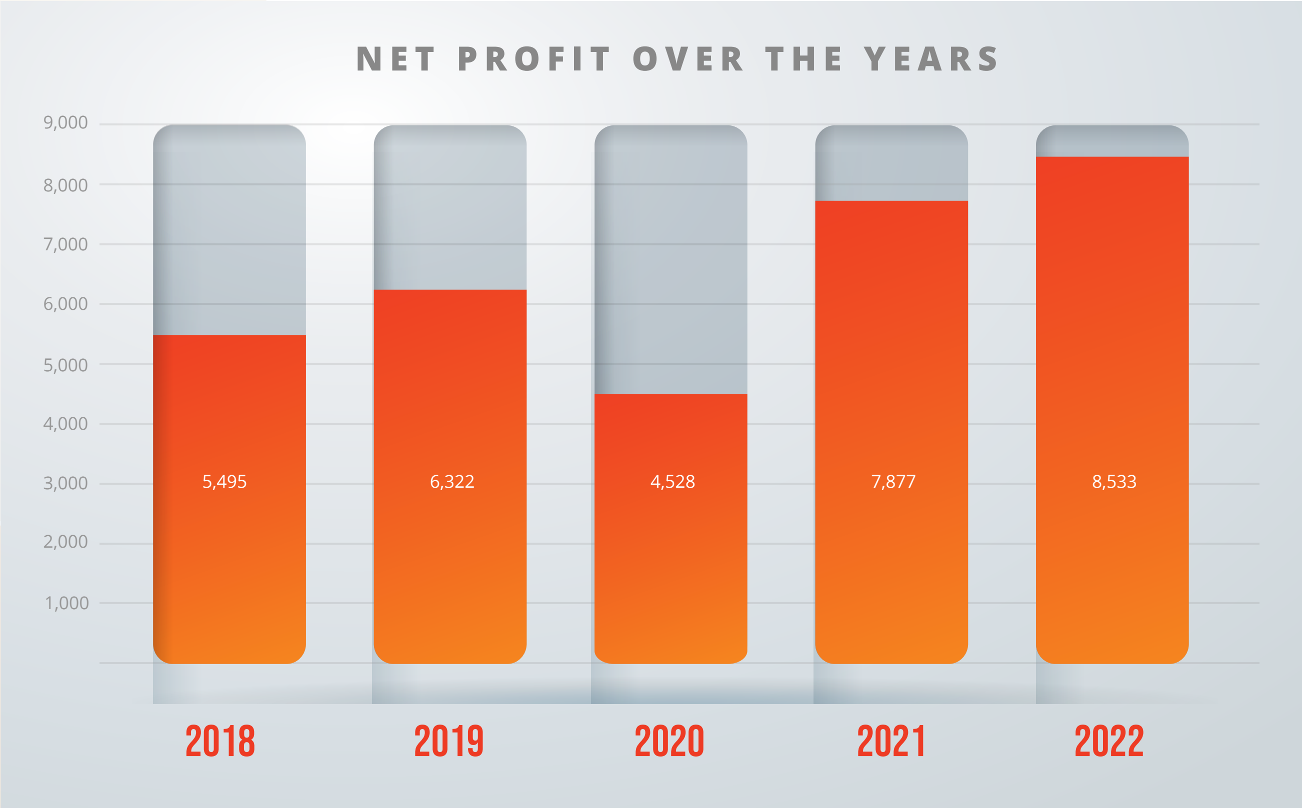
Total BPB liabilities at the end of 2022 have reached 367.4 million euro, an increase of 30.7 million euro or 9.1% compared to the previous year. Customer deposits at the end of 2022 have recorded an increase of 9.7% compared to the previous year (11.5% in 2021) and contain 96.2% of the bank's total liabilities.

Borrowings and other liabilities at the end of 2022 were 13.9 million euro (14.5 million euro in 2021), showing an annual decrease of 4.3% or 629K euro compared to a year earlier. In 2022, the bank concluded a new borrowing agreement with the EBRD, the so-called "youth in business" program, in the total of 4.5 million euro, of which 1.5 million euro were disbursed in 2022.

Equity at the end of 2022 reached 47.7 million euro marking an annual increase of 12.3%, compared to the previous year that was 19.3%.



PROFITABILITETI



BPB's net profit in 2022 exceeded the amount of 8.5 million euro, as a combination of operating income of 21.1 million euro and operating expenses of 10.7 million euro, marking an upward trend and better than the year we left behind.

Net interest income for 2022 was 16.8 million euro, an annual increase of 10.1%, while net fee and commission income was 2.6 million euro, an increase of 22.5% compared to the previous year. The bank has managed to maintain a target interest income margin, while maintaining a low funding cost.

Total operating income increased by 11.6%, while operating expenses increased by 16.2%, which consists of the increase in general expenses as a continuation of business activity.

The bank has shown good results in all indicators, including financial, stability and diversification indicators, where at the end of 2022 the return on equity was 18.93%, the capital adequacy ratio was 17.48% and the non-performing loans indicator was 2.05%.

BUSINESS DEVELOPMENTS

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BPB main focus remains on providing quality financial and non-financial services to business clients in Kosovo. Taking into account the fact that micro, small and medium-sized enterprises (MSME) constitute the majority of businesses operating in Kosovo and have an important role in economic development by creating jobs, BPB continues to focus especially on the further development of MSME offering a wide variety of banking activities, products and services.

BPB has shown the determination to be the leading bank in the market for micro business clients, so during 2022, the bank has disbursed over 38 million euro in loans to 2,230 micro business clients, of which 40% were new clients. Compared to 2021, BPB's micro business sector has grown by 14% with a well-diversified and high-quality loan portfolio. The bank has continued to improve and upgrade digital channels, where the number of Micro Business clients using these platforms has increased by 5% compared to last year and about 35% compared to 2020. Also, 75% of outgoing national transfers are channeled through our digital platforms at more favorable prices.

Meanwhile for SME's in 2022 BPB has increased its focus on providing services to our clients, resulting in growth of credit portfolio over 15%, this increase mainly concentrated in production and trade sectors. BPB has implemented the expansion strategy in order to finance this segment, so during 2022 the bank has disbursed over 28 million euro in loans to SME business clients, of which over 30% were new clients. In addition to access to finances, the bank's support for businesses extends to consulting services, with an emphasis on the advancement and expansion of capacities in multidimensional aspects starting from strategic planning, growth strategy and corporate governance.

It has been proven that BPB is focused on providing services to MSME clients through innovative services and products. Factoring is the newest innovative product launched during 2022, a product that is offered for sales financing, receivables management and chain supply, thus creating a competitive advantage in the market.

BPB this year continues the tradition of consulting services for MSME clients, a special program which was made possible through the GROW project supported by MCC and MFK and which resulted in the joint organization of Business Academies. Events such as this contributed to the advancement of business education, offered in a unique form through non-financial services aimed at the growth and development of business processes as well as business owners themselves. The importance of increasing the education level of SME will continue to be our bank's objective. In 2022, in cooperation with external consultants, the bank has trained over 300 businesses in 7 main regions of Kosovo. The bank's objective is to provide business owners with specific tools to self-assess the current and future position of their operations and business orientation. BPB has contributed significantly and general advanced knowledge in strategic business management, financial management, planning, sustainable business growth and other important topics such as social media management.

To further increase the range of non-financial projects that are focused on the client's development in the areas where they need it most, BPB also becomes the first bank in the country that has its own business portal, where clients will be informed about the issues that they need and have access on daily basis.

The bank in 2022 has been awarded from SME Finance with 'Silver' award in the category "Financier of the Year" which shows that BPB ensures long-term and successful relationships with our business clients, being not only a financial partner of these enterprises but also a strategic partner offering new and innovative services, supporting further sustainable development of the businesses.

Positive trends have been supported this year as well with the Kosovo Credit Guarantee Fund (FKGK) cooperation that enabled access to finance through easier requirements for collateral and risk sharing programs. Through this fund, the bank increased lending and helped businesses further to increase their capacities during a very delicate period of time.

Considering the innovative business ideas of the youth in Kosovo, the ever-increasing demand to become part of the business world as well, BPB as the first bank in the region in cooperation with the EBRD have signed the agreement "Youth in Business".
This will enhance financial and non-financial support for youth in business in launching and implementing their business plans. The fund will be available to new and existing clients who will invest in building the capacity of their businesses, investing in new business ideas in accordance with the program's criteria.

BPB is committed continuously focused on its clients not only throughout packages or services that are launched, but also on taking care of them 24 hours a day and seven days a week.

In order to create unique experiences, BPB has identified new communication channels to quickly respond to our client's requests and to meet and exceed their expectations.

From the "feedback" we have received from our clients, BPB has continued to serve clients in the best possible way, considering their requirements and specifications, as well as the trend of services and the way of communication. Continuous investment during 2022 in digital platforms and services has made mutual communication easier and more efficient.

One of our main priorities was to work closely with our clients and identify the most suitable financing solutions, while also offering other remote services. Regarding this, online opening accounts is another success for the Bank.

The improvement in providing quality and professional services to our clients impacted the increase in clients retention and developing long-term relationships with them.

PRIVATE INDIVIDUALS

BPB

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The year 2022 turned out to be positive in terms of developments that dominated BPB, and specifically retail banking. BPB continued to grow the portfolio of private individuals, of course staying loyal to its clients, especially public salary receivers.

BPB has disbursed nearly 66 million euro to its private individuals during the past year, which resulted in an increase of 22 million euro in the loan portfolio. Meanwhile, the total portfolio has touched the value of over 132 million euro.

The total number of credited clients has reached over 12 thousand of which over 1,600 were new clients, thus confirming that the private individuals sector remains one of the most important pillars of the bank in terms of performance and portfolio quality.

As a result, with a cautious but pro-active approach, based also on other indicators that can stimulate economic development, BPB will continue to play its role as an actor in financial system with a strong focus on business investments and households.

BPB recorded a steady increase in deposits as well, thus increasing to over 353 million euro, where the Private Individuals Sector has contributed with over 65% of the total amount.

Meanwhile, the trend of the last few years, specifically after the developments with the pandemic, resulted in growth in terms of digital banking, where in addition to the bank staying close to customers in parallel with technology developments, active users of the Bank's applications have increased. By the end of the year, there are about 30,000 active users of the E Banking and M Banking applications.

Private Individuals are expected to derive some of the significant performance development, same as in the prior year. In this regard, the bank intends to expand the offer with redesigned services which we believe will better serve their needs of private individuals. Changing some payment options through cards, including various agreements with merchants, will enable them to access family comfort with competitive conditions and payment plans according to their financial possibilities. In the coming years, BPB is determined to level up the customer service in the focused segments, based on the experience and data collected during the last years. The bank is committed to conceptually advance its processes, monitoring system and improve human capital to ensure long-term relationships with its customer base.

In addition to the existing business segments, BPB has taken the initiative of financial inclusion for a certain group of clients who mainly belong to the so-called "self-employed" segment. This action, in addition to including in the financial system many customers who are unserved but bankable and potentially not in the banking system, also helps the bank to increase long-term sustainability and ensure the diversification of the income stream.

system, also helps the bank to increase long-term sustainability and ensure the diversification of the income stream. The segment which has started to operate and at the same time has enabled such customers to find adequate support in the development and expansion of their ideas and much more. This costumer profile, in addition to access to finance, often also needs instructions that potentially protect them from dangerous actions for the activity around them.

In addition to the main business lines, the bank's strategy for the coming years is designed to build an ecosystem that attracts potential banking customers, supports their growth and development and makes them ready for the bank. Therefore, the established "self-employed" business line will play an important role in acquiring new non-banking clients and making them bankable, developing them through business academies and transforming them into well-formed businesses. In addition to the financial impact, the development component for this category will offer attractive services to customers with competitive conditions.

The private individuals segment at BPB will continue to grow with the current profile of customers with stable salaries from public institutions and well-established private companies, for which the bank will have a competitive offer for their needs.

Life insurance for credit clients, which has recently been implemented as a product offered on the market, is a good example of the expansion of the range of banking services offered by BPB. Also, at the beginning of 2023, factoring services will be pushed even more as a new service which is in line with the bank's general strategy in terms of increasing cooperation between clients of different categories.
Being aware that market presence is what further strengthens the Bank's position, BPB has also expanded to several locations through new ATMs located in some of Kosovo's municipalities.

BPB is now aiming to expand the project of cashless branches, after the results of the first branch in Shtime, always having customers in the center of attention.

Customers in the 24/7 area have uninterrupted access to fulfill their banking needs, such as deposits and withdrawals, money transfers and all other services offered by the most modern ATMs. From this investment, customers will save their time by being served without the limitation of working hours.

The customer-oriented approach, which is one of the main objectives of the bank, will continue to be one of the main differentiating factors of BPB in the market. The bank will offer excellent services to all major categories of customers and also will offer new services with unique value propositions, both through the branch and through the contact center. Customer satisfaction will remain at the heart of the successful business model and the bank will continuously improve the customer experience through service metrics such as the Customer Satisfaction Index, monitoring customer behavior and increasing customer interaction through a high level contact center.


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RISK MANAGEMENT

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Despite macroeconomic developments, BPB has achieved to manage all risks at acceptable levels. The banking sector, including the Bank for Business, in terms of performance, has reached the highest level both in terms of profit and in terms of risk management, respectively improving the quality of assets.`

The well-diversified portfolio has resulted that 2022 to be considered one of the best years in terms of loan quality both at the level of the bank and at the level of the banking industry.

Based on these developments, especially in these last three years, the forecasting method has changed significantly, where it was assumed that the next year would be more or less similar to the previous year. Because the year 2023 can bring a wide series of possibilities, in addition to the standard forecasts, Risk Management has also planned adverse scenarios that may occur during the year 2023 in order to be ready at any moment to respond to any situation. Based on economic forecasts, inflation is expected to continue in 2023, for which Risk Management has already prepared and taken the necessary measures to cope with any possible impact on the increase in credit risk from both businesses and individuals who eventually can be affected. Because loan quality is expected to suffer slightly from the combination of high inflation, a slowing economy and high interest rates, provisions for expected credit losses are expected to be higher.

Risk Management will continue to regularly monitor the credit portfolio by detecting early indicators of risk in order to prevent loan deterioration and will continue to use a conservative approach to credit risk measurement to more effectively manage and preserve further the quality achieved so far. As for the management of the portfolio composition, the Bank will continue with the current trend where the main focus will be on diversifying the portfolio targeting segments with low credit risk, mainly individual clients and micro-businesses. The bank is expected to be well positioned in the market and to be ready to achieve the defined objectives based on the high level of profitability and the good indicators of the accumulated capital.

Also, during 2022, the Bank has adapted the new internal credit risk rating system for measuring the significant increase in risk, which system has incorporated a variety of information related to borrowers, based on statistical-quantitative data and qualitative data.

In terms of liquidity risk management, the bank will continue the same strategy by providing sufficient funds to meet all clients' obligations and requirements. In addition, the bank will provide high levels of liquid assets to meet internal and regulatory limits, as well as to cope with any stressful liquidity situation. The bank has taken all the necessary steps to be in harmony from January 1, 2023 with the two new regulations for liquidity: "Regulation on the liquidity coverage ratio (LCR)" and "Regulation on the net stable funding ratio (NSFR)".

As a result of global macroeconomic developments, many central banks of the main countries in the world have increased interest rates to prevent further growth of inflation. Based on these developments, we, as a bank, have taken appropriate actions in order to manage and mitigate interest rate risk, respectively in order to finance long-term loans, we have implemented for the first time the variable interest rates model by using EURIBOR as the reference rate.

In terms of operational risk management, processes have been revised and advanced so that exposure to this risk is controllable and at an acceptable level. Due to the challenges faced in the past years, has already achieved stability and more experience in managing any possible situation that presents an operational risk. The bank will continue to manage and continuously improve processes, focusing on key risk indicators and unexpected incidents that may represent an operational risk.

For maintaining the efficiency and effectiveness of the abovementioned risks, the bank will ensure the continuance of sufficient levels of the capital, by always monitoring and foreseeing the possibility of emergence of any unfavorable situation. Therefore, in order to be prepared at any time and possible crisis, the bank has taken the necessary measures and has drawn up the detailed methodology related to the internal capital adequacy assessment process (ICAAP).

TREASURY

BPB

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2022 was marked by significant volatility in both local and international markets, resulting in increased interest rates as a consequence of global monetary policies and high inflation.

Asset and liability management focused on capital growth, foreign exchange rates, interest rates, and liquidity risks to ensure stable and secure growth. Despite intense competition in the local market, the Bank maintained high and stable liquidity levels, meeting all regulatory and other requirements. Despite market fluctuations, foreign currency operations were closely monitored, keeping open foreign currency positions at a minimum.

Despite these challenges, BPB remained highly active in the local market, building a securities portfolio in line with the Bank's overall strategy, which contributed to overall profitability. Through cooperation with correspondent and local banks, cost management efficiency was high, while maintaining optimal investment in placements.


BANKOMAT
VISA

PRODUCT DEVELOPMENT AND INFORMATION TECHNOLOGY

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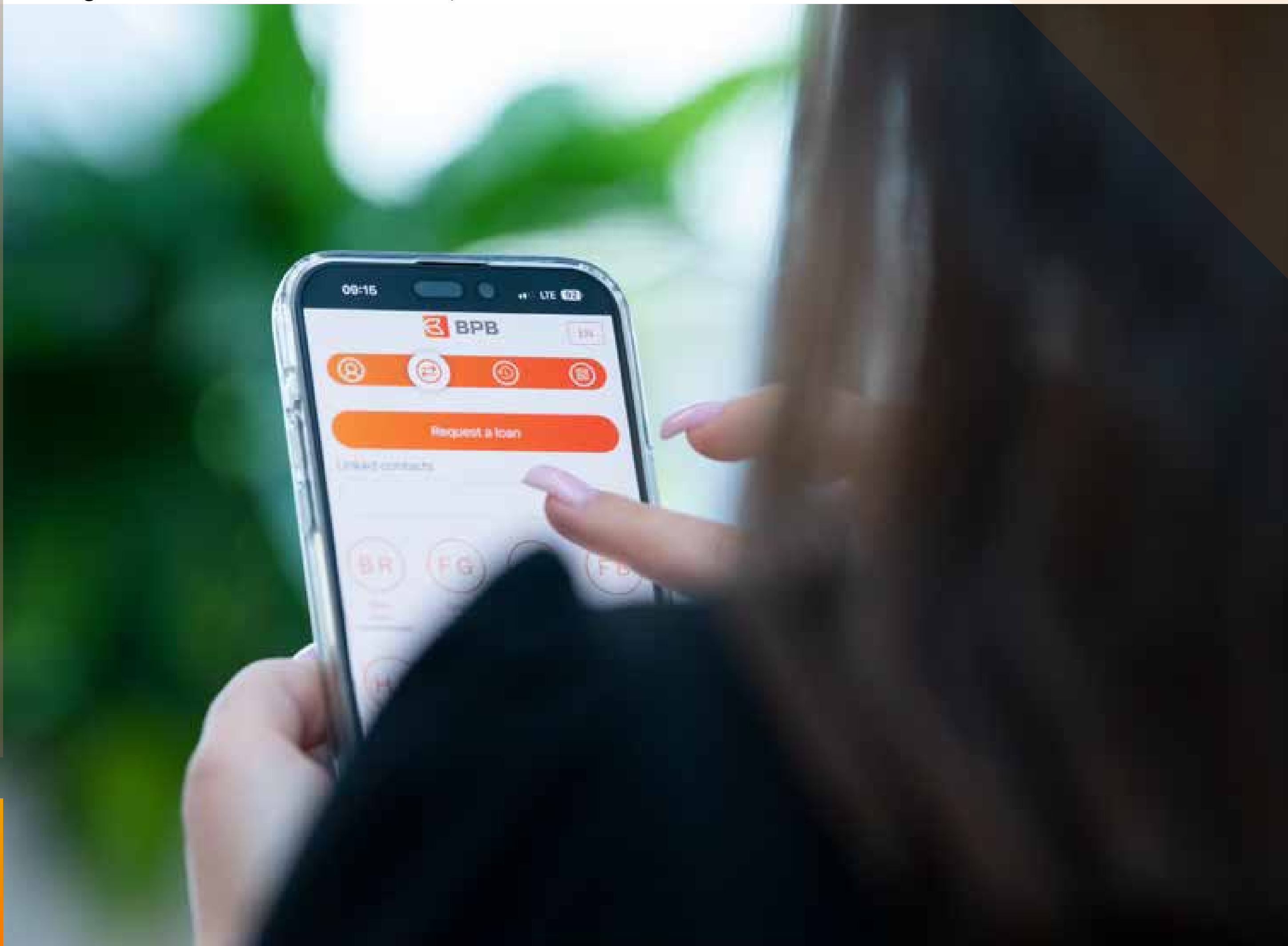
Customers and offering qualitative services that supports the aim of extending the collaboration and maintenance of relationship were among the main objectives of the bank, during the past year.

Being focused on customers and quality of services, bank has continued investing in the advancement of technology, to further facilitate the expansion of the range of products and services, as well as to enable the fulfillment of ever more complex requirements. Additional efforts have been taken to diversify customer service channels, through continuous updates of existing channels and the launch of new platforms, providing additional opportunities to carry out financial transactions independently, easily, at any time and at any place.

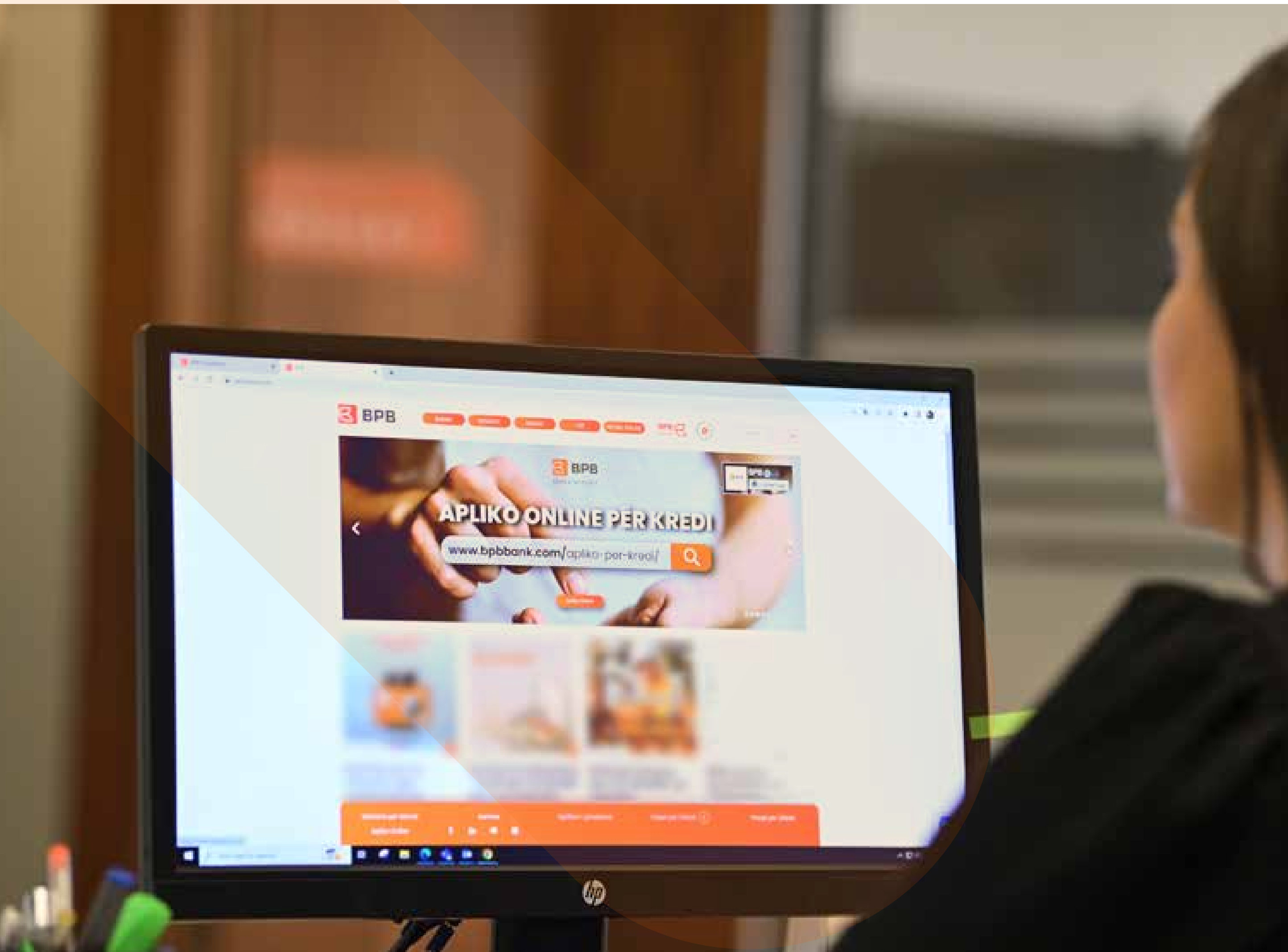
In line with this strategy, Product Development and Information Technology Department were intensely engaged in supporting bank business through the launch of the BPB InstaPay application, which enables the bank's customers to send and receive funds in real time (instant payments), easily and safely, through phone number or using the QR code. At the same time, in E/Mbanking platforms, additional services have been added, introducing the possibility to manage periodic payment orders, division of card transactions into installments depending on the customer's financial needs, as well as other functionalities necessary for easier management of their finances. In parallel, we worked on expanding the fleet of ATMs and revising their positioning d in order to cover every corner and be as close as possible to customers.



In addition to the advancements in the services offered through electronic channels and increase in the level of usability, special importance has been given to their performance, through the implementation of additional mechanisms that enable real-time monitoring of services and response without delays in case of operational problems. While, as the information security plays a critical role for the bank, we continued to raise the level of security by strengthening internal systems and controls.

During this period, several investments have been made in development of the core system, which were mainly oriented towards automation, raising controls and advancing processes, thus enabling the re-modeling of many internal processes and influencing increase in efficiency, mitigating risk and fulfilling the goal of providing quality services to customers.

If until yesterday it was considered sufficient only to meet the customer needs, today the bank is interested not only in offering services but in making them impressive and attractive to the customers. Therefore Product Development and Information Technology Department will continue their commitment to improve the quality of services by investing in the development of staff competences through training in relevant fields that will facilitate the achievement of bank's general goals.



COMPLIANCE, AML AND LEGAL

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BPB in addition to the internal regulatory aspect, built in harmony with laws, regulations, guidelines, local and international standards of good corporate governance, is an active part through our expert staff in various fields in the Commissions, where it contributes directly to the creation of primary and secondary legislation that regulates banking issues in Kosovo, thus protecting the interests of the creditor and the debtor by providing concrete practical analyses.

The anti-money laundering sector, meanwhile, is considered one of the most important parts of the banking sector, given that, essential processes that influence the creation of the correct and most updated profile of the bank's customers are managed through it. The bank has made continuous improvements in key areas in the risk-based approach, customer due diligence obligations, database, analysis and reporting of suspicious activities and employee training.

Special importance is also given to the management of the bank's internal documents, which includes the reflection of banking processes, regulatory and legal requirements, as well as the responsibilities of the relevant parties for the implementation of these banking processes in these documents.

Training of the bank's staff in the field of compliance has been one of our priorities, therefore training sessions have been organized for all staff, in order to inform and raise their awareness about legal and regulatory requirements, compliance activities and channels of communication, particularly emphasizing the role of the whistleblowing in the Bank.

The reporting process at BPB, through which the bank's staff has the opportunity to report any irregularities, fraud and other issues that may have a negative impact on the institution, helps us prevent issues that may negatively impact banking activities in time.


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INFORMATION SECURITY AND PROTECTION OF PERSONAL DATA

BPB

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Information security and the data protection continue to be among the main priorities of BPB, as a result of the rapid development of information technology, as well as the increase in the use of electronic services. Therefore, even last year, important steps were taken to guarantee the security of information and the privacy of personal data.

In this regard, maximum efforts have been made to create high reliability among customers and the banking market, by carrying out systematic checks in order to react to incidents, to identify any system flaws or possible cyber-attacks as soon as possible. This includes implementing technical and organizational measures to prevent data breaches and unauthorized disclosures, regularly reviewing and updating our information security and data protection policies and procedures to ensure they comply with the latest legal and regulatory requirements and providing regular training to our employees to promote a culture of information security and protection of personal data. BPB works systematically with customers and stakeholders to ensure they are aware of their rights when it comes to personal data, and to provide them with the tools and resources they need to exercise that right of privacy.

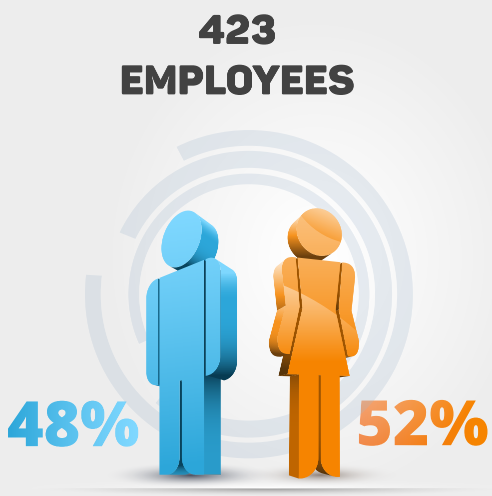
This includes providing clear and transparent notices about our data protection practices, making it easy for individuals to access and manage their personal data, and responding promptly to any requests or concerns related to personal data.
BPB is committed to maintaining the trust that customers and stakeholders have in the institution, always ensuring that we are in compliance with all applicable data protection laws and regulations.

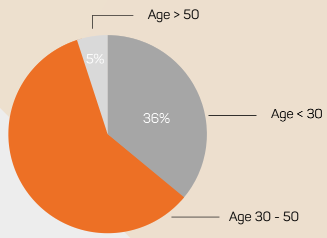
As we move forward, we will continue to monitor developments in this area and take steps to improve our data protection practices in line with the latest legal and regulatory requirements.

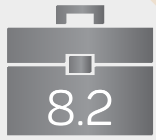
HUMAN RESOURCES AND TRAININGS

Banka e vendit tënd

At BPB, we believe that people are the key to success. We are committed to creating a workplace that values and supports each individual, encourages cooperation, innovation and where people can unlock their full potential. We want to make a real impact. As such, we invest in various methods to improve our culture and build a framework for employee development and well-being as part of our comprehensive approach to people management.







Year of experience, on average

* Calculated as of 31 December 2022 on a headcount basis

INAUGURATION OF "HR ACADEMY FROM BPB" AND ENCOURAGEMENT OF EMPLOYEE DEVELOPMENT

We want our employees to have the opportunity to build long and prosperous careers. This starts with our senior leaders and line managers, all of whom are expected to invest in the development of their employees and inspire excellence. We have a systematic approach to talent/senior development program, updating plans based on succession needs and employee skills, contribution, and employee future potential. Supporting this is the "HR Academy from BPB", representing a significant achievement in our ongoing commitment to employee development. This development training center offers a range of development programs that meet various needs of our employees, including both traditional classroom and online learning. Academy programs include mentoring and networking opportunities, career paths, refresher trainings, development programs, onboarding training, and internal employee transfer channels.

The Human Resources Department has organized about 10,000 hours of learning activities for the Bank employees'. Among others, we have enhanced our leadership by training a group of managers who will contribute in strengthen our unique culture and methods of working.

Furthermore, we have made significant progress in our hiring efforts, bringing talented, high-potential and passionate individuals to the team who share our values and vision.

This year we continued to focus on hiring even more internally, where employees were transferred to positions they had previously aimed. The Junior Program is essential for acquiring the skills and culture required for entry-level positions in our Bank. Throughout the year, we have met and collaborated with several universities and colleges, as well as other collaborators, for the program. This program provides the best possible transition for students to start their career in the Bank. In 2022, the program were able to develop and transform 30 juniors by providing mentoring and support to help them advance their skills, where 27 students were given the opportunity to begin a career in our Bank in various functions.

During this year, we were able to contribute even more to employee development by providing flexibility and efficiency of learning through the development of the e-Learning platform (electronic learning platform). Through e-learning, our employees were enabled to access learning materials at any time and follow their development in a more convenient and attractive way for them.

FOCUS ON IMPACT AND OUTCOME

To better understand our employees' needs and preferences, we conducted an employee survey on several different dimensions and developed regular employee satisfaction measurements (eNPS). Strategic alignment, collaboration, employee experience and well-being, career development, and other factors are measured in these surveys. The survey results help us in developing new initiatives to improve our human rescourses strategy and workplace culture. Given our appreciation for employees, we also conducted in social recreational activities. To promote a strong spirit of collaboration among our employees, we successfully organized events that brought our staff together to announce the strategy and celebrate our achievements. These approaches were a simple way for us to acknowledge and appreciate our team members for their dedication and hard work.

We engage with our employees and seek to build an even more diverse and inclusive organization. Similarly, by embracing flexibility, agile working practices and our deliberate focus on simplification and efficiency, we support a transformation that will generate significant benefits for our customers and our employees.

BPB is committed to integrating its corporate strategy with society goals in order to contribute to them. In short, BPB is not just about providing a job, it is about providing career and development opportunities. Finally, we would like to express our appreciation to our dedicated employees who have made this one of the most successful years in our Bank's history. We are proud of our accomplishments this year and look forward to continuing our efforts to create a workplace culture that prioritizes each individual, their hard work, and each employee's learning, growth, and development.

SOCIAL RESPONSIBILITY

BPB

Banka e vendit tënd

BPB is committed to having an active role in society, contributing to the community through collaborations that have had a significant impact over the years on the improvement of the quality of service delivery for some organizations that are already our partners.

BPB began 2022 by continuing to cooperate with the organizations with whom it has already signed a multi-year partnership. Organizations with a focus on women and children have also been our key partners. BPB has helped projects by focusing on the social welfare of the organizations Action for Mothers and Children, SOS Fshatrave and Down Syndrome Kosova.

BPB has supported the workshop for the finalization of the "Draft Law on Assessment, Status Recognition, Benefits and Services for Persons with Disabilities", which was attended by representatives from central and local level institutions, representatives from organizations of persons with disabilities and representatives from UNICEF. This workshop, with the help of the BPB, was organized by the Down Syndrome Kosova, in cooperation with the Ministry of Finance, Labor and Transfers with the support of the BPB.

Meanwhile, thanks to the cooperation with "SOS Fshatrat e Fëmijë Kosovë", BPB has hired some juniors from this non-governmental social care organization that is dedicated to supporting abandoned and children in need.

Another collaboration that will continue in the coming years is "Hardh Fest". BPB was this year the general sponsor of "Hardh Fest 2022", which returned to Rahovec after a two-year break. "HardhFest", meanwhile, has been organized in Kosovo since 2001, as a special traditional holiday, that marks the beginning of the harvest and the gathering of the fruits, as the crowning of the work of the winegrowers.

This year BPB has also explored the most beautiful places of Kosovo, thanks to the cooperation with the “Alpine Club Prishtina”. This cooperation had a series of activities related to the environment, culture, tourism, society, sports and socialization.

The guides that were organized between the two partners include joint appearances in these organizations with the aim of raising awareness of the country's natural and cultural aspects.

In 2022, BPB has also been the main partner of several local football and basketball teams.

The long-term plans of the bank aim to continue the support for the target categories, however, it will always be engaged in projects that go to the general good of society, and for which special attention is needed.

BANKA PËR BIZNES SH.A.

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

BPB

Banka e vendit tënd

BANKA PËR BIZNES SH.A.

Independent Auditor’s Report and Financial Statements for the year ended 31 December 2022

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Grant Thornton

Independent Auditor's Report

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To the Shareholders of

Banka për Biznes Sh.a.

Opinion

We have audited the financial statements of Banka për Biznes Sh.a. ("the Bank"), which comprise the statement of financial position as at 31 December 2022, 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 2022, 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 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 2022. The other information comprises the information included in the Annual report but does not include the financial statements and our Independent Auditor's report thereon.

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

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.

Grant Thornton

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,
27 March 2023

Suzana Stavrikj
Statutory Auditor

GRANT THORNTON L.L.C. KOSOVO

Banka për Biznes Sh.a.
Statement of Comprehensive Income
For the year ended 31 December 2022

In thousands of EUR	**Notes**	**2022**	**2021**
Interest income at effective interest rate	5	19,182	17,263
Interest expense	5	(2,389)	(2,015)
Net interest income		**16,793**	**15,248**
Fee and commission income	6	4,716	4,178
Fee and commission expense	6	(2,077)	(2,024)
Net fee and commission income		**2,639**	**2,154**
Recoveries of loans previously written off		1,022	543
Net gain on financial assets at fair value through OCI	13	691	1,010
Total operating income		**21,145**	**18,955**
Other income	7	581	432
Credit loss expense on loans and advances to customers	14	(1,151)	(1,228)
Credit loss expense on financial assets other than loans and advances to customers	10-13	(27)	(139)
Repossessed assets impairment	17.1	(597)	(171)
Gain/Loss allowance for financial guarantees and credit commitments	23	21	(2)
Other operating expenses	8	(10,720)	(9,222)
Profit before tax		**9,252**	**8,625**
Income tax expense	**9**	**(719)**	**(748)**
Net profit for the year		**8,533**	**7,877**
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	13.1	(938)	569
Total comprehensive income for the year		**7,595**	**8,446**

The notes from 1 to 28 are an integral part of these financial statements

Banka për Biznes Sh.a.
Statement of Financial Position
As at 31 December 2022

In thousands of EUR	Notes	2022	2021
Assets			
Cash on hand and at banks	10	23,097	26,427
Balances with Central Bank of Kosovo	11	51,884	61,530
Placements and balances with banks	12	6,325	5,237
Financial assets at fair value through OCI	13	54,925	47,620
Loans and advances to customers	14	272,189	232,234
Intangible assets	15	855	688
Property and equipment	16	2,472	2,513
Right of use Assets	22	2,580	2,378
Deferred tax asset	9	47	7
Other assets	17	714	525
Total assets		**415,088**	**379,159**
Liabilities			
Due to customers	18	352,305	319,614
Due to banks	19	1,169	2,533
Subordinated debt	20	502	502
Borrowings	21	4,873	6,832
Lease liability	22	2,665	2,452
Provisions	23	330	523
Other liabilities	23	5,545	4,235
Total liabilities		**367,389**	**336,691**
Equity			
Share capital	24	11,247	11,247
Other capital reserve		769	769
Revaluation reserve		96	96
Revaluation reserve for financial assets at fair value through OCI	13.1	(419)	519
Retained earnings		36,007	29,837
Total equity		**47,700**	**42,468**
Total liabilities and equity		**415,088**	**379,159**

These financial statements were approved by the management of the Bank on 23 March 2023 and signed on its behalf by:

Mimoza Godanci - Aliu
Chief Executive Officer

Gresa Godeni
Head of Finance Department

The notes from 1 to 28 are an integral part of these financial statements

Banka për Biznes Sh.a.
Statement of Changes in Equity
For the year ended 31 December 2022

In thousands of EUR	Share capital	Other capital reserve	Revaluation reserve	Revaluation reserve for financial assets at FVOCI	Retained earnings	Total
At January 1, 2021	**11,247**	**769**	**96**	**(50)**	**23,588**	**35,650**
Net profit for the year	-	-	-	-	7,877	7,877
Net change in fair value and ECL of financial instrument at FVOCI (Note 13.1)	-	-	-	569	-	569
Total comprehensive income for the year	**-**	**-**	**-**	**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**
At January 1, 2022	**11,247**	**769**	**96**	**519**	**29,837**	**42,468**
Net profit for the year	-	-	-	-	8,533	8,533
Net change in fair value and ECL of financial instrument at FVOCI (Note 13.1)	-	-	-	(938)	-	(938)
Total comprehensive income for the year	**-**	**-**	**-**	**(938)**	**8,533**	**7,595**
Dividend paid	-	-	-	-	(2,363)	**(2,363)**
Balance at December 31, 2022	**11,247**	**769**	**96**	**(419)**	**36,007**	**47,700**

The notes from 1 to 28 are an integral part of these financial statements

Banka për Biznes Sh.a.
Statement of Cash Flows
For the year ended 31 December 2022

In thousands of EUR	Note	2022	2021
Cash flows from operating activities			
Profit for the year before tax		9,252	8,625
Adjustment for:			
Amortization	15	461	321
Depreciation	16	877	760
Gain from disposal of property and equipment		-	(94)
Gain from sales of repossession of collateral		-	(6)
ECL/Impairment losses from loans	14	1,151	1,228
ECL/Impairment losses from financial assets		27	139
Impairment provision for repossessed assets	17.1	597	171
Other provisions		(21)	7
Interest expense	5	2,389	2,015
Interest income	5	(19,182)	(17,263)
		(4,448)	**(4,097)**
Changes in:			
Placements and balances with banks	12	(1,094)	(4)
Loans and advances to customers	14	(40,276)	(39,529)
Restricted balances with the CBK	11	(5,617)	(3,217)
Other assets	17	(189)	(104)
	18		
Due to customers	19	31,328	33,163
Other liabilities and provisions	23	1,329	2,127
Cash (used in) operating activities		**(18,968)**	**(11,661)**
Interest received		19,018	17,164
Interest paid		(2,409)	(1,992)
Income tax paid	9	(980)	(619)
Income tax adjustment	9	245	162
Deferred tax asset	9	(40)	(7)
Net cash (used in) / generated from operating activities		**(3,134)**	**3,047**
Cash flows from investing activities			
Sale of Investments at FVOCI		36,930	50,086
Purchase of Investments at FVOCI		(45,193)	(44,128)
Purchase of intangible assets	15	(653)	(381)
Gain from sale of FVOCI	13	(691)	(1,010)
Purchase of property and equipment	16	(818)	(978)
Proceeds from sale of property and equipment	16	-	94
Net cash used in investing activities		**(10,426)**	**6,730**
Cash flows from financing activities			
Repayment of leased liabilities		(689)	(748)
Repayment of borrowings	21	(3,479)	(2,219)
Receipts from borrowings	21	1,500	5,000
Dividend distributed		(2,363)	(1,628)
Net cash generated from financing activities		**(5,033)**	**405**
Net increase in cash and cash equivalents		**(18,593)**	**7,135**
Cash and cash equivalents at beginning of the year	10	60,056	52,921
Cash and cash equivalents at the end of the year	10	**41,463**	**60,056**

The notes from 1 to 28 are an integral part of these financial statements

Banka për Biznes Sh.a.
Notes to the financial statements
For the year ended 31 December 2022
(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 sub branches located throughout Kosovo (2021: 7 branches and 19 subbranches).

During the year 2022, the bank had changes in the Executive Management, where at the end of the year the new CEO has been appointed.

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 2022 and 2021.

2.2 Basis of measurement

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

Economic events considerations

Despite facing macroeconomic challenges like those seen in most countries, particularly European area due to the conflict in Ukraine and rising inflation, our bank has been successful in maintaining risk at acceptable levels. The banking industry, including our bank, has shown strong performance with record profits and effective risk management, leading to an improvement in asset quality. However, in order to be ready and prepared for any potential challenge that could impact the quality of the portfolio, the bank has taken action by ramping up its monitoring and analysis of sectors that may be vulnerable to inflation or energy crises. As a result, it has properly assessed these risks and allocated adequate reserves. The risk management department also thoroughly reviewed and updated necessary policies, strategies, methodologies, procedures, and other relevant documents to reflect necessary changes brought on by the inflation and energy crisis.
Despite the recent floods in the country, the bank has assessed the situation of these affected customers, but it has evaluated that the financial impact is not significant.

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 Note 26. These circumstances did not affect the appropriateness of the going concern assumption of the Bank.

Banka për Biznes Sh.a.
Notes to the financial statements
For the year ended 31 December 2022
(Amounts in thousands of EUR, unless otherwise stated)

2. BASIS OF PREPARATION(CONTINUED)

2.3 New and revised standards and interpretations

2.3.1 Effective standards, amendments to standards and implementations in 2022

Standards and amendments that are effective for the first time in 2022 are as follows:

- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16. The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.
- Reference to the Conceptual Framework – Amendments to IFRS 3. Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and to add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21

Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date.

- Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37. The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.
- Annual Improvements to IFRS Standards 2018–2020.
- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The Bank did not negotiate any Covid related rent concessions with its lessors and has no impact from this amendment.

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

2. BASIS OF PREPARATION (CONTINUED)

2.3 New and revised standards and interpretations (continued)

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

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB as follows:

- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4);
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

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 26.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Interest income and expense

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

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

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

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

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

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

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

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

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

b) Fees and commissions

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Fees and commissions (continued)

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

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

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

c) Lease

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

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

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

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

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

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

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early 2022

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Lease (continued)

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

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

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

Short-term leases and leases of low-value assets

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

d) Tax expense

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Tax expense (continued)

(ii) Deferred tax (continued)

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

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

(iii) Tax exposures

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.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 2022 and 2021, all Bank's financial assets are classified as measured at amortized cost or at FVOCI.

Business model assessment

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

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

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

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

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

Reclassifications

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

Financial liabilities

The Bank classifies its financial liabilities as measured at amortized cost.

(ii) Derecognition of financial assets

Financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(iii) De-recognition (continued)

Financial assets (continued)

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

Financial liabilities

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

(iv) Modifications of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(v) Offsetting

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

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

(vi) Amortized cost measurement

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

(vii) Fair value measurement

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment

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

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

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

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

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

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

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

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

Definition of default

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Quantitative Criteria

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

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

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

Qualitative Criteria

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

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

Significant increase in credit risk

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

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

- The quantitative criteria set up to measure the credit quality deterioration of the particular financial asset since initial recognition.
- The rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.
- Qualitative criteria based on internal evaluations and judgments which are sufficient to determine that a financial asset has met the criterion for the recognition of a loss allowance at an amount equal to lifetime expected credit losses.

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

Quantitative Criteria

The quantitative criteria 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. Bank measures the credit quality by assigned rating grades and thus the thresholds for significant increase in credit risk are stated in terms of those grades. The significant increase in credit risk is performed by assessing changes in probability of default. There are set specific thresholds, where Bank uses relative threshold to determine the SICR.

Qualitative Criteria

Bank has set the qualitative criteria to measure the significant increase in credit risk either on individually basis or collective basis.

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

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

<u>Internal Criteria</u>

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

Internal criteria for the Retail portfolio are considered as follows:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

Internal criteria for the Business portfolio are considered as follows:

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

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

Inputs and Measurement of Expected Credit Losses (ECL)

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

The key inputs for measuring ECL are as follows:

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

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.

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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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Loss Given Default (LGD)

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

Collateral recoveries for modelling LGD

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

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

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

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

Exposure at default (EAD)

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

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

CCF approximation

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Discounting factor

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

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

Measurement of Expected Credit Losses (ECL)

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

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

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

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

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

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

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

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

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

Collective assessment of ECL

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Measurement of ECL for Stage 1

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

Measurement of ECL for Stage 2

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

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

Measurement of ECL for Stage 3

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

Individual assessment of ECL

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

Forward-looking information

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) 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. Scenarios used are:

- Baseline scenario
- Optimistic scenario
- Pessimistic scenario

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Restructured and modified financial assets

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

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

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

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

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

Write-off of credit products

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Presentation of allowance for ECL in the statement of financial position

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

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

g) Cash and cash equivalents

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

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

h) Deposits, borrowings and subordinated debt

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Repossessed assets

Collateral held under loan agreement can only be possessed by the Bank in case of borrower's default and conduct of legal procedures in accordance with legislation of Kosovo, which enable the Bank to take full legal title and ownership. Only after the completion of these procedures, the Bank can sell or transfer the collateral. Repossessed assets are initially recognized using the bailiff set amount in the last auction and the bank impairs 100% of the repossessed assets at the moment of recognition. Any gain or loss from the sale of these assets is recognized in the profit or loss.

In addition, the Bank recognizes repossessed collateral as an asset only when it has full legal title of the collateral and the fair value of collateral can be determined reliably. The Bank cannot sell, transfer or re-pledge the collateral if legal procedures for transfer of ownership as a result of default have not been completed. The Bank holds the possession of properties acquired through enforcement in the form of a mortgage, for a maximal period of five years. If, within five years, the asset has not been sold by the Bank, it is written off.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Property and equipment (continued)

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

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

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

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

k) Intangible assets

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

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

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

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

l) Impairment of non-financial assets

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

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

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

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

m) Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

o) Financial guarantees and loan commitments

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 and ECL 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 of the Bank.

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4. USE OF ESTIMATES AND JUDGMENTS

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

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

a) Expected Credit Losses

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

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

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

(ii) the time value of money; and

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

b) Net realizable value of repossessed assets

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

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

Valuation techniques and significant unobservable inputs

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

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

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

c) Determining fair values

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

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

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

d) Disclosure and estimation of fair value

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

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

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

Financial instruments – fair value hierarchy

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

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4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

d) Disclosure and estimation of fair value (continued)

	2022			2021		
	Carrying value	Fair value Level 2	Level 3	Carrying value	Fair value Level 2	Level 3
Financial assets measured at fair value						
Financial investments at fair value through OCI	55,576	54,925	-	47,312	47,620	-
Financial assets not measured at fair value						
Cash on hand and at banks	74,981	-	74,981	87,957	-	87,957
Placements and balances with banks	6,325	-	6,325	5,237	-	5,237
Loans and advances to customers	272,189	-	272,189	232,234	-	232,234
Other financial assets	398	-	398	265	-	265
Financial liabilities not measured at fair value						
Due to customers	352,305	-	352,305	319,614	-	319,614
Due to banks	1,169	-	1,169	2,533	-	2,533
Subordinated debt	502	-	502	502	-	502
Borrowings	4,873	-	4,873	6,832	-	6,832
Other financial liabilities	5,544	-	5,544	4,235	-	4,235

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.

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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:

	2022	2021
Interest income at effective interest rate		
Loans and advances to customers	18,021	16,173
Placements and balances with banks	92	73
Financial investments	1,069	1,017
	19,182	**17,263**
Interest expense		
Due to customers	(2,252)	(1,907)
Subordinated debt	(37)	(37)
Borrowings	(100)	(71)
	(2,389)	**(2,015)**
Net interest income	**16,793**	**15,248**

6. FEE AND COMMISSION INCOME AND EXPENSES

	2022	2021
Fee and commission income		
Payment transfers and transactions	2,398	2,123
Account maintenance fees	1,393	1,286
Other fees and commissions	925	769
Total fee and commission income	**4,716**	**4,178**
Fee and commission expense		
Fees and commissions on bank accounts	(1,214)	(1,276)
Fees and commissions on social aid distribution	(22)	(20)
Other fees and commissions	(841)	(728)
Total fee and commission expense	**(2,077)**	**(2,024)**
Net fee and commission income	**2,639**	**2,154**

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7. OTHER INCOME

	2022	2021
Income from sale of repossessed assets	428	266
Other income for release of provisions (note 25.1)	79	-
Other income	74	166
Total	**581**	**432**

8. OTHER OPERATING EXPENSES

	2022	2021
Personnel expenses (see below)	5,616	4,821
Depreciation and amortization	1,339	1,081
Lease depreciation and other lease expenses	843	829
Insurance and security	837	745
Advertising and marketing expenses	323	328
Communications	262	207
Utilities and fuel	239	193
Repairs and maintenance	145	135
Legal expense	199	92
Card expenses outsource	54	58
Consultancy	175	81
Board member remuneration	107	77
Office materials	52	69
Cleaning expenses	64	62
Printing expense	43	40
Travel	31	17
Provisions for legal cases (note 25.1)	-	12
Other expenses	391	375
Total	**10,720**	**9,222**

The number of employees as at 31 December 2022 is 423 (31 December 2021: 394).

Personnel expenses are details as follows:

	2022	2021
Wages and salaries	4,561	3,793
Pension contribution	232	194
Accrued bonuses	786	808
Other compensations	37	26
Total	**5,616**	**4,821**

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9. INCOME TAX EXPENSE

Income tax expense comprises of:

	2022	2021
Current income tax expense	770	775
Deferred tax	(51)	(27)
	719	**748**

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	2022	Effective tax rate	2021
Profit before tax		**9,251**		**8,625**
Tax calculated	10%	925	10%	863
Adjustment due to difference on provision for loans based on IFRS 9	0.35%	32	0.35%	30
Written off loans tax effect	-	-	-	-
Tax effect of non-deductible expenses	0.19%	18	0.21%	18
Tax effect of the accrued interest on term deposits	0.38%	35	0.33%	28
Interest income from FVOCI investment taxed at source	1.16%	(107)	1.18%	(102)
Sponsorship	1.44%	(133)	0.71%	(62)
Income tax	**13.51%**	**770**	**12.77%**	**775**

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.

	2022	2021
Liability at the beginning	338	102
Effect of tax adjustments	(211)	80
Liability after adoption	**127**	**182**
Additions during the year	770	775
Payments during the year	(980)	(619)
(Assets)/Liability at the year end	**(83)**	**338**

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% (2021: 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 2020	**(20)**
Deferred depreciation	(1)
Deferred interest expenses	28
Movement of deferred tax	**27**
Deferred tax asset/liability as at 31 December 2021	**7**
Adjustments at the beginning of the year	(11)
Total as at 01.January 2022	**(4)**
Deferred depreciation	16
Deferred interest expenses	35
Movement of deferred tax	**51**
Deferred tax asset as at 31 December 2022	**47**

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10. CASH ON HAND AND AT BANKS

	2022	2021
Cash on hand	16,653	17,332
Cash at banks	6,446	9,097
Total	**23,099**	**26,429**
Allowance for ECL	(2)	(2)
Cash on hand and at banks after allowance for ECL	**23,097**	**26,427**

Cash and cash equivalents consist of the following:

	2022	2021
Cash on hand and at banks	23,099	26,429
Unrestricted balances with CBK (Note 11)	18,364	33,627
Total	**41,463**	**60,056**

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.

	2022				2021			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	-	-	-	-	-
Strong	469	-	-	469	706	-	-	706
Good	22,630	-	-	22,630	25,723	-	-	25,723
Satisfactory	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Credit impaired	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total	**23,099**	**-**	**-**	**23,099**	**26,429**	**-**	**-**	**26,429**

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10. CASH ON HAND AND AT BANKS (CONTINUED)

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

	Gross carrying amount		ECL		Total
	Stage 1	Stage 2, 3 and POCI	Stage 1	Stage 2, 3 and POCI	
	12-month ECL	Lifetime ECL	12-month ECL	Lifetime ECL	
As at 1 January 2021	**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 during the year	**1,329**	**-**	**16**	**-**	**1,345**
As at 31 December 2021	**26,429**	**-**	**(2)**	**-**	**26,427**
All transfers	-	-	-	-	
Derecognitions other than write-offs	(3,330)	-	-	-	**(3,330)**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased					
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change during the year	**(3,330)**	**-**	**-**	**-**	**(3,330)**
As at 31 December 2022	**23,099**	**-**	**(2)**	**-**	**23,097**

An analysis of changes in the ECLs for cash on hand and at banks for 2022 is, as follow:

Movement of ECL for cash on hand and at banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2022	**2**	**-**	**-**	**2**
Transfers:				
Derecognitions other than write-offs	-	-	-	**-**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**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 2021 is, as follow:

Movement of ECL for cash on hand and at banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL 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	-	-	-	**-**
Allowance for ECL as at 31 December 2021	**2**	**-**	**-**	**2**

11. BALANCES WITH CENTRAL BANK OF KOSOVO

	2022	**2021**
Statutory reserves	33,525	27,908
Current accounts	18,364	33,627
Total	**51,889**	**61,535**
Allowance for ECL/Impairment losses	(5)	(5)
Balances with Central Bank of Kosovo after allowance for ECL	**51,884**	**61,530**

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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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.

	2022				2021			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	51,889	-	-	**51,889**	61,535	-	-	**61,535**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**51,889**	**-**	**-**	**51,889**	**61,535**	**-**	**-**	**61,535**

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 2021	**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 during the year	**9,023**	**-**	**42**	**-**	**9,065**
As at 31 December 2021	**61,535**	**-**	**(5)**	**-**	**61,530**
All transfers:					
Derecognitions other than write-offs	(9,646)	-	-	-	**(9,646)**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased					
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change during the year	**(9,646)**	**-**	-	**-**	**(9,646)**
As at 31 December 2022	**51,889**	**-**	**(5)**	**-**	**51,884**

(Amounts in thousands of EUR, unless otherwise stated)

11. BALANCES WITH CENTRAL BANK OF KOSOVO (CONTINUED)

An analysis of changes in the ECLs for balances with Central Bank of Kosovo for 2022 is, as follow:

Movement of ECL for balances with Central Bank of Kosovo	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2022	**5**	**-**	**-**	**5**
Transfers:				
Derecognitions other than write-offs		-	-	
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**5**	**-**	**-**	**5**

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**
Allowance for ECLas 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	-	-	-	**-**
Allowance for ECLas at 31 December 2021	**5**	**-**	**-**	**5**

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12. PLACEMENTS AND BALANCES WITH BANKS

	2022	2021
Term deposits		
Ziraat Bankasi	2,204	2,938
BKT	4,041	2,203
	6,245	**5,141**
Restricted accounts:		
Raiffeisen Bank International	125	125
Ziraat Bankasi	-	10
	125	**135**
Total	**6,370**	**5,276**
Allowance for ECL/Impairment losses	(45)	(39)
Placements and balances with banks after allowance for ECL	**6,325**	**5,237**
Current	6,370	5,211
Non-current	-	65

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.

	2022				2021			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	6,370	-	-	**6,370**	5,276	-	-	**5,276**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**6,370**	**-**	**-**	**6,370**	**5,276**	**-**	**-**	**5,276**

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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 2021	**5,272**	-	**(11)**	-	**5,261**
All transfers:	-	-	-	-	**-**
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	4	-	(28)	-	**(24)**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change during the year	**4**	**-**	**(28)**	-	**(24)**
As at 31 December 2021	**5,276**	**-**	**(39)**	**-**	**5,237**
All transfers:	-	-	-	-	**-**
Derecognitions other than write-offs	-	-	-	-	**-**
Repayments and change in cash flow	-	-	-	-	**-**
New financial assets originated or purchased	1,094	-	(6)	-	**1,088**
Write-offs	-	-	-	-	**-**
Foreign currency effect and other movements	-	-	-	-	**-**
Net change during the year	**1,094**	-	**(6)**	-	**1,088**
As at 31 December 2022	**6,370**	**-**	**(45)**	**-**	**6,325**

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12. PLACEMENTS AND BALANCES WITH BANKS (CONTINUED)

An analysis of changes in the ECLs for balances with banks for 2022 is, as follow:

Movements of ECL for balances with banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2022	**39**	**-**	**-**	**39**
Transfers:				
Derecognitions other than write-offs		-	-	
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	6	-	-	**6**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**45**	**-**	**-**	**45**

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**
Allowance for ECL 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	-	-	-	**-**
Allowance for ECLas at 31 December 2021	**39**	**-**	**-**	**39**

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13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

	2022	2021
Government Bonds	54,925	47,620
Total	**54,925**	**47,620**

During the year 2022 Bank has registered 10 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 691thousand (2021: EUR 1,010 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.

	2022				2021			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	54,925	-	-	**54,925**	47,620	-	-	**47,620**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Substandard	-	-	-	**-**	-	-	-	**-**
Credit impaired	-	-	-	**-**	-	-	-	**-**
Unrated	-	-	-	**-**	-	-	-	**-**
Total	**54,925**	-	-	**54,925**	**47,620**	-	-	**47,620**

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 2021	**53,578**	-	**(43)**	**-**	**53,535**
Correction of the opening balances	**-**	-	**43**	**-**	**43**
All transfers					
Derecognitions other than write-offs	(50,086)	**-**	**-**	**-**	**(50,086)**
New financial assets originated or purchased	44,128	**-**	**-**	**-**	**44,128**
Write-offs	-	**-**	**-**	**-**	
Net change during the year	**5,958**	-	**43**	**-**	**5,915**
As at 31 December 2021	**47,620**	-	**-**	**-**	**47,620**
All transfers					
Derecognitions other than write-offs	(39,394)	**-**	**-**	**-**	**(39,394)**
Repayments and change in cash flow	-	**-**	**-**	**-**	**-**
New financial assets originated or purchased	46,699	**-**	**-**	**-**	**46,699**
Write-offs	**-**	**-**	**-**	**-**	**-**
Net change during the year	**7,305**	**-**	**-**	**-**	**7,305**
As at 31 December 2022	**54,925**	-	**-**	**-**	**54,925**

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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 2022 is, as follow:

Movement of ECL for financial assets at fair value through OCI	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL as at 1 January 2022	**211**	**-**	**-**	**211**
Transfers:				
Derecognitions other than write-offs	(70)	-	-	**(70)**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	92	-	-	**92**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**233**	**-**	**-**	**233**

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
Allowance for ECL 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	-	-	-	**-**
Allowance for ECL as at 31 December 2021	**211**	**-**	**-**	**211**

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13.1 Revaluation reserve for FVOCI securities

	For the year ended 31-Dec-22	For the year ended 31-Dec-21
Gain (loss) on change of fair value FVOCI financial instruments	(651)	308
Credit/Debit to other comprehensive income	**(651)**	**308**

The movement in revaluation reserve is as follows:

	For the year ended 31-Dec-22	For the year ended 31-Dec-21
Market price as at January 1	**308**	**(93)**
Price change of financial instruments FVOCI (a)	(959)	401
Net as presented in other comprehensive income	**(959)**	**401**
Market price as of December 31 (A)	**(651)**	**308**
Allowance for ECL of securities at FVOCI at 01 January – as stated	(211)	-
Allowance for ECL of securities at FVOCI at 01 January - correction	-	(43)
Net presented in profit or loss (b)	(21)	(168)
Allowance for ECL of securities at FVOCI at December 31 (B)	**(232)**	**(211)**
Revaluation Reserve for FVOCI as at December 31 (A-B)	**(419)**	**519**
Change in Revaluation reserve for FVOCI securities during the year (a-b)	**(938)**	**569**

Change in fair value is presented as a net balance in statement of changes in equity.

During the year 2022 the price change of financial instruments FVOCI by EUR 959 consists of:

	For the year ended 31-Dec-22
Sale of financial instruments - reclassification to profit or loss	114
Existing financial instruments and additions during the year	(1,073)
Total	**(959)**

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14. LOANS AND ADVANCES TO CUSTOMERS

	2022	2021
Loans and advances to customers	**279,542**	**239,176**
Accrued interest	1,333	1,169
Deferred disbursement fees	(844)	(754)
Total	**280,031**	**239,591**
Allowance for ECL/impairment losses on loans and advances to customers	(7,842)	(7,357)
Loans and advances to customers, net	**272,189**	**232,234**
Current	84,723	74,877
Non-current	187,466	157,357

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

	2022	2021
Gross carrying amount		
Non - retail loans	146,709	128,997
Retail loans	133,322	110,594
	280,031	**239,591**
ECL/impairment losses		
Allowance for ECL/impairment losses – Non – Retail loans	(5,771)	(6,108)
Allowance for ECL/impairment losses – Retail loans	(2,071)	(1,249)
Allowance for ECL/impairment losses on loans and advances to customers	**(7,842)**	**(7,357)**
Loans and advances to customers, net	**272,189**	**232,234**

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

	2022	2021
At 1 January	7,357	7,327
ECL/Loan loss provision	1,151	1,228
Loans written off	(666)	(1,198)
At 31 December	**7,842**	**7,357**

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 38,091 thousand).

As at 31 December 2022 and 2021 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 15,718 thousand or 5.58% of the portfolio (2021: EUR 14,740 thousand or 6.09%).

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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:

	Stage 1	Stage 2	Stage 3	
Total loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2022	**216,067**	**17,661**	**5,863**	**239,591**
Transfers:				
Transfer from Stage 1 to Stage 2	(21,188)	21,188	-	**-**
Transfer from Stage 1 to Stage 3	(813)	-	813	**-**
Transfer from Stage 2 to Stage 1	2,062	(2,062)	-	**-**
Transfer from Stage 2 to Stage 3	-	(459)	459	**-**
Transfer from Stage 3 to Stage 2	-	89	(89)	**-**
Transfer from Stage 3 to Stage 1	4	-	(4)	**-**
Derecognitions other than write-offs	(61,636)	(6,692)	(695)	**(69,023)**
Repayment and change in cash flow	(27,733)	(2,663)	(543)	**(30,939)**
New loans originated or purchased	116,737	23,724	607	**141,068**
Write-offs	-	-	(666)	**(666)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2022	**223,500**	**50,786**	**5,745**	**280,031**

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

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14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Total loans	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
ECL amount as at 1 January 2022	**431**	**2,454**	**4,472**	**7,357**
Transfers:				
Transfer from Stage 1 to Stage 2	(642)	642	-	**-**
Transfer from Stage 1 to Stage 3	(648)	-	648	**-**
Transfer from Stage 2 to Stage 1	24	(24)	-	**-**
Transfer from Stage 2 to Stage 3	-	(308)	308	**-**
Transfer from Stage 3 to Stage 2	-	5	(5)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	1,638	(1,204)	313	**747**
Derecognitions other than write-offs	(93)	(684)	(524)	**(1,301)**
New loans originated or purchased	671	606	428	**1,705**
Write-offs	-	-	(666)	**(666)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**950**	**(967)**	**502**	**485**
ECL amount as at 31 December 2022	**1,381**	**1,487**	**4,974**	**7,842**

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

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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 non-retail loans are as follows:

Non – retail loans	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2022	**109,092**	**14,905**	**5,000**	**128,997**
Transfers:				
Transfer from Stage 1 to Stage 2	(10,237)	10,237	-	**-**
Transfer from Stage 1 to Stage 3	(518)	-	518	**-**
Transfer from Stage 2 to Stage 1	1,627	(1,627)	-	**-**
Transfer from Stage 2 to Stage 3	-	(380)	380	**-**
Transfer from Stage 3 to Stage 2	-	19	(19)	**-**
Transfer from Stage 3 to Stage 1	3	-	(3)	**-**
Derecognitions other than write-offs	(35,521)	(6,199)	(587)	**(42,307)**
Repayments and change in cash flow	(17,900)	(2,286)	(471)	**(20,657)**
New loans originated or purchased	61,400	19,140	513	**81,053**
Write-offs	-	-	(377)	**(377)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2022	**107,946**	**33,809**	**4,954**	**146,709**

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

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14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Non – retail loans	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
ECL amount as at 1 January 2022	**295**	**1,995**	**3,818**	**6,108**
Transfers:				
Transfer from Stage 1 to Stage 2	(326)	326	-	**-**
Transfer from Stage 1 to Stage 3	(417)	-	417	**-**
Transfer from Stage 2 to Stage 1	20	(20)	-	**-**
Transfer from Stage 2 to Stage 3	-	(246)	246	**-**
Transfer from Stage 3 to Stage 2	-	2	(2)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	735	(915)	283	**103**
Derecognitions other than write-offs	(65)	(629)	(449)	**(1,143)**
New loans originated or purchased	250	467	363	**1,080**
Write-offs	-	-	(377)	**(377)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**197**	**(1,015)**	**481**	**(337)**
ECL amount as at 31 December 2022	**492**	**980**	**4,299**	**5,771**

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

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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 retail loans are as follows:

Retail loans	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2022	**106,975**	**2,756**	**863**	**110,594**
Transfers:				
Transfer from Stage 1 to Stage 2	(10,950)	10,950	-	**-**
Transfer from Stage 1 to Stage 3	(295)	-	295	**-**
Transfer from Stage 2 to Stage 1	436	(436)	-	**-**
Transfer from Stage 2 to Stage 3	-	(79)	79	**-**
Transfer from Stage 3 to Stage 2	-	70	(70)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Derecognitions other than write-offs	(26,116)	(491)	(107)	**(26,714)**
Repayments and change in cash flow	(9,833)	(376)	(73)	**(10,282)**
New loans originated or purchased	55,336	4,584	94	**60,014**
Write-offs	-	-	(290)	**(290)**
FX and other movements	-	-	-	**-**
Gross carrying amount as at 31 December 2022	**115,553**	**16,978**	**791**	**133,322**

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

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14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL amount as at 1 January 2022	**136**	**459**	**654**	**1,249**
Transfers:				
Transfer from Stage 1 to Stage 2	(316)	316	-	**-**
Transfer from Stage 1 to Stage 3	(231)	-	231	**-**
Transfer from Stage 2 to Stage 1	3	(3)	-	**-**
Transfer from Stage 2 to Stage 3	-	(62)	62	**-**
Transfer from Stage 3 to Stage 2	-	3	(3)	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
Changes in PDs/LGDs/EADs	903	(289)	30	**644**
Derecognitions other than write-offs	(28)	(55)	(74)	**(157)**
New loans originated or purchased	422	138	65	**625**
Write-offs	-	-	(290)	**(290)**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**753**	**48**	**21**	**822**
ECL amount as at 31 December 2022	**889**	**507**	**675**	**2,071**

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 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**

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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 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**
At 1 January 2022	**6,108**	**1,249**	**7,357**
Charge for the year	40	1,111	1,151
Amounts written off	(377)	(289)	(666)
At 31 December 2022	**5,771**	**2,071**	**7,842**

15. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2021	**2,241**
Re-classification of the opening balances	23
Additions	381
At 31 December 2021	**2,645**
Re-classification of the opening balances	(31)
Additions	653
Disposals	(837)
At 31 December 2022	**2,430**
Accumulated Amortization	
At 1 January 2021	**1,635**
Re-classification of the opening balances	1
Charge for the year	321
At 31 December 2021	**1,957**
Re-classification of the opening balances	(7)
Charge for the year	461
Disposals	(836)
At 31 December 2022	**1,575**
Carrying amount	
At 31 December 2021	**688**
At 31 December 2022	**855**

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16. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Vehicles	Total
Cost						
At 1 January 2021	**683**	**1,050**	**702**	**2,767**	**779**	**5,981**
Re-classification 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**
Re-classification of the opening balances	-	55	137	(163)	(2)	27
Additions during the year	-	171	150	496	-	817
Disposals during the year	-	(6)	(60)	(405)	(2)	(473)
At 31 December 2022	**705**	**1,400**	**1,251**	**2,987**	**691**	**7,034**
Accumulated depreciation						
At 1 January 2021	**96**	**633**	**533**	**1,827**	**574**	**3,663**
Re-classification 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**
Re-classification of the opening balances	-	45	113	(145)	(3)	10
Charge for the year	33	159	127	430	128	877
Disposals for the year	-	(7)	(60)	(404)	(3)	(474)
At 31 December 2022	**183**	**991**	**938**	**2,052**	**398**	**4,562**
Carrying amounts						
At 31 December 2021	**555**	**386**	**266**	**887**	**419**	**2,513**
At 31 December 2022	**522**	**409**	**313**	**935**	**293**	**2,472**

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

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17. OTHER ASSETS

	2022	2021
Prepaid expenses	316	260
Repossessed assets (see note 17.1)	-	-
Receivables from customers	203	200
Accrued income from banking services	14	17
Accrued fees and commissions	35	27
Other receivables	230	105
ECL for other assets	(84)	(84)
Total	**714**	**525**

An analysis of changes in the ECLs for other assets for 2022 is, as follow:

Movement of ECL for other assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2022	**84**	**-**	**-**	**84**
Transfers:				
Derecognitions other than write-offs	-	-	-	**-**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**84**	**-**	**-**	**84**

An analysis of changes in the ECLs for other assets for 2021 is, as follow:

Movement of ECL for other assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2021	**84**	**-**	**-**	**84**
Transfers:				
Derecognitions other than write-offs	-	-	-	**-**
Repayments and change in cash flow	-	-	-	**-**
New financial assets originated or purchased	-	-	-	**-**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2021	**84**	**-**	**-**	**84**

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17.1 REPOSSESED ASSETS

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

	2022	2021
Residential real estate	-	347
Commercial real estate	-	319
Addition during the year	597	171
Disposal during the year	(514)	(171)
Total	**83**	**666**
Less: Impairment provision	(83)	(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 2022 was EUR 100 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 asses.

Movements in the impairment provision are as follows:

	2022	2021
At 1 January	-	666
Allowance for impairment during the year	597	171
Reversal on disposal	(597)	(171)
Write off	-	(666)
At 31 December	**-**	**-**

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18. DUE TO CUSTOMERS

Out of the total amount of EUR 352,305 thousand, the amount of EUR 1,272 thousand represents the accrued interest as at December 31, 2022 (December 31, 2021 EUR 319,614 thousand: EUR 1,067 thousand).

	2022	2021
Current accounts	**177,683**	**168,846**
In EUR	174,063	165,908
In foreign currencies	3,620	2,938
Add: Current maturity of long-term customer deposits	142,901	109,671
Total short-term customer deposits	**320,584**	**278,517**
Term deposits	**174,622**	**150,768**
In EUR	174,520	149,806
In foreign currencies	102	962
Less: Current maturity of long-term customer	(142,901)	(109,671)
Total long-term customer deposits	**31,721**	**41,097**
Total	**352,305**	**319,614**

19. DUE TO BANKS

Out of the total amount EUR 1,169 thousand, the amount of 1 thousand comes from the foreign banks (December 31, 2021 EUR 2,533 thousand, EUR 169 thousand) and the others is domestic and all are current accounts with no interests.

DUE TO BANKS	2022	2021
In EUR	1,168	2,364
In foreign currencies	1	169
Total	**1,169**	**2,533**

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20. SUBORDINATED DEBT

	2022	2021
Subordinated debt		
EMF MICROFINANCE FUND AGMVK	502	502
Total	**502**	**502**

During the year 2018, the Bank entered into a subordinated loan agreement with Blue Orchard in the 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 2022 the Bank is in compliance with financial covenants attached to the agreement with EMF Microfinance Fund AGMVK.

21. BORROWINGS

Borrowings	2022	2021
Borrowings from EFSE	-	250
Borrowings from EBRD	4,873	6,582
Total	**4,873**	**6,832**
Current	2,167	2,333
Non-Current	2,706	4,499

During the year 2022, the Bank entered into a borrowing agreement with EBRD (European Bank for Reconstruction and Development) for a total amount of EUR 4,500 thousand. Only EUR 1,500 thousand was disbursed in 2022.The purpose is to support youth in business, and it aims youth's participation in economy. The borrowing bears an interest rate of 1.8% annually plus 6 months EURIBOR, which is repayable within three years. The interest is payable on a semi-annual basis.

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 plus 6 months EURIBOR, which is repayable within three years. The interest is payable on a semi-annual basis.

The bank provides quarterly to EBRD the financial statements and the financial covenants and during 2022 and 2021 the Bank was in full compliance with the financial covenants.

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. Loan matured in 2022 and is fully repaid.

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21. BORROWINGS (CONTINUED)

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. Loan matured in 2022 and is fully repaid.

The borrowing are not secured with any collateral.

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

2022	**1 January**	**Cash inflows**	**Cash outflows**	**Accrued interest**	**31 December**
Borrowings	**6,832**	1,500	(3,479)	20	**4,873**
2021					
Borrowings	**4,074**	5,000	(2,219)	(23)	**6,832**

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22. RIGHT OF USE ASSETS AND LEASE LIABILITY

Right-of-use assets and lease liabilities

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

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

The Bank recognized right of use assets as follows:

	Buildings	Total
Carrying amount at 1 January 2021	**2,553**	**2,553**
Additions	514	514
Disposals	-	-
Depreciation charge	(689)	(689)
Carrying amount at 31 December 2021	**2,378**	**2,378**
Additions	910	910
Disposals	-	-
Depreciation charge	(708	(708)
Carrying amount at 31 December 2022	**2,580**	**2,580**

The Bank recognized lease liabilities as follows:

	31 December 2022	31 December 2021
Short-term lease liabilities	688	644
Long-term lease liabilities	1,977	1,808
Total lease liabilities	**2,665**	**2,452**

Lease commitments

Operating lease commitments. The future minimum lease payments under non-cancellable operating leases, where the Bank is the lessee, at 31 December 2022 are EUR 366 (2021: 363).

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23. OTHER LIABILITIES AND PROVISIONS

	2022	2021
Payable related to clearing transactions with CBK	2,294	538
Payables on behalf of third parties	1,404	1,763
Due to suppliers	957	683
Other creditors	772	1,134
Payable on behalf of Ministry of Economy and Finance	67	46
Allowance for ECL for unused commitments	36	50
Allowance for ECL for financial guarantees issued by the Bank	15	21
Total other liabilities	**5,545**	**4,235**
Provisions (see Note 25.1 below)	330	523
Total	**5,875**	**4,758**

An analysis of changes in the ECLs for unused commitments for 2022 and 2021 is, as follow:

	Stage 1	Stage 2	Stage 3	
Unused commitments 2022	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Allowance for ECL as at 1 January 2022	**26**	**22**	**2**	**50**
Transfers:				
Transfer from Stage 1 to Stage 2	(2)	2	-	**-**
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	(4)	(5)	(1)	**(10)**
Derecognitions other than write-offs	(12)	(17)	(1)	**(30)**
Repayments and change in cash flow	-	-	-	**-**
New commitments originated or purchased	13	7	6	**26**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**(5)**	**(13)**	**4**	**(14)**
Allowance for ECL as at 31 December 2022	**21**	**9**	**6**	**36**

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23. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

Unused commitments 2021	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Allowance for ECL as at 1 January 2021	**34**	**12**	**-**	**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**
Allowance for ECL as at 31 December 2021	**26**	**22**	**2**	**50**

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

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Allowance for ECL as at 1 January 2022	**2,300**	**66**	**10**	**2,376**
Transfers:				
Transfer from Stage 1 to Stage 2	(37)	37	-	**-**
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	-	-	-	**-**
Derecognitions other than write-offs	(1,362)	(14)	-	**(1,376)**
Repayments and change in cash flow	-	-	-	**-**
New guarantees originated or purchased	410	40	-	**450**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Allowance for ECL as at 31 December 2022	**1,311**	**129**	**10**	**1,450**

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23. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2021	**2,008**	**64**	**13**	**2,085**
Transfers:				
Transfer from Stage 1 to Stage 2	(17)	17	-	**-**
Transfer from Stage 1 to Stage 3	(5)	-	5	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-		
Transfer from Stage 3 to Stage 2	-	-	-	**-**
Transfer from Stage 3 to Stage 1	-	-	-	**-**
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**

Letters of guarantees	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Allowance for ECL amount as at 1 January 2022	**2**	**12**	**7**	**21**
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	-	(9)	1	**(8)**
Derecognitions other than write-offs	-	(2)	1	**(1)**
New guarantees originated or purchased	1	2	-	**3**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Net change in profit and loss	**(1)**	**(7)**	**1**	**(7)**
ECL amount as at 31 December 2022	**2**	**4**	**9**	**15**

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23. OTHER LIABILITIES AND PROVISIONS (CONTINUED)

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

24. SHARE CAPITAL 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 2022, the subscribed capital was divided into 28,530 ordinary shares (2021: 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**	**2022**		**2021**	
		%	**EUR**	**%**	**EUR**
1	Afrim Govori	21.27	2,392	21.27	2,392
2	Shaqir Palushi	20.56	2,312	11.81	1,328
3	Rrustem Aliaj	17.27	1,942	17.27	1,942
4	EBRD	10.00	1,125	10.00	1,125
5	Mejdi Rexhepi	9.35	1,052	9.35	1,052
6	Moneta Sh.p.k	7.77	874	7.77	874
7	Kareman Limani	4.85	545	4.85	545
8	Banca di Cividale S.P.A.	4.62	520	4.62	520
9	Ahmet Arifi	2.39	269	2.39	269
10	Luani Limited	0.44	49	0.44	49
11	Sokol Krasniqi	0.38	42	0.38	42
12	Agim Bilalli	0.31	35	0.31	35
13	Besnik Vrella	0.31	36	0.31	36
14	Habibe Aliu	0.31	35	0.31	35
15	Flamur Bryma	0.09	10	0.09	10
16	Nazmi Viça	0.04	5	8.75	984
17	Naim Abazi	0.04	4	0.04	4
18	Ismet Sylejmani	-	-	0.04	5
Total		**100.00**	**11,247**	**100.00**	**11,247**

24. SHAREHOLDER'S EQUITY AND RESERVES (CONITINUED)

Dividend distribution

During 2022 a dividend was paid for year 2021. The payment was made based on the decision of the shareholder's assembly and approved by the CBK with decision no. 30-12 / 2022. The value of the dividend paid is Eur 2,363 thousand, or 30% of the profit. The dividend paid per share was Eur 82.83.

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 previously been obtained as repossessed collateral and revaluated. The building was recognized by the Bank in Property and equipment with a corresponding amount in the revaluation reserve in equity. Subsequently, the building is carried at amortized cost.

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 (2021: 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.

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25. 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	2022	2021
Secured by cash deposits	616	1,256
Secured by collateral (real estate and movable collateral)	834	1,119
Less: Allowance for ECL for letters of guarantees recognized as other liabilities	(15)	(21)
Total	**1,435**	**2,354**

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

Credit commitments	2022	2021
Approved but not disbursed loans	-	-
Unused overdraft limits approved	8,116	8,249
Unused credit card facilities	458	493
Allowance for ECL for unused credit card facilities recognized as other liabilities	(36)	(50)
Total	**8,538**	**8,692**

25.1 PROVISIONS

Legal

The Bank is involved in routine legal proceedings in the ordinary course of business as at 31 December 2022 and 2021. 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.

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:

	2022	2021
At 1 January	523	511
Additions during the year	34	35
Utilized during the year	(148)	(23)
Released during the year	(79)	-
At 31 December	**330**	**523**

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26. FINANCIAL RISK MANAGEMENT

26.1 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.

Risk Management

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 managing banks' risks.

The Bank has followed the strategy of further diversification and growth in loan portfolio according to the defined segments of the loans.

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

In line with the 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.

Economic events considerations

Despite facing macroeconomic challenges like those seen in most countries, particularly European area due to the conflict in Ukraine and rising inflation, our bank has been successful in maintaining risk at acceptable levels. The banking industry, including our bank, has shown strong performance with record profits and effective risk management, leading to an improvement in asset quality. However, in order to be ready and prepared for any potential challenge that could impact the quality of the portfolio, the bank has taken action by ramping up its monitoring and analysis of sectors that may be vulnerable to inflation or energy crises. As a result, it has properly assessed these risks and allocated adequate reserves. The risk management department also thoroughly reviewed and updated necessary policies, strategies, methodologies, procedures, and other relevant documents to reflect necessary changes brought on by the inflation and energy crisis.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 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.

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. The bank has further improved the credit quality, regarding the loan quality indicator – Non-performing loans (NPL) in 2021 it was 2.45%, while in 2022 this indicator is 2.05%.

Impairment assessment

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 managing banks' risks.

The Bank has followed the strategy of further diversification and growth in loan portfolio according to the defined segments of the loans.

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

In line with the 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.

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 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 borrowers are rated from 0 to 8 for performing borrowers and rating 9 which represent non-performing borrower.

Below are disclosed internal credit rating grades used by bank as of 31 December 2022:

Rating IFRS 9	Average of 12-month PD	Average of LGD
0	0.7%	55.1%
1	0.6%	53.7%
2	0.9%	53.4%
3	0.8%	51.8%
4	1.4%	49.4%
5	2.5%	51.6%
6	3.6%	51.5%
7	10.7%	52.8%
8	26.0%	52.0%
Default	100.0%	62.6%

Internal credit rating grades used by bank as of 31 December 2021:

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**		

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.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.1 Impairment assessment (continued)

Restructured and modified loans (continued)

Reclassification criteria for restructured loans

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

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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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.1 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 2022:

		Stage 1		Stage 2		Stage3			
31-Dec-22	**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	146,709	3,000	3,000	3,025	3,025	2,491	2,491	8,516	5.80%
Retail loans	133,322	35	35	179	179	130	130	344	0.26%
Total loans and advances to customers	**280,031**	**3,035**	**3,035**	**3,204**	**3,204**	**2,621**	**2,621**	**8,860**	**3.16%**

31-Dec-22	**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	3,000	3,025	2,491	8,516	24	155	2,171	2,350
Retail loans	35	179	130	344	1	7	108	116
Total loans and advances to customers	**3,035**	**3,204**	**2,621**	**8,860**	**25**	**162**	**2,279**	**2,466**

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.1 Impairment assessment (continued)

Restructured and modified loans (continued)

The following tables provide a summary of the Bank's forborne assets as of 31 December 2021:

		Stage 1		Stage 2		Stage 3			
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	4,342	6,121	6,121	2,621	2,621	13,084	10.10%
Retail loans	110,594	63	63	74	74	77	77	214	0.20%
Total loans and advances to customers	**239,591**	**4,405**	**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	1,887	2,864
Retail loans	63	74	77	214	-	19	54	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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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.1 Impairment assessment (continued)

Set out below is an analysis of assets measured at amortized cost during the year ended 31 December 2022:

Assets measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying value per asset type				
Individual	115,553	16,977	791	**133,321**
Trade	38,792	5,743	1,076	**45,611**
Production	24,008	3,874	788	**28,670**
Agro	13,163	1,453	610	**15,226**
Construction	12	17,279	676	**17,967**
Services	15,864	1,731	598	**18,193**
Other	16,108	3,729	1,206	**21,043**
Total gross carrying value	**223,500**	**50,786**	**5,745**	**280,031**
Loss allowance per asset type				
Individual	(889)	(507)	(674)	**(2,070)**
Trade	(88)	(215)	(896)	**(1,199)**
Production	(51)	(111)	(730)	**(892)**
Agro	(280)	(119)	(560)	**(959)**
Construction	-	(280)	(570)	**(850)**
Services	(38)	(91)	(506)	**(635)**
Other	(36)	(164)	(1,037)	**(1,237)**
Total loss allowance	**(1,382)**	**(1,487)**	**(4,973)**	**(7,842)**

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.1 Impairment assessment (continued)

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

Assets to be measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying value per asset type				
Individual	106,975	2,756	863	**110,594**
Trade	37,614	3,300	1,273	**42,187**
Production	23,167	1,331	538	**25,036**
Agro	13,429	1,480	676	**15,585**
Construction	11,476	2,822	656	**14,954**
Services	11,672	1,739	617	**14,028**
Other	11,734	4,233	1,240	**17,207**
Total gross carrying value	**216,067**	**17,661**	**5,863**	**239,591**
Loss allowance per asset type				
Individual	(136)	(459)	(654)	**(1,249)**
Trade	(89)	(484)	(1,045)	**(1,618)**
Production	(59)	(163)	(402)	**(624)**
Agro	(57)	(275)	(542)	**(874)**
Construction	(28)	(344)	(522)	**(894)**
Services	(29)	(247)	(495)	**(771)**
Other	(32)	(481)	(814)	**(1,327)**
Total loss allowance	**(430)**	**(2,453)**	**(4,474)**	**(7,357)**

Financial assets as of 31 December 2022	Financial Institutions	Central Government	Central Bank of Kosova	Total
Cash on hand and at banks	23,097	-	-	**23,097**
Balances with Central Bank of Kosova	-	-	51,884	**51,884**
Placements and balances with banks	6,325	-	-	**6,325**
Financial assets at fair value through other comprehensive income	-	54,925	-	**54,925**
Total	**29,422**	**54,925**	**51,884**	**136,231**

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

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 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 2022 and 2021, 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**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Maximum exposure to credit risk												
Carrying amount	74,981	87,957	6,325	5,237	54,925	47,620	272,189	232,234	398	265	-	-
Amount committed/guaranteed	-	-	-	-	-	-	-	-	-	-		
	74,981	**87,957**	**6,325**	**5,237**	**54,925**	**47,620**	**272,189**	**232,234**	**398**	**265**		
At amortized cost												
Stage 1	74,988	87,964	6,370	5,276	54,925	47,620	223,500	216,067	398	265	-	-
Stage 2	-	-	-		-	-	50,786	17,661	-	-	-	-
Stage 3	-	-	-		-	-	5,745	5,863	-	-	-	-
POCI	-	-	-		-	-	-	-	-	-	-	-
Total	**74,988**	**87,964**	**6,370**	**5,276**	**54,925**	**47,620**	**280,031**	**239,591**	**398**	**265**	**-**	**-**
Allowance for impairment (individual and collective)	(7)	(7)	(45)	(39)	(233)	(212)	(7,842)	(7,357)	-	-	-	-
Net carrying amount	**74,981**	**87,957**	**6,325**	**5,237**	**54,692**	**47,408**	**272,189**	**232,234**	**398**	**265**	-	-
Off balance: maximum exposure												
Credit commitments: Low - fair risk	-	-			-	-	-	-	-	-	8,574	8,742
Financial guarantees: Low - fair risk	-	-			-	-	-	-	-	-	1,450	2,376
Total committed/guaranteed	**-**	**-**			**-**	**-**	**-**	**-**	**-**	**-**	**10,024**	**11,118**
Allowance for ECL recognized as other liabilities	-	-			-	-	-	-	-	-	(51)	(71)
Total exposure	**-**	**-**			**-**	**-**	**-**	**-**	**-**	**-**	**9,973**	**11,046**

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.2 Analysis of credit quality (continued)

The table below represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2022 and 2021, 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.

	2022			2021		
Loans and advances to customers	**Retail**	**Corporate**	**Total loans**	**Retail**	**Corporate**	**Total loans**
Total gross amount	**133,322**	**146,709**	**280,031**	**110,594**	**128,997**	**239,591**
Allowance for impairment (individual and collective)	(2,071)	(5,771)	(7,842)	(1,249)	(6,108)	(7,357)
Net carrying amount	**131,251**	**140,938**	**272,189**	**109,345**	**122,889**	**232,234**
At amortized cost						
Stage 1	115,553	107,946	**223,499**	106,975	109,092	**216,067**
Stage 2	16,978	33,809	**50,787**	2,756	14,905	**17,661**
Stage 3	791	4,954	**5,745**	863	5,000	**5,863**
POCI	-	-	**-**	-	-	**-**
Total gross	**133,322**	**146,709**	**280,031**	**110,594**	**128,997**	**239,591**
Stage 1	(889)	(492)	**(1,381)**	(136)	(295)	**(431)**
Stage 2	(507)	(980)	**(1,487)**	(459)	(1,995)	**(2,454)**
Stage 3	(675)	(4,299)	**(4,974)**	(654)	(3,818)	**(4,472)**
POCI	-	-	**-**	-	-	**-**
Total allowance for impairment	**(2,071)**	**(5,771)**	**(7,842)**	**(1,249)**	**(6,108)**	**(7,357)**
Loans with renegotiated terms						
Carrying amount	344	8,516	**8,860**	214	13,084	**13,298**
From which: Impaired	131	2,490	**2,621**	77	2,622	**2,699**
Allowance for impairment	(116)	(2,350)	**(2,466)**	(73)	(2,864)	**(2,937)**
Net carrying amount	**228**	**6,166**	**6,394**	**141**	**10,220**	**10,361**

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.2 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 0 to 9 in the Bank's internal credit risk rating system where grades 0 to 8 are performing and 9 is default. 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 2022 is EUR 666 thousand (2021: EUR 1,198 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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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (continued)

26.2.2 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:

	2022	2021
A+ to A-	1,898	3,094
BBB+ to B-	1,248	1,008
Not rated	9,622	10,229
At 31 December	**12,768**	**14,331**

Lending commitments and financial guarantees

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

Risk limit control and mitigation policies

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

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

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

Collateral held and other credit enhancements, and their financial effect

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

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

Loans and advances to customers	Maximum exposure to credit risk	Property	Cash Collateral	Equipment	Total collateral used	Surplus collateral	Net uncollateralized exposure
31 December 2022	271,683	367,284	4,244	149,910	521,439	367,509	117,754
31 December 2021	232,234	320,877	3,660	143,911	468,448	332,154	95,940

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 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	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Concentration by sector												
Corporate	-	-	-	-	-	-	146,709	122,889	-	-	9,973	11,046
Banks	74,981	87,957	6,325	5,237	-	-	-	-	-	-	-	-
Government of Kosovo	-	-	-	-	54,925	47,620	-	-	-	-	-	-
Retail	-	-	-	-	-	-	133,322	109,345	315	265	-	-
Total	**74,981**	**87,957**	**6,325**	**5,237**	**54,925**	**47,620**	**280,031**	**232,234**	**315**	**265**	**9,973**	**11,046**
Concentration by location												
EU countries	2,511	3,468	125	125	-	-	-	-	-	-	-	-
Republic of Kosovo	71,849	83,667	6,200	5,112	54,925	47,620	280,031	232,234	315	265	9,973	11,046
Other countries	621	822	-	-	-	-	-	-	-	-	-	-
Total	**74,981**	**87,957**	**6,325**	**5,237**	**54,925**	**47,620**	**280,031**	**232,234**	**315**	**265**	**9,973**	**11,046**

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 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.

26.3.1 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. 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.

Due to worldwide macroeconomic trends, specifically the rapid increase in inflation, many central banks in key countries have raised interest rates to curb inflation from growing further. In response to these changes, our bank has taken necessary measures to manage and minimize the risk of interest rates, respectively to finance long-term loans, we have implemented for the first time the model with variable interest rates, using EURIBOR as the reference rate.

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:

	CHF		*USD*		*EUR*	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Assets						
Cash at banks			-	-	-	-
Placements and balances with banks	0.50%	0.01%	4.29%	0.20%	1.84%	1.06%
Loans to customers			-	-	6.69%	6.92%
Financial assets at fair value through OCI			-	-	2.51%	2.16%
Liabilities						
Due to customers	3.00%	2.70%	-	-	1.60%	1.42%
Subordinated debt			-	-	6.50%	6.50%
Borrowings			-	-	2.77%	2.13%

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 *Market risk (continued)*

26.3.1 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:

2022	**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	(3,334)	3,334	4,023	(4,023)
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	(1,247)	1,247	1,532	(1,532)

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 Market risk (continued)

26.3.1 Interest rate risk (continued)

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

31 December 2022		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		21,573	-	-	-	-	**21,573**
Interest bearing	*Fixed*	1,524	-	-	-	-	**1,524**
Balances with CBK							
Non-interest bearing		51,884	-	-	-	-	**51,884**
Placements and balances with banks							
Interest bearing	*Fixed*	-	-	-	6,325	-	**6,325**
Investment securities							
Interest bearing	*Fixed*	-	3,609	213	331	50,772	**54,925**
Loans to customers							
Interest bearing	*Fixed*	8,344	15,323	19,126	41,867	163,845	**248,505**
Interest bearing	*Variable*	-	174	-	5,309	18,201	**23,684**
Other financial assets							
Non-interest bearing		398	-	-	-	-	**398**
Total		**83,723**	**19,106**	**19,339**	**53,832**	**232,818**	**408,818**
Liabilities							
Deposits from customers							
Interest bearing	*Fixed*	36,281	10,129	20,430	76,061	31,721	**174,622**
Non-interest bearing		177,683	-	-	-	-	**177,683**
Due to Banks							
Interest bearing		-	-	-	-	-	**-**
Non-interest bearing		1,169	-	-	-	-	**1,169**
Subordinated debt							
Interest bearing	*Fixed*	-	2	-	-	500	**502**
Borrowings							
Interest bearing	*Variable*	-		-	-	4,873	**4,873**
Other liabilities							
Non-interest bearing		5,544	-	-	-	-	**5,544**
Total		**220,677**	**10,131**	**20,430**	**76,061**	**37,094**	**364,393**
Gap		**(136,954)**	**8,975**	**(1,091)**	**(22,229)**	**195,724**	**44,425**
Cumulative gap		**(136,954)**	**(127,979)**	**(129,070)**	**(151,299)**	**44,425**	**-**

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 Market risk (continued)

26.3.1 Interest rate risk (continued)

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

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 Market risk (continued)

26.3.2 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:

	2022	2021
Currency	**EUR**	**EUR**
1 USD	0.9376	0.8829
1 CHF	1.0155	0.968
1 GBP	1.1275	1.1901

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

	USD		CHF		GBP	
	2022	2021	2022	2021	2022	2021
Sensitivity rates		5%		5%		5%
Profit or loss						
+5% of Euro	(18.82)	(22.75)	(14.54)	(2.64)	0.08	1.05
- 5% of Euro	18.82	22.75	14.54	2.64	(0.08)	(1.05)

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

31 December 2022	EUR	USD	CHF	GBP	Total
Financial assets					
Cash on hand and at banks	22,062	660	373	2	**23,097**
Balances with CBK	51,884	-	-	-	**51,884**
Financial assets at fair value through OCI	54,925	-	-	-	**54,925**
Placements and balances with banks	4,304	-	2,021	-	**6,325**
Loans and advances to customers	272,189	-	-	-	**272,189**
Other financial assets	398	-	-	-	**398**
Total financial assets	**405,762**	**660**	**2,394**	**2**	**408,818**
Financial liabilities					
Due to customers	348,583	1,036	2,686	-	**352,305**
Due to Banks	1,169	-		-	**1,169**
Subordinated debt	502	-	-	-	**502**
Borrowings	4,873	-	-	-	**4,873**
Other liabilities	5,544	-	-	-	**5,544**
Total financial liabilities	**360,671**	**1,036**	**2,686**	**-**	**364,393**
Net foreign currency position	**45,091**	**(376)**	**(292)**	**2**	**44,425**

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3 Market risk (continued)

26.3.2 Exposure to currency risk (continued)

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**

26.4 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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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.4 Liquidity risk (continued)

26.4.1 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 2022	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	23,097	-	-	-	-	**23,097**
Balances with CBK	51,884	-	-	-	-	**51,884**
Placements and balances with banks	-	-	-	6,325	-	**6,325**
Loans and advances to customers	8,345	15,324	19,136	41,918	187,466	**272,189**
Financial assets at fair value through OCI	-	3,609	213	331	50,772	**54,925**
Other financial assets	398	-	-	-	-	**398**
Total	**83,724**	**18,933**	**19,349**	**48,574**	**238,238**	**408,818**
Financial liabilities						
Due to customers	213,964	10,129	20,430	76,061	31,721	**352,305**
Due to banks	1,169	-	-	-	-	**1,169**
Subordinated debt	-	2	-	-	500	**502**
Borrowings	-	-	-	-	4,873	**4,873**
Other liabilities	5,544	-	-	-	-	**5,544**
Guarantees issued	1,435					**1,435**
Unused credit commitments	8,538					**8,538**
Total	**230,650**	**10,131**	**20,430**	**76,061**	**37,094**	**374,366**
Liquidity gap	**(146,926)**	**8,802**	**(1,081)**	**(27,487)**	**201,144**	**34,452**

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.4 Liquidity risk (continued)

26.4.1 Management of liquidity risk (continued)

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**
Available-for-sale financial assets	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-restated	2,354					**2,354**
Unused credit commitments-restated	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**

26.5 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.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.5 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.

26.6 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.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.6 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.

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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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.6 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.

	2022	**2021**
Total risk weighted assets	254,144	213,593
Total risk weighted off balance exposures	658	1,024
Total risk weighted assets for operational risk	21,270	19,535
Total	**276,072**	**234,152**
Regulatory capital (total capital)	48,265	42,508
Capital adequacy ratio (total capital)	**17.48%**	**18.15%**

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 beside credit risk, market and operational risk, include also: interest rate risk, concentration risk, liquidity risk and market liquidity risk. As for other risks, the methodology also considers the allocation of reserves for other significant risks such as, reputational risk, profitability risk and strategic risk as well as a qualitative assessment for non-significant risks such as counterparty risk, model risk, capital risk and compliance risk.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.6 Capital risk management (continued)

Risk-Weighted Assets (RWAs)(continued)

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

27. 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 24 share capital 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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27. RELATED PARTY TRANSACTIONS (CONTINUED)

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

		31-Dec-22		31-Dec-21
Assets: *Loans outstanding at end of year with shareholders and key management*	**Stage**		**Stage**	
Shareholders	Stage 1	1,028	Stage 1	1,095
	Stage 2	27	Stage 2	77
	Stage 3	127	Stage 3	127
	Total	**1,182**	**Total**	**1,299**
Management	Stage 1	190	Stage 1	96
	Stage 2	-	Stage 1	-
	Stage 3	-	Stage 1	-
	Total	**190**	**Total**	**96**
Total		**1,372**		**1,395**
Unused commitments	Stage 1	886	Stage 1	821
Guarantees and letters of credit with shareholders	Stage 1	165	Stage 1	815

Loans to related parties are given at commercial terms.

	2022	2021
Loans to shareholders, gross	1,182	1,299
Allowance for impairment	(128)	(133)
Total Loans to shareholders, net	**1,054**	**1,166**
Cash collateral	(560)	(560)
Net exposure to shareholders	**494**	**606**

	2022	2021
Loans to management and BoD members, gross	190	97
Allowance for impairment	(1)	(1)
Loans to management, net	**189**	**96**
Cash collateral	(58)	(32)
Net exposure to management	**131**	**64**

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27. RELATED PARTY TRANSACTIONS (CONTINUED)

Liabilities:	**31-Dec-2022**	**31-Dec-2021**
Customer accounts		
Shareholders and Management	5,240	3,433
Total	**5,240**	**3,433**
Borrowing from EBRD	4,873	6,580
Total	**10,113**	**10,013**

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

	2022	**2021**
Income		
Interest income from loans and advances	28	18
Total interest income	**28**	**18**
Expenses		
Interest expenses for subordinated debt from EBRD	100	54
Key management compensation	500	553
Board of director's compensation	91	77
Total expenses	**691**	**684**

28. SUBSEQUENT EVENTS

No material events or transactions have occurred since 31 December 2022 which require corrections or disclosure in these financial statements.

BPB

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