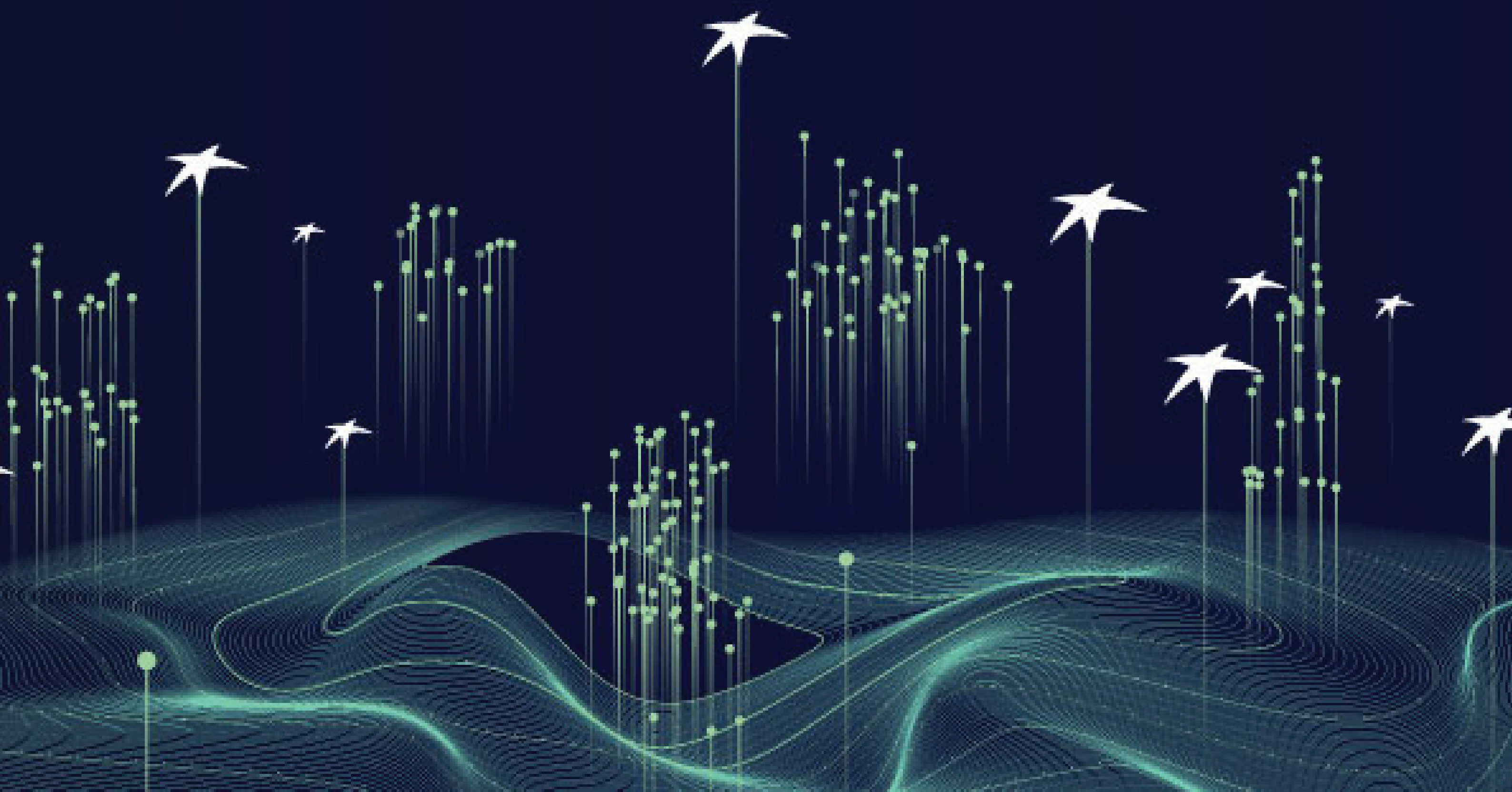
TEB

BNP PARIBAS JOINT VENTURE

ANNUAL REPORT 2021



Expanding

Engaging with our clients to build a better and more sustainable future!

Your World

We offer sound and innovative financial solutions to individuals, professionals, clients and businesses while striving to maintain close relations with our clients and staff.

Our Values

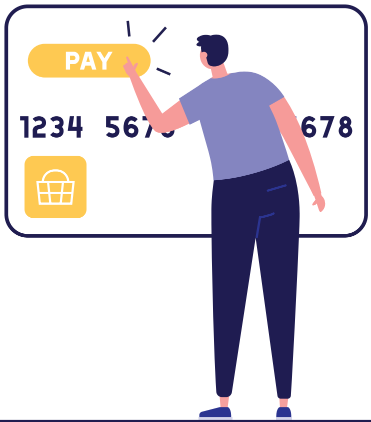
- Human-Centred Approach
- Integrity
- Innovation & Technology
- Operational Efficiency

Introduction and Looking to the Future

2021 was a difficult year, with the COVID-19 pandemic affecting the whole world, meanwhile affecting the Kosovo economy negatively only in the first half of the year and recovering in second half with tourism revenues and strong remittances. The Estimated economic growth for 2021 is 7.5% (IMF) and 10% (CBK) and the forecast for 2022 is 3.8%. Despite the unfavourable conditions, the banking sector remained strong and well managed with strong capital, liquidity buffers, and low non-performing loans (average 2.3%).

Our purpose, of improving the financial wellbeing of our clients, has provided a strong sense of direction throughout the past year. As we have done in the past, we shall continue to develop simplified products and services fully aligned to meet client needs.

- The client experience – we will continue to build trusted relationships with clients which will enable us to support them at all important financial moments. We will offer both, convenience and expertise.
- Sustainability – Our goal is to help our clients transition to more sustainable products and services, by offering sustainable financing and investment.
- Simplified & centralized business model - This means further digitalizing our processes, streamlining our product offering, and introducing a new client engagement model



Digitalization has transformed the manual process into digital service by reducing human error, saving time and building client loyalty, and also has provided clients with an expansion of cheaper and better products and services, and a more seamless and efficient user experience. As technology transforms consumer financial services, we are building and delivering improved products and services for our clients (such as Virtual Cards, e-wallets, Card on File), leveraging our payments interconnection, and improving our efficiency.

We do not expect 2022 to be an easy year at all. Uncertainty in the global economy will remain high due to the continuing pandemic and the heightened geopolitical risks. High dependency on imports will affect in the inflation increase and continuing high energy prices will affect future food prices which are the main reason for high inflation. The annual inflation average became 3.4% closely following that of the Eurozone.

Looking forward into 2022 as TEB, we plan to have the client experience and digital banking at the centre of our focus, which means embracing all key strategies aiming to enhance the banking experience for our clients, with innovative digital and multichannel banking services supported by investments in technology and new business models.

We are focused on listening to clients, understanding their problems and adapting our products and services to better meet their needs. Serving our clients responsibly is part of our commitment to fairness and transparency. Listening to clients and responding to their complaints will remain one of our key strategies for 2022. We are focused on enhancing complaint handling process by ensuring our clients that they can expect fairness and consistency when making a complaint. We continually review our products and services to ensure they meet clients' needs and support their financial wellbeing. Lastly, considering the emerging legal and regulatory changes, we shall continue our work in the digitalization projects on compliance and legal, to make it possible to remotely on-board clients and to be able to conclude agreements electronically. The ultimate goal is to mitigate as many legal risks as possible in providing our services while at the same time offer the convenience that our daily technological tools offer.

Contents

1. ABOUT TEB SHA

1.1. Corporate Profile

Expanding your world...

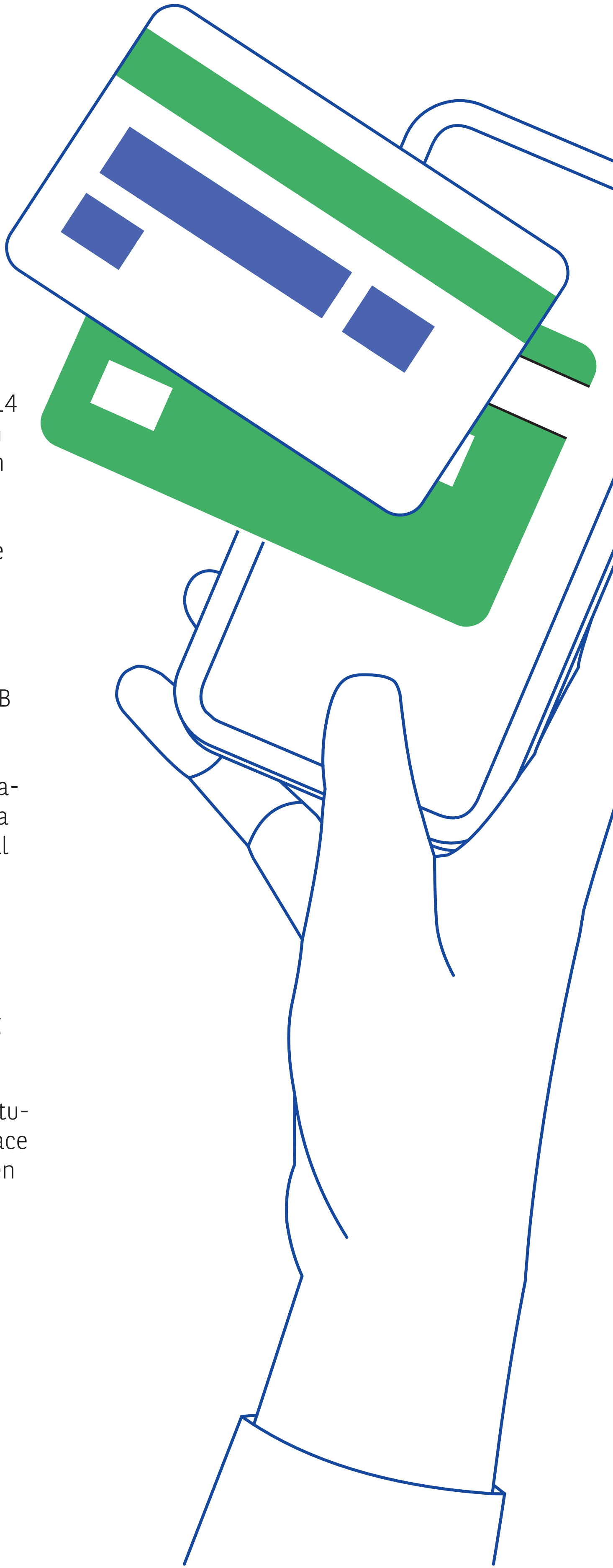
Paving the road forward for innovation, growth and sustainability!

TEB SH.A. (TEB) has been operating in Kosovo for 14 years, during which it has become one of the main contenders of the banking sector with a reputation for excellence. Guided by our purpose:
"The bank for a changing world", we help our clients, their families, and their communities achieve success through a broad range of products and services.

Our capability to support our clients and employees is made possible by being a member of the TEB Group, which was formed through a joint venture between one of the world's strongest financial institutions, BNP Paribas, and one of the most reputable banks in Turkey, the Turk Ekonomi Bankasi. As a member of these two strong international financial groups, TEB benefits from the Group's experience, solidity, and reach.

Client-Centricity...

We focus on creating quality service, while putting the client at the centre. Products and services are specially designed for the clients, to satisfy their needs, as entrepreneurs, businesses, employees, students, or senior citizens. Our purpose is to be a place where clients feel welcomed and comfortable when managing their finances.



Digital Transformation...

We continue to improve by enhancing the quality of our products and services in line with rapid advances in technology and client expectations. We systematically improve our innovative multi-channel banking network (such as Internet and Mobile Banking, Call Centre services, SMS Services, ATMs, and POS), to allow our clients to utilize the most suitable, reliable and convenient channel for their banking transactions.

Commitment to the community...

Corporate Social Responsibility (CSR) is one of the main pillars that contributes to our economic mission. Therefore, to better improve our excellence, innovation, and responsibility in our services to our clients, we engage in different projects which aim to foster the improvement of sports and culture in Kosovo. We continue to work with various local and international Chambers of Commerce and develops initiatives that cater to our social responsibility as a corporation.

People-Oriented...

At the core of our success as a bank is our staff, whose hard work and persistence have been a representation of the institution's foundation. The dedicated employees of TEB bring a proactive approach which is conveyed to our clients. We consider our staff extremely valuable and continually invest in them, because they are the ones that enable TEB to be one of the leading banks in Kosovo.

1.2. Vision, Mission, and Strategy

Vision
Be the best client experience bank in Kosovo.

Mission
To constantly create and increase value for our clients, shareholders, employees, and society.

Strategy
To provide a superior and efficient banking experience for all our clients, and to offer an excellent client experience by putting the client at the centre. TEB's offering is always rooted in our commitment to be a responsible bank. This commitment is embedded in all our values and is reflected in our business, through the way we develop products and services and how we deliver on our goals and promises.

Human-Centred Approach

Our success is based on our utter and complete commitment to our clients and staff. We always place the needs of our clients as well as our staff at the heart of everything we do. Client needs and expectations are what drives and motivates us. A proactive approach to client needs allows us to create and deliver value, as we serve with innovative, above-expectation, customized and trend-setting products and services.

Integrity

We have embraced the highest standards of integrity in everything we say and do. We are committed to creating added value for our clients, shareholders, and employees by always doing more than just what is necessary. We communicate openly and honestly; we invite and appreciate challenging views aimed at generating better ideas and reaching more appropriate and balanced decisions.

Innovation & Technology

We value the enthusiasm and intellectual curiosity of our staff, as they continuously seek to create products that will facilitate our clients' success and provide suitable solutions for their needs. Innovation is crucial to the bank's success as it gives us a competitive edge in penetrating markets faster.

Operational Efficiency

We build processes and products that are user-friendly, easy to access, and designed to add value. We strive to ensure that offered services are priced in a manner that fairly equates to their actual cost.

1.4. Shareholder Structure

TEB Bank's share capital is €24,000,000 based on 2,400,000 issued shares, each with a par value of €10. The number of shares refers to ordinary shares

Shareholder as of December 31	Share Owndership Paid in Capital (C)	Share
TEB HOLDING A.S.*	24,000,000	100%

*. The Bank is controlled by TEB Holding A.S. which is a company incorporated in Turkey (the "Parent Company") and owns 100% of the shares of the Bank. The shareholders of TEB Holding A.S. are BNP Paribas and Çolakoğlu Group, each of them owning 50% of the shares. BNP Paribas is the ultimate controlling party of the Parent Company and the Bank.

2. MESSAGES FROM MANAGEMENT

2.1. Chairwoman's Message

Ayşe Aşardağ
Chairwoman

The past years have been a challenging time for many, particularly the ones who have lost loved ones and have struggled with the direct and indirect impacts of the pandemic. 2021 was indeed a turbulent and enduring year yet also a very successful one for our Bank and the Kosovo Banking sector. The Covid-19 pandemic forced everyone to re-think how they work, how they deal with the uncertainty and be agile and adaptable. The most memorable aspect of it was the resilience of our society and how all of us found a new normal despite the difficulties and the tragedies.

The safety and wellbeing of our employees and clients consistently remained at the top of our Bank's priorities facing with the numerous waves of the virus while our investments in technology enabled our people to continue to deliver quality services even working remotely.

Kosovo economy had a significant growth in 2021, exceeding all expectations. The GDP grew by 10.53% and is expected to continue to grow. This was reflected in the banking sector as well which experienced unprecedented growth.
Our Bank had another year of highly successful results. It continued to grow while recording high returns and very low risk costs. The Gross Loan Portfolio grew by 13%, Deposits grew by 14.3%, while Cost of Risk was at 0.09%, and the bank achieved a Return on Equity of 22.2% increasing its net profit by 33% to 17.79 million Euros. ***Our robust performance was accomplished with high operational integrity, strong compliance and ethical practices, and utmost care for protection of the interests of our clients.***
Our Bank continues to serve its clients in the best way possible considering the changing needs of the society. The continuous investment in our digital platforms and services makes the interactions with our clients easier and more efficient. We shall continue to be the bank for a changing world.

Looking forward, and looking at the global economic and political developments, increased uncertainty, continuation of increased inflation and the pandemic, we are aware that this year is going to be a challenging year. We shall continue to face adversity the same way that we have done in the past, by working together with our employees and our clients to contribute positively to the Kosovo society.

On behalf of the Board, I would like to thank the management of the Bank for their outstanding work, to our employees for their unwavering commitment to our clients, and to our clients for their loyalty. I would also like to thank our shareholders for their belief in the Bank and in the country of Kosovo. We are proud to represent such a commendable institution.

2.2. Message from the CEO

Orçun Özdemir
Managing Director

The previous year has been one of the most unpredictable years that we have experienced. Coming out an unprecedented global pandemic that transformed everyone's daily lives, where the resilience of every society was tested, it was surprising to observe and experience the adaptability of human beings and the recovery of the economy, especially in the banking sector.

What the Covid-19 pandemic has highlighted for us these past few years is the importance of how and why we do the work we do: for the benefit of people. Human beings are social beings, and we have organised our lives to be interdependent on each other. We all strive to make our lives safer, easier, and overall better. We do this by helping each other and by working together. Our role as a bank is to facilitate the financial aspect of people's lives. We as employees are a group of individuals that are contributing and making life better for a larger group of individuals – our clients and related parties. That is why following the initial consequences of the pandemic we decided to focus on people.

Year 2021 has been one of the best years for TEB, and the whole Kosovo banking sector. In year 2020, the pandemic caused widespread panic, with many clients' businesses or workplaces experiencing government mandated shut-downs, there was a significant amount of uncertainty whether or not our clients would be able to meet their financial obligations. However, we noticed that everyone worked together to ease this global emergency, and together with the Central Bank of Kosovo, the worst of the financial consequences of the pandemic were overcome fairly easily compared to the health consequences. Then the following year in 20201, everyone adjusted and there was rebound effect in the Kosovo economy, the expectations of the banking sector were exceeded, and this gave us the comfort to begin investing in our team's skills and our client experiences.

In terms of the performance of the Bank, the financial indicators in the following pages of this report show that the bank performed very well. The clients' trust in the bank remains high, and they have continued to meet their obligations towards the bank very well. This is due to all of us working as a team to serve our clients the best way we can. We have seen continuous widespread adoption in all the processes that we have digitalized, which further motivates us to continue our digitalization efforts.

This is an indication that the way that we have done business in the past is changing quicker than what was envisaged. The pandemic definitely sped up this process, since those that were reluctant to use digital services were forced to, and they found out that their resistance to adopting and using digital services was unjustified. That means that the bank must continue to invest in our information technology infrastructure and services and in our employees to train them to the new digital services that we plan to offer. The purpose of this is to free many team members from bureaucratic work so that they can dedicate more of their time to our clients. As stated above, we must all work together, because if our clients grow and prosper, so do we and so does the bank.

We will continue to be one of the leading banks in Kosovo where each of us has the biggest opportunity to learn and improve their careers. We shall remain committed to investing in our team so that there can be amazing opportunities for all of employees to find what they are good at and to become experts in their chosen area.

I would particularly like to express my gratitude to the Board of Directors, who has provided continuous support in all circumstances. They support all senior management in all their plans and requests so that all regulatory and group requirements are fulfilled, and the bank continues to meet our clients' needs.

3. TEB in 2021

3.1. Figures

	2021	2020	Increase/(Decrease)	Percentage
Balance Sheet Indicators (000 EUR)				
Total Assets	752,140	662,118	90,022	13.6
Total Loans (Gross)	478,356	423,358	54,998	13.0
Deposits	641,570	561,400	80,170	14.3
Shareholders' Equity	98,958	85,570	13,388	15.6
Gross Loans / Total Assets	63.6%	63.9%	(0.3PP)	-
NPL / Total Loans	1.34%	1.54%	(0.2PP)	-
NPL Coverage Ratio	68.4%	67.1%	1.3PP	-
Income Statement Indicators				
Net Interest Income	30,814	27,751	3,063	11.0
Net Non-Interest Income	8,750	5,928	2,822	47.6
Net Banking Income	39,564	33,679	5,885	17.5
Net Profit for the Year	17,791	13,377	4,414	33.0
Cost / Income Ratio	48.6%	53.4%	(4.8PP)	-
Jaw effect	10.5%	6.8%	3.7PP	-
Profitability Ratios				
Return on Equity ("ROE")	22.2%	19.3%	2.9PP	-
Return on Assets ("ROA")	2.4%	2.0%	0.4PP	-
Net Interest / Average Interest Earning Assets	5.3%	5.5%	(0.2PP)	-
Solvency & Liquidity Ratios				
Capital Adequacy Ratio ("CAR")	16.9%	17.1%	(0.2PP)	-
Liquid Assets / Total Assets	34.8%	33.7%	1.1PP	-
Risk Weighted Assets ("RWA")	489,103	428,104	60,999	14.0
Other Indicators				
Branches	29	29	-	-
Employees	584	594	(10)	(1.7)

3.2. Key Financial Indicators

3.2.1. Financial Position of the Bank

TOTAL ASSETS:
EUR **752.1**
MILLION

LOAN GROWTH BY
13.0 %

NPL DROPPED TO
1.34%
IN 2021

TOTAL DEPOSIT:
EUR **641.6**
MILLION

The Bank increased its assets in 2021 by 13.6% to
Total assets: EUR 752.1 million(31 December 2020: 662.1 million). Consistent with the previous years, the structure of assets is dominated by gross loans (63.6% of total assets).
Loan growth by 13.0% or EUR 55 million amounting to EUR 478.3 million (2020: 423.4 million). This growth was aligned with the general increase in the Kosovar banking sector (that recorded the strongest development ever) and its significant contribution to the country's economy.
The credit quality of the outstanding loans continued to improve as the NPL ratio dropped for an additional 0.3pp (from 1.54% in 2020
NPL dropped to 1.34%, representing one of the lowest NPL ratios in the banking sector in Kosovo. At the same time, the Bank maintains a high NPL coverage ratio. Both ratios are indicators of our prudent risk management practices and good corporate governance.
In the liabilities side the Bank's client deposits increased by 14.3% to
Total deposit: EUR 641.6 million as of year ended 2021 (2020: EUR 561.4 million). The continuous and stable growth of deposits is yet another proof of the trust that clients have in the Bank. This enables the Loan-to-Deposit ratio of the Bank to be at around 75% ensuring that there is a stable funding base for credit growth and maintaining low funding costs.
The increase in shareholder's equity resulted principally from the net profit of the year (EUR 17.8 million).

Financial Performance of the Bank

2021 was one of the best years of the Bank in terms of its financial performance. Net interest income increased by 11%, amounting to **EUR 30.8 million** (2020: 26.7 million), resulting primarily from the increase in interest income by 8.6% or EUR 2.5 million, and the decrease in interest expenses by 42.3% or EUR 0.6 million. Net interest generated from average interest earning assets was 5.3% or -0.2pp lower than in 2020 reflecting higher competition and slightly lower margins.
Similarly, net non-interest income (fees and commissions) increased by 47.6% amounting to EUR 8.7 million in 2021 (2020: EUR 5.9 million), consisting primarily from the increase in fees from cards, accounts, e-banking, etc. The growth in non-interest income was driven by the increase in the number of clients and the growth in economic activity of the country.
The Bank managed to improve its operational efficiency which is reflected in the decrease of the cost-to-income ratio by 4.8 pp on a year-on-year basis. The Bank also recorded a positive jaw effect1[1] (10.5%) in 2021, as a result of the growth in net banking income by 17.5% which is higher than the 7.0% increase in operating expenses.
The Bank ended the year with a net profit of **EUR 17.8 million** which is an increase by 33% or EUR 4.4 million compared to 2020. This resulted in an increase of ROE by 2.9pp compared to 2020. ROA at 2.4% is in similar levels to 2020.

1 The jaw effect measures the difference between the growth in net banking income and the growth in operating expenses over a given period.

3.2.2. Financial Position of the Bank

The Bank's **Capital Adequacy Ratio remains high at 16.9%,** well above the Central Bank of Kosovo (CBK) minimum requirement of 12%, properly covering the increase of 14% or EUR 59.1 million in Risk Weighted Assets.

Liquid assets of the Bank comprise 34.8% of the Bank's assets, an increase of 1.1% compared to 2020.

3.2.3. Other indicators

As of the end of 2021, the Bank has 29 branches ensuring solid banking coverage while the number of full-time employees is 584 (2020: 594).

4. BUSINESS UNITS

4.1. Retail Banking

Looking back to 2021, it was another successful year in which growth and positive developments dominated the headlines. There were signs of recovery from COVID-19, and retail banking continued to perform well and create value for our clients, stakeholders and employees. Retail Banking expanded its support to clients, providing safe banking services, access to financial coaching, and assistance.

In particular, we focused on creating an exceptional client experience; we worked on instilling culture of design thinking and having client empathy at every level of our product development in order to help our clients, understand their entire client journey, and identify ways how to quickly respond to our clients' requests in order to meet or exceed their expectations.

Retail lending activity continued to increase, which was driven by a competitive product offering and attractive promotions targeted at new clients and selected market segments, resulting in an increase of EUR 28.6 million, and maintaining a market share at 17%.
In addition to our success in loan growth, we managed to maintain the quality of our individual loan portfolio where the ratio of non-performing loans decreased to **0.47%.** By having good risk diversification in combination with good sales practices, we aim to maintain this trend in the future.

In 2021, TEB was one of the main banks to achieve sustainable growth in retail deposits. Effective strategies and focus on retail deposits were the key ingredients for increasing the retail deposit balance. The amount of deposits of retail clients, including new acquisitions, increased by EUR 40.5 million and our market share has been maintained at 14 %.

Over the course of the pandemic, our clients have embraced digital banking in record numbers. During 2021 we increased our TEB Mobile active user base with 17,000 new users, achieving a net yearly growth of 47%. **950,000 transactions** were made through TEB Mobile.

4.2. Card Business

While still recovering from last year's pandemics and lock down, 2021 proved to be a very successful year in the acquiring and issuing business. To stimulate card usage, we have organised several campaigns, provided extra bonus amounts for online purchases at merchants that use the TEB Payment Gateway, offered extra instalments for every transaction with instalments with Starcard, organised credit card activation campaigns and Credit Card Limit increase campaigns, and special campaigns with merchants. As such, a total Bonus amount of around EUR 500,000 was given to our credit and debit clients in 2021. To help our struggling credit card clients, a retention program was launched for the clients who want to pay their card debt with instalments.

One of the biggest projects in 2021 for the Card & POS Business Division was the cooperation with Agency of Information Society (AIS). Our clients as well as all other visitors of the eKosova platform, domestic and international, are now able to pay their invoices through this platform using their Master Card and Visa cards. This partnership enables the digitalization of potentially all government payments and collectors through our Payment Gateway.
For the first time in Kosovo market, we have introduced the vertical design for our debit card also branded as "Starcash". Starcash comes in two designs, that are segmented into two target groups (clients under 25 years old, and above) and has features such as contactless payments, 3D Secure for online payments, and 0.25% bonus on each payment on the TEB POS Terminal Network. Starcash is the most versatile debit card in the market.

For the first time in Kosovo market, we have introduced the vertical design for our debit card also branded as "Starcash"

Starcash is the most versatile debit card in the market.

Having all the card portfolio with the contactless feature (Visa and MasterCard) allows our clients to use this feature on our POS Network or worldwide wherever Visa or MasterCard is accepted. With the growth of contactless payments, we have increased our presence in the market and replaced the old POS Devices with the brand-new models to offer better experiences for our clients.
With more than **40,000 new cards distributed** in 2021, it is the most successful year in new card distribution in a year in the history of our Bank. While on-us POS volume increased by 27% compared to 2020, contactless POS volume increased by 260%.

Starcard is the most desirable Credit Card in the market for 13 years in a row!
To bring the best experience to our clients we provide three different types of individual Credit Cards: **Classic Starcard, Premium Starcard and SheCard**.
With more than 4,000 POS devices, we have the biggest POS Network in the market, and have processed slightly below **6 Million transactions in 2021**, an increase of 17% compared to the previous year in turnover, making 2021 the best year in turnover and transaction volume since the bank's inception.

Currently, we provide the best Payment Gateway platform for our merchants and clients. As we are the only bank to provide payments up to 24 instalments with our Starcard. With dedicated campaigns we have managed to increase the number of e-commerce transactions by 68% from the best year, that was 2020. More than 20 top merchants in our market trust our payment gateway, making us market leader in e-commerce acquiring as well.

We currently hold 63% of the market share in Credit Cards and 39% in POS volume. We are convinced that we can sustain our dynamic growth through the quality of our services and achieve our goal, remaining first bank of choice for an ever-greater number of card clients.

4.3. SME Banking

The SME Banking Department witnessed one of the most robust years of the last decade! The loan outstanding portfolio grew by 14% or **EUR 19 million**, where the majority of the growth was achieved during the first half of the year. The quality of the portfolio continues to improve, as we witnessed a drop of 0.52% in non-performing loans (EOY NPL 2.45%).

At the beginning of the year, the SME Banking Department reorganized internal processes with the sole purpose of strengthening our relations with our clients. This rearrangement not only allowed us to be closer to the branches and provide the staff with a more supportive hands-on approach, but it made it possible to be even closer to our clients and their needs.

After the extensive emergency response activities of 2020 and 2021, the SME Banking's core programs continued to deliver, playing a major role in underpinning small business financing with various loan programs. Through the governmental Economic Recovery Package and the partnerships with guarantee funds such as the Kosovo Credit Guarantee Fund and the International Finance Corporation, the SME Banking Department continued to fill an enormous credit gap: offering forbearance and providing clients with even greater access to loan facilities.

A remarkable achievement is the financing provided to sectors with the potential to curtail the effects of the pandemic on the economy such as domestic production, agriculture, services and trade. We have also continued to support women-owned business through the Women Entrepreneurship Program, providing even more options in terms of financing and coverage rates. Additionally, TEB was one of the leading banks in utilizing the Economic Recovery Package for Start-ups and offering risk-sharing of up to 80% for newly established businesses.

In 2021, the SME Banking Department launched the Young Entrepreneurs by TEB Program, a unique initiative in the banking sector in Kosovo, which will be supporting the ideas of young entrepreneurs as a direct impact to the economic development and job creation in Kosovo. Young Entrepreneurs both will be offering financial and non-financial services to youth-owned businesses (18 – 35 years old).

A silver lining of the hardships of the past years was the accelerated transition to digital banking. As clients were still navigating through the different safety measures, it became imperative for the department to strategically utilize the client's newly found trust in our digital alternatives. We continued working together with them and employees to reimagine their day-to-day banking and offer solutions that enhance their engagement and satisfaction.

The TEB Business Mobile app continued to improve and new features were added constantly throughout the year. As a result, the number of TEB Business Mobile users in 2021 doubled from 4,829 users to 8,845, while Business E-Banking users in the same year rose to 11,142 from 7,539. The number of transactions done at a branch dropped significantly, while 90% of the national outgoing money transfers were done through a digital channel (Business E-Banking or TEB Business Mobile app).

The Bank's objectives for 2022 are even more ambitious than before. The goal will continue to be the improvement of internal processes, to make them more efficient and better serve and reach our clients' requirements. We will continue to provide better-designed finance solutions with the goal to support clients in conjunction with business development and new market ideas.

4.4. Commercial and Corporate Banking

The Commercial and Corporate segment at TEB has developed a tailored approach toward its client's needs. Our approach has enabled us to foster productive relations with all our corporate clients, as well as strengthen our market position in the Commercial and Corporate segment. Although the segment is intricate, our strategy focuses on offering customized solutions and advanced cash-management services that provide additional value to both the clients and the Bank.

Being associated with an international banking group has eased the process of onboarding a significant number of multinational foreign companies that operate in Kosovo. Our diverse client portfolio continues to grow steadily while covering several industries. Special attention was given to projects in the production and export sectors as they are considered with a high potential for corporate growth as well as beneficial to the overall economy.

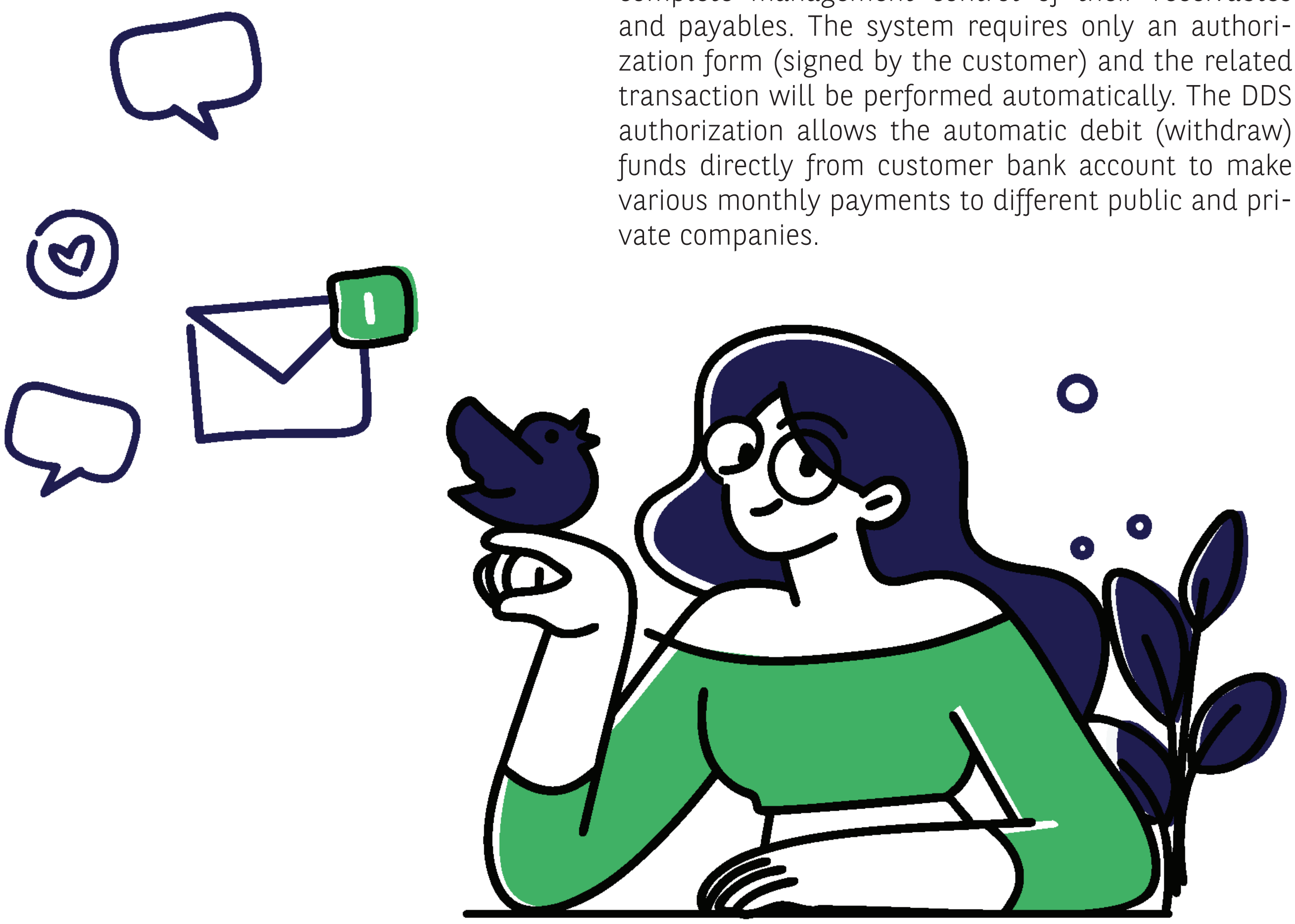
Our Corporate and Commercial Banking business continued to grow the loan portfolio and continued supporting all of our corporate clients. Client lending volume increased by 7% to EUR 6 million, while maintaining a low NPL of 0.64%, signalling a good quality portfolio. The overall volume of deposits grew by EUR 9 million (12%).

Our digital engagement with clients showed remarkable results and it continues to improve. At the end of 2021, 84% of our clients are active on our digital channels such as Business E-Banking and TEB Business Mobile. During the same period, Corporate and Commercial Banking overall outgoing money transfers grew by 38%, of which 94% were done through one of our digital channels. The national outgoing money transfers for corporate clients in 2021 grew by 43% in amount and 32% in total number of transactions. The international outgoing money transfers grew by 27% in total amount and 16% in total number of transactions. We provide easy, fast and reliable service for making international payments all around the world. Through our extensive network with our foreign correspondent banks, all international payments are processed through SWIFT network system and reaches the foreign beneficiaries worldwide. All our international outgoing payments are STP - Straight Through Processing that is an automated process. The STP payments are done completely through automated process and without any manual intervention. The rapid and safe process of international payments are very important for all our customers. In the payment industry, the efficiency of the transaction and the improvement of security are very important, in order to avoid any fraud risk.

As a member of the SWIFT GPI (Global Payments Innovation), joined in December 2020, we can send and receive the funds quickly and securely anywhere in the world with full transparency. The new standard in global payments the SWIFT GPI allows the monitoring and tracking of all cross border payments from end to end in real time. The Tracker database gives end-to-end visibility on the status of a payment transaction from when it is sent and until it is confirmed. This enables all GPI banks to track cross payment instructions at all times including their own payment activity.

The online e-banking service provides the most advanced security systems and gives access to secure, convenient and time-saving banking services 24/7. Our customers can make all type of transfers electronically, including utility and other regular debits (such as energy, water and telephone). Also, the Tax Administration of Kosovo (TAK) payments can be processed also automatically by using e-banking platform. Additionally, national payments including the high value payments are processed in real time through RTGS – Real Time Gross Settlement System. RTGS enables fast and real time payments for the beneficiaries in the commercial banks within our country.

The Direct Debiting System (DDS), is a unique product in the Kosovo market that is designed to support B2B commercial cooperation. Its core function is to improve our business customers' financial liquidity by offering complete management control of their receivables and payables. The system requires only an authorization form (signed by the customer) and the related transaction will be performed automatically. The DDS authorization allows the automatic debit (withdraw) funds directly from customer bank account to make various monthly payments to different public and private companies.



4.5. Treasury & ALM

(Asset and Liability Management)

ALM-Treasury plays a pivotal role in bringing together the different activities of the bank. Appropriate liquidity and balance sheet management is a key factor in ensuring to reach the interest income targets and maintain healthy liquidity profile.

In TEB, the ALM-Treasury function is strong and comprehensive, as it is necessary to carry out prudent asset and liability management. This strength is essential for providing sustainable and secure financial services to clients. We must be confident that our funding is solid, and all our indicators are in line with the risk management requirements.

The experience, theoretical and technical know-how, and custom-tailored innovative solutions are the primary strengths that carry TEB's ALM-Treasury to success. The advanced technological infrastructure and databases are the other important factors that result in the successful performance of the Treasury.
The principal objective of the ALM-Treasury function is to manage interest-rate risk and liquidity risk; its overall objective is to make prudent investments that increase the value of capital, match assets & liabilities and protect under stress conditions. Simply stated, the purpose of such an approach is to reduce risk and increase returns.

This is being done by effective short term cash flow and long-term liquidity management, by creating investment and funding strategies based on prevailing market conditions, interest rate and volume trends of the balance sheet items and internal and external risk parameters.
ALM-Treasury has forward looking processes involving simultaneous asset and liability management to measure, monitor and control the impact of changing interest rates on the bank's earnings, asset value, liquidity, and capital requirements.

ALM-Treasury has very strong risk awareness in conducting its business that is in line with the prudent approach of the Bank and the Group. For the day-to-day management of liquidity and risk related to our asset-liability structure, the Bank's Board has delegated responsibility to ALCO members to discuss recent market developments and take decisions in accordance with set principles of risk reduction and mitigation.

4.6. Human Resources

Building a supportive and inclusive culture is not only the right thing to do, but also what is best for our team. It creates a sense of belonging and enables colleagues to perform to their highest capability. We promote a culture of continuous feedback, encouraging personal development and working in a way that reflects our values and mind-set.

Our people have shown remarkable resilience and determination over the past year. Once again, they have gone above and beyond to support our clients when they have needed us the most. Our evolved strategy, brand, and values strongly resonate with our people, and they continue to feel a strong sense of pride in working in TEB. We will continue to support our people, create a desirable job for everyone, create paths for career development, and invest in trainings aimed to develop people as professionals. We are thankful for everyone's contribution in making this one of the most successful years in the Bank's history.

We think colleague engagement should be based with equal weight placed on listening to our people and on keeping them informed. We want to be able to consider our colleagues' perspective when we make decisions.

Our employees are key to success. Strengthening a positive employee experience and thus achieving a high degree of engagement also means continuously developing and harbouring good relationships with our employees and managers. A high level of enthusiasm, energy and motivation are essential in achieving greater job performance, creativity, productivity, and innovation.

At the beginning of the year, as we were operating in a pandemic situation and adopting in a "New Normal" way of operating, we organized various activities in small groups to able to be closer to all employees. The purpose of these activities was to be in a social, comfortable, and safe environment; to serve as a morale booster during the ongoing pandemic situation. These activities were meant to help-drive employee engagement, boost productivity and remind them that connectivity with one-another is crucial to each employee's mental health.
During 2021, the HR Department organized three types of trainings: On-boarding for new hires, and for internal staff the HR Department organized refreshment trainings and specialized external trainings in different topics as per the needs of the departments.

Regardless of the pandemic situation, we have continued to offer to our employees, different opportunities for additional benefits based on their performance.
At year-end 2021, TEB team had 584 employees. A total of 88 banking and financial services professionals were recruited during the year, from which 41 interns were given the chance to take on the challenges and become part of our team, while 57 employees were promoted. In line with objectives and the transparent communication principle of TEB, vacancies were published to all employees throughout the bank, including interns, which gave them equal opportunity to apply and grow within.

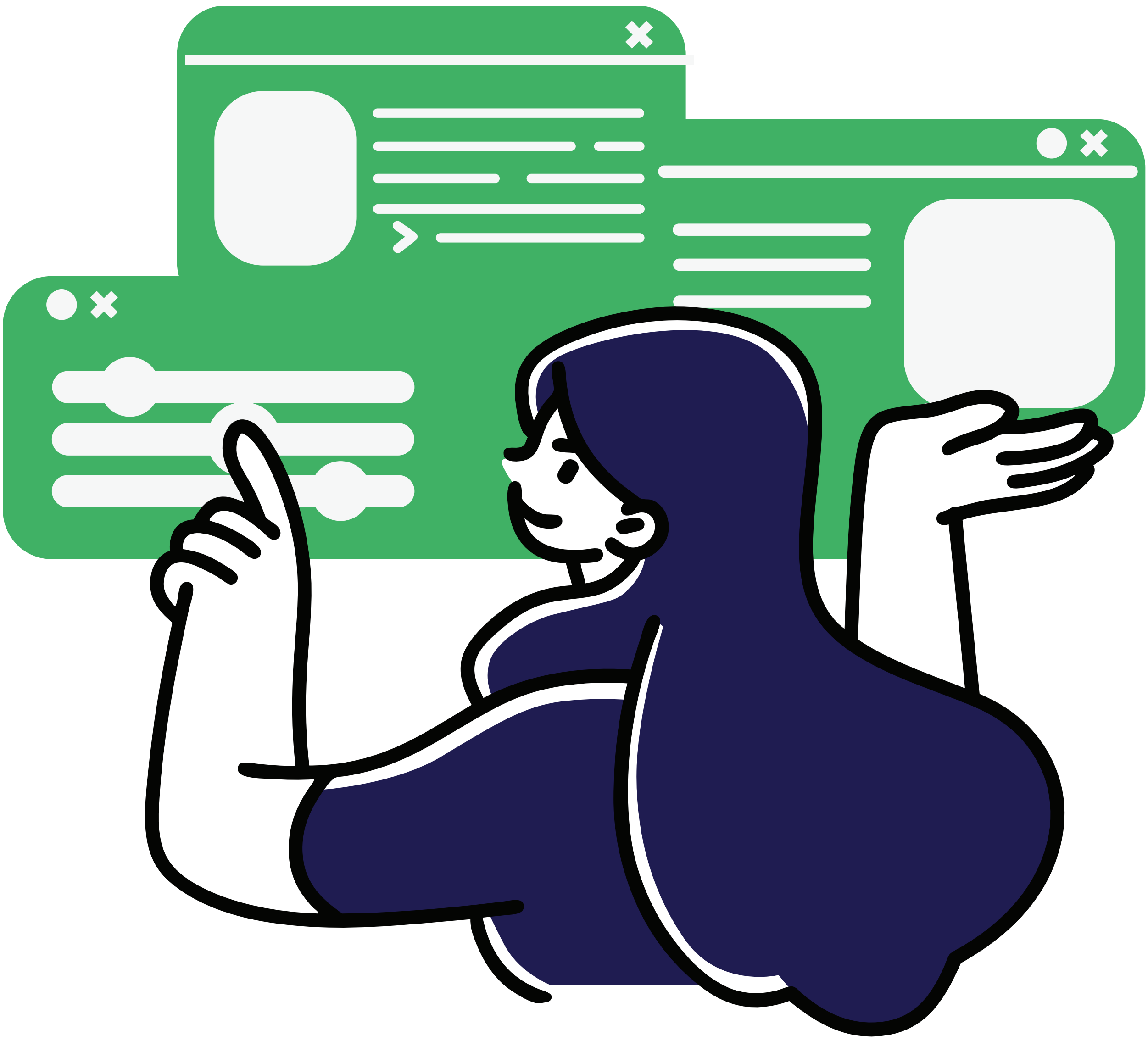
Throughout the previous year the HR team conducted different surveys that gave us a more detailed look into the opinions of our staff on different issues. The employee satisfaction survey was initiated to give a voice to employees and have them become active contributors to their personal well-being, their co-workers as well as contribute to the improvement of their workplace. The feedback that we gained from this survey will be the core of our 2022 agenda.

We do care for our employees' happiness and their motivation. Besides working in synergy, we care that they have social activities to enhance their relations and think about how to rearrange their working environment to be more friendly. Social activities are a crucial form of showing employee appreciation and building a sound support system.

4.7. Information Technology

Transforming our vision into technology is always a challenge, especially adapting for unique human behaviour, and shaping the quality of the client journey and the effectiveness of technology solutions. As IT function, our approach is to initiate simple change which is always a good approach to guide clients.

IT is a fast evolving department within the banking sector, working hard to support clients, and adopt their perspective to build better solutions that suit their understanding. Providing services and products for our clients' security is one of our most important priorities. As cyber-attacks continue to grow in volume and types in the entire sector, TEB remains determined to apply up-to-date security technologies and keep its information systems secure and under control.



Changing dynamics have been pushing IT in many ways, the pandemic has been removed borders for experienced/skilled IT people, and remote working for any company in the world is more common than ever. Continuity of services reached its peak by having no major interruption on internal services with continuous improvement of systems. Network infrastructure has been renewed with high-performing, more secure devices that support long-term group standards. Network Access Control (NAC) is also another major project increasing security to another level.

IT team finalized important projects in the area of Card and POS. Biometric Access (Face, Fingerprint) for Android allows the login of clients more secure and user friendly. Increase Transfer Limit On Mobile App allowed transfer limit from 10k to 50k, and offer the possibility to shift more branch transactions to Mobile Banking. Digital Subscription of TEB Mobile and E-Banking provides possibility for users to open Mobile Banking and E-Banking account without visiting the branch and only by using their debit/credit cards.

Password reset of TEB Mobile / E-Banking provides possibility for users to reset their Mobile Banking and E-Banking password without visiting the branch and only by using their debit/credit cards. NPS on TEB Mobile gives possibility to get feedback of clients for any service which we provide on TEB Mobile. Kosovo ID Login to TEB Mobile provides possibility for users to login only by using their Kosovo ID and Passport Number.

Moreover, IT Core Banking Team completed lots of projects which contributed to the resolution of audit and compliance topics, and to increase process and product efficiency.

A highlighted part of tasks which have been finished during 2021 are below:

- By developing Cadastral Agency web service integration, we have automated the mortgage registration process at a lower cost to the bank.
- Authorized person definition process for all clients has been automated.
- Weak/leakage/missing parts that belongs to collection have been strengthened by adding new features such as getting payment from client before account closure, designing new collection menus, and taking the logic of Account Maintenance Fee forward by covering more scenarios in the system.
- Process improvements on collecting Account Maintenance Fee has been done to increase collection efficiency.
- New processes have been developed to increase product efficiency in cash cover loans and TDA accounts.
- New cash withdrawal process is designed that provides clients withdraw money whenever wanted.
- The Swift Message structure in category 7 has been developed to include global standards.
- To comply with Financial Intelligence Unit, FIU reports have been upgraded to a new schema.

4.8. Information Security and Data Protection

We are continuously and closely monitoring any security vulnerabilities in order to take actions to protect the Bank, our services and our clients accordingly. Patches and upgrades in our systems have been completed timely to provide a secure infrastructure. Our aim is to provide the most secure services to our clients while maintaining service and alternative channel's quality.

During 2021, we implemented the Tufin tool, vulnerability management, and Cyber Culture was conducted for 3 months. The last one resulted in a high praise of attendance of staff in awareness trainings. Phishing campaigns have been conducted properly and we see a higher number of people succeeding this test.

The Bank is part of Group Cyber Security Program that is based on the NIST (National Institute of Standards and Technology) with the ambition to reinforce BNPP capabilities to counter cyber risks. A model is created based on the NIST referential that covers all Cyber Security topics and has been adapted with TEB and Group Cyber Security Strategy and policies. In order to increase the awareness about information security and to increase cyber culture, all employees completed e-learning and newcomers onsite training programs. These training programs were supported with email notifications as well as phishing campaigns.

The bank is performing regular penetration tests by third party companies, local and international. Including tests on our web applications, mobile applications and DDoS tests, to make sure our protection is working and in-place. This is an independent method of security assessment of banking systems.

Data protection is a fundamental right, protected by Data Protection Law, and the General Data Protection regulation (GDPR). In order to protect and guarantee rights to data protection and privacy, the processing of personal data is subject to control by an independent authority, the Agency for Information and Privacy which is the independent Data Protection Authority, tasked with ensuring that the institutions and bodies respect data protection law.

We carry out our functions in close cooperation with the data protection authority and our aim is to be as transparent as possible in our work, serving our clients' interests. We serve the interests of our clients and the institution by ensuring that the institution complies with data protection principles in practice. We contribute to wider policy as far as it affects data protection.

Using our expertise, authority and formal powers, we aim to build awareness of data protection as a fundamental right and as a vital part of the institution. We focus our attention and efforts on areas of policy or administration that present the highest risk of non-compliance or the greatest impact on privacy. We act selectively and proportionately.

During 2021, the data protection unit with the support of management, approached data protection in a new way by improving technical and organizational measures against unauthorized or unlawful processing of data and against accidental loss, destruction or damage of data, by implementing different DLP (Data Loss Prevention) and Data Classification tools. Also the bank has shown due care for the transfer of personal data to countries within and outside of the European Economic Area, by evaluating all contractual agreements for transfer of personal data.

5. MANAGEMENT / CORPORATE GOVERNANCE

5.1. Board of Directors

TEB Sh. A. Board of Directors

Chairwoman: Ayşe Aşardağ
Vice-Chairman: Alp Yılmaz
Member: Luc Delvaux
Member: Nilsen Altintaş
Member: Esra Peri Aydoğan
Member: Birol Deper
Member: Osman Durmuş
Member: Ayse Meral Çimenbiçer
Member: Nimet Elif Kocaayan
Managing Director and Member: Orçun Özdemir

Governance

TEB SH.A has a Board of Directors currently comprising ten members with extensive banking experience. The Board carries out its duties and responsibilities according to the requirements set out in the Bank's charter and pursuant to all relevant legislation and requirements imposed by the Central Bank of Kosovo (CBK) and regulators. The Board meets at least quarterly.

The role of the Board of Directors

The Board's primary task is to supervise the financial and business activities of the Bank. It is responsible for defining the Bank's organizational and administrative structure, its business policy including operational and administrative units, their sub-units and functions, supervisory positions and reporting relationships. Moreover, the Board is tasked with the supervision of senior management activities. The Board of Directors determines and establishes the Bank's banking structure and exposure levels, reviews and approves necessary adjustments and measures. Furthermore, the Board is responsible for adopting the report of senior management on business operations based on the semi-annual balance sheet, profit and loss statement, annual balance sheet and internal and external audit reports. Decisions taken by the Board require a majority vote from members who are either present or voting by proxy.

V

5.2. Committees

Committees of the TEB Sh. A. Board

In line with TEB SH.A.'s Charter, regulations and the Bank's requirements, our Board of Directors has established an Audit Committee, a Risk Committee, a Corporate Governance Committee, a Remuneration Committee, an Upper Credit Committee, and an IT and Data Management Committee, all consisting of Board members with relevant experience and external experts. The Board can also establish ad hoc committees and determine their composition and tasks, where relevant and appropriate. The Committees do not make decisions in lieu of the Board of Directors, but act as advisors to them.

Audit Committee

Committee Chair:	**Luc Delvaux**
Members:	**Ayşe Aşardağ**
	Birol Deper
Independent Member:	**Bashkim Uka**

Duties and Responsibilities:

The Audit Committee serves as an independent and objective committee to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing financial reporting and other financial information of the Bank, systems of internal control regarding finance, accounting, and financial reporting processes.

The Audit Committee meets at least quarterly.

Upper Credit Committee

Committee Chair:	**Osman Durmuş**
Committee Vice Chair:	**Haluk Kırcalı**
Members:	**Alp Yılmaz**
	Ayşe Aşardağ
	Oya Gökçen

Duties and Responsibilities:

This committee is authorized to take credit decisions on amounts between €750,000 and €3.5 million.

Corporate Governance Committee

Committee Chair: Luc Delvaux
Members: Ayşe Aşardağ
Esra Peri Aydoğan
Orçun Özdemir

Duties and Responsibilities:
The Corporate Governance Committee assists the Board of Directors in fulfilling its oversight responsibilities by reviewing:

- The general organizational structure of the Bank;
- The key governance documents of the Bank, especially the Charter of the Bank, the documents regulating the operations of the General Assembly of Shareholders, the Board of Directors, the Committees of the Board of Directors, the Executive Committee and the various Management Committees;
- The scope, duties, ways of functioning of the various Committees of the Board of Directors, with due care for clear division of responsibilities among them;
- The way relations with shareholders can be structurally organized and monitored;
- The overview of issues related to Corporate Social Responsibility.

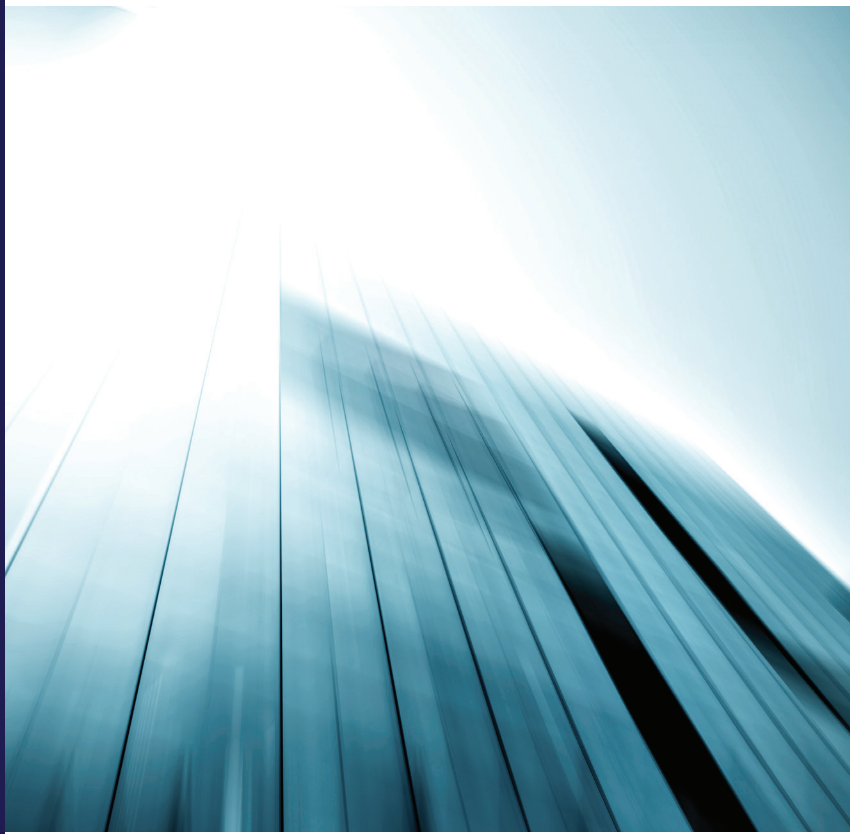
The Corporate Governance Committee meets at least quarterly.

Risk Committee

Committee Chair: Nimet Elif Kocaayan
Committee Vice Chair: Osman DURMUŞ
Members: Alp Yılmaz
Ayşe Aşardağ
Luc Delvaux

The objective of the Risk Committee is to oversee the risk profile, approve and monitor the risk management framework of the Bank within the context of the risk reward strategy determined by the Board of Directors. As such, the Risk Committee is responsible for monitoring all risk-related components and functions derived from credit, market, liquidity, and operational risks.

The Risk Committee meets on a monthly basis.



IT and Data Management Committee

Committee Chair: Ayşe Meral Cimenbicer
Members: Ayşe Aşardağ
Luc Delvaux
Alp Yılmaz
Orçun Özdemir

Duties and Responsibilities:

The Committee serves as an independent and objective committee to analyse, monitor, prepare and suggest any matter related to the Bank IT and Data Governance issues, to the Board of Directors.
The IT and Data Management Committee meets at least quarterly.

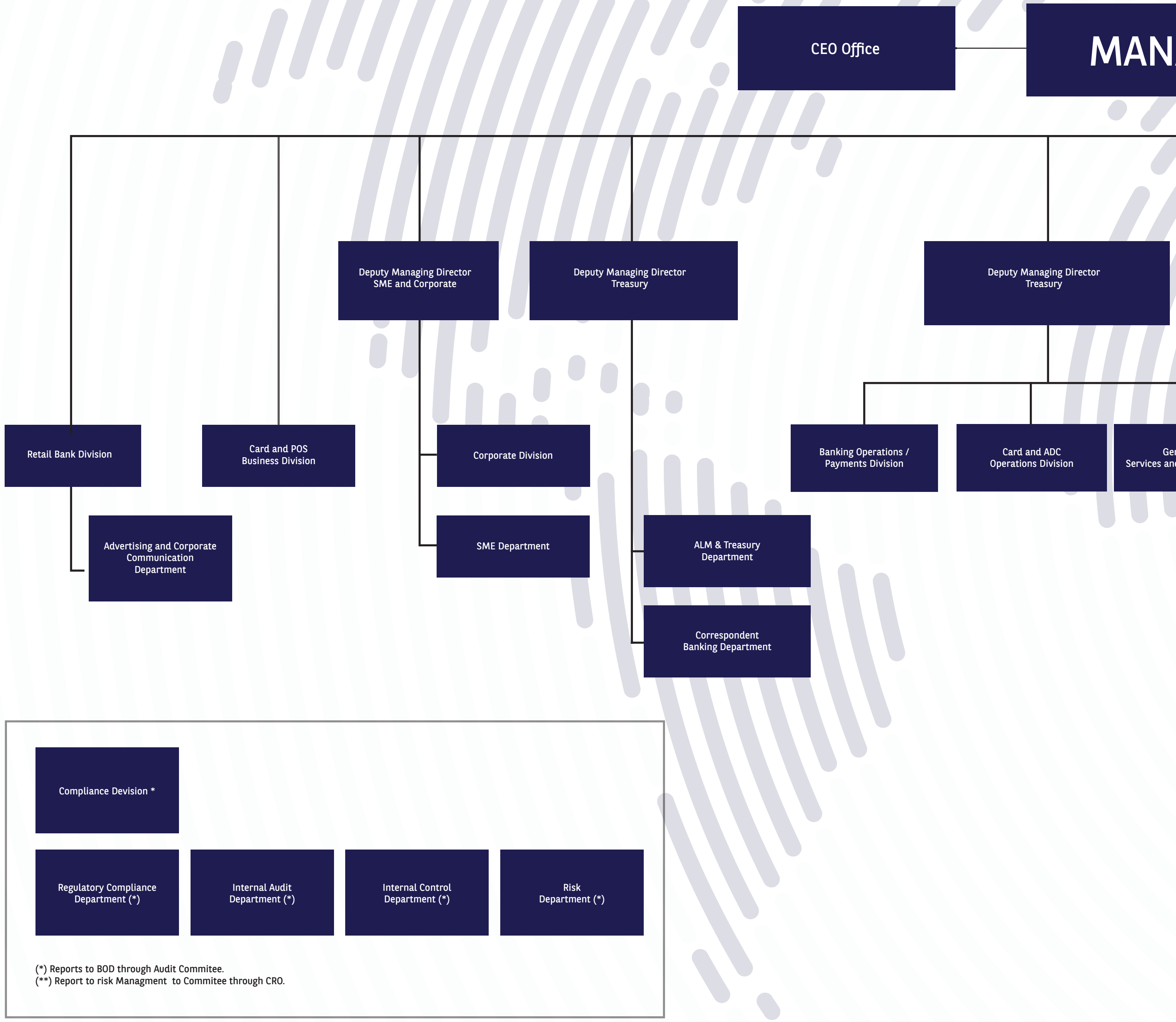
Remuneration Committee

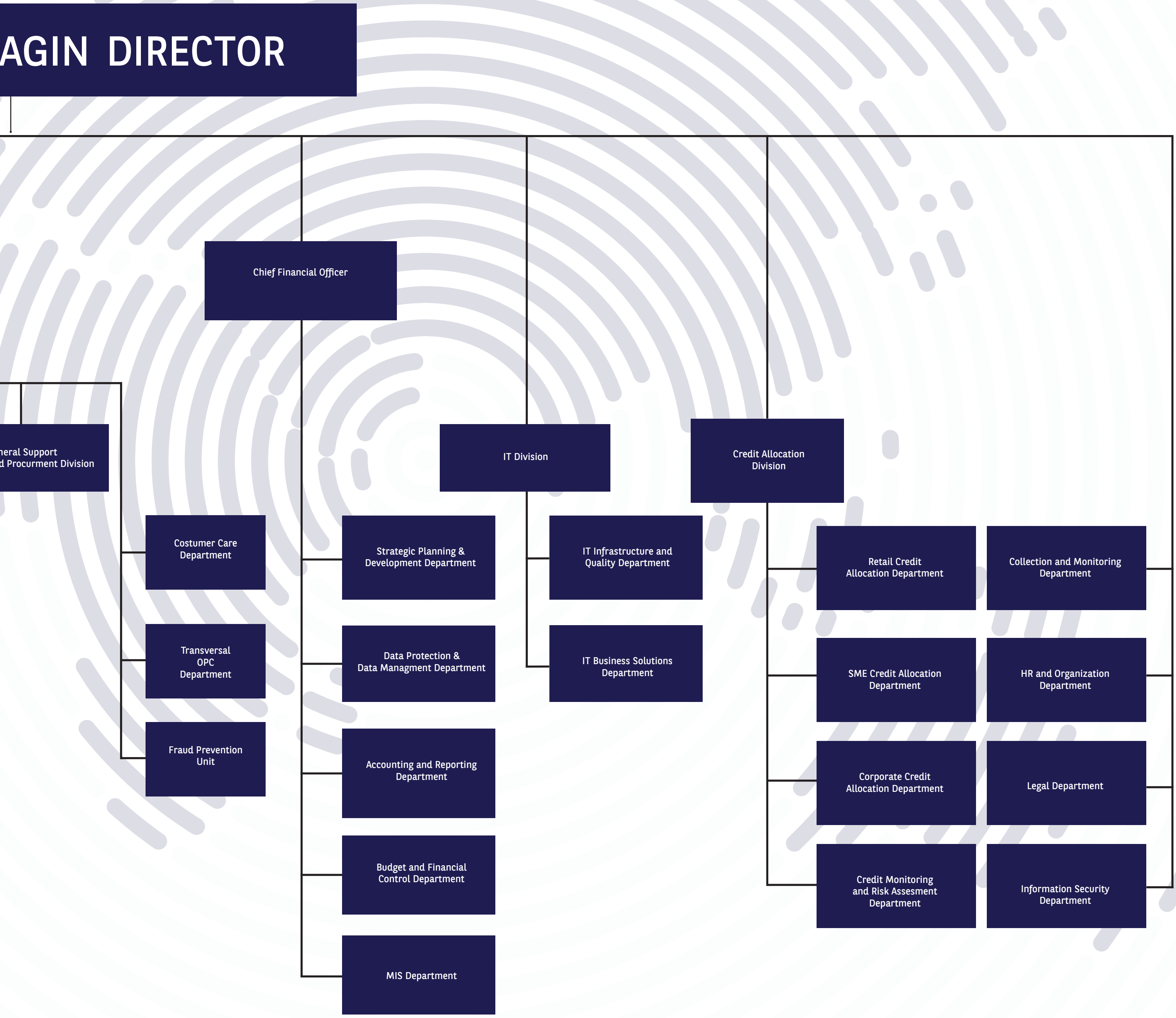
Committee Chair: Ayşe Aşardağ
Members: Luc Delvaux
Alp Yılmaz
Nilsen Altıntaş
Orçun Özdemir

Duties and Responsibilities:

The Remuneration Committee is responsible for the determination, monitoring, and supervision of the remuneration implementations on behalf of the of Directors.
The Remuneration Committee meets at least twice in a year.

5.1. TEB Sh. A. Organizational Structure




AGIN DIRECTOR
Chief Financial Officer
neral Support
d Procurment Division
Costumer Care Department
Transversal OPC Department
Fraud Prevention Unit
Strategic Planning & Development Department
Data Protection & Data Managment Department
Accounting and Reporting Department
Budget and Financial Control Department
MIS Department
IT Division
IT Infrastructure and Quality Department
IT Business Solutions Department
Credit Allocation Division
Retail Credit Allocation Department
SME Credit Allocation Department
Corporate Credit Allocation Department
Credit Monitoring and Risk Assesment Department
Collection and Monitoring Department
HR and Organization Department
Legal Department
Information Security Department

5.4. Risk Management

As a nature of banking business TEB is exposed to credit, market, liquidity, and operational risks which are identified and monitored in line with the Group and international standards. The Bank measures and monitors risk in a prudent and conservative manner. The risk management purpose is to serve as the second level control and it is organized within the framework of respective regulation.

The process of risk management is composed of risk identification, analysis and measurement, and risk monitoring through establishing sound policies and procedures which are practical and understood at all levels of the bank. Our risk management works in cooperation with the senior management to ensure that the risk level of the Bank is in accordance with Group policies and in line with the bank's risk appetite. The Risk Department maintains its independence in its daily functions as it reports directly to the Board of Directors through the Risk Committee (RC).

5.4.1 Credit Risk

Credit risk is the most common risk the bank is exposed to considering the local market structure and overall conditions. TEB is exposed to credit risk through its lending, trade finance, and treasury activities, nevertheless, credit risk may arise in other circumstances as well. Credit risk management is conducted through regular analysis of the debtors' credit worthiness while all credit exposures are reviewed at least on an annual basis, while large exposures are monitored on regular basis by the monitoring function who have the mandate to observe and monitor large corporate exposures monthly, and to report to the Credit Committee or Watch List Doubtful Committee in case of any observed credit deterioration. The monitoring process considers but is not limited to cash flow and sales performance, credit covenants, payment behaviour, profitability, liquidity, solvency, and debt ratio.

The Board of Directors has the final authority in the allocation of loan facilities and approval of credit policies. This power is delegated to the Upper Credit Committee and the Chief Executive Officer with certain conditions and limits. The exercise of these delegated powers is regularly monitored and reported by internal control, risk management and internal audit, as part of second and third lines of defence respectively. On the other hand, the Risk Management department reports to the Risk Committee monthly about loan development on portfolio level, including the KRI summary, regulatory and Board of Directors limits, loan delinquency, exposure by segment and industry, the NPL trend, collection activities, etc.

Credit stress testing is another important component in understanding possible events or changes in the market that could impact the Bank's balance sheet by simulating different default scenarios on the existing bank portfolio. Moreover, the Bank is implementing IFRS 9 principles for the assessment and calculation of expected credit loss and calculation of impairment for its financial assets.

5.4.2. Market Risk

Market risk involves possible losses a bank may incur as a result of the exposure of its balance sheet and off-balance sheet accounts to interest-rate risk, or exchange-rate risk, resulting from fluctuations in the financial markets. TEB ALMT-Treasury oversees operational management of the market risk and optimizes the returns within the set risk appetite limits, while the Risk Management Department monitors the market-risk exposure as the second level of control in order to ensure to maintain the Bank's conservative risk profile.

5.4.3. Interest-Rate Risk

As part of market risk, the interest-rate risk arises from the risk that an asset would lose in value due to the change in interest rates. Interest-rate risk is determined by measuring the rate of sensitivity of assets, liabilities and off-balance sheet items providing 100/200 basis point +/- shock simulations over Net Banking Income on a monthly basis. IRR is monitored closely through gap and duration analyses. Possible negative effects of interest-rate fluctuations on financial position and cash flow are minimized by means of prompt decisions.

5.4.4. Exchange-Rate Risk

Exchange-rate risk is defined as a possible loss that a bank may incur with all of its currency assets and liabilities in the event of changes in exchange rates. Position limits determined by the Board of Directors are monitored on a daily basis as are possible changes in the Bank's monetary positions that may occur as a result of routine foreign currency transactions.

5.4.5. Liquidity Risk

Liquidity risk occurs when there is insufficient cash or cash inflows to meet net funding requirements when due. Liquidity risk may also occur when open positions cannot be closed quickly at suitable prices. The Bank's policy is to have an asset structure that is sufficiently liquid to meet all kinds of liabilities as they fall due. The Board of Directors regularly monitors and determines liquidity ratios and the relevant standards for maintaining high liquidity at all times. TEB has in place an effective system for the timely reporting of the liquidity position to the Board of Directors, senior management and all related departments. Moreover, liquidity stress tests are another important tool to measure bank liquidity at different business assumptions.

5.4.6. Capital Adequacy

The Bank ensures it owns sufficient capital to cover the risks involved in its lending business activities. The Risk Management department monitors and reports capital adequacy ratios to senior management and to the Board of Directors through the Risk Committee.

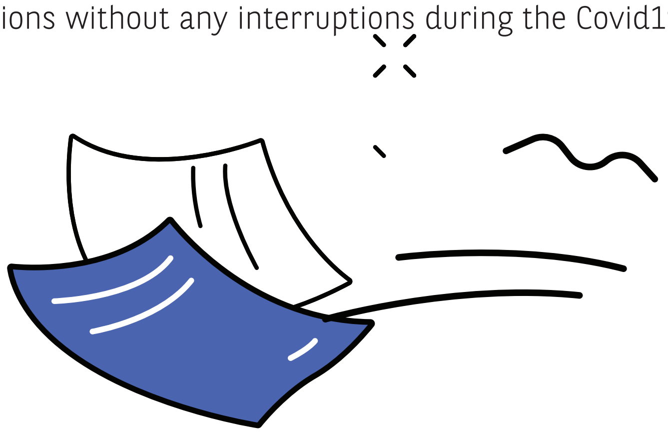
5.4.7. Operational Risk and Business Continuity

The Operational Risk function is responsible for monitoring operational risk events as defined by the Basel Committee. We have a system appropriate to the nature, extent and complexity of the Bank's business in order to effectively identify key risk indicators and assess, monitor and control operational risk events. We implement methods to assist other departments in identifying, monitoring, controlling, and mitigating potential operational incidents. The Operational risk function provides operational risk training for all staff, especially those who are responsible for reporting incidents and assessing all processes in terms of operational risk and identifying risky processes.

Business continuity, regardless of its type and reason, consists entirely of plans that ensure the continuity of the Bank's critical business functions in case of any business interruption incident arising from internal and external factors. The operational risk function is constantly engaged in defining, measuring, and reporting risk to the Chief Risk Officer. The results of operational risk and business continuity activities are reviewed and assessed monthly to the Risk Committee and on a quarterly basis to Board of Directors.

We have integrated our operational risk related tasks to the BNP Paribas Group risk management. Our operational risk function has direct access to the Group's system for reporting and managing Operational Risk Management related issues, which are namely Incident Management and RCSA (Risk Control Self-Assessment). Risk Control Self-Assessment (RCSA) is applied to identify and to evaluate operational risks and associated controls. It adds value by increasing an operating unit's involvement in designing and maintaining control and risk systems, identifying risk exposures, and determining corrective action. The aim of RCSA is to integrate risk management practices and culture into the way that the staff carry out their jobs, and business units achieve their objectives.

The Operational Risk function was continually involved in liaising with Senior Management to take necessary measures in order to provide a stable environment for the continuation of banking operations without any interruptions during the Covid19 pandemic period.



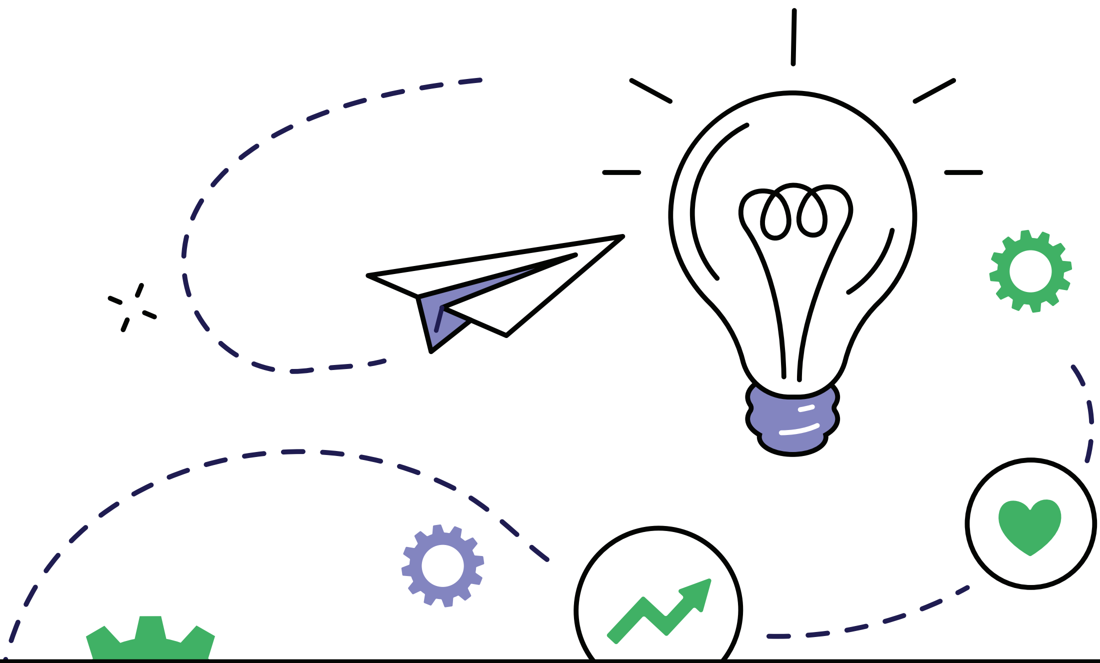
5.5. Audit, Control, Compliance, and Legal

5.5.1. Internal Audit

The Internal Audit function is one of the key components in the Bank's governance structure. The Bank's Internal Audit function is independent and as such reports directly to the Board of Directors through the Audit Committee and on its own initiative if deemed necessary or appropriate.

The Internal Audit Department is an assurance function, helping the Bank accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of the control environment, including risk management and control and governance processes. It is the Internal Audit Department's responsibility to assess whether the control environment ensures that risks, which could arise from the Bank's operations, are managed in a manner that enables an acceptable level of mitigation. Audit activities are carried out by the Internal Audit Department according to the audit plan, which is prepared at least on an annual basis using a risk-based approach consistent with the Bank's goals and objectives. Each audit plan is approved by the Bank's Audit Committee. The plan is updated regularly to reflect changes inherent to the internal control system and to integrate new business lines.

The work of the Internal Audit Department is performed in compliance with the applicable laws, regulations, group audit practices in place, and in compliance with the International Standards for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors, which is the governing body for the internal audit profession worldwide.



5.5.2. Compliance

Our bank is committed to responsible banking and acting with integrity and responsibility in everything we do. We believe that in creating value for our clients, shareholders, employees, and society, how we do business is just as important as the sustainability of our business growth. It goes without saying that adherence to laws and regulations and the highest international standards and guidelines is part of our identity and forms the foundation for how we do business.

At the same time, we set high standards of business integrity and ethical conduct aimed at increasing the effectiveness of the compliance framework. In recent years, including 2021 there has been a constant increase in regulatory requirements in Kosovo and at BNP Paribas Group Level where compliance management is a top priority. As in the previous years, in 2021 as well, we faced several challenges, but we appreciate the increased importance, awareness and implementation in the field of compliance. Our team spirit, commitment and the sustainable improvement of our efficiency are all aimed at safeguarding the integrity of our financial institution.

We expect our employees to act honestly, responsibly, fairly, and professionally, to serve the best interests of clients and to respect the integrity of the markets. Our code of conduct, comprising our values, ethical business conduct and requirements, forms the basis for how our employees should behave with our colleagues, clients, business partners, shareholders, and the authorities. TEB's code of conduct includes ethical business provisions that are aimed at managing conflicts of interests, preventing market abuse, fighting terrorism and other economic crimes including money laundering.

In the year 2021 we had significant progress in different compliance areas which strengthen further our competitive advantages. Several strengths and advantages are related to Governance, Training, and Permanent control, KYC, and AML Sanctions & Embargoes. Our main enhancements the previous year have been in the following processes:

- Financial Security topics have been handled by an experienced team, duly framed by procedures and followed through a complete set of committees;
- The KYC process have been relying on the segregation of duties, it is adequately performed through the collection of KYC documentation and with an appropriate level of approval;
- The AML set-up has been significantly reinforced in 2021 relevant to cash controls;
- The bank has adopted an enterprise-wide program that sets robust standards for Anti-Bribery and Corruption;
- The Preventing Sanctions projects has been fully implemented to reinforce the Sanctions set-up.

As a result of the above-mentioned points, the Compliance Division' main achievements for the previous year in our financial institution were:

- The AML Compliance set-up has been significantly reinforced in 2021 relevant to cash controls as well as alert management;
- We re-enforced the 'Know Your Client' (KYC) Review process;
- Projects related to efficiency in the compliance domain continued and will be the top priority for upcoming years (with focus on digital banking alternatives);
- The Training of AML Compliance team members continued (100% certified in the area of Financial Security). In addition, the AML/CFT trainings for bank staff had 100% completion.

5.5.3. Regulatory Compliance

The Regulatory Compliance Department's main responsibility, in line with the banks strategy of being a compliant bank, is to identify, assess and monitor the Regulatory Compliance risks faced by the bank. The department reports directly to the Audit Committee /Board of Directors, to inform them about these risks and follow up corrective measures when needed. The Regulatory Compliance Department operates on a pro-active basis assessing the Regulatory Compliance risks associated with bank's business activities, including the development of new products.

The main focus is on Central Bank of Kosovo and BNPP's regulatory requirements, and therefore a Regulatory Watch process has been put in place during 2021.

Other domains with equivalent importance are Protecting Interest of the Clients, Professional Ethics, Market Integrity and the continues advocating to all the employees on respecting the Code of Conduct.

5.5.4. Internal Control

The Internal Control Department aims to strengthen, support and maintain internal controls and improve control culture at every level of TEB SH.A. At TEB, the Internal Control and Operational Risk functions are structured separately. The Internal Control Department is an independent body reporting directly to the Board of Directors through the Audit Committee on a quarterly basis. It is positioned as an integral part of the second level of defence and executes its duties accordingly.

Controls are designed to:

- Verify proper adherence to internal rules and procedures and the consistency and compliance of internal rules with legal regulations,
- Contribute to safeguarding assets,
- Assess the adequacy, effectiveness and efficiency of daily operations, and
- Contribute to the identification and assessment of risks related to the organization's current and proposed future business activities, including new products.

The main focus area for Internal Control Department will be Branch controls and regulatory compliance controls.

5.5.5. Transversal OPC

Transversal OPC Department aims to rebalance the levels of controls by strengthening, supporting and maintaining internal controls system, and improving the control culture by monitoring the 1st Level of Defence under the Business lines (in process flow controls on ex-ante and ex-post transaction). T-OPC Department is an independent body (no operational responsibilities) reporting directly to the Deputy Managing Director (responsible for operations), to the Group and ICC (Internal Control Committee) on a regular basis.

The T-OPC Department operates and/or coordinates the banks Operational and Permanent Control framework related to all operational risks, including fraud, third party, conduct, compliance, regulatory, ICT risks, and others risks types in collaboration with other specialized independent control functions and in compliance with internal policies, procedures and guidelines issued by bank as well as with external regulatory and supervisory requirements.

T-OPC Department's main responsibilities are:

- Implementing the Group's generic control plans,
- Being the Conduct Referent for the Group,
- Contributing to the Risk Control and Self-Assessment process,
- Verifying proper adherence to internal rules and procedures and the consistency and compliance of internal rules with legal regulations,
- Assessing the adequacy, effectiveness, and efficiency operations by permanently monitoring defined controls,
- Monitoring and updating the control plan upon the risk assessment changes in cooperation with Risk Department and Group,
- Coordinating and managing the projects related to controls.
- Playing a "check and challenge" role on controls performed by the first line of defence

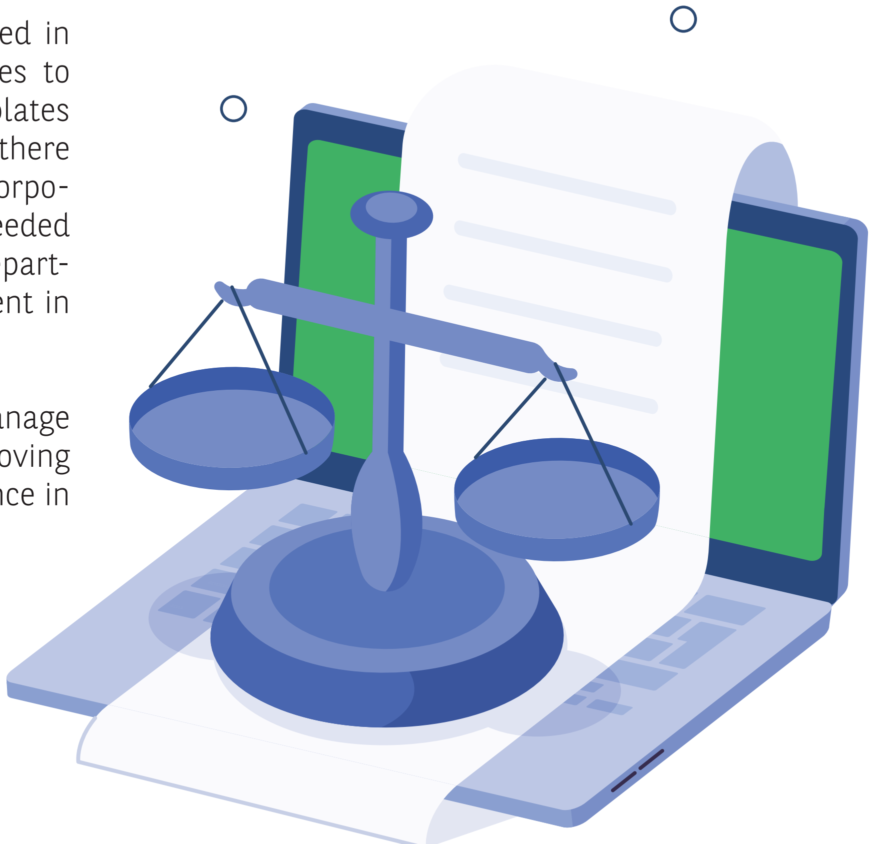
5.5.6. Legal

The legal function is responsible to manage all the legal risks of the bank. The department does this through numerous ways which include defining the bank's legal policy to ensure consistency, providing legal advice, managing the drafting and amendment of all contracts that are in use by the bank, through the regulatory watch process, representing the bank in the court and other institutions, and any other activity where legal input is necessary. The Legal Department also is part of the BNP Paribas Legal Group whose aim is to provide a consistent service throughout the whole group.

Year 2021 was an interesting year, where the Legal Department was more heavily involved in supporting the sales departments deal with a high demand of client requests. The Department also had to support the Bank in navigating the ever-changing business environment due to the ongoing COVID-19 pandemic. On top of that, there was continuous investment and change in the way that the sector operates, with digitalization of processes being at the forefront of the ongoing changes.

The Department was more involved in setting up the necessary processes to make the standardization of templates of agreements easier. Additionally, there were necessary changes to the corporate structure of the bank that needed to be completed, which the Department supported higher management in achieving them.

The Department continues to manage legal risk effectively, while improving processes and the clients' experience in their interactions with the bank.



6. AUDITORS REPORT

TEB SH.A.

Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

as at and for the year ended 31 December 2021

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of TEB SH.A.

Opinion

We have audited the financial statements of **TEB Sh.A. (**the "Bank"), which comprise the statement of financial position as at December 31, 2021, and the statement profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2021, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank in accordance with the requirements of the Law No. 04/L-093. The Annual Report of the Bank is expected to be made available to us after the date of our audit report. Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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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 scepticism 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 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.

Deloitte Kosova Sh.p.k

Rr. Ukshin Hoti, nr.120
Deloitte
Kosova Sh p k
810468373
10000 Prishtine, Kosove

Deloitte Kosova sh.p.k.
Str. Ukshin Hoti, no.120, Kompleksi Ramiz Sadiku,
H C3/2a, floor V, Prishtina, 10000, Kosova
Unique Identification No.: 810468373
March 18, 2022

Engagement Partner
Arta Limani

TEB SH.A.
Statement of financial position

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

	Note	31 December 2021	31 December 2020
ASSETS			
Cash and balances with banks	6	150,147	131,194
Loans and advances to banks	7	72,267	74,682
Investments in debt securities	8	45,414	25,928
Loans and advances to customers	9	468,948	414,694
Investment properties	10	1,661	1,649
Other financial assets	11	3,977	3,203
Other assets	12	1,431	1,373
Premises and equipment	13	2,975	3,528
Right-of-use-assets	14	2,474	3,388
Intangible assets	15	2,846	2,331
Corporate income tax prepayments		-	148
TOTAL ASSETS		**752,140**	**662,118**
LIABILITIES			
Due to customers	16	641,570	561,400
Other liabilities	20	414	448
Lease liabilities	14	2,537	3,471
Borrowings	17	1,722	5,145
Other financial liabilities	18	5,233	4,509
Provisions for liabilities and charges	19	1,023	1,531
Corporate income tax liability		681	-
Deferred income tax liability	29	2	44
TOTAL LIABILITIES		**653,182**	**576,548**
SHAREHOLDER'S EQUITY			
Share capital	21	24,000	24,000
Retained earnings		74,947	61,156
Other reserves		11	414
TOTAL SHAREHOLDER'S EQUITY		**98,958**	**85,570**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**752,140**	**662,118**

These financial statements have been approved by the Executive Management of the Bank on 18 March 2022 and signed on their behalf by:

Mr. Orçun Ozdemir
Managing Director

Mr. Rezak Fetai
Chief Financial Officer

The notes on pages 5 to 65 are an integral part of these financial statements.

TEB SH.A.
Statement of profit or loss and other comprehensive income

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

	Note	2021	2020
Interest income	22	31,591	29,097
Interest expense	23	(777)	(1,346)
Net margin on interest and similar income		**30,814**	**27,751**
Net impairment (loss)/release on loans and advances to customers	9	(397)	(948)
Net margin on interest and similar income after allowance for expected credit losses		**30,417**	**26,803**
Fee and commission income	24	14,737	11,160
Fee and commission expense	25	(5,355)	(4,358)
Gains less losses from foreign currencies revaluation		327	228
Gains less losses on revaluation of investment properties		12	59
Net (impairment)/release for credit related commitments		(29)	26
Other operating incomes		832	515
Other operating expenses		(1,553)	(1,301)
Other impairments and provisions	26	(248)	(520)
Personnel costs	27	(8,055)	(7,719)
Depreciation and amortisation	13,14,15	(4,428)	(4,734)
Administrative expenses	28	(6,758)	(5,531)
PROFIT BEFORE TAX		**19,899**	**14,628**
Income tax expense	29	(2,108)	(1,251)
PROFIT FOR THE YEAR		**17,791**	**13,377**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Debt securities at fair value through other comprehensive income:			
Gains less losses arising during the year, net of taxes	29	(403)	2
Items that will not be reclassified to profit or loss:			
Revaluation of investment property	10,29	-	-
Other comprehensive income / (loss) for the year		**(403)**	**2**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**17,388**	**13,379**

The notes on pages 5 to 65 are an integral part of these financial statements.

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

	Share capital	Retained earnings	Other reserves	Total
Balance at 1 January 2020	**24,000**	**47,779**	**412**	**72,191**
Profit for the year	-	13,377	-	13,377
Other comprehensive income	-	-	2	2
Total comprehensive income	**-**	**13,377**	**2**	**13,379**
Dividend payment	-	-	-	-
Balance at 31 December 2020	**24,000**	**61,156**	**414**	**85,570**
Balance at 1 January 2021	**24,000**	**61,156**	**414**	**85,570**
Profit for the year	-	17,791	-	17,791
Other comprehensive income	-	-	(403)	(403)
Total comprehensive income	**-**	**17,791**	**(403)**	**17,388**
Dividend payment	-	(4,000)	-	(4,000)
Balance at 31 December 2021	**24,000**	**74,947**	**11**	**98,958**

The notes on pages 5 to 65 are an integral part of these financial statements.

TEB SH.A.
Statement of cash flows

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

	Notes	2021	2020
Cash flows from operating activities			
Profit before tax		**19,899**	**14,628**
Adjustments for:			
Depreciation of property, plant and equipment	13	1,717	1,776
Depreciation of right-of-use-assets	14	1,051	1,238
Amortization of intangible assets	15	1,660	1,720
(Gains)/loss on disposal of premises and equipment		(17)	2
Gain from sale of repossessed assets		(538)	(228)
Gain from fair value of investment property		(12)	(59)
Gains on investments in debt securities		(17)	(8)
Loans expected credit losses	9	1,860	2,530
Expected credit losses of other financial assets	26	2	145
Miscellaneous provisions	26	888	375
Impairment/(release) for credit related commitments		29	(26)
Interest income	22	(31,591)	(29,097)
Interest expense	23	777	1,346
		(4,292)	**(5,658)**
Net decrease/(increase) in:			
Balances with CBK		(5,965)	(5,703)
Loans and advances to customers		(55,622)	(19,684)
Other financial assets		(1,383)	39
Other assets		(58)	(632)
Net increase/(decrease) in:			
Due to customers		80,311	49,158
Other financial liabilities		724	241
Provision for liabilities and charges		(508)	527
Other liabilities		(34)	5
		17,465	**23,951**
Interest received		30,745	28,762
Interest paid		(938)	(1,374)
Income taxes paid		(1,275)	(1,726)
Net cash from operating activities		**41,705**	**43,955**
Cash flows from investing activities			
Acquisition of debt securities at fair value through other comprehensive income		(28,393)	(23,070)
Proceeds from disposal of investments in debt securities		8,665	11,348
Proceeds from disposal of premises and equipment		17	11
Gain from sale of repossessed asset		538	211
Gains on investments in debt securities		17	8
Acquisition of premises and equipment	13	(1,166)	(1,817)
Acquisition of intangible assets	15	(2,175)	(1,897)
Net cash used in investing activities		**(22,497)**	**(15,206)**
Cash flow from financing activities			
Dividend payment		(4,000)	-
Repayment of borrowings		(3,429)	(3,857)
Repayment of principal of lease liabilities		(1,259)	(1,420)
Net cash used in financing activities		**(8,688)**	**(5,277)**
Net increase in cash and cash equivalents		**10,520**	**23,472**
Cash and cash equivalents at 1 January		156,613	133,141
Cash and cash equivalents at 31 December	6	**167,133**	**156,613**

The notes on pages 5 to 65 are an integral part of these financial statements.

1. Introduction

TEB SH.A. ("the Bank") was incorporated in the Republic of Kosovo on 19 December 2007 when it was granted a licence by the Central Bank of Kosovo ("CBK") for banking activities. The Bank commenced its operations in January 2008.

The Bank is controlled by TEB Holding AS which is a company incorporated in Turkey (the "Parent Company") and owns 100% of the shares of the Bank. The shareholders of TEB Holding AS are BNP Paribas and Çolakoĝlu Group, each of them owning 50% of the shares. BNP Paribas is the ultimate controlling party of the Parent Company and the Bank.

Registered address and places of business: The registered head office of the Bank is located in Preoc n.n. 7KM main road Prishtina - Ferizaj, Gracanica 10500, Republic of Kosovo.

Principal activity: The Bank operates as a fully-fledged bank in accordance with Law No.04/L-093 on Banks, Microfinance Institutions and non-bank financial institutions and provides services to all categories of customers in the Republic of Kosovo through its network of 29 (2020: 29) branches located in Prishtina, Gjakova, Peja, Prizren, Ferizaj, Mitrovica and Gjilan.

At 31 December 2021, the Board of Directors of the Bank is comprised of:

- Ayşe Aşardağ (Chairwoman)
- Jacques Roger Jean Marie Rinino (Vice Chairman)
- Alp Yilmaz (Vice Chairman)
- Birol Deper (Member)
- Nimet Elif Kocaayan (Member)
- Osman Durmus (Member)
- Nilsen Altintaş (Member)
- Luc Delvaux (Member)
- Ayşe Meral Cimenbicer (Member)
- Orçun Ozdemir (Member & Managing Director)

2. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"), under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of investment properties and financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Functional and presentation currency

These financial statements are presented in EUR, which is the Bank's functional currency. Functional currency is the primary currency of the economic environment in which the Bank operates, being the Republic of Kosovo.

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

2. Summary of significant accounting policies (continued)

Abbreviations

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
CBK	Central Bank of Kosova
BoD	Board of Directors
EBRD	European Bank for Reconstruction and Development
RMC	Risk Management Committee
IFRS	International Financial Reporting Standard
EIR	Effective interest rate
IR	Interest Rate
IRR	Interest Rate Risk
FX, Forex	Foreign Currency Exchange
RSA	Rate-sensitive assets
RSL	Rate-sensitive liabilities
ROU asset	Right of use asset
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
AC	Amortised Cost
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
PD	Probability of Default
DR	Default Rates
EAD	Exposure at Default
DpD	Days past Due
ECL	Expected Credit Loss
LECL	Lifetime Expected Credit Loss
LGD	Loss Given Default
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest

Financial instruments - key measurement terms

Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise 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.

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

2. Summary of significant accounting policies (continued)

Financial instruments - key measurement terms (continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have not occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any expected credit loss allowance. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method.

Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate). The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

- For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.
- For financial assets for which there is an incurred credit loss (credit impaired assets in stage 3), the effective interest rate applies to the amortized cost of the instrument and not to its gross carrying amount.
- For financial liabilities the effective interest rate is the rate that discounts future estimated payments to the amortized cost of the financial liability.

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.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the expected life of the instrument.

2. Summary of significant accounting policies (continued)

Financial instruments – initial recognition

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price the Bank accounts for that instrument at that date as follows:

a) A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.
b) In all other cases, the fair value measurement is adjusted to defer the difference. After initial recognition, the Bank recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories

The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 3 for critical judgements applied by the Bank in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent SPPI. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 3 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

2. Summary of significant accounting policies (continued)

Financial assets – reclassification

Financial assets are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Bank did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – expected credit loss allowance.

The Bank assesses the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a SICR since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL").

Refer to ***Significant increase in credit risk "SICR"*** paragraph for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit-impaired assets and definition of default is explained under ***Financial assets impairment*** paragraph. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Financial assets – write-off

Financial assets are written-off, in whole or in part according to delinquency and collateral coverage as regulated with local regulation. On the other hand, when the Bank has exhausted all recovery efforts and has concluded that there is no reasonable expectation of recovery, it may decide to write off an asset before local requirements due date.

Financial assets – derecognition

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

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

2. Summary of significant accounting policies (continued)

Financial assets – modification

The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset significant change in interest rate, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties. If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank assesses whether the modification of the terms are substantial or not. If the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying amounts is attributed to a capital transaction with owners.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all vault cash, interbank placements and unrestricted deposits with the CBK, with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

2. Summary of significant accounting policies (continued)

Cash and cash equivalents (continued)

Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the CBK

Mandatory cash balances with the CBK are carried at AC and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day-to-day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks (loans and advances to banks)

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Investments in debt securities

Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss.

An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Loans and advances to customers

Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

2. Summary of significant accounting policies (continued)

Repossessed collateral

Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in Repossessed assets within other assets. The Bank subsequently measures repossessed collateral at the lower between cost (amount initially recognised) and fair value less costs to sell. Repossessed collateral is written off in case they are not resold by the Bank within 5 years from repossession. Movable property is not recognised as an asset when repossessed. Any loss arising from the above re-measurement is recorded in profit or loss and can be reversed in the future. Gains or losses from the sale of these assets are recognized in the profit or loss.

Financial guarantees

Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected credit loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Credit related commitments

The Bank issues financial guarantees and commitments to provide loans. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Investment property

Investment property is property held by the Bank to earn rental income or for capital appreciation, or both and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period.

Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs.

2. Summary of significant accounting policies (continued)

Investment property (continued)

The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Any resulting increase in the carrying amount of the property is recognized in profit or loss unless it relates to a transfer from owner-occupied property to investment property in which case the increase is recognised in other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognized in other comprehensive income, if any, with any remaining decrease charged to profit or loss for the year. In the absence of current prices in an active market, the Bank considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows by external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The fair value of the Bank's investment property is determined based on the report of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, where required. Historical cost includes expenditure that it is directly attributable to the acquisition of the items of property and equipment.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Each year, the Bank assesses whether there are indications that assets may be impaired. If any such indication exists, the recoverable amounts are estimated. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the profit or loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining the operating result for the period.

Land and construction in progress are not depreciated. Depreciation on other items of property and equipment is recognised in profit or loss using the straight-line method to allocate their cost over their estimated useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as presented below:

Category of assets	**Depreciation rates used**
Leasehold improvements	Shorter of useful life and the term of the underlying lease
Furniture, fixtures and equipment	3-5 years
Computers and related equipment	3-5 years
Motor vehicles	5 years

Intangible assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are entirely comprised of computer software and licenses, which are amortised using the straight-line method over their estimated useful life of up to five years. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

2. Summary of significant accounting policies (continued)

Right-of-use assets

The Bank leases various offices for its branches, ATMs and headquarters. Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives.

Impairment of non-financial assets

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

Due to other banks and customer accounts

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Other borrowed funds. Other borrowed funds include loans taken from EBRD. Funds borrowed are carried at Amortised Cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange currency and swaps are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting. Certain derivative instruments embedded in financial liabilities and other non-financial contracts are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in Equity or in Other Comprehensive Income.

Income tax

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

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

2. Summary of significant accounting policies (continued)

Deferred tax

Deferred tax is recognised 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 recognised 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.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

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 realised. 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 on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Tax exposures

In determining the amount of current and deferred tax, the Bank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events.

New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

Provisions for liabilities and charges

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

Charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a charge occurs, as identified by the legislation that triggers the obligation to pay the charge. If a charge is paid before the obligating event, it is recognised as a prepayment.

Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Bank uses the incremental borrowing rates calculated by Treasury Department.

2. Summary of significant accounting policies (continued)

Lease liabilities (continued)

The Bank is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Employee benefits

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

Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

Dividends are recorded in equity in the period in which they are declared by the Bank’s shareholders and approved by the CBK in accordance with CBK regulation in force. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note.

Interest income and expense

Interest income and expense are recorded for all financial instruments measured at AC, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the Bank relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price less directly attributable transaction costs). As a result, the effective interest rate is credit-adjusted.

2. Summary of significant accounting policies (continued)

Interest income and expense (continued)

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fees and commissions

Fee and commission incomes and expenses are recognised as following:

Fees received that are an integral part of the effective interest rate of a financial instrument (origination fees such as fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents, etc.) are amortized according to the effective interest rate method over the effective life of the contracts.

Fees for which the performance obligation is satisfied at a point in time – these fees are recognised as revenue or expense when the performance obligation is satisfied (usually when the service is executed). Such fees and commission include fees from (for): international payments, domestic payments, SMS banking, credit card fees (merchant commissions, fees from customers of other banks that use Bank's POS and ATM terminals, VISA and Master fees, etc.), account servicing fees (cash withdrawal fee, cash deposit fee, pin reset, closing account fees), fees from money transfers, etc.

Fees for which the performance obligation is satisfied over time – these fees are recognised as revenue or expense when performance obligation is satisfied over time (generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided). Such fees include credit card and account maintenance fees, fees for guarantees and letter of credits, etc.

Foreign currency translation

The functional currency of the Bank is Euro, the currency of the primary economic environment in the Republic of Kosovo.

Monetary assets and liabilities in other currencies are translated into the functional currency at the official exchange rate of CBK at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of CBK, are recognised in profit or loss for the year (as foreign exchange translation gains fewer losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

3. Critical accounting estimates and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Expected Credit Loss (ECL) measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 33. The following components have a major impact on credit loss allowance: definition of default, criteria for SICR, PD, EAD and LGD, as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Up-to-date, the Bank did not integrate any forward-looking information for measurement of ECL, primarily due to weak correlation between the default rates and macroeconomic indicators. Given the apparent lack of meaningful correlation between the default rates and available macroeconomic indicators for Kosovo, the Management does not believe there is any significant identified and measurable impact of forward-looking information in the Expected Credit Losses amount as of 31 December 2021 and 2020. Nevertheless, the Bank will analyse forward looking assumptions, in annual basis, and in case there is any strong correlation of key macroeconomic variables with ECL level it will integrate those variables on its forward looking model accordingly. Further, the Bank started a new IFRS 9 project at 2021 which is estimated to be completed in 2022. The project includes a new modelling and forward looking approach based on macroeconomic indicators.

On the other hand, the Bank applied additional ECL in amount of 673 thousand (2020: EUR 646 thousand) as an add- on factor for the customers that might have been effected negatively in the future due to COVID 19 pandemic. Based on management's assessment, the Expected Credit Loss recorded after the add – on factor is appropriate.

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts). For such assets, the Bank applies twelve-month maturity and ECL is applied. Based on the Bank's internal procedures, such products are assessed on a yearly basis following a sound credit risk assessment and legally such limits are revocable and Bank can cancel the undrawn commitment at any time.

A 5% increase or decrease in PD estimates at 31 December 2021 would result in an increase or decrease in total expected credit loss allowances of EUR 208 thousand (2020: 10% increase or decrease in PD would result in increase or decrease in ECL of EUR 381 thousand). A 5% increase or decrease in LGD estimates at 31 December 2021 would result in an increase or decrease in total expected credit loss allowances of EUR 309 thousand (2020: 10% increase or decrease in LGD would result in increase or decrease in ECL EUR 480 thousand).

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, besides minimum of 30 DpD which is used as backstop criteria, the Bank uses other qualitative forward looking criteria defined by the Bank to determine what should be considered as a significant increase in credit risk and thus compare the relative lifetime between the default risk at each observation date with the lifetime default at the origination date. If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

3. Critical accounting estimates and judgments in applying accounting policies (continued)

If ECL of 5% of loans and advances to customers that are currently in Stage 1 measured at 12-months ECL would be measured at lifetime ECL, the expected credit loss allowance amount would be increased by approximately EUR 4,495 thousand as of 31 December 2021 (2020: increased by approximately EUR 2,167 thousand).

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

The Bank identified securities as a liquidity portfolio and classified them as held to collect and sell. The Bank assessed that its residential mortgage loan portfolio meets the criteria for held to collect business model determined that there have been no past securitisation transactions and therefore are not inconsistent with the held to collect business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months' interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument.

The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

3. Critical accounting estimates and judgments in applying accounting policies (continued)

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Introduction of an equity feature;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Transfers to and valuation of investment properties. Investment property is stated at its fair value based on reports prepared by an independent, professionally qualified and licensed appraiser at the end of the reporting period.

The principal assumptions made and the impact on the aggregate valuations of reasonably possible changes in these assumptions, with all other variables held constant, are as follows:

- The fair value of the investment property as of 31 December 2021 was determined by using a combination of two valuation techniques: Comparison Method and Development Method. The fair value for the year ended 31 December 2020 was determined based on the combination of Comparison Method, Development Method and Income Capitalization Method.
- A haircut of 20% was applied to reach to the comparison immediate value.

Impairment of PPE and Right of use Asset: The Bank has assessed the impact of COVID 19 pandemic in the impairment of its non-financial assets. Based on the impairment analyses, the pandemic has not significantly impacted the carrying amount of the Company's property, plant and equipment, right of use assets and intangible assets. No impairment indicators have been noted that are triggered from the COVID 19 pandemic.

Determining lease term. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate) the lease.
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate) the lease.

Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Extension and termination options. Extension and termination options are included in a number of property leases. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor.

3. Critical accounting estimates and judgments in applying accounting policies (continued)

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and equipment leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

4. Standards and interpretations effective in the current period

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" -** Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 16 "Leases" -** Covid-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted),

- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023).

The adoption of these amendments to the existing standards and interpretations has not led to any material changes in the Bank's financial statements.

5. Standards and interpretations not effective in the current period

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

- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 issued on 25 June 2020 and amendments to IFRS 17 "Initial Application of IFRS 17 and IFRS 9" issued on 9 December 2021 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.),

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

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

6. Cash and balances with banks

	2021	2020
Cash on hand	**32,526**	**29,956**
Cash at banks		
- Current accounts with banks	32,485	31,820
- Current account with Central Bank of Kosova ("CBK")	29,647	19,887
- Statutory reserve account with CBK	55,526	49,561
	117,658	**101,268**
Cash and balances with banks before credit loss allowance	**150,184**	**131,224**
Expected credit loss allowance	(37)	(30)
Total cash balances with banks	**150,147**	**131,194**

As at 31 December 2021 the Bank has recognized EUR 37 thousand (2020: 30 thousand) as credit loss allowance for cash, current accounts with banks and balances with Central Bank, according to bank's credit loss policy which has estimated a probability of default of 0.05% and loss given default of 45%.

In accordance with the CBK requirements, the Bank maintains a minimum of 10% of customer deposits with maturities up to one year as statutory reserves. The statutory reserve may be held in the form of 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. As of 31 December 2021 and 2020 statutory reserve is comprised of cash held at CBK.

Cash and cash equivalents in the statement of cash flows as at 31 December 2021 and 31 December 2020 comprise:

	2021	2020
Cash on hand and current accounts with banks	65,010	61,776
Unrestricted balance with the CBK	29,647	19,887
Loans and advances to banks (note 7)	72,476	74,950
Total	**167,133**	**156,613**
Credit loss allowance	(233)	(287)
Total	**166,900**	**156,326**

Credit quality. The following table presents the credit grade assigned by Moody's, Fitch and Standard and Poor's credit rating agencies. All balances with 7 counterparts (2020: 7) are performing in Stage 1.

Ratings	**2021**	**2020**
AAA	-	6,257
A+	273	215
A3	16,159	16,508
B+	-	10
B2	22	-
BBB+	16,027	8,830
Not Rated	4	-
CBK balances – not rated	85,173	69,448
Total cash and balances with Central Bank (excluding cash on hand)	**117,658**	**101,268**
Expected credit loss allowance	(37)	(30)
Total cash on hand and at banks (carrying amount)	**117,621**	**101,238**

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

7. Loans and advances to banks

	2021	2020
Loans and advances to banks	72,476	74,950
Expected credit loss allowance	(209)	(268)
Total loans and advances to banks	**72,267**	**74,682**

Loans and advances to banks at 31 December 2021 and 31 December 2020 that have original maturities of less than 3 months and are included in cash equivalents.

The annual interest rates on time deposits with banks at the end of reporting period were as follows:

- EUR: 2021 – max I/R 0.80%, min I/R -0.75% EUR: 2020 – max I/R 0.90%, min I/R – 0.78%
- USD: 2021 – max I/R 0.45%, min I/R 0.04% USD: 2020 – max I/R 1.70%, min IR 0.01%

Credit quality. Credit rating is assigned by Moody's, Fitch and Standard and Poor's credit rating agencies. For the purpose of ECL measurement, loans and advances to banks are performing in Stage 1. The carrying amount of due from other banks balances at 31 December 2021 below also represents the Bank's maximum exposure to credit risk on these assets:

	31 December 2021	31 December 2020
Aaa	-	3,423
Aa1	-	10,004
Aa3	16,962	9,548
B2	35,623	-
B3	-	35,448
Unrated	19,891	16,527
Gross carrying amount	**72,476**	**74,950**
Expected credit loss allowance	(209)	(268)
Carrying amount	**72,267**	**74,682**

The changes in the credit loss allowance and gross carrying amount due from other banks between the beginning and the end of the annual period.

	Credit loss allowance				**Gross carrying amount**			
	Stage 1 (12 months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12 months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Loans and advances to banks								
At 1 January 2021	**(268)**	**-**	**-**	**(268)**	**74,950**	**-**	**-**	**74,950**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(209)	-	-	**(209)**	72,476	-	-	**72,476**
Derecognized during the period	268	-	-	**268**	**(74,950)**	-	-	**(74,950)**
Total movements with impact on credit loss allowance charge for the period	**59**	**-**	**-**	**59**	**(2,474)**	**-**	**-**	**(2,474)**
At 31 December 2021	**(209)**	**-**	**-**	**(209)**	**72,476**	**-**	**-**	**72,476**

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

7. Loans and advances to banks (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12 months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12 months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Loans and advances to banks								
At 1 January 2020	**(134)**	**-**	**-**	**(134)**	**65,391**	**-**	**-**	**65,391**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(268)	-	-	**(268)**	74,950	-	-	**74,950**
Derecognized during the period	134	-	-	**134**	(65,391)	-	-	**(65,391)**
Total movements with impact on credit loss allowance charge for the period	**(134)**	**-**	**-**	**(134)**	**9,559**	**-**	**-**	**9,559**
At 31 December 2020	**(268)**	**-**	**-**	**(268)**	**74,950**	**-**	**-**	**74,950**

8. Investments in debt securities at fair value through other comprehensive income

	31 December 2021	**31 December 2020**
Kosovo Government Bonds	34,760	25,928
Turkish Government Bonds	10,654	-
Total	**45,414**	**25,928**

The yields for Kosovo Government Bonds and Turkish Government Bonds at the end of reporting period were as follows:

- Kosovo Gov. Bonds: 2021 – max yield 2.60%, min yield 1.10% 2020 – max yield 2.70%, min yield 0.88%
- Turkish Gov. Bonds: 2021 – max yield 3.38%, min yield 2.19% 2020 – none

Although the Government of the Republic of Kosovo is not rated, public debt currently is at levels below 24% of GDP and the projected growth in the medium term is expected to remain below 35% of GDP. Such ceiling together with the overall budget stability that requires any deficit to remain within -5% of the GDP as mandated by the IMF fiscal rule, are key factors for assessing the instruments issued by the Government as stable.

Investment in debt securities at 31 December 2021 and 2020 are all measured at fair value through other comprehensive income.

The movement during the year in debt securities at fair value through other comprehensive income is presented as follows:

	2021	**2020**
Opening balance	25,928	14,167
Additions	28,393	23,070
Matured investments	(7,211)	(4,095)
Sold investments	(1,454)	(7,253)
Charge of accrued interest	351	37
Investment securities available for sale - fair value	(498)	2
Premium amortization	(95)	-
Closing balance	**45,414**	**25,928**

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

8. Investments in debt securities at fair value through other comprehensive income (continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2021. Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel minimum PD of 0.05% and LGD of 45% for Kosovo Government Bonds and 6.8% PD and LGD 40% for Turkish Government Bonds.

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Kosovo Government Bonds				
Not rated	**35,145**	**-**	**-**	**35,145**
Total AC gross carrying amount	35,145	-	-	35,145
Less credit loss allowance	(8)	-	-	(8)
Less fair value adjustment from AC to FVOCI	87	-	-	87
Net Kosovo Government Bonds	**35,224**	**-**	**-**	**35,224**
Turkish Government Bonds				
BB-	**10,703**	**-**	**-**	**10,703**
Total AC gross carrying amount	10,703	-	-	10,703
Less credit loss allowance	(49)	-	-	(49)
Less fair value adjustment from AC to FV	(464)	-	-	(464)
Net Turkish Government Bonds	**10,190**	**-**	**-**	**10,190**
Total Carrying value (fair value)	**45,414**	**-**	**-**	**45,414**

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2020. Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel min PD of 0.05% and LGD of 45%.

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Kosovo Government Treasury Bills				
Not rated	-	-	-	-
Gross carrying amount	-	-	-	-
Less credit loss allowance	-	-	-	**-**
Less fair value adjustment from AC to FVOCI	-	-	-	-
Net Kosovo Government Bills	-	**-**	**-**	-
Kosovo Government Bonds				
Not rated	25,858	-	-	**25,858**
Gross carrying amount	**25,858**	-	-	**25,858**
Less credit loss allowance	(6)	-	-	**(6)**
Less fair value adjustment from AC to FV	70	-	-	**70**
Net Kosovo Government Bonds	**25,922**	**-**	**-**	**25,922**
Total Carrying value (fair value)	**25,928**	**-**	**-**	**25,928**

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

9. Loans and advances to customers

	31 December 2021	31 December 2020
Gross carrying amount of loans and advances to customers at AC	478,356	423,358
Credit loss allowance	(9,408)	(8,664)
Total carrying amount of loans and advances to customers at AC	**468,948**	**414,694**

Portfolio of loans and advances to customers meet the SPPI criteria for measurement at AC. As a result, loans and advances are classified and measured at AC. The gross carrying amount presented in the statement of financial position best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers. Gross carrying amount and credit loss allowance of loans and advances to customers at AC by categories at 31 December 2021 and 31 December 2020 are summarised below:

	31 December 2021			31 December 2020		
	Gross carrying amount	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Loans to individuals	**254,752**	**(3,512)**	**251,240**	**223,642**	**(3,378)**	**220,264**
Standard lending	222,706	(2,553)	220,153	193,910	(2,458)	191,452
Overdrafts	2,126	(84)	2,042	1,493	(60)	1,433
Credit Cards	29,920	(875)	29,045	28,239	(860)	27,379
Loans to legal entities	**223,604**	**(5,896)**	**217,708**	**199,716**	**(5,286)**	**194,430**
Standard lending	187,295	(5,351)	181,944	166,109	(4,649)	161,460
Overdrafts	32,831	(428)	32,403	30,160	(489)	29,671
Credit Cards	3,478	(117)	3,361	3,447	(148)	3,299
Total loans and advances to customers at AC	**478,356**	**(9,408)**	**468,948**	**423,358**	**(8,664)**	**414,694**

The movement in the release of credit loss allowance is as follows:

	2021			2020		
	Individuals	**Legal Entities**	**Total**	**Individuals**	**Legal Entities**	**Total**
Balance at 1 January	3,379	5,285	8,664	3,202	4,362	7,564
(Release)/loss for the year	880	980	1,860	1,065	1,465	2,530
Loans written-off	(747)	(369)	(1,116)	(888)	(542)	(1,430)
Balance at 31 December	**3,512**	**5,896**	**9,408**	**3,379**	**5,285**	**8,664**

The credit loss recognized in profit or loss is as follows:

	2021			2020		
	Individuals	**Legal Entities**	**Total**	**Individuals**	**Legal Entities**	**Total**
Release/(charge) during the year	(880)	(980)	(1,860)	(1,065)	(1,465)	(2,530)
Recoveries from written off loans	796	667	1,463	761	821	1,582
	(84)	**(313)**	**(397)**	**(304)**	**(644)**	**(948)**

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

9. Loans and advances to customers (continued)

At 31 December 2021, the ten largest borrowers represent 4.51% (2020: 5.62%) of the total loans. Loans and advances to customers include accrued interest of EUR 2,689 thousand (2020: EUR 2,198 thousand) and deferred disbursement fee of EUR 1,446 thousand (2020: EUR 1,191 thousand).

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting and comparative periods.

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Standard lending								
At 1 January 2021	**2,799**	**584**	**3,724**	**7,107**	**348,899**	**5,511**	**5,609**	**360,019**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(271)	740	-	469	(4,525)	3,825	-	(700)
Transfer from Stage 1 to Stage 3	(69)	-	737	668	(1,451)	-	1,142	(309)
Transfer from Stage 2 to Stage 1	45	(115)	-	(70)	1,588	(2,229)	-	(641)
Transfer from Stage 2 to Stage 3	-	(247)	451	204		(834)	687	(147)
Transfer from Stage 3 to Stage 1	1	-	(26)	(25)	27	-	(60)	(33)
Transfer from Stage 3 to Stage 2	-	14	(46)	(32)	-	49	(86)	(37)
(Release-Repayment)/Increase from the same Stage	(211)	(11)	(129)	(351)	(71,961)	(376)	(657)	(72,994)
Fully repaid during the year	(545)	(49)	(574)	(1,168)	(79,433)	(1,045)	(1,017)	(81,495)
New originated	1,369	243	286	1,898	203,690	2,883	561	207,134
Total movements with impact on credit loss allowance charge for the period	**3,118**	**1,159**	**4,423**	**8,700**	**396,834**	**7,784**	**6,179**	**410,797**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(796)	(796)	-	-	(796)	(796)
At 31 December 2021	**3,118**	**1,159**	**3,627**	**7,904**	**396,834**	**7,784**	**5,383**	**410,001**

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Standard lending								
At 1 January 2020	**2,480**	**960**	**2,691**	**6,131**	**323,802**	**12,555**	**4,658**	**341,015**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(23)	148	-	125	(2,081)	1,605	-	(476)
Transfer from Stage 1 to Stage 3	(86)	-	580	494	(1,318)	-	1,076	(242)
Transfer from Stage 2 to Stage 3	35	(174)	-	(139)	3,744	(5,527)	-	(1,783)
Transfer from Stage 3 to Stage 2	-	(422)	792	370	-	(1,565)	1,390	(175)
Transfer from Stage 2 to Stage 1	-	-	(4)	(4)	4	-	(7)	(3)
Transfer from Stage 3 to Stage 1	-	17	(39)	(22)	-	57	(83)	(26)
(Release-Repayment)/Increase from the same Stage	(617)	(15)	271	(361)	(65,231)	(745)	(380)	(66,356)
Fully repaid during the year	(521)	(207)	(95)	(823)	(77,742)	(3,413)	(703)	(81,858)
New originated	1,531	277	267	2,075	167,721	2,544	397	170,662
Total movements with impact on credit loss allowance charge for the period	**2,799**	**584**	**4,463**	**7,846**	**348,899**	**5,511**	**6,348**	**360,758**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(739)	(739)	-	-	(739)	(739)
At 31 December 2020	**2,799**	**584**	**3,724**	**7,107**	**348,899**	**5,511**	**5,609**	**360,019**

Releases and/or repayments from the same stage, in the above disclosed tables, represent the amount of repayments during the year, for the loans that were active as of 1 January 2021 and 2020 and are still active loans as of 31 December 2021 and 2020, and whose Stage has remained unchanged during 2021 and 2020.

Loans fully repaid during the year, represent the loans that were active as of 1 January 2021 and 2020, but were fully repaid during the year and are not anymore active as of 31 December 2021 and 2020.

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

9. Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Overdrafts								
At 1 January 2021	**250**	**66**	**233**	**549**	**30,270**	**1,026**	**357**	**31,653**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(18)	57	-	39	(339)	385	-	46
Transfer from Stage 1 to Stage 3	(1)	-	67	66	(87)	-	108	21
Transfer from Stage 2 to Stage 1	4	(13)	-	(9)	548	(543)	-	5
Transfer from Stage 2 to Stage 2	-	(9)	35	26	-	(54)	42	(12)
Transfer from Stage 3 to Stage 1	-	-	(4)	(4)	10	-	(10)	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
(Release - Repayment)/Increase from the same Stage	1	1	(7)	(5)	3,642	1	(29)	3,614
Fully repaid during the year	(57)	(44)	(49)	(150)	(6,509)	(387)	(142)	(7,038)
New originated	41	13	19	73	6,466	235	40	6,741
Total movements with impact on credit loss allowance charge for the period	**220**	**71**	**294**	**585**	**34,001**	**663**	**366**	**35,030**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(73)	(73)	-	-	(73)	(73)
At 31 December 2021	**220**	**71**	**221**	**512**	**34,001**	**663**	**293**	**34,957**

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Overdrafts								
At 1 January 2020	**224**	**33**	**377**	**634**	**28,766**	**967**	**456**	**30,189**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(11)	60	-	49	(590)	578	-	(12)
Transfer from Stage 1 to Stage 3	(3)	-	109	106	(227)	-	175	(52)
Transfer from Stage 2 to Stage 3	6	(6)	-	-	640	(556)		84
Transfer from Stage 3 to Stage 2	-	(14)	36	22	-	(111)	80	(31)
Transfer from Stage 2 to Stage 1	-	-	-	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-	-	-	-
(Release - Repayment)/Increase from the same Stage	31	3	9	43	302	(7)	(16)	279
Fully repaid during the year	(36)	(13)	(52)	(101)	(4,484)	(225)	(94)	(4,803)
New originated	39	3	4	46	5,863	380	6	6,249
Total movements with impact on credit loss allowance charge for the period	**250**	**66**	**483**	**799**	**30,270**	**1,026**	**607**	**31,903**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(250)	(250)	-	-	(250)	(250)
At 31 December 2020	**250**	**66**	**233**	**549**	**30,270**	**1,026**	**357**	**31,653**

Releases and/or repayments from the same stage, in the above disclosed table, represent the amount of repayments during the year, for the overdrafts that were active as of 1 January 2021 and 2020 and are still active overdrafts as of 31 December 2021 and 2020, and whose Stage has remained unchanged during 2021 and 2020.

Overdrafts fully repaid during the year, represent the overdrafts that were active as of 1 January 2021 and 2020, but were fully repaid during the year and are not anymore active as of 31 December 2021 and 2020.

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

9. Loans and advances to customers (continued)

	Expected credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit Cards								
At 1 January 2021	**323**	**264**	**421**	**1,008**	**29,383**	**1,749**	**554**	**31,686**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(10)	54	-	**44**	(696)	704	-	**8**
Transfer from Stage 1 to Stage 3	(4)		172	**168**	(251)	-	245	**(6)**
Transfer from Stage 2 to Stage 1	9	(51)	-	**(42)**	579	(652)	-	**(73)**
Transfer from Stage 2 to Stage 3	-	(121)	212	**91**	-	(337)	302	**(35)**
Transfer from Stage 3 to Stage 1	-	-	(27)	**(27)**	13	-	(39)	**(26)**
Transfer from Stage 3 to Stage 2	-	-	(26)	**(26)**	-	4	(36)	**(32)**
(Release)/Increase from the same Stage	14	(12)	(10)	**(8)**	822	(20)	(34)	**768**
Fully repaid during the year	(54)	(53)	(15)	**(122)**	(4,889)	(340)	(85)	**(5,314)**
New originated	68	19	66	**153**	6,180	398	91	**6,669**
Total movements with impact on credit loss allowance charge for the period	**346**	**100**	**793**	**1,239**	**31,141**	**1,506**	**998**	**33,645**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(247)	**(247)**	-	-	(247)	**(247)**
At 31 December 2021	**346**	**100**	**546**	**992**	**31,141**	**1,506**	**751**	**33,398**

	Expected credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit Cards								
At 1 January 2020	**360**	**109**	**330**	**799**	**29,834**	**3,008**	**829**	**33,671**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(14)	133	-	**119**	(932)	859	-	**(73)**
Transfer from Stage 1 to Stage 3	(4)	-	122	**118**	(198)	-	171	**(27)**
Transfer from Stage 2 to Stage 3	19	(40)	-	**(21)**	1,406	(1,664)	-	**(258)**
Transfer from Stage 3 to Stage 2	-	(23)	166	**143**	-	(270)	233	**(37)**
Transfer from Stage 2 to Stage 1	-	-	(13)	**(13)**	8	-	(46)	**(38)**
Transfer from Stage 3 to Stage 1		6	(20)	**(14)**	-	14	(65)	**(51)**
(Release)/Increase from the same Stage	(34)	76	65	**107**	(1,099)	(106)	(37)	**(1,242)**
Fully repaid during the year	(62)	(15)	189	**112**	(5,060)	(402)	(123)	**(5,585)**
New originated	58	18	23	**99**	5,424	310	33	**5,767**
Total movements with impact on credit loss allowance charge for the period	**323**	**264**	**862**	**1,449**	**29,383**	**1,749**	**995**	**32,127**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(441)	(441)	-	-	(441)	(441)
At 31 December 2020	**323**	**264**	**421**	**1,008**	**29,383**	**1,749**	**554**	**31,686**

Releases and/or repayments from the same stage, in the above disclosed table, represent the amount of repayments during the year, for the credit cards that were active as of 1 January 2021 and 2020 and are still active credit cards as of 31 December 2021 and 2020, and whose Stage has remained unchanged during 2021 and 2020. Credit cards fully repaid during the year, represent the credit cards that were active as of 1 January 2021 and 2020, but were fully repaid during the year and are not anymore active as of 31 December 2021 and 2020.

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

9. Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2021 and 31 December 2020 is as follows:

	2021			2020		
	Individuals	**Entities**	**Total**	**Individuals**	**Entities**	**Total**
Stage 1 and Stage 2						
0 days past due	250,841	216,459	**467,300**	220,162	194,025	414,187
1 to 30 days past due	1,099	742	**1,841**	824	641	1,465
31 to 90 days past due	622	450	**1,072**	563	551	1,114
Total Stage 1 and Stage 2 impaired loans	**252,562**	**217,651**	**470,213**	**221,549**	**195,217**	**416,766**
Stage 1 and Stage 2 Individually impaired loans						
0 days past due	38	1,116	**1,154**	-	19	19
1 to 30 days past due	-	189	**189**	-	-	-
31 to 90 days past due	25	348	**373**	-	53	53
Total Stage 1 and Stage 2 impaired loans	**63**	**1,653**	**1,716**	**-**	**72**	**72**
Stage 3 collectively impaired loans						
0 days past due	55	104	**159**	94	38	132
1 to 30 days past due	18	13	**31**	29	12	41
31 to 90 days past due	31	32	**63**	42	22	64
over 90 days past due	1,855	765	**2,620**	1,760	1,122	2,882
Total Stage 3 Collectively impaired loans	**1,959**	**914**	**2,873**	**1,925**	**1,194**	**3,119**
Stage 3 Individually impaired loans						
0 days past due	72	446	**518**	26	245	271
1 to 30 days past due	17	627	**644**	-	409	409
31 to 90 days past due	36	530	**566**	-	177	177
over 90 days past	43	1,783	**1,826**	142	2,402	2,544
Total Stage 3 Individually impaired loans	**168**	**3,386**	**3,554**	**168**	**3,233**	**3,401**
Total loans	**254,752**	**223,604**	**478,356**	**223,642**	**199,716**	**423,358**
Expected credit losses	(3,512)	(5,896)	(9,408)	(3,378)	(5,286)	(8,664)
Net loans	**251,240**	**217,708**	**468,948**	**220,264**	**194,430**	**414,694**

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. A decision to restructure is subject to the following:

- the restructuring increases the probability that the borrower will be able to repay the exposure;
- the new payment plan is in line with the actual and expected future payment capacity of the borrower;
- the borrower offers additional collateral, if possible and appropriate.

Loans with renegotiated terms	**2021**	**2020**
Stage 1	328	661
Stage 2	1,212	1,141
Stage 3	1,935	2,561
Total gross amount	**3,475**	**4,363**
Individual impairment	(1,094)	(1,447)
Collective impairment	(456)	(663)
Net	**1,925**	**2,253**

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

9. Loans and advances to customers (continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2021		31 December 2020	
	Net loans	%	Net loans	%
Individuals	251,240	53.6%	220,265	53.1%
Electricity, gas, water	1,225	0.3%	1,071	0.3%
Industry	38,383	8.2%	31,096	7.5%
Agriculture	8,880	1.9%	8,090	2.0%
Services and other	16,260	3.5%	13,794	3.3%
Hotels and restaurants	10,830	2.3%	11,757	2.8%
Transport and communication	8,070	1.7%	6,654	1.6%
Construction	18,565	4.0%	19,828	4.8%
Trading	115,495	24.6%	102,139	24.6%
Net loans to customers	**468,948**	**100.0%**	**414,694**	**100%**

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Information about collateral at 31 December 2021 and 2020 is as follows:

Types of collateral

The fair value of collateral disclosed below is determined by the Bank’s internal and external local certified appraisals and aims to represent the market value realisable by the legal owners of the assets. Due to local circumstances in Kosovo where the market is not active, the Bank seeks to adopt a prudent approach in determining the value of such collaterals. The Bank aims to use collaterals that could be converted into liquid assets within a reasonably short period of time.

	2021			2020		
	Individuals	Corporate	Total	Individuals	Corporate	Total
Mortgages	49,191	287,820	**337,011**	50,347	267,048	**317,395**
Cash collateral	1,837	3,848	**5,685**	2,194	3,889	**6,083**
Merchandise and equipment pledged	122,785	483,896	**606,681**	160,234	431,899	**592,133**
Cars pledged	16,173	47,709	**63,882**	14,193	42,994	**57,187**
Total	**189,986**	**823,273**	**1,013,259**	**226,968**	**745,830**	**972,798**

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”). The effect of collateral at 31 December 2021:

	Over-collateralised assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of col-lateral
Loans to individuals	79,909	187,208	174,843	2,778
Loans to legal entities	206,210	817,086	17,394	6,187

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

9. Loans and advances to customers (continued)

The effect of collateral at 31 December 2020:

	Over-collateralised assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to individuals	108,030	224,912	115,612	2,056
Loans to legal entities	186,643	741,777	13,073	4,053

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2021 and 2020:

	31 December 2021	31 December 2020
Loans to corporate customers	**5,902**	**4,791**
Loans	4,901	4,106
Overdraft	961	561
Credit Card	40	124
Loans to individuals	**191**	**409**
Loans	187	343
Overdraft	1	16
Credit Card	3	50
Total	**6,093**	**5,200**

10. Investment properties

	31 December 2021	31 December 2020
Investment properties at fair value at 1 January	**1,649**	**1,590**
Transfer from owner-occupied properties	-	-
Increase in fair value from valuation	12	59
Investment properties at fair value at 31 December	**1,661**	**1,649**

Investment property of the Bank includes a construction land transferred from owner occupied property to investment property held for capital appreciation. Land was acquired in 2013, for purpose of utilizing it for building the new Bank headquarter. On 20 May 2019, the Bank's Executive Committee took a decision to abandon the plan for the headquarters complex in favour of the current long-term lease solution. Such decision resulted in the transfer of the asset to investment property. The Bank choose to measure the investment property at fair value.

Fair value measurement

Measurement of the investment property is classified in level 3 of the fair value hierarchy as inputs and assumptions used in arriving at the fair value are unobservable. In the absence of an active market, the fair value of the investment property as of 31 December 2021 was determined by using the Comparison Method. The fair value was for the year ended 31 December 2020 was determined using a combination of the three valuation techniques: Comparison Method, Development Method and Income Capitalization Method.

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

10. Investment properties (continued)

Valuation techniques	Description of valuation technique
Comparison method	Direct Comparison Method is based on comparison of prices for similar properties in the same market with a distance of less than 500m. Comparable sale prices were adjusted, where appropriate, by taking into account indexes for regulatory plans, location of property and access and infrastructure. The average price per m2 based on the comparison of bids with similar conditions, was adjusted with the offer factor minus -10%/20%.
Development method	Development method takes into consideration all developments and construction costs to achieve the highest and best use and into determining the final value of the Investment Property.
Income Capitalization method	Direct Capitalization Method is based on the hypothetical terms as if the property was leased. Capitalization rate, taking into account the capitalization of rental income potential, nature of property and prevailing market conditions is 8%.

A haircut of 20% was applied to reach to the immediate sale value.

An increase/decrease in the immediate sale value by +/-10% would result in an increase/decrease of fair value by EUR 166 thousand.

The fair value of the Bank's investment property at initial recognition and subsequently as of 31 December 2021 and 2020 has been determined on the basis of valuations carried out at those dates by independent, professionally qualified appraisers who have recent experience in valuing similar properties in Kosovo and are not connected with the Bank.

11. Other financial assets

	2021	**2020**
Account maintenance and credit card fees receivable	2,161	1,306
Receivables from financial institutions	2,609	2,105
Other financial assets	143	73
Total other financial assets (gross amount)	**4,913**	**3,484**
Impairment allowance	(936)	(281)
Total other financial assets (carrying amount)	**3,977**	**3,203**

Receivables from financial institutions are related to withdrawals or payments performed with cards of other banks in the Bank's POSs or ATMs. The Bank assessed a provisions for other financial assets that are due for more than 3 months (see note 19). As of 31 January 2021, EUR 3,294 thousand of total other financial assets booked at 31 December 2021 are collected.

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

12. Other assets

	2021	2020
Repossessed assets	608	608
Prepaid expenses	777	702
Other	46	63
Total other assets	**1,431**	**1,373**

Movements in the repossessed assets during the year are shown below:

	2021	2020
At 1 January	**608**	**450**
Additions	246	414
Disposals	-	-
Write down to NRV	(246)	(256)
At 31 December	**608**	**608**

13. Premises and equipment

	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Motor vehicles	Total
Cost					
As at 1 January 2020	**4,981**	**2,195**	**8,701**	**890**	**16,767**
Additions	83	70	1,511	153	**1,817**
Disposals	(7)	(170)	(89)	-	**(266)**
As at 31 December 2020	**5,057**	**2,095**	**10,123**	**1,043**	**18,318**
Additions	136	285	635	110	1,166
Disposals	-	(29)	(130)	(120)	(279)
Reclassification	9	(21)	12	**-**	**-**
As at 31 December 2021	**5,202**	**2,330**	**10,640**	**1,033**	**19,205**
Accumulated depreciation					
As at 1 January 2020	**3,791**	**1,872**	**6,785**	**814**	**13,262**
Charge for the year	415	203	1,123	35	**1,776**
Disposals	-	(180)	(68)	-	**(248)**
As at 31 December 2020	**4,206**	**1,895**	**7,840**	**849**	**14,790**
Charge for the year	**389**	**159**	**1,113**	**56**	**1,717**
Disposals	-	(27)	(130)	(120)	(277)
As at 31 December 2021	**4,595**	**2,027**	**8,823**	**785**	**16,230**
Carrying amount					
As at 31 December 2020	**851**	**200**	**2,283**	**194**	**3,528**
As at 31 December 2021	**607**	**303**	**1,817**	**248**	**2,975**

Land was acquired in 2013, for purpose of utilizing it for building a new bank Head Quarter. As explained in Note 10, the land was transferred to investment property during the year because of a change in its intended use by the Executive Committee of the Bank.

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

14. Right of use assets and lease liabilities

The Bank leases various office buildings and space for its ATMs. Rental contracts are typically made for fixed periods of 6 months to 5 years, but may have options to extend the lease for the same period of time set forth in the lease agreement.

The right of use assets by class of underlying items is analysed as follows:

	Office buildings	ATM space	Total
Carrying amount at 1 January 2020	**3,844**	**107**	**3,951**
Additions	2,051	118	**2,169**
Disposals	(1,492)	(2)	**(1,494)**
Depreciation charge	(1,119)	(119)	**(1,238)**
Carrying amount at 31 December 2020	**3,284**	**104**	**3,388**
Additions	427	266	**693**
Disposals	(505)	(10)	**(515)**
Depreciation charge	(924)	(127)	**(1,051)**
Other	(54)	13	**(41)**
Carrying amount at 31 December 2021	**2,228**	**246**	**2,474**

Lease liability analysed as per maturity is as follows:

Maturity analysis	**2021**	**2020**
Year 1	989	1,183
Year 2	683	910
Year 3	484	633
Year 4	274	355
Year 5	85	280
Onwards	22	110
Total	**2,537**	**3,471**

Analysed as:		
Current	989	1,183
Non-current	1,548	2,288
Total	**2,537**	**3,471**

Amounts recognized in profit and loss	**2021**	**2020**
Depreciation expense on right-of-use-assets	1,051	1,238
Interest expense on lease liabilities	81	88
Expense relating to short-term leases	25	110
Tax and other expenses related to tax	238	-
Total	**1,395**	**1,436**

Total cash flow amount for leases amount to 1,259 thousand (2020: 1,420 thousand). All lease payments are fixed.

As of 31 December 2021 the Bank is committed for EUR 1.9 thousand (2020: 6.4 thousand) for short term leases.

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

15. Intangible assets

	Software
Cost	
As at 1 January 2020	**12,130**
Additions	1,897
Disposals	(4)
As at 31 December 2020	**14,023**
Additions	2,175
Disposals	(10)
As at 31 December 2021	**16,188**
Accumulated amortization	
As at 1 January 2020	**9,972**
Charge for the year	1,720
Disposals	-
As at 31 December 2020	**11,692**
Charge for the year	1,660
Disposals	(10)
As at 31 December 2021	**13,342**
Carrying amount	
As at 31 December 2020	**2,331**
As at 31 December 2021	**2,846**

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

16. Due to customers

	31 December 2021	31 December 2020
Demand Deposits		
Individuals	414,596	352,372
Legal entities	176,657	139,614
	591,253	**491,986**
Term Deposits		
Individuals	43,237	51,684
Legal entities	7,080	17,730
	50,317	**69,414**
Total due to customers	**641,570**	**561,400**

As at 31 December 2021, customer accounts include accrued interest of EUR 581 thousand (2020: EUR 722 thousand).

Term deposits and current accounts by legal status as a portion of the total balance are as follows:

	2021	2020
Individuals	71%	72%
Legal entities	29%	28%
	100%	**100%**

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

17. Borrowings

	31 December 2021	31 December 2020
Borrowings		
Loan	1,715	5,143
Deferred front-end fees	(3)	(27)
Interest accrued	10	29
Total borrowings	**1,722**	**5,145**

	2021	2020
Carrying amount at 1 January	5,145	8,981
Repayment of borrowings	(3,429)	(3,857)
Change in deferred front-end fees	26	28
Change in interest accrued	(20)	(7)
Total borrowings	**1,722**	**5,145**

In 2016 the Bank entered into a borrowing agreement with EBRD in amount of EUR 5,000 thousand to support women-led SMEs. The agreement will mature on May 2022.

In 2018 the Bank entered into a borrowing agreement with EBRD in amount of EUR 5,000 thousand divided into two tranches, Tranche A EUR 3,000 thousand and Tranche B EUR 2,000 thousand. Tranche A was disbursed on February 2018 and Tranche B was disbursed on December 2020. The purpose of these borrowings are to finance loans for Energy Efficiency. Both tranches will mature on January 2022.

18. Other financial liabilities

	31 December 2021	31 December 2020
Transfers of customers' funds in transit	2,420	2,111
Due to suppliers	887	854
Credit cards bonuses payable	686	664
Staff bonuses	678	519
Other payables to customers for credit cards	225	175
SMS banking-mobile	238	186
Other financial liabilities	99	-
Total other financial liabilities	**5,233**	**4,509**

Credit card bonuses payable represent liabilities to customers for transactions realised with credit cards within the TEB POS network, namely for each purchase made through TEB merchants network the customers are entitled to bonuses (star points) which can be used for further purchases from customers at any merchant where TEB POS is installed.

19. Provisions for liabilities and other charges

	31 December 2021	31 December 2020
Provisions for:		
Unused commitments	408	386
Legal cases	244	245
Guarantees	33	26
Unused holidays	32	34
Tax Provision	-	546
Other	306	294
Total provisions for liabilities and other charges	**1,023**	**1,531**

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

20. Other liabilities

	31 December 2021	31 December 2020
Withholding tax	30	43
Social security	63	60
Personnel income tax	40	39
VAT and other taxes	88	105
Other	193	201
Total other liabilities	**414**	**448**

21. Share capital

The authorised and paid up share capital of the Bank as at 31 December 2021 and 2020 comprises 2,400 thousand ordinary shares with a nominal value of EUR 10 each.

Shareholder	As at 31 December 2021		As at 31 December 2020	
	Percentage ownership	Amount	Percentage ownership	Amount
TEB Holding A.S.	100%	24,000	100%	24,000
Total	**100%**	**24,000**	**100%**	**24,000**

The shares are ordinary in nature and have no preferences or restrictions attached thereto. All shares are fully paid. Holders of ordinary shares are entitled to cast one vote for each ordinary share they hold. All TEB SH.A. shares belong to a single shareholder i.e. TEB Holding A.S.

22. Interest income

	2021	2020
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	30,855	28,729
Investments in debt securities at FVOCI	667	252
Due from other banks at AC	69	116
Total interest income	**31,591**	**29,097**

23. Interest expense

	2021	2020
Term deposits	384	754
Savings accounts	217	328
Borrowed funds	95	176
Interest expense on lease liabilities	81	88
Total interest expense	**777**	**1,346**

Interest rates for term deposits vary based on the maturity of the deposits. The annual interest rates on time deposits with clients at the end of reporting period were as follows:

- 2021 – max I/R 2.8 %, min I/R 0.0%
- 2020 – max I/R 2.8%, min I/R 0.0%

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

24. Fee and commission income

	2021	2020
Credit cards	8,666	6,398
Account service fees (net of provisions)	3,172	2,285
International payments	1,814	1,520
SMS Banking	303	304
Domestic payments	145	174
Guarantees and letters of credit	155	131
Other fees	482	348
Total fee and commission income	**14,737**	**11,160**

Maintenance fees for credit cards and accounts, and fees for guarantees and letter of credits are recognized as income when performance obligations are performed over time (accrued over time as services are rendered). Based on the contractual terms the Bank has the right to payment for performance completed at each month end for account maintenance fees and at year end for Credit Card maintenance fees.
Regarding commissions for guarantees and letter of credits, clients can choose to pay the commission at the end of month, end of quarter or to pay in advance. Advance payments are recorded as unearned incomes and recorded as income on accrual bases by reference to completion of the service. As of year ended 31 December 2021 the unearned incomes from guarantees and letter of credits amount to EUR 17.8 thousand (2020: EUR 19.6 thousand).

For the year ended 31 December 2021, fees and commission incomes from individuals represent approximately 49% and fees and commission incomes from businesses represent approximately 51% of total fee and commission incomes.

25. Fee and commission expenses

	2021	2020
Credit cards	3,356	2,445
Central bank fees	487	418
International payments	513	445
Domestic payments	357	357
Accrued maintenance fee provisions	-	286
Other fees	633	395
Guarantees and letters of credit	9	12
Total fee and commission expense	**5,355**	**4,358**

26. Other impairments and provisions

	2021	2020
Other Impairment and Provision (charges)/releases:		
Cash and cash equivalents	(7)	(7)
Loans and advances to other Banks	60	(135)
Investment securities	(51)	(3)
Legal cases and litigations	2	(35)
Other receivables and assets	27	466
Credit Card commissions	7	12
Unused annual leave	2	(3)
Impairment for repossessed property	(246)	(256)
Taxes	-	(546)
Other financial assets (note 11)	(24)	(13)
Other provisions	(18)	-
Total other impairments and provisions	**(248)**	**(520)**

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

27. Personnel costs

	2021	2020
Salaries and wages	6,591	6,471
Bonuses	884	696
Mandatory pension contributions	350	338
Health insurance	156	157
Staff training	62	49
Other costs	12	8
Total personnel costs	**8,055**	**7,719**

28. Administrative and other operating expenses

	2021	2020
Other expenses	1,008	1,006
Telecommunication	815	611
Software maintenance fee	775	560
Repair and maintenance	568	455
Security and insurance	564	565
Consultancy and professional fees	557	341
Office supplies	497	362
Marketing and sponsorship	469	345
Representation	283	127
Travel	273	233
Utilities	264	276
Business taxes and licenses	200	139
Service expenses, credit cards	194	174
Cleaning expenses	145	141
Legal, collateral execution, and audit fees	121	80
Operating lease expenses for premises	25	110
Other operational expenses	-	6
Total administrative and other operating expenses	**6,758**	**5,531**

As an exception allowed by IFRS 16 requirements, the Bank accounts for short-term leases and leases of low value assets by recognizing the lease payments as an operating expense on a straight line basis.

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

29. Income taxes

a) Components of income tax expense

	2021	2020
Current tax expense	2,105	997
Deferred tax expense/(credit)	3	254
Total income taxes	**2,108**	**1,251**

b) Amounts recognised in Other comprehensive income

	2021			2020		
	Before Tax	**Tax charge**	**Net of tax**	**Before Tax**	**Tax charge**	**Net of tax**
Investment securities increase/(decrease) fair value	448	(45)	**403**	61	(2)	**59**

c) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

Detailed below is the calculation of the effective tax rate and a reconciliation of the current income tax expense:

	2021	2020
Profit before taxation	**19,899**	**14,628**
Theoretical tax charge at statutory rate of 10%	1,990	1,463
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	206	152
- Non-taxable income	(42)	(23)
- Corporate income tax adjustment	(46)	(341)
Income tax expense for the year	**2,108**	**1,251**

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the reporting date. The tax rate on corporate income is 10% (2020: 10%).

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

29. Income taxes (continued)

d) Movement in deferred tax balances

Differences between the IFRS financial statements and the Kosovo taxation regulations give rise to temporary differences between the carrying amount of loans and advances to customers for IFRS reporting purposes and for tax purposes. The tax effect of these temporary differences is calculated at the enacted rate of 10% (2020:10%).

The tax effect of the movements in the temporary differences in 2021 is detailed below.

	1-Jan-2021	Charged/ (credited) to profit or loss	Charged / (credited) directly to other comprehensive income	31-Dec-2021
Tax effect of deductible/(taxable) temporary differences				
Deferred tax for FTA of IFRS 9	583	-	-	583
Provision for loan impairment	(583)	-	-	(583)
Lease liabilities	347	(69)	-	278
Fair valuation of Investment properties	(45)	(1)	-	(46)
Right-of-use assets	(339)	67	-	(272)
Fair valuation of investments in debt securities	(7)	-	45	38
Net deferred tax asset/(liability)	**(44)**	**(3)**	**45**	**(2)**
Recognised deferred tax asset	**-**	**-**	**45**	**45**
Recognised deferred tax liability	**(44)**	**(3)**	**-**	**(47)**
Net deferred tax asset/(liability)	**(44)**	**(3)**	**45**	**(2)**

The tax effect of the movements in the temporary differences in 2020 is detailed below.

	1-Jan-2020	Charged/ (credited) to profit or loss	Charged / (credited) directly to other comprehensive income	31-Dec-2020
Tax effect of deductible/(taxable) temporary differences				
Deferred tax for FTA of IFRS 9	583	-	-	583
Provision for loan impairment	(336)	(247)	-	(583)
Lease liabilities	406	(59)	-	347
Fair valuation of Investment properties	(39)	(6)	-	(45)
Right-of-use assets	(395)	56	-	(339)
Fair valuation of investments in debt securities	(7)	-	-	(7)
Net deferred tax asset/(liability)	**212**	**(256)**	**-**	**(44)**
Recognised deferred tax asset	**212**	**-**	**-**	**212**
Recognised deferred tax liability	-	**(256)**	**-**	**(256)**
Net deferred tax asset/(liability)	**212**	**(256)**	**-**	**(44)**

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

30. Related party disclosures

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Bank is controlled by TEB Holding A.S incorporated in Turkey (Immediate Parent), which owns 100 % of the ordinary shares as at 31 December 2021 and 2020 (see Note 1). The following table summarizes the related party transactions and balances at 31 December 2021 and the related expenses for the year then ended. Loans and advances to banks with related parties are all current nostro accounts that have no interest rate. Loans and advances to customers and Due to customers are at arms lengths loans and deposits to related parties. Commission expenses comprise of international correspondence commission and fees and operating expenses are consultancy expenses with related parties. Guarantees at year end comprise of guarantees issued by the Bank with the confirmation of the group banks. All transactions are conducted at arm's length.

At 31 December 2021, the outstanding balances with related parties were as follows:

	Ultimate parent company	Immediate parent company	Entities under common control	Key management personnel
Loans and advances to banks	6	-	293	-
Loans and advances to customers	-	-	-	58
Intangible assets	-	-	625	-
Due to customers	-	-	-	295
Other financial liabilities	130	36	15	-

The income and expense items with related parties for 2021 were as follows:

	Ultimate parent company	Immediate parent company	Entities under common control
Commission expenses	13	-	111
Operating expenses	-	378	-

At 31 December 2021, other rights and obligations with related parties were as follows:

	Immediate parent company	Immediate parent company	Entities under common control	Key management personnel
Guarantees issued at the year end	753		3,865	120

At 31 December 2020, the outstanding balances with related parties were as follows:

	Ultimate parent company	Immediate parent company	Entities under common control	Key management personnel
Loans and advances to banks	7	-	218	-
Loans and advances to customers	-	-	-	118
Due to customers				225
Other financial liabilities	82	68	175	-

30. Related party disclosures (continued)

The income and expense items with related parties for 2020 were as follows:

In thousand EUR	**Ultimate parent company**	**Immediate parent company**	**Entities under common control**
Interest income	-	-	1
Commission expenses	14	-	104
Operating expenses	-	255	-

At 31 December 2020, other rights and obligations with related parties were as follows:

	Immediate parent company	**Immediate parent company**	**Entities under common control**	**Key management personnel**
Guarantees issued at the year end	698	-	3,575	158

Key management compensation is presented below:

	2021	**2020**
Salaries	363	357
Bonus	139	124
Pension Contribution	15	18
Total key management compensation	**517**	**499**

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

31. Commitments and contingencies

Guarantees and letters of credit

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The aggregate outstanding amounts of guarantees and letters of credit issued by the Bank are as follows:

	2021	**2020**
Financial guarantee	7,943	6,828
Letters of credit	1,945	2,025
Other guarantees	89	86
Total	**9,977**	**8,939**
Unused commitments for revolving facilities	90,899	88,136
Total credit related commitments	**100,876**	**97,075**
ECL for guarantees	(33)	(26)
ECL for revolving facilities	(408)	(386)
Total credit related commitments, net of ECL	**100,435**	**96,663**

Commitments by credit quality based on credit risk grades at 31 December 2021 is as follows.

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Financial guarantee	7,943	-	-	7,943
Letters of credit	1,945	-	-	1,945
Other guarantees	89	-	-	89
Total Guarantees and Letter of Credits	**9,977**	**-**	**-**	**9,977**
Loans commitments not yet disbursed	89,198	1,697	4	90,899
Total credit related commitments	**99,175**	**1,697**	**4**	**100,876**
Less: Provision for guarantees and Letter of Credits	(33)	-	-	(33)
Less: Provision for loan commitments	(367)	(40)	(1)	(408)
Total commitments	**98,775**	**1,657**	**3**	**100,435**

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

31. Commitments and contingencies (continued)

Guarantees and letters of credit (continued)

Commitments by credit quality based on credit risk grades at 31 December 2020 is as follows.

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Financial guarantee	6,828	-	-	6,828
Letters of credit	2,025	-	-	2,025
Other guarantees	86	-	-	86
Total Guarantees and Letter of Credits	**8,939**	**-**	**-**	**8,939**
Loans commitments not yet disbursed	85,932	2,204		88,136
Total credit related commitments	**94,871**	**2,204**	**-**	**97,075**
Less: Provision for guarantees and Letter of Credits	(26)	-	-	(26)
Less: Provision for loan commitments	(342)	(44)	-	(386)
Total commitments	**94,503**	**2,160**	**-**	**96,663**

The Bank calculates ECL and LECL provision for guarantees and letter of credits by applying to underlying exposures based on the staging classification. In cases, when an individual assessment is applied, the specific provision forecast is considered for the final impairment. Refer to disclosure of impairment of loans and advances to customers for the provisioning rates.

Legal cases

In the normal course of the business, the Bank is presented with legal claims. The Bank's management is of the opinion that the possibility of an outflow of economic benefits in relation to legal claims outstanding as at 31 December 2021 and 2020 is remote, except for the provisions charged as shown in note 19 – Provisions for liabilities and Charges.

32. Management of capital

The Bank's objectives when managing capital are:

- to comply with the capital requirements set by the Central Bank of Kosovo (CBK);
- to safeguard the Bank's ability to continue as a going concern and continue to provide returns for the shareholder; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are regularly monitored by the Bank's management, employing techniques based on the guidelines of the CBK. The required information is provided to the CBK on a quarterly basis.

The assets are classified using a hierarchy of five risk weights, reflecting an estimate of credit, market and other risks associated with each asset and off-balance sheet exposure.

The CBK Regulation on Capital Adequacy of Banks and Regulation, requires banks to hold a minimum regulatory capital of EUR 7,000 thousand, to maintain a minimum ratio of Tier I capital to risk-weighted assets of 9%, a minimum total regulatory capital to risk-weighted assets of 12%, and a minimum leverage ratio of 3%.

As of 31 December 2021 and 2020 the Bank is in compliance with all regulatory ratios: Tier I capital as of 31 December 2021 is 15.92% (2020: 16.14%), total regulatory capital is 16.94% (2020: 17.15%), and leverage ratio is 10.09% (2020: 10.17%).

The Bank was in compliance with regulatory requirements as at the reporting dates, at 31 December 2021 and 2020.

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

32. Management of capital (continued)

Minimum Risk-Based Capital Ratios

The capital levels, risk weighted assets and capital adequacy ratios as per CBK regulations at 31 December 2021 and 2020, are as follows:

	2021	**2020**
Tier 1 capital		
Share capital	24,000	24,000
Retained earnings as per Central Bank of Kosovo reporting	59,612	49,989
Accumulated other comprehensive income (and other reserves)	(2,446)	(2,043)
Less: Intangible assets	(2,846)	(2,331)
Credits to Bank's related parties	(473)	(501)
Total qualifying Tier 1 capital	**77,847**	**69,114**
Provisions for loan losses *(limited to 1.25% of RWA)*	5,011	4,284
Total qualifying Tier 2 capital	**5,011**	**4,284**
Total regulatory capital	**82,858**	**73,398**
Risk-weighted assets:		
On balance sheet	420,615	373,669
Off balance sheet	9,824	8,509
Risk assets for operational risk	44,879	42,967
Market risk	13,785	2,959
Total risk-weighted assets	**489,103**	**428,104**
Tier I capital to risk-weighted assets ratio	15.92%	16.14%
Total regulatory capital to risk-weighted assets ratio	16.94%	17.15%
Total leverage ratio (regulatory reporting)	10.09%	10.17%

In accordance with CBK regulation on Credit Risk, starting from 1 January 2021 "IFRS 9 – Financial Instruments" is applicable also for financial statements prepared in accordance with financial reporting provisions of Law No.04/L-093 on Banks, Micro-finance Institutions and Non-Bank Financial Institutions.

Accumulated other comprehensive income (and other reserves) as of 31 December 2021 and 2020 is comprised of the following:

	2021	**2020**
First time impact of IFRS 9 application	(2,457)	(2,457)
Fair value of investment property (recognized through OCI)	351	351
Fair value of investment securities (recognized through OCI)	(340)	63
Accumulated other comprehensive income (and other reserves)	**(2,446)**	**(2,043)**

33. Financial risk management

The risk management function within the Bank is carried out with respect to financial risks and operational risks. Financial risk comprises credit risk, market risk (including currency risk, interest rate risk and other price risks), and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits set by the regulatory body and by the Bank's Board of Directors. The operational and legal risk management functions are intended to ensure the proper functioning of internal control functions and policies and procedures in order to minimise operational and legal risks.

Market risk

The activities of the Bank are to some extent exposed to possible losses as a result of the exposure of its financial instruments to interest-rate risk, or exchange-rate risk resulting from fluctuations in the financial markets. The majority of transactions of the Bank are in local currency and majority and exposure to foreign exchange risk is limited.

Foreign currency risk

The Policy on Management of the currency risk of TEB SH.A. defines the methods of currency risk management within the Bank. The Bank manages foreign currency risk through managing the currency structure of its assets and liabilities. Foreign exchange rate risk is managed and governed according to the policies of the TEB Group. TEB SH.A. continuously monitors exchange rate movements and foreign currency markets, and determines its currency positions on a daily basis.

Any exception to the policy is subject to approval by the Board of Directors of TEB SH.A.. The Bank does not maintain open currency position for speculative purposes. Nevertheless, foreign exchange derivatives may be used for hedging purposes to close certain positions, in which case they are closely monitored at both local and group levels. The Bank undertakes transactions in EUR and in foreign currencies.

The Bank has not entered into forward exchange derivatives and does not have any embedded derivative at 31 December 2021 and 2020.

As the currency in which the Bank presents its financial statements is Euro, the Bank's financial statements are effected by movements in the exchange rates between the Euro and other currencies.

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

Foreign currency sensitivity analysis

The Bank is mainly exposed to US Dollar (USD) and Swiss Franc (CHF). The following table details the Bank's sensitivity to the respective increase and decrease in the value of Euro against the foreign currencies. The percentage used is the sensitivity rate analysis represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a respective change in foreign currency rates. The Bank has applied a 10% increase or decrease to the current currency exchange rates. A positive number below indicates an increase in profit and other equity where the EUR strengthens with respective percentages against the relevant currency.

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

33. Financial risk management (continued)

Foreign currency risk (continued)

	2021		2020	
	+10% Euro	-10% Euro	+10% Euro	-10% Euro
Assets:				
Impact on cash and due from banks	(2,859)	3,494	(2,459)	3,006
Liabilities:				
Impact on due to banks and customers	2,849	(3,482)	2,447	(2,991)
Net impact on profit or loss and equity	**(10)**	**12**	**(12)**	**15**

The following table summarises the Bank's currency position as at 31 December 2021:

	EURO	USD	CHF	Other	Total
Financial assets					
Cash and current accounts with banks	139,373	1,700	7,449	1,625	**150,147**
Loans and advances to banks	53,276	18,991	-	-	**72,267**
Net Loans and advances to customers	468,948	-	-	-	**468,948**
Loans to individuals	*254,752*	-	-	-	**254,752**
Loans to legal entities	*223,604*	-	-	-	**223,604**
Impaired Loans	*(9,408)*	-	-	-	**(9,408)**
Investments in debt securities	34,760	10,654	-	-	**45,414**
Other financial assets	3,965	7	4	1	**3,977**
Total assets	**700,322**	**31,352**	**7,453**	**1,626**	**740,753**
Financial liabilities					
Due to customers	610,267	22,310	7,397	1,596	**641,570**
Borrowings	1,722	-	-	-	**1,722**
Lease liabilities	2,537	-	-	-	**2,537**
Other financial liabilities	5,218	13	2	0	**5,233**
Total liabilities	**619,744**	**22,323**	**7,399**	**1,596**	**651,062**
Net currency position at 31 December 2021	**80,578**	**9,029**	**54**	**30**	**89,691**

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

	EURO	USD	CHF	Other	Total
Financial assets					
Cash and current accounts with banks	122,907	454	6,433	1,400	131,194
Loans and advances to banks	56,003	18,679	-	-	74,682
Net Loans and advances to customers	414,694	-	-	-	414,694
Loans to individuals	223,642	-	-	-	223,642
Loans to legal entities	199,716	-	-	-	199,716
Impaired Loans	(8,664)	-	-	-	(8,664)
Investments in debt securities	25,928	-	-	-	25,928
Other financial assets	3,192	6	1	4	3,203
Total assets	**622,724**	**19,139**	**6,434**	**1,404**	**649,701**
Financial liabilities					
Due to customers	534,483	19,127	6,400	1,390	561,400
Borrowings	5,145	-	-	-	5,145
Lease liabilities	3,471	-	-	-	3,471
Other financial liabilities	4,509	-	-	-	4,509
Total liabilities	**547,608**	**19,127**	**6,400**	**1,390**	**574,525**
Net currency position at 31 December 2020	**75,116**	**12**	**34**	**14**	**75,176**

Based on the Bank's policies, the individual open currency positions should not be greater than 5% of Tier 1 capital and the aggregate exposures in all currencies not greater than 10% of Tier 1 capital at any specific point of time, while as per CBK requirements, the open currency position for any single currency should not be more than 15% of Tier 1 capital and the aggregate exposure not more than 30% of Tier 1 capital.

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

33. Financial risk management (continued)

Foreign currency risk (continued)

As at 31 December 2021 and 31 December 2020 the Bank has complied with these ratios.

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

	31 December 2021	31 December 2020
United States Dollar (USD)	1.1326	1.2271
Swiss Franc (CHF)	1.0331	1.0802
British Pound (GBP)	0.8403	0.8990

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets (re-pricing risk). The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The interest rate risk the bank is exposed is derived from its financial assets and liabilities that are sensitive to IR. The IRR may arise in increase in liabilities interest rate and as a result can trigger higher funding costs, while on the asset side, if IR decreases, it can affect bank profitability. On both scenarios, duration gap analysis is crucial to identify the sensitivity of IR. Duration gap analysis is a simple IRR methodology that provides an easy way to identify repricing gaps for monitoring interest rate risk arising from maturity discrepancy on the balance sheet. Gap analysis helps to identify maturity and repricing mismatches between assets, liabilities and off-balance sheet instruments. Gap schedules segregate RSAs, RSLs, and off-balance sheet instruments according to their repricing characteristics. For liquidity purposes, maturity date is used, whereas for interest rate gaps, repricing date is important.

Moreover, the risk management department monitors exposure to interest rate risk using the interest rate gap analysis methodology, which is based on internal assumptions with the indicative limits set for different maturities.

The purpose of the policy, which is approved by BoD, is to manage the exposure to interest rate risk and limit the potential losses, as a result of the modification of levels of interest rates in the market and the effect of such changes on the business results and the market value of the Bank's capital.

IRR policies are approved by BoD and reviewed on regular basis, while the senior management is responsible for ensuring that BoD approved policies and procedures are appropriately executed. Such risk management policy approved by the BoD, define the method of identification, measurement, monitoring and controlling the risk in the event of interest rate modification.

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

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

Management believes that the Bank is not exposed to interest rate risk on its financial instruments except for the borrowings, which are at variable interest rates. Loans and deposits have fixed interest rates.

IR Sensitivity analysis

Interest rate risk management is supplemented by monitoring the sensitivity of the Bank's net banking income and equity, to various floating interest rate scenarios. The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. The analysis assumes a parallel increase of interest rates by 100 basis points (±1%) on the level of net banking income for a one to three year period.

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

33. Financial risk management (continued)

IR Sensitivity analysis (continued)

Results presented below represent the changes in profit or loss and equity, which would occur if interest rates will increase or decrease by 100 basis points within one and three years. Change in the estimated one-year net banking income should be +/- 8% of the planned net banking income while change in the estimated two-year net interest income should be +/- 5% of the budgeted net banking income.

The analysis of the sensitivity of profit or loss and equity to changes in interest rates is as follows:

Sensitivity of the profit or loss	2021	2020
Increase in basis points +100 bps parallel shift	683	338
Decrease in basis points -100 bps parallel shift	(352)	(566)

Financial assets and liabilities based on the earlier between interest rate repricing date and maturity are presented below:

31 December 2021	Less than 1 month	1–3 months	3-12 months	1–5 years	More than 5 years	Total
Financial assets						
Cash and current accounts with banks	150,147	-	-	-	-	**150,147**
Loans and advances to banks	56,456	15,811	-	-	-	**72,267**
Loans to customers	38,612	4,905	45,902	270,286	109,243	**468,948**
Investment in debt securities	-	-	5,271	40,143	-	45,414
Other financial assets	3,345	86	511	-	35	**3,977**
Total financial assets	**248,560**	**20,802**	**51,684**	**310,429**	**109,278**	**740,753**
Financial liabilities						
Due to customers	593,372	5,229	21,010	18,335	3,624	641,570
Borrowings	1,004	-	718	-	-	1,722
Lease liabilities	-	266	723	1,525	23	2,537
Other financial liabilities	3,022	738	280	1,193	-	5,233
Total financial liabilities	**597,398**	**6,233**	**22,731**	**21,053**	**3,647**	**651,062**
Interest sensitivity gap	**(348,838)**	**14,569**	**28,953**	**289,376**	**105,631**	**89,691**

31 December 2020	Less than 1 month	1–3 months	3-12 months	1–5 years	More than 5 years	Total
Financial assets						
Cash and current accounts with banks	131,194	-	-	-	-	**131,194**
Loans and advances to banks	74,682	-	-	-	-	**74,682**
Loans to customers	35,305	5,690	42,481	245,874	85,344	**414,694**
Investment in debt securities	-	50	7,218	18,660	-	**25,928**
Other financial assets	3,203	-	-	-	-	**3,203**
Total financial assets	**244,384**	**5,740**	**49,699**	**264,534**	**85,344**	**649,701**
Financial liabilities						
Due to customers	495,295	5,297	29,863	28,453	2,492	561,400
Borrowings	1,001	-	2,430	1,714	-	5,145
Lease liabilities	-	26	2,984	461	-	3,471
Other financial liabilities	4,509	-	-	-	-	4,509
Total financial liabilities	**500,805**	**5,323**	**35,277**	**30,628**	**2,492**	**574,525**
Interest sensitivity gap	**(256,421)**	**417**	**14,422**	**233,906**	**82,852**	**75,176**

33. Financial risk management (continued)

Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to debtors is conducted through regular analysis of the debtors' credit worthiness. Exposure to credit risk is also managed in part by obtaining collateral and guarantees as other credit enhancement factors. Credit risk policies and procedures are reviewed and updated on a yearly basis in order to be in line with CBK regulations and Group standards.

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

All credit exposures are reviewed at least on an annual basis, while large exposures are monitored on regular basis by the Monitoring Department who have the mandate to observe and monitor large corporate exposures on a monthly basis, and to report to the Credit Committee or Watch list Doubtful Committee in case of any observed credit deterioration. The monitoring process considers but is not limited to cash flow and sales performance, credit covenants, payment behaviour, profitability, liquidity, solvency and debt ratio.

Concentrations of credit risk (including off balance sheet exposures) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would lead to inability to meet contractual obligations affected by changes in economic or other conditions.

For subsequent measurement and impairment of assets, the Bank assesses whether objective evidence of impairment exists. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The Bank has a Provisioning Committee which consists of the CEO of the Bank, CRO, CFO, Head of Credit Risk and Deputy Managing Director of SME and Corporate Banking. This committee is responsible for the observation of the monthly assessment process and for the individual assessment for impairment. The individual assessment is performed for exposures that bear individually significant credit risk and is also based on the feedback and observations received from Credit Allocation, Collection and Credit Monitoring Departments.

The Bank has established a more efficient monitoring structure aiming to manage the exposures at the early stages of loan delinquency. In addition, the effectiveness of the local Private Enforcement Agents (PEA) and outsourcing of debt collection companies, led to increased recovery of non-performing loans.

The coronavirus (COVID-19) classified as a global pandemic by the World Health Organization on 11 March 2020 has impacts on economic conditions, sectors, businesses, consumers, as well as asset and commodity prices, liquidity, exchange rates, interest rates, money and capital markets and many other issues and it still maintains uncertainty about the future.

The effects of this global pandemic on the Bank's financial statements are regularly monitored by the Risk Management as well as the Bank's Management. While preparing the financial statements as of 31 December 2021, the Bank reflected the possible effects of the COVID-19 on the estimates and judgements used in the preparation of the financial statements. Bank's Management takes the necessary precautions in order to keep the negative effects under control and to be affected at the minimum level. The approach preferred for the period of 31 December 2021, will be revised in the following reporting periods, considering the effect of the pandemic and future expectations.

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

33. Financial risk management (continued)

Credit risk (continued)
As of 31 December 2021, considering the possible effects of COVID-19 the data obtained with the principle of best effort were reflected to the estimates and assumptions used in the calculation of expected credit losses with the best estimation method. The Bank has also provided additional provisions through individual assessment for customers which may be considered as highly effected.

In accordance with “CBK Guideline on loan restructuring due to COVID 19” issued on 16th of March 2020 the Bank deferred loan instalment payments for up to 3 months for all customers who made a request (COVID 19-first phase).

In addition, CBK issued a Guideline on loan restructuring due to COVID 19 on 8th of June 2020 and 28 August 2020, based on which the Bank restructured the loans for all customers who made a request allowing maturity extension up to 12 months (COVID 19 – second phase).

Further, on 2 February 2021 the CBK issued a new “Instructıon on loan restructuring due to Covıd-19”, based on which the Bank restructured loans for all clients who made a request allowing extension for up to 9 months for clients who did not have previous extensions and no more than 9 months in total for clients who had previous extensions.

As of 31 December 2021 the outstanding balances of loans which were restructured in the second phase (for up to 12 months) amount to EUR 10,584 thousand (2020: EUR 13,241 thousand).

In accordance with Group Norms and Guidance in specific context of COVID-19 the Bank did not automatically trigger the credit risk deterioration for these loans.

On the other hand, the Bank applied additional ECL of EUR 673 thousand (2020: EUR 646 thousand) as an add- on factor for the customers that might be effected negatively in the future due to COVID 19 pandemic.

Credit Risk Grading system

For measuring credit risk and grading financial instruments the Bank applies two approaches.

An Internal Rating-based risk system (IRB) or risk grades estimated by external international rating agencies for grading counterparty risk for Financial Institution and Sovereign risk, which are mapped on an internally defined group master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corresponding internal ratings	Corresponding ratings of external international rating agencies (MOODY’s)	Corresponding 1Y ECL PD interval
Excellent/ Very Good	[1+ / 2-]	Aaa to A3	0.01% - 0.04%
Good/ Above Average	[3+ / 4-]	Baa1-Baa2	0.06-0.21%
Average-Below Average	[5+ / 6-]	Baa3 – Ba2	0.26% - 1.46%
Poor - Weak	[7+ / 8-]	Ba3 – B2	2.11% - 8.06%
Speculative – Substandard	[9+ /10-]	B3 – C	9.53% - 21.81%
Default	[11/12]	D	100%

Besides Group master scale grading which is applied for counterparty risk, for loans and advances to legal customers, the bank uses internal application grading tool calibrated to country risk which is based on quantitative (75%) and qualitative (25%) input and the customers rating is generated.

Such rating is not mapped to any external rating agencies, while it is only used for internal credit decision. Moreover, for individual exposures, the banks uses application and behaviour-scoring tool in order to score the individual portfolio which is based on several risk parameters.

Expected Credit Loss (ECL) measurement. ECL is an estimate of the present value of future cash shortfalls. ECL measurement is based on four components used by the Bank: PD, EAD, LGD and Discount Rate.

33. Financial risk management (continued)

Credit risk (continued)

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor of 45.45%. CCF is a coefficient that shows the probability of conversion of the commitment amounts to an on-balance sheet exposure within a defined period. PD is an estimate of the likelihood of default to occur over a given time period.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the EIR for the financial instrument or a proxy thereof.

Expected credit losses are modelled over financial assets lifetime period. The lifetime period is equal to the remaining contractual period to maturity of the asset adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, for credit cards and overdraft, the lifetime exposure is measured over a period of 12 months.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are through-the-cycle estimates and the estimates do not consider forward looking information due to weak correlation of key macroeconomic variables and the impact on credit risk.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the borrower is insolvent and is experiencing financial difficulties;
- the borrower is deceased;
- the borrower has on-going legal issues;
- market outlook for a specific industry or the bank was forced to restructure the debt;
- any other factors that can trigger a default event.

The default definition stated above is applied to all types of financial assets of the Bank. An asset is considered to exit the default status if:

- Regular repayments have to be made over a period of 6 months with DpD <30 days for a single repayment (instalment)
- The borrower does not have any past due exposures >90 days
- The financial situation of the borrower has improved to the extent that full repayments are likely to be made based on banks monitoring department evaluation criteria’s

A financial asset or a group of financial assets is impaired based on ECL and LECL as a result of one or more events that occurred after the initial recognition of the financial asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

33. Financial risk management (continued)

Credit risk (continued)

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that carries no significant credit on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a SICR since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis until the contractual maturity. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. At the end of each observation period, the financial assets are classified as below:

- STAGE 1 - Delinquency 0 – 30 days - with no significant increase in credit risk
- STAGE 2 - Delinquency 31 - 90 days - with significant increase in credit risk and
- STAGE 3 - the defaulted exposures

Impairment of loans and advances to customers is based upon a review of several qualitative and quantitative factors attended to the credit, contain the weaknesses that are inherent in a credit, or of whether there is a probability that a portion of the loan amount will not be paid.

The main criteria that the Bank observes to determine that there is objective evidence of an impairment loss include:

- Default or delinquency in interest or principal payments;
- Default in repayment of interest or principal in other financial institutions ("FI"), subject of certain thresholds;
- Liquidity difficulties of the borrower
- Breach of contract covenants or conditions;
- The borrower considers bankruptcy or a financial reorganisation;
- Deterioration of economic and market conditions.
- Downgrade of internal credit rating and scoring
- Forbearance measure is extended to the borrower

Collective assessment is established based on a credit risk model that considers the historical 5 year PD Rate and LGD. The PD factor results from default events possible within the next 12 months and is calculated for four different delinquency buckets separately. The LGD (recovery rate) is observed for a 36 period. The input data in the model is updated each 6 months for five separate segments (Retail, SME, Corporate, Agro and Credit Card exposures). At the end, the values are discounted with EIR for each facility, while for overdrafts and credit card a special discount rate factor is calculated. Final loan loss provision rates derived from the model are ultimately subject of RMC and Board of Directors BoD approval. At the end by using the equation of (EAD x PD x LGD x DF) the final ECL amounts are derived.

Recovery rates are calculated based on 36 months' observation for Stage 1 and 2 facilities, while for Stage 3 credit facilities with exposure < 20,000 EUR. Moreover, for credit facilities with remaining maturity less than 1 year or credit facilities with no maturities, the 12-month default rate and Expected Credit Loss (ECL) are calculated.

For stage 3 exposures >20,000 EUR, Collection Department will estimate a cash inflow for each case individually and for each facility based on collateral liquidation expectation or any other source of cash inflow. Collection forecast are based on prudent and realistic estimates and should be based on the following credit enhancement factors: collateral market value and its liquidity, historical cash flow, third party guarantor/co-debtor capacity, time duration for the liquidation/repossession of the assets and legal country environment as external factor. Cash inflow estimate can cover a period of five years that will be discounted with an EIR or proxy EIR for each facility.

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

33. Financial risk management (continued)

Credit risk (continued)

Restructured loans (Forborne Exposures) will be at stage 2 if the exposure was considered to be performing at the date when the measure was originated, otherwise it will remain at Stage 3.

For non-performing forborne exposures under stage 3, 24 months exit criteria to Stage 2 transfer plus additional 12 months as probation period for Stage 1 transfer will be observed. In total 36 months monitoring will be applied to transfer in Stage 1. For performing forborne exposures under Stage 2, 24 months exit criteria to Stage 1 transfer will be observed. In both instances, the payment behaviour for a single instalment should be less than 30 days in delay for the entire monitoring period and regular payments have been made at least during the half of the probation period, otherwise the probation period will restart from zero and previous staging will be kept.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss in impairment charge for credit losses.

Impairment of financial assets classified as hold to collect and sell

For financial assets measured at FVOCI, the regulatory PD and the corresponding PD term structure associated with Group master scale are used for group reporting, while for IFRS standalone reporting for those assets the bank will use min PD of 0.05% which is Basel IRB approach. On the other hand, for financial assets held to collect and sell and for sovereign risk exposure including government bonds and central bank balances, the bank will apply 45% LGD as defined under Basel IRB approach.

***Maximum exposure to credit risk*:**

As at 31 December 2021	Gross maximum exposure	Expected credit losses	Net maximum exposure
Cash and current accounts with banks	117,658	(37)	117,621
Loans and advances to banks	72,476	(209)	72,267
Loans to individuals	**254,752**	**(3,512)**	**251,240**
Loans to customers	222,706	(2,553)	220,153
Overdrafts	2,126	(84)	2,042
Credit cards	29,920	(875)	29,045
Loans to legal entities	**223,604**	**(5,896)**	**217,708**
Loans to legal entities	187,295	(5,351)	181,944
Overdrafts	32,831	(428)	32,403
Credit Cards	3,478	(117)	3,361
Total loans and advances to customers	**478,356**	**(9,408)**	**468,948**
Investments in debt securities	45,414	(57)	45,357
Letters of credit	1,945	(4)	1,941
Letters of guarantees	7,943	(28)	7,915
Other guarantees and indemnities	89	(1)	88
Loan commitments	90,899	(408)	90,491
Contingent liabilities	**100,876**	**(441)**	**100,435**

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

33. Financial risk management (continued)

Credit risk (continued)

As at 31 December 2020	Gross maximum exposure	Expected credit losses	Net maximum exposure
Cash and current accounts with banks	101,268	(30)	101,238
Loans and advances to banks	74,950	(268)	74,682
Loans to individuals	**223,642**	**(3,378)**	**220,264**
Loans to customers	193,910	(2,458)	191,452
Overdrafts	1,493	(60)	1,433
Credit cards	28,239	(860)	27,379
Loans to legal entities	**199,716**	**(5,286)**	**194,430**
Loans to legal entities	166,109	(4,649)	161,460
Overdrafts	30,160	(489)	29,671
Credit Cards	3,447	(148)	3,299
Total loans and advances to customers	**423,358**	**(8,664)**	**414,694**
Investments in debt securities	25,928	-	25,928
Letters of credit	2,025	(5)	2,020
Letters of guarantees	6,828	(20)	6,808
Other guarantees and indemnities	86	(1)	85
Loan commitments	88,136	(386)	87,750
Contingent liabilities	**97,075**	**(412)**	**96,663**

Concentration by geography

The following presents the Bank's main credit exposures by geographical region as at 31 December 2021 and 2020. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

Total Financial Assets	OECD countries	Kosovo	Other	Total 2021	OECD countries	Kosovo	Other	Total 2020
Cash and balances with the CBK	32,467	117,680		**150,147**	31,805	99,389	**-**	**131,194**
Loans and advances to banks	63,280		8,987	**72,267**	65,695	-	8,987	**74,682**
Loans and advances to customers	-	468,948		**468,948**	-	414,694	**-**	**414,694**
Investments in debt securities	10,654	34,760		**45,414**	-	25,928	**-**	**25,928**
Other financial assets	-	3,977		**3,977**	-	3,203		**3,203**
Total financial assets	**106,401**	**625,365**	**8,987**	**740,753**	**97,500**	**543,214**	**8,987**	**649,701**
Financial liabilities								
Due to customers	-	641,570		**641,570**	-	561,400	-	**561,400**
Borrowings	-	1,722		**1,722**	-	5,145	-	**5,145**
Lease liabilities	-	2,537		**2,537**	-	3,471	-	**3,471**
Other financial liabilities	-	5,233		**5,233**	-	4,509	-	**4,509**
Total financial liabilities	**-**	**651,062**	**-**	**651,062**	**-**	**574,525**	**-**	**574,525**

Write-offs

Write-offs are defined as the accounting reduction of a debt, which does not mean waiving the legal claim against the debtors and, hence, the debt may be revived. Proposals for (full or partial) write-offs on the debts may be submitted to the competent committee on the condition that certain procedures have been carried out.

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

33. Financial risk management (continued)

Liquidity risk

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

The following reports are used by the Bank for liquidity management purposes:

- Cash flow report and the liquidity ratios provided by the CBK regulation (>25% and >20%): daily basis
- ALCo Liquidity Coverage Ratio and Liquidity GAP reports: monthly basis
- ALCo and Board level reporting: quarterly basis.

The Liquidity GAP reports are prepared by the Treasury ALM while using normal behaviour cash flow and limits approved by the BoD. Moreover, the Bank also uses the CBK Liquidity GAP reports. Funding limits of EUR 35 million are available from TEB A.S. to cover the Bank's liquidity needs.

Funds are raised using a broad range of instruments including deposits, borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities.

The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required for meeting business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy. The Management is monitoring liquidity ratios against internal and regulatory requirements on a daily basis. As a result, Management believes that the Bank has no short-term liquidity gap. The amount disclosed in tables below is contractual undiscounted cash flows:

31 December 2021	Carrying amount	Gross inflow/ outflow	Less than 1 month	1–3 months	3 -12 months	1–5 years	More than 5 years
Financial assets							
Cash and current accounts with banks	150,147	150,147	150,147	-	-	-	-
Loans and advances to banks	72,267	72,267	56,456	15,811	-	-	-
Loans to customers	468,948	530,333	55,842	29,819	136,626	265,223	42,824
Investment in debt securities	45,414	47,704		1,664	8,987	37,053	
Other financial assets	3,977	3,977	3,345	86	511	-	35
Total financial assets	**740,753**	**804,428**	**265,790**	**47,380**	**146,124**	**302,276**	**42,859**
Financial liabilities							
Due to customers	641,570	641,861	593,341	5,241	23,769	19,510	-
Borrowings	1,722	1,732	1,009	-	724	-	-
Lease liabilities	2,537	2,537	92	175	723	1,525	23
Other financial liabilities	5,233	5,233	3,023	738	280	1,193	-
Total financial liabilities	**651,062**	**651,363**	**597,465**	**6,154**	**25,496**	**22,228**	**23**
Unused loan commitments and guarantees	100,435	100,876	100,876	-	-	-	-
Total financial liabilities and commitments	**751,497**	**752,239**	**698,341**	**6,154**	**25,496**	**22,228**	**23**
Positive/(negative) gap	**(10,744)**	**52,189**	**(432,551)**	**41,226**	**120,628**	**280,048**	**42,836**

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

33. Financial risk management (continued)

Liquidity risk (continued)

31 December 2020	Carrying amount	Gross inflow/ outflow	Less than 1 month	1–3 months	3 -12 months	1–5 years	More than 5 years
Financial assets							
Cash and current accounts with banks	131,194	131,224	131,224	-	-	-	-
Loans and advances to banks	74,682	74,957	74,957	-	-	-	-
Loans to customers	414,694	467,609	50,849	27,090	120,489	240,256	28,925
Investment in debt securities	25,928	26,627	-	52	7,412	19,163	-
Other financial assets	3,203	3,484	1,948	-	1,536	-	-
Total financial assets	**649,701**	**703,901**	**258,978**	**27,142**	**129,437**	**259,419**	**28,925**
Financial liabilities							
Due to customers	561,400	562,154	495,254	5,333	32,474	29,093	-
Borrowings	5,145	5,251	1,026	-	2,493	1,732	-
Lease liabilities	3,471	3,471	-	300	883	2,179	109
Other financial liabilities	4,509	4,509	2,472	1,373	664	-	-
Total financial liabilities	**574,525**	**575,385**	**498,752**	**7,006**	**36,514**	**33,004**	**109**
Unused loan commitments and guarantees	96,663	97,075	97,075	-	-	-	-
Total financial liabilities and commitments	**671,188**	**672,460**	**595,827**	**7,006**	**36,514**	**33,004**	**109**
Positive/(negative) gap	**(21,487)**	**31,441**	**(336,849)**	**20,136**	**92,923**	**226,415**	**28,816**

For liquidity purposes, the Bank classifies demand and savings deposits as due on demand and maturing within one month. As a result, the contractual liquidity gap of up to twelve months is increased. However, the possibility that large amounts of customer deposits will leave the Bank is unlikely. Therefore, the Bank does not consider having any liquidity gap in the short term.

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

34. Fair value disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Financial instruments not measured at fair value but for which fair value is disclosed

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

	2021			**Fair Value**	**2020**			**Fair Value**
Financial assets	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**
Cash and current accounts with banks	150,147	150,147			**131,194**	131,194	-	-
Loans and advances to banks	72,267	-	72,267		**74,682**	-	74,682	-
Loans and advances to customers	468,948	-	-	473,448	**414,694**	-	-	420,204
Loans to individuals	251,240	-	-	253,132	*220,264*	-	-	222,220
Loans to legal entities	217,708	-	-	220,316	*194,430*	-	-	197,983
Other financial assets	3,977	-	-	3,977	**3,203**	-	-	3,203
Financial liabilities		-	-					
Due to customers	641,570	-	-	642,042	**561,400**	-	-	561,518
Borrowings	1,722	-	-	1,722	**5,145**	-	-	5,145
Lease liabilities	2,537	-	-	2,537	**3,471**	-	-	3,471
Other financial liabilities	5,233	-	-	5,233	**4,509**	-	-	4,509

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.

Loans and advances to banks, and other financial assets and liabilities, include inter-bank placements and items in the course of collection. As such balances are short term, their fair value is considered to approximate their carrying amount.

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

There were no purchases or sales in level 3 financial assets and the change in the carrying value of the balance is a results of the change in the fair value.

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

34. Fair value disclosures (continued)

Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

The following table analyses assets measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position.

Investments in debt securities are interest-bearing assets. Because no active market exists for treasury bills and bonds, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity and they are classified as Level 2.

Investment property is land held for capital appreciation. In the absence of an active market, the fair value of the investment property has been estimated using a discounted cash flow model based on the current market rates for similar properties in the same market using a discount rate that reflects the current market assessment of the uncertainty in the amount and timing of cash flow.

	2021 Fair Value	Level 1	Level 2	Level 3	2020 Fair Value	Level 2	Level 3
Assets at fair value							
Non-derivative financial assets							
Investment in debt securities	45,414	10,654	34,760	-	25,928	25,928	-
Investment property							
Investment property	1,661	-	-	1,661	1,649	-	1,649
Total	**47,075**	**10,654**	**34,760**	**1,661**	**27,577**	**25,928**	**1,649**

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

35. Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently.

As at 31 December 2021	FVTPL (mandatory)	FVTPL (designated)	Debt instruments at FVOCI	Equity instruments at FVOCI	AC	Total
Financial Assets						
Cash and current accounts with banks	-	-	-	-	117,621	117,621
Loans and advances to banks	-	-	-	-	72,267	72,267
Other financial assets	-	-	-	-	3,977	3,977
Total loans and advances to customers	-	-	-	-	**468,948**	**468,948**
Loans to individuals	-	-	-	-	**251,240**	**251,240**
Loans to customers	-	-	-	-	220,153	220,153
Overdrafts	-	-	-	-	2,042	2,042
Credit cards	-	-	-	-	29,045	29,045
Loans to legal entities	-	-	-	-	**217,708**	**217,708**
Loans to legal entities	-	-	-	-	181,944	181,944
Overdrafts	-	-	-	-	32,403	32,403
Credit Cards	-	-	-	-	3,361	3,361
Investment in debt securities	-	-	**45,414**	-	-	**45,414**
Kosovo Government Bonds	-	-	34,760	-		34,760
Turkish Government Bonds			10,654			10,654
Total Financial Assets	-	-	**45,414**	-	**662,813**	**708,227**
Financial Liabilities						
Due to customers	-	-	-	-	**641,570**	**641,570**
Demand deposits	-	-	-	-	591,253	591,253
Term deposits	-	-	-	-	50,317	50,317
Borrowings	-	-	-	-	1,722	1,722
Lease liabilities	-	-	-	-	2,537	2,537
Other financial liabilities	-	-	-	-	5,233	5,233
Total Financial Liabilities	-	-	-	-	**651,062**	**651,062**

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

35. Presentation of Financial Instruments by Measurement Category (continued)

	FVTPL (mandatory)	FVTPL (designated)	Debt instruments at FVOCI	Equity instruments at FVOCI	AC	Total
Financial Assets						
Cash and current accounts with banks	-	-	-	-	101,238	101,238
Loans and advances to banks	-	-	-	-	74,682	74,682
Other financial assets	-	-	-	-	3,203	3,203
Total loans and advances to customers	-	-	-	-	**414,694**	**414,694**
Loans to individuals	-	-	-	-	**220,264**	**220,264**
Loans to customers	-	-	-	-	191,452	191,452
Overdrafts	-	-	-	-	1,433	1,433
Credit cards	-	-	-	-	27,379	27,379
Loans to legal entities	-	-	-	-	**194,430**	**194,430**
Loans to legal entities	-	-	-	-	161,460	161,460
Overdrafts	-	-	-	-	29,671	29,671
Credit Cards	-	-	-	-	3,299	3,299
Investment in debt securities	**-**	**-**	**25,928**	**-**	**-**	**25,928**
Total Financial Assets			**25,928**	**-**	**593,817**	**619,745**
Financial Liabilities						
Due to customers	-	-	-	-	**561,400**	**561,400**
Demand deposits	-	-	-	-	491,986	491,986
Term deposits	-	-	-	-	69,414	69,414
Borrowings	-	-	-	-	5,145	5,145
Lease liabilities	-	-	-	-	3,471	3,471
Other financial liabilities	-	-	-	-	4,509	4,509
Total Financial Liabilities	-	-	-	-	**574,525**	**574,525**

36. Events after the end of the reporting period

a) Dividend

On 25 January 2022 CBK approved the request of the Bank to distribute a dividend in amount of EUR 9 million. The dividend was paid on 14 February 2022.

b) Other

The ongoing war in Ukraine and the related sanctions targeted against the Russian Federation may have impact on the European economies and globally. The Bank does not have any direct exposure to Ukraine, Russia or Belarus. Any potential impact on the general economic situation that may require revisions of certain assumptions and estimates will be evaluated depending on the developments.

36. Events after the end of the reporting period (continued)

There are no other events after the reporting date that would require either adjustments or additional disclosures in the financial statements.

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BNP PARIBAS JOINT VENTURE