CREDINS bank

ANNUAL REPORT 2021

SELMAN LAMAJ
CHIEF EXECUTIVE OFFICER

I MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I avail myself of this opportunity and I am pleased to announce that Credins Bank Kosovo has successfully closed the financial year 2021. I am really proud of this, because 2021 was a difficult year posing many challenges. We, however, remained stable and achieved our goals, maintained our position regarding all the key indicators set out in our strategy and now we are ready for a successful 2022 year ahead.
2021 was a year of significant challenges due to the financial effects caused by the pandemic in the entire banking system in Kosovo and for Credins Bank Kosovo. Its impact affected also Kosovo's economy, leading to a slowdown and decreasing liquidity. In these circumstances, taking into account all the influencing factors, the results of Credins Bank Kosovo were at satisfactory levels, showing a good performance compared to the economic development pace in Kosovo.
2021, as the second year of operation, was for Credins Bank Kosovo very satisfactory. Throughout this year, the strategic objectives were both met and exceeded. By the end of 2021, total assets of the bank amounted to 26.5 million euros, exceeding the plan by 10%, marking an increase of 56% compared to our first year of operation. Total customer accounts amounted to 13.6 million euros. Investment in lending funds was in the amount of 10.8 million euros, which increased by 100% compared to 2020. On the other hand, loss continues to be at budget levels. The share capital amounted to 10.6 million euros.
Meanwhile, the objectives of the shareholders were met and exceeded, for a good return on their investment forecasts. This was achieved by meeting and satisfying our clients' requirements, both individuals and business companies. Pursuant to the bank's overall strategy to expand individual banking, and to be present where the business and the individual need it most, the bank's branch network was further expanded. Four new branches were opened. We went on being present in the city of Prizren, and further expanded the network in Pristina with a new branch in Fushe Kosovo.
2021 has been a year of developments in terms of providing banking products and services, tailored to the specific financial needs of customers. The Credins Online service enabled our clients to perform transactions from their accounts via mobile or computer.
Also, during this year, the range of consumer loans for individuals was significantly expanded, maximally meeting the needs of this segment, which will be our focus throughout 2022.

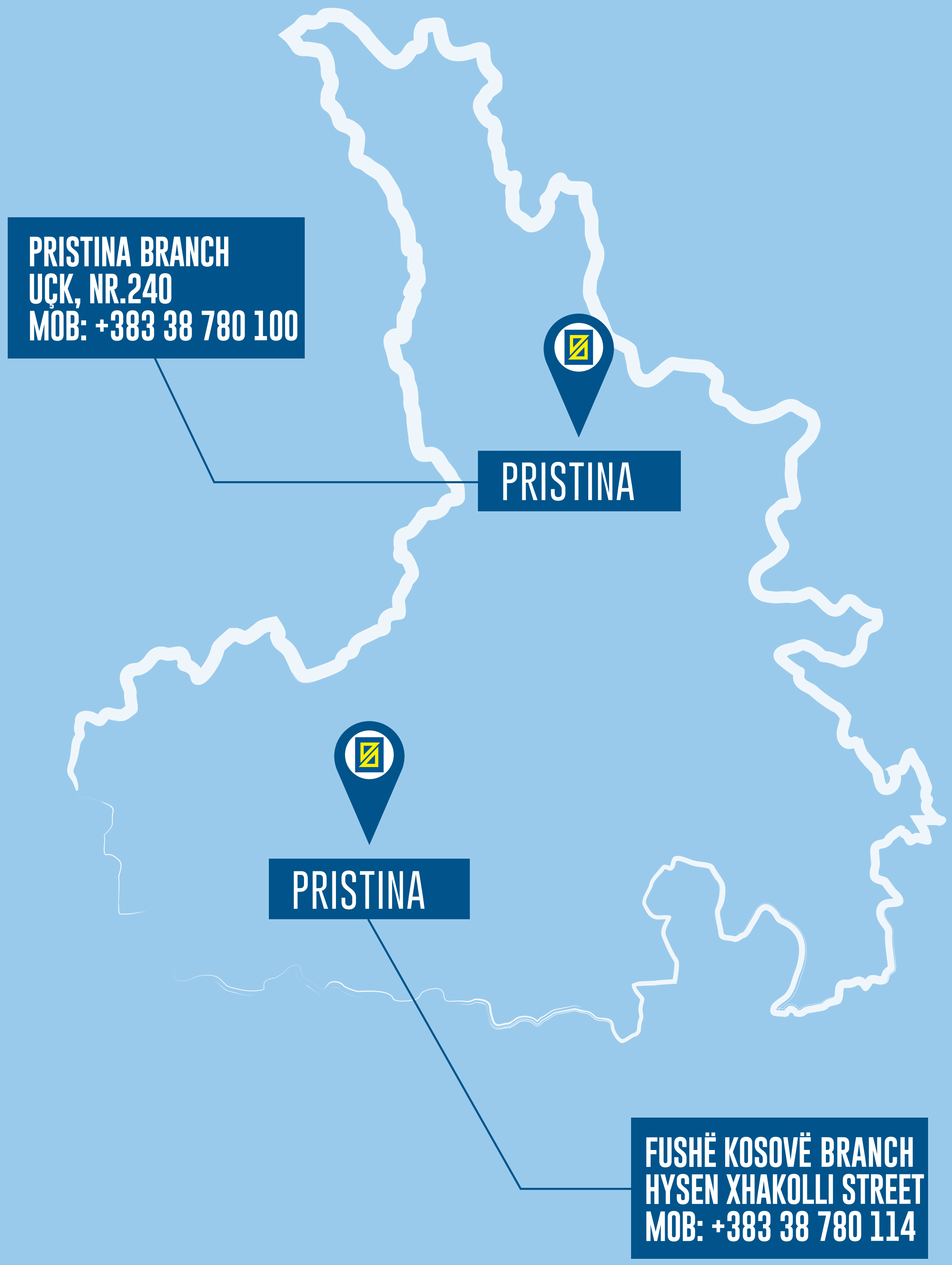
Following the increase, both in figures and quality, at the end of 2021 we had 898 clients and it increased by 89% compared to 2020.
Our results speak for themselves, increasing assets and items, growing number of clients and the expansion of the branch and technological infrastructure. All of the above have improved and strengthened the public image of Credins Bank Kosovo.
The forecasts made in the 2022 budget plan, as an integral part of the medium-term business plan, are quite promising. Assets are projected to increase by 50% compared to 2021, customer deposits by 66% and lending by 65%.
Priority will be given to the lending policy, which will lead to the healthy growth of the Bank's business as well as the accurate assessment of investment risks. Our banking model is diversified providing services and products for all customer segments.
In order to fulfil these forecasts, the bank aims at being present in other cities as well, and at increasing the number of of branches in the city of Pristina. One of the achievements for this year shall also be growing range of digital banking products and services to meet customer needs directly from their mobile phone or computer.

Based on our achievements so far, being also aware of the strength and energy of our staff, and having as always the support of our shareholders, we are confident that we shall diligently meet the objectives and forecasts for 2022.

Sincerely

SELMAN LAMAJ
Chief Executive Officer

PRISTINA



DECLARATION OF THE MISSION

II

VISION

The vision of Credins Bank Kosovo is to provide a quality banking service and apply innovative banking products or infrastructure. Our business strategy is focused on supporting individuals, micro businesses and medium-sized businesses.

Based on our banking expertise, we have tailored product-specific packages for specific customer groups according to their needs, applying also an attractive pricing policy.

MISSION

The mission of Credins Bank in Kosovo is to deliver quality customer service and to build a business with excellent, active people and values that improve the standard of living. Credins Bank in Kosovo will be an integrated bank, focused on innovation.

STRATEGIC OBJECTIVES

The strategic goal of the Bank is to be a leader in efficiency and to establish excellent relationships and experiences with clients. To fulfill its mission, Credins Bank Kosovo operates on the basis of several strategic objectives that are the main supporting pillars for: building a stimulating work culture, implementing flexible procedures for efficient customer service, providing a full range package of products and banking services, introducing innovative services, as well as a personalized service and hospitality by all the staff and all the bank's branches.

The competitive advantages and expertise already established by Credins Bank Albania, in order to deliver an excellent customer service, product portfolio, technological systems, staff recruitment and promotions, shall be applied in Kosovo as well, in order to offer the best in this market as well.

Credins Bank Kosovo shall be an active participant in the economic and social development of Kosovo, supporting the investment plans of domestic or foreign businesses. Increasing number of branches and expansion of the branch network in Kosovo, shall offer new opportunities for hiring and developing new talents, establishing a corporate culture that promotes their career and potential by building a strong team with talented people. .

Finally, Credins Bank in Kosovo shall build a corporate culture to help the community by supporting projects related to education, environment, fight against poverty, etc., as we believe that joint development leads to success.

In addition, growth and good banking practices shall also be supported by Credins Bank Albania ensuring that the new bank in Kosovo fits perfectly well in the market.

MESSAGE FROM THE BOARD OF DIRECTORS

Honorable shareholders,

In 2021, the Board of Directors reviewed and analyzed in detail with the management team, the bank's strategy and operation. In all meetings held throughout the year, the management team reported on key achievements and issues in terms of bank risk management and planning, liquidity and capital management as well as other transactions and activities relevant to the bank.

We advised the management team and monitored business management. On behalf of the Board of Directors of Credins Bank Kosovo, we would like to express our deep gratitude to the bank's employees for their professionalism, dedication and result-orientation. We are also proud of the management team that has an appropriate and feasible vision and strategy. We are confident that the management team is capable of solving any business problem.

We would like to express our gratitude and appreciation to our clients and partners for their trust and mutual cooperation. We are ready to achieve more success together in 2022.

BOARD OF DIRECTORS

III

BOARD OF DIRECTORS

JONAS HASSELROT
CHAIRMAN

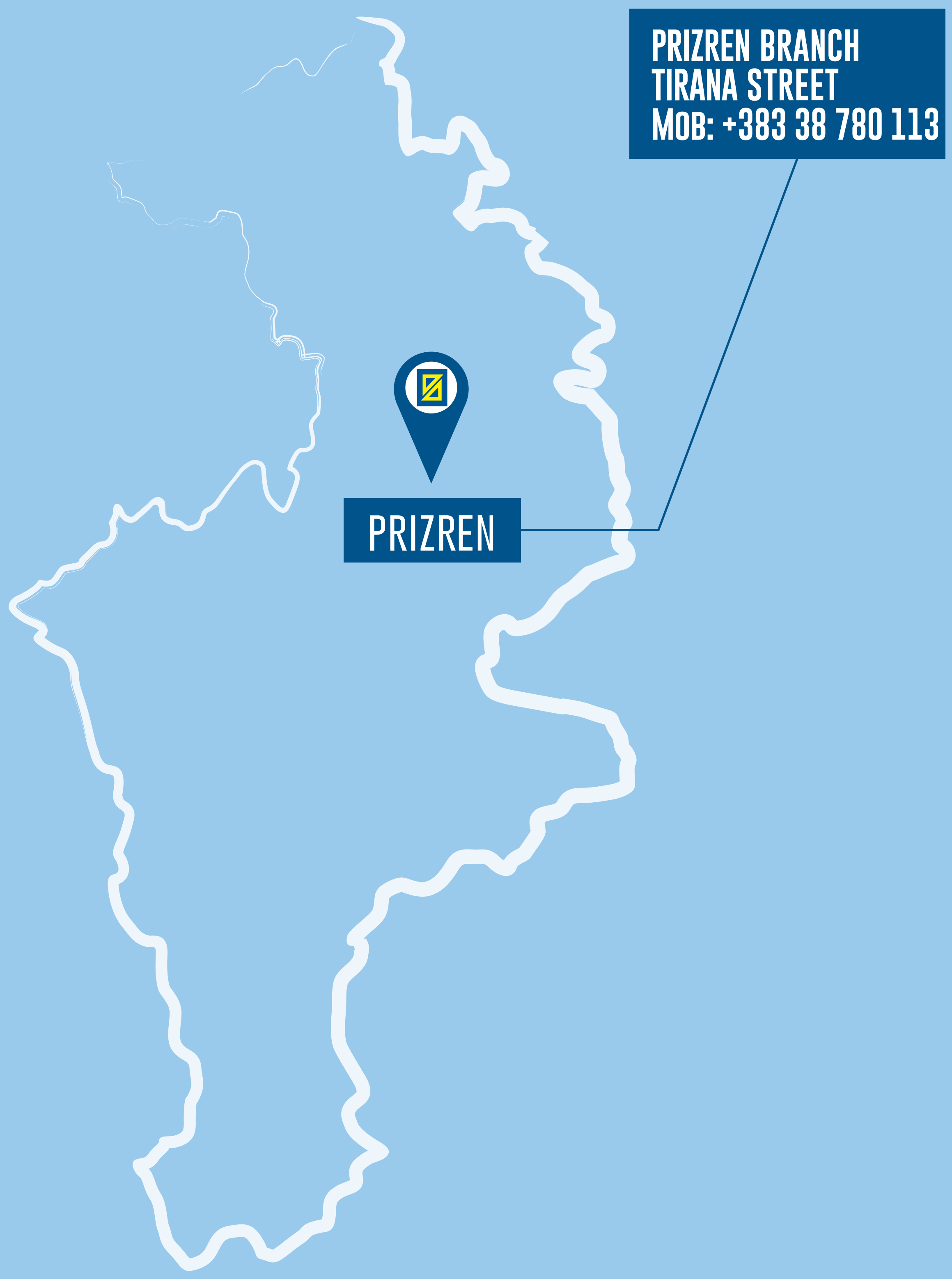
DORINA KRIPA
MEMBER

ARDI SHITA
MEMBER

RAIMONDA DUKA
MEMBER

CLIVE MOODY
MEMBER

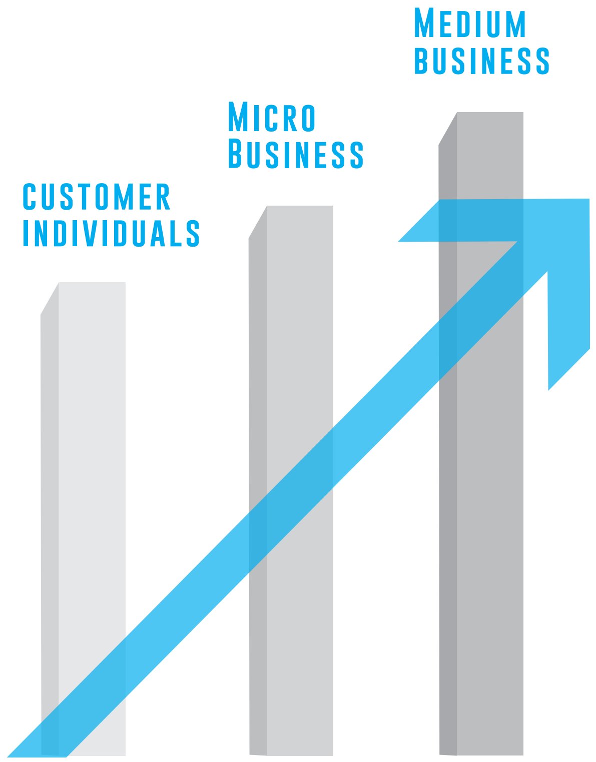
PRIZREN



FORECASTS AND FUTURE PLANS FOR 2022

IV

FORECASTS AND FUTURE PLANS FOR 2022



Before the pandemic, the Republic of Kosovo continued to grow economically since 2000. Kosovo is one of the few countries in Europe with a positive economic growth showing a very significant development potential in the banking system. The banking sector in Kosovo is one of the main pillars of the country's economic development, proving stability and reliability over the years, constantly financing businesses and households.

During the pandemic period which affected any country in the world, there were many challenges, such as economic recovery, normal operation of many economic sectors adversely affected by the pandemic, return of confidence in individuals to increase consumption and investment. The strategy of Credins Bank Kosovo is also based on supporting the economy by providing financing products for both individuals and businesses, which help in the economic recovery.

The challenges of operating in the Kosovo financial market, have now changed. The new normal situation after the pandemic may require additional measures and reformulation of the planned business strategy. However, these shall be further estimated. Nevertheless, based also on the banking experience of Credins Bank Albania, we are nowadays better organized to face the effects caused by the pandemic as well as paying significant attention to our strategic plans for developing Credins Bank Kosovo.

After the challenges of 2021, Credins Bank Kosovo continues to grow and to offer more to the country's economy. There shall be a large competition throughout 2022, but we already know that the key to our success is reaching out to customers and working with them to succeed in the challenging environment. At the same time, we shall continue to invest in new products, services and technology.
One of our priorities shall continue to be the customer service quality in all segments. This goal can be achieved by staff trainings and development, efficiency improvements, simplified processes and an increasingly convenient access through distribution channels.

In 2022, we aim to develop by paying more attention to improving the quality of various loan portfolios. Growth of our business segments, starting from Individual, Micro, Medium Business and Corporate clients shall be given particular importance.

Regarding Medium Business segments we shall continue to focus both on lending, and on providing a wide range of banking services to businesses and their employees. Expanding digital services through Credins Online shall continue to be a priority in 2022. At the same time, we shall also launch other innovative products and services.

Objectives are in line with the vision and mission so that total assets amount to 200 million euros within the first five years of business.
The bank's good reputation will be established by creating a positive relationship with customers, good deals and innovation.
Cost-effective operational development that enables an ongoing comination of physical and online channels, shall be given special emphasis.
The team is a key element and our focus has been and shall continue to be development of a dynamic and motivated team of bankers that reflects the bank's corporate culture known as customer oriented.

Constant attention shall also be paid to the well-functioning or establishment of some strong governance and control mechanisms, as well as to the improvement of effective risk management processes that will enable build up quality assets and clients.

Population of Kosovo is young and after the first three years of operation of Credins Bank Kosovo, the youth shall be in their late thirties and their consumption power shall be at significant levels. The older generation is more sensitive to a positive and equitable relationship with management staff and senior management and this is, however, not much influenced by marketing or innovation. The bank's good reputation shall attract the new generation, but at the same time shall also promote the relationship with the client.

This strategy can be implemented by focusing on experience and personalized customer relationship and technological development.
In the framework of marketing campaigns we are mainly focused on digital activities.
In terms of the budget, it can be noted that 2/3 is focused on digital channels and 1/3 on traditional channels.
Establishment of CRM (Customer Relationship Management System) to ensure that marketing is personalized and properly integrated with customer acquisition efforts.

The Bank shall continue to offer its customers deposit products through new terms and very attractive interest rates. Digital banking for individuals and businesses shall be further complemented by enabling customers with maximum flexibility and different ways to condperformuct banking transactions via mobile phones, anywhere and anytime.
The branch network continues to grow by applying quality standards to provide our customers with a better service.

Chief Executive Officer and Deputy Chief Executive Officer of Credins Bank Kosovo expresses their gratitude to all its customers and business partners for their cooperation and support throughout 2021.
We are fully committed to meeting your banking requirements and providing you with a high quality service.

SELMAN LAMAJ
Chief Executive Officer

GEZIM SIMONI
Deputy Chief Executive Officer

BUSINESS PROFILE

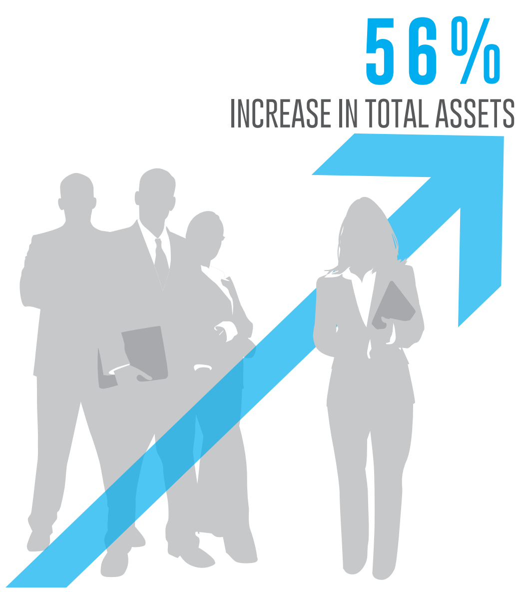
V

BUSINESS PROFILE

Credins Bank Kosovo is a universal commercial bank. It operates in the Kosovo market by serving all customer categories providing them with a wide range of products and services, and high quality service and maximum flexibility. All business segments, Kosovo private and foreign companies, state institutions and public entities, profit or non-profit organizations, ordinary individuals or payroll clients, all can find themselves at Credins Bank Kosovo and can be offered the products and services that suit their needs.

2021 marked a significant increase in the bank's clientele, particularly regarding individual and business sector. At the end of 2021, the bank had 898 clients, 308 of which were business clients, over 590 individual clients.

2021 was closed by Credins Bank Kosovo with a total assets of 26.5 million euros, which increased by 56% compared to 2020.



DEVELOPMENT IN THE BUSINESS SECTOR

The focus of the bank's business during 2021 has been parallel development of all segments, but particularly of small and medium businesses. This has resulted from market demands so that we can provide our services to these segments, given the demographics of the Kosovo business market. The Bank has closely followed market developments, and has designed suitable products and services to meet their needs. The medium business segment has also been one of the most developed business lines throughout the bank's activity. The Bank has showed flexibility, offering medium-sized businesses personalized products, as well as a package of services and tariffs tailored to their level of cooperation with the bank, treating them differently and operating based on equitable partnership.

DEVELOPMENT IN INDIVIDUAL SECTOR

One of the bank's ongoing objectives is to grow its market share of individuals, expanding its customer base, especially depositors. This has been achieved by designing a wide range of products, tailored to customer needs, as well as competing in the banking market with reasonable rates.

Special attention has been given by Credins Bank Kosovo to the preferential treatment of customers who use regularly its products and services.

The variety of deposit products, loans as well as various packages with combined fees, have displayed the image of a modern bank, which always offers the best for its customers. The ever-growing branch network has given a significant boost to supporting this segment.

LENDING

The lending strategy of Credins Bank Kosova is focused on establishing a competitive position in the financial market of Kosovo by integrating the products and services, which bring value to the client. The year 2021 was an important year for the lending activity of the bank. Constant upgrade of credit products and services, as well as improvement of lending policies and procedures, have enhanced efficiency in lending, increasing financing of various groups of clients. Credins Bank Kosovo has always deemed very important its responsibility to support the business growth, by preventing at the same time uncontrolled growth of customer liabilities to the bank. Most of our borrowers have grown their business with the bank, establishing long-term partnership relationships.

- The gross loan portfolio at the end of 2021 has increased by 12.3 million euros, marking an increase of 100% compared to 2020.
- At the end of 2021 the bank had 180 borrowers.

Private business is considered as the main driving force in economic growth and job creation in our country. In this regard, the main focus of Credins Bank Kosovo financing has been the business customer segment. The Bank has ensured to provide the business community with state-of-the-art and personalized financial services and products.

In addition, other categories, such as individuals and micro businesses, have also undergone significant developments. Diversification of the loan portfolio into different categories of clients and prevention of large exposures to a small group of clients has led to the need to expand the customer base, by paying attention to other segments as well.

QUALITY OF THE LOAN PORTFOLIO

The quality of the loan portfolio has been at high levels throughout 2021. Despite the very ambitious targets of 2021 for the loan portfolio growth, the quality has in no circumstances been overshadowed.

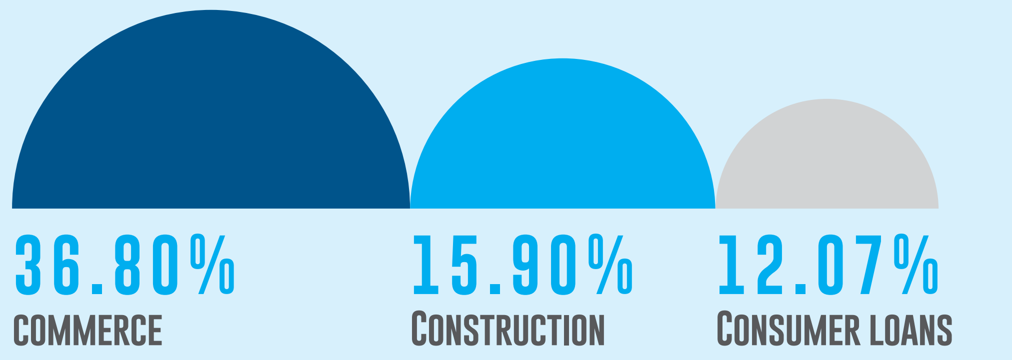
The structures involved in the lending process have the adequate professional capacity to identify problems at an early stage through careful analysis, helping at the same time management of non-performing loans.

The rapid growing pace of the bank in general and lending activity in particular throughout 2021, led to the need for the existing structures to be developed and further consolidated.

The quality of the loan portfolio is quite good, both in terms of timely repayment showing the sound financial situation of the borrowers, as well as in terms of providing sufficient collateral.

Branches of Economics	LOAN OUTSTANDING	%
Construction	1,711.78	15.90%
Trade	3,962.05	36.80%
Consumer loan	1,299.44	12.07%
Collective, social and individual services	1,112.23	10.33%
Processing industry	339.44	3.15%
Hotels and restaurants	444.27	4.13%
Social and health activity	462.54	4.30%
Other	1,372.73	12.75%
Total net amount of loans granted to customers	**10,766.61**	**100%**

LOAN PORTFOLIO ACCORDING TO BRANCHES OF THE ECONOMY



RISK MANAGEMENT

The mission of identifying, measuring, monitoring and reporting risks to which the bank is exposed during its business, is essential for Credins Bank Kosovo.

The activity focuses mainly on the management of market risks, credit risk and liquidity risk. The risk management unit cooperates with other departments of the bank, to assist control of other risks as well, such as: operational risk, legal risk, technology risk, reputational risk, etc., as well as to manage the risk for new products launched in the financial operating activity of the bank.

In addition to the main risks of the bank's activity, given the bank's growth as well, operational risk plays an important roles as well to identify and receive unpredictable losses caused by internal and external events. Business expansion has increased the bank's responsibilities, in the conditions of an increasingly competitive and complex banking market.

LOAN RISK

The Bank, in terms of expanding the portfolio and the number of borrowers, is aware of the importance that the quality of this portfolio has. Therefore, it ensures that the non-performing loan rate is at the lowest possible levels.

During 2021, adequate policies and strategies for the best possible management of the loan portfolio have been properly consolidated. Improved collateral quality and credit risk policies, which are now more suitable for the conditions of the country's economy, have had a significant impact on improving the quality of the loan portfolio.

Based on the assessment given for approving analyzed loans in 2021, the risk unit has observed the preliminary forecasts, in accordance with the customer loan repayment progress, reducing deficiencies and discrepancies in information and strengthening the assessment model of the bank's internal rating.

DEPOSITS

Customer deposits have significantly increased and by the end of December, they amounted to 8.6 million euros, exceeding the forecast of 2.5 million euros.

By the end of December, deposits in foreign currencies are in the amount of 111 thousand euro, exceeding the forecast of 20 thousand Euro and they have increased compared to 2020.

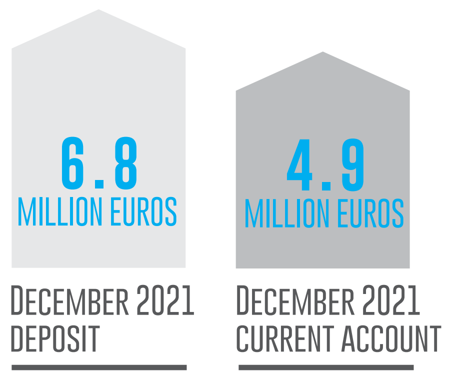
- Deposits denominated in USD make up 99% of total deposits in foreign currencies and 1.48% of total deposits.

The majority of customer deposit portfolio is in Euro.

CURRENT ACCOUNTS

By the end of December 2021, customer current accounts amounted to 4.9 million euros exceeding 2020 by 4.7 million euros. The number of bank customers during 2021 has increased significantly. The year closed with 884 customers out of 94 customers that were at the end of 2020.

The group of clients who have opened current accounts with Credins Bank Kosovo, is composed of individuals who believe in their savings and meet their needs both individually and in companies, and who consider Credins Bank Kosovo a good financial partner.



FERIZAJ

SERVICES VI

SERVICE

Based also on our slogan "We speak your language", we at Credins Bank Kosovo, strive to offer the best to our clients and to satisfy to the maximum their needs for banking products and services. The high performance of our banking service is characterized by a rational use of internal resources, such as technology and human resources.

The activity of Credins Bank Kosovo is based on a state-of-the-art and highly advanced technological base, being contemporary with the increasing market demand.
The main objective of the bank is to meet the customer needs through by designing new products and services as well as improving the existing ones and conveying the bank's image to the public: by directly selling the products and services to all segments of the bank (individuals and entities), as well as by monitoring the sale process quality throughout the branch network of Credins Bank Kosovo.

4 NEW BRANCHES WILL OPEN IN 2022

EXTENSION AND EXPANSION

The expansion strategy of Credins Bank Kosovo is based on the policy of being present wherever the business and the individual needs it. During 2021, Credins Bank Kosovo expanded geographically with two branches, having a total of 4 branches. To improve and expand the bank's activity, Credins Bank Kosovo expanded its network in the city of Pristina by opening another new branch in Fushë Kosovo, as well as further expanding in Prizren.
All our branches offer comfortable and hospitable environments for the client, who can find solutions for any financial need. Future objectives are further geographical expansion, as well as a wider presence in other cities. The objectives are closely related to "being close to the customer". This shows that the bank will continue to expand both in terms of geography, as well as in terms of quality products and services. In 2022, the Bank plans to open 4 new branches in the city of Gjakova, Peja, Gjilan and another branch in Pristina, thus clearly showing the bank's commitment to be even closer to its customers.

All the branches shall be illustrated with photos.

BRANCH NETWORK

THE MAP OF KOSOVO SHALL BE DISPLAYED AND THE BANK'S LOGO SHALL BE PLACED IN THE CITIES OF PRISTINA, FERIZAJ AND PRIZREN.

ORGANISATION VII

ORGANISATION

The growth and development of Credins Bank Kosovo during 2021 has been accompanied by the structural improvement, development and consolidation of existing departments and other units, as well as by the establishment and development of new units, which were indispensable for the bank's own operation.

CREDIT DEPARTMENT, which is one of the most important departments in the bank, has undergone constant consolidation and improvement.

FINANCE – ACCOUNTING DEPARTMENT, which is responsible for enforcing legislation on the field of finance, is organized in important sectors such as the Financial Control Sector, the Accounting Sector and the Budget and Reporting Sector. The finance and accounting department is responsible for designing and implementing accounting policies in accordance with international accounting standards. It is also responsible for timely completing the financial statements, regulatory reports as required by the Central Bank of Kosovo and senior management of the bank.

TREASURY DEPARTMENT, ensures the best use of money and capital opportunities, to profitably manage the bank's reserves. One of the main responsibilities of the treasury department is liquidity management. During 2021 it is required that liquidity be managed as effectively as possible. The bank's deposit portfolio grew significantly while maintaining interest rates at the upper level for the domestic market.

OPERATIONAL DEPARTMENT The operational department performs its functions by investigating and maintaining relations with correspondent banks and other banks, making and receiving payments inside and outside the country, swift administration, etc. The customer service throughout the branch network is subordinate to this department.

INFORMATION DEPARTMENT supports the entire activity of the bank. The specialists and their professionalism has made this department to successfully cope with the growth of the bank during this year. The efficiency of this department has enhanced by profiling them to banking application specialists and hardware and communication maintenance specialists.

LEGAL DEPARTMENT, whose activity aims at disciplining and channeling all daily transactions of the bank pursuant to the legal framework of Kosovo by auditing them from the legal point of view. Considering the fast development and dynamic expansion of the entire bank, this department has found and strengthened its position as an important segment. In this regard, a unit has been established, which is functions are improved over time, minimizing significantly the legal risk in the year we left behind.

MARKETING DEPARTMENT continued throughout 2021 to convey the image of Credins Bank Kosovo to its customers. Attention has been paid to digital campaigns using all contemporary interactive forms and to the promotion of new bank products. The digital strategy was a revitalized in 2021, where a lot of time and energy was dedicated to reach a maximum presence of followers on social networks as well as to increase sales through online applications. Several product marketing campaigns such as lending products, various deposit products and Credins Online were successfully finalized with satisfactory results. The strategic objective remains both attraction of new customers, and increasing satisfaction of existing customers, by offering them attractive products and establishing a long-term relationship.
The launch and promotion of time deposit product in the summer is to be appreciated as it invited all compatriots living abroad to bring their savings home and on the other hand, take maximum advantage of our competitive interest rates. The year 2022 shall be more dynamic in terms of the challenges it shall pose. New product campaigns shall be launched targeting specific groups of customers with specific packages or offers. Digital strategy shall have a specific focus by increasing attention towards ongoing campaigns for online application of our products on the website, social networks and Google.

RISK MANAGEMENT DEPARTMENT continued its consolidation during 2021. Today it identifies, measures, monitors and reports the risks to which the bank is exposed during its activity. It cooperates with other departments of the bank to assist them to keep risks under control, such as: operational risk, legal, credit risk, liquidity, technology and reputational risk.

VIII

BANK STAFF AND ITS DEVELOPMENT

BANK STAFF AND ITS DEVELOPMENT

The growth of Credins Bank Kosova's business has been accompanied by the increasing the number of its employees. At the end of 2021, it had 62 employees compared to 29 people at the end of a year ago.

The aim is to select at all levels of the bank's service qualified staff, with experience and professional skills, without leaving behind staff with less experience, but promising for the future.

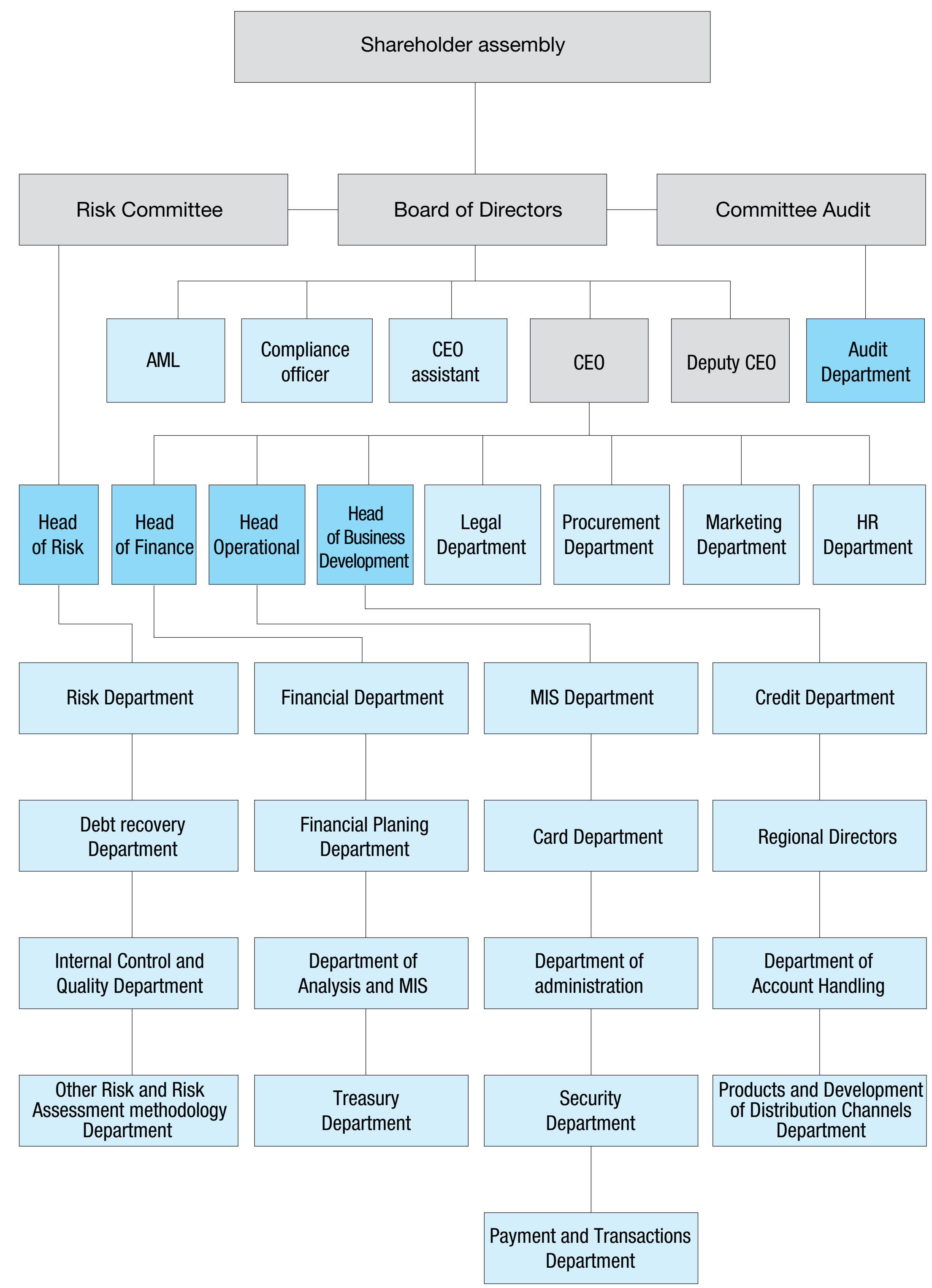
In 2021 we worked to ensure and encourage development of professional skills, new ideas, to identify and solve out problems and avoid weaknesses, by effectively communicating and interacting.
We have worked throughout the year to ensure and promote development of professional skills and new ideas. Employee training has been in the spotlight during 2021. The significant increase in the number of employees and the structural improvement in the existing departments, units, sectors and branches, as well as establishment of new banking units, arouse the need of taking several organizational measures and providing the most adequate conditions for employee training. We provide a work environment where employees are morally and materially motivated, and where the best employees are encouraged to innovation by further developing their career.

Credins Bank Kosovo is investing intensively in training its staff at all levels both inside and outside the country, providing in this way a professional and welcoming environment for our customers. As Credins Bank Kosovo grows and changes, we are constantly facing with challenges for professional development of our employees. That is why various trainings are constantly organized in this regard.
A fair and competitive package is offered for various salaries and bonuses. Courses, practical trainings were organized for all new employees who became part of the bank staff.

NEW PROGRAM "#YOUARECREDINS".
In 2021, the program for recruiting and training excellence students graduated in economics, informatics or law was launched. They were selected through group testing and evaluation. Interns recruited from this program are trained both in theory and practice by the best experts of Credins Bank Kosovo and Credins Bank Albania in order to develop their technical skills, particularly in terms of sales and to be familiar with the bank's working procedures.

The main objectives for 2022 shall continue to be the regular staff investments for an ongoing professional development and for providing a better service to clients. "Youarecredins" program shall continue to be implemented to recruit new talents who shall join the Credins family.

ORGANIZATIONAL CHART OF CREDINS BANK KOSOVO



REPORT OF THE EXTERNAL AUDITOR

IX

BANKA CREDINS KOSOVË SHA

Financial Statements for the year ended
31 December 2021

With Auditor's Report

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GrantThornton

Independent Auditor's Report

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To the Shareholders of

Banka Credins Kosovë Sh.a.

Opinion

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

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

Basis for Opinion

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

Emphasis of matter

We draw attention to Note 2.2.3 to the financial statements which describes that the Bank's financial statements have been prepared assuming that the Bank will continue as a going concern. The ability of the Bank to continue as a going concern is dependent on continued financial support from its Shareholder and the availability of obtaining continuous sources of funding. The Shareholder has committed to continue providing financial support to the Bank for a period of at least 12 months from the date of support letter.

The financial statements do not include any adjustment that might result from the outcome of this uncertainty. Our audit opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation the financial statements in accordance with the 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.

Grant Thornton

Auditor's Responsibilities for the audit of the financial statements

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

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

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

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

Grant Thornton LLC
Prishtina,
28 April 2022

Suzana Stavrik
Statutory Auditor

GRANT THORNTON L.L.C. KOSOVO

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2021

	Notes	Year ended 31.12.2021 '000 EUR	Year ended 31.12.2020 '000 EUR
Interest income calculated using the effective interest method		229.06	0.00
Interest expense calculated using the effective interest method		(191.45)	(25.68)
Net interest income	3	**37.61**	**(25.68)**
Fee and commission income		45.48	0.13
Fee and commission expenses		(36.49)	(0.08)
Net fee and commission income	4	**8.99**	**0.05**
Net gains/(losses) on financial assets and liabilities at FV	5	79.57	-
Foreign exchange gains/(losses)	6	3.50	-
Other expenses	6.1	(36.06)	(40.43)
Net other operating income		**47.01**	**(40.43)**
Net Impairment losses on financial assets	7	(251.19)	(0.05)
Personnel expenses	8	(433.87)	(79.00)
General and administrative expenses	9	(580.62)	(82.47)
Depreciation of right-of-use assets	17	(180.35)	(47.07)
Depreciation of property and equipment	15	(308.54)	(36.42)
Amortization of intangible assets	16	(8.14)	0.00
Total operating costs		**(1,762.71)**	**(245.01)**
Net profit before taxes		**(1,669.10)**	**(311.07)**
Current income tax	10	-	(0.04)
Net profit for the period		**(1,669.10)**	**(311.11)**
of which:			
Other comprehensive income		-	
Net change in fair value Investment securities during the year		90.02	-
Income tax effect		(9.00)	-
Net gains/(losses) on investment securities at FVOCI		**81.02**	-
Total comprehensive income for the year, net of tax		**(1,588.08)**	**(311.11)**

The audited statement of profit or loss and other comprehensive income is to be read in conjunction with the notes set out in pages 6 to 58 that form part of the audited financial information.

The financial statements have been approved by the Board of Directors Sh.a. on 11 March, 2022 and signed on its behalf by:

Selman LAMAJ
Chief Executive Officer

Ana GOGA
Chief Financial Officer

Statement of Financial Position

for the year ended 31 December 2021

	Notes	31 December 2021 '000 EUR	31 December 2020 '000 EUR
Assets			
Cash and cash equivalents	11	3,703.43	7,811.49
Deposits in banks	11	1,133.11	-
Restricted balances with Central Bank	12	879.27	219.98
Financial assets at FVOCI	13	4,921.54	-
Loans and advances to clients	14	10,766.61	5.91
Property and equipment	15	2,697.09	2,069.95
Intangible assets	16	499.97	-
Right-of-use assets	17	1,760.26	1,600.69
Other assets	18	159.74	88.19
Total Assets		**26,521.02**	**11,796.21**
Liabilities			
Due to banks and other financial institutions	19	2,001.94	-
Due to customers	20	13,548.18	240.39
Deferred tax liabilities	21	9.00	-
Provisions	22	9.28	-
Lease liabilities	23	1,805.93	1,605.66
Other liabilities	24	171.68	2,261.27
Total Liabilities		**17,546.01**	**4,107.32**
Equity			
Shareholders Capital	25	10,651.63	8,000.00
Share Premium		222.57	-
Revaluation reserve of investment securities	13,21	81.02	-
Retained earnings		(311.11)	-
Net (loss) for the period		(1,669.10)	(311.11)
Total equity		**8,975.01**	**7,688.89**
Total Equity and Liabilities		**26,521.02**	**11,796.21**

Statement of changes in equity

for the year ended 31 December 2021

	Share capital '000 EUR	Share premium '000 EUR	General reserve '000 EUR	Revaluation reserves '000 EUR	Retained earnings '000 EUR	Total '000 EUR
Balance at 17 March 2020	-	-	-	-	-	-
Profit/Loss of the year	-	-	-	-	(311.11)	**(311.11)**
Other comprehensive income for the year	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	**(311.11)**	**(311.11)**
Transactions with owners						
Issue of share capital	8,000.00	-	-	-	-	**8,000.00**
Total transactions with owners	**8,000.00**	-	-	-	-	**8,000.00**
Balance as at 31 December 2020 / 01 January 2021	**8,000.00**	-	-	-	**(311.11)**	**7,688.89**
Profit/Loss of the year	-	-	-	-	(1,669.10)	**(1,669.10)**
Other comprehensive income for the year	-	-	-	81.02	-	**81.02**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-		**81.02**	**(1,669.10)**	**(1,588.08)**
Transactions with owners	-	-	-	-	-	-
Issue of share capital	2,651,63	222.57		-	-	**2,874.20**
Total transactions with owners	**2,651.63**	**222.57**	-	-	-	**2,874.20**
Balance as at 31 December 2021	**10,651.63**	**222.57**		**81.02**	**(1,980.21)**	**8,975.01**

Statement of cash flows
for the year ended 31 December 2021

	Notes	Year ended 31 December 2021 '000 EUR	Year ended 31 December 2020 '000 EUR
Operating activities			
Profit before income tax		**(1,669.10)**	**(311.07)**
Adjustments for non-cash items:			
Loan loss provision charges (net)	7	241.45	0.05
Changes in provisions	22	9.28	-
Depreciation and amortization expense	15,16,17	497.03	83.49
Changes in deferred tax assets and liabilities	21	9.00	-
Net interest income / (expense)	3	(37.61)	25.68
Net fee and commission income	4	(8.99)	(0.05)
Net cash flows (used in) operating activities before changes in operating assets and liabilities		**(958.94)**	**(201.90)**
Changes in operating assets and liabilities			
Change in loans and advances to customers	14	(11,002.20)	(5.96)
Change in restricted balances with the Central Bank	12	(656.05)	(223.95)
Change in other assets	18	71.55	(88.19)
Change in due to banks	19	2,000.00	-
Change in due to customers	20	13,307.79	240.39
Change in other liabilities	24	(2,089.59)	2,261.27
Interest received		227.46	-
Interest paid		(42.73)	(21.71)
Fee and commission inflow		45.48	0.13
Fee and commission paid		(36.49)	(0.08)
Income tax paid		-	(0.04)
Net cash from operating activities		**866.28**	**1,959.96**
Investing activities			
Purchase of investment securities	13	(4,810.00)	-
Purchase of property and equipment	15	(937.05)	(2,106.37)
Purchase of intangible assets	16	(508.11)	-
Net cash flows (used in) investing activities		**(6,255.16)**	**(2,106.37)**
Financing activities			
Issue of share capital	25	2,651.63	8,000.00
Payment of lease liabilities	23	(237.70)	(42.10)
Net cash flow from financing activities		**2,413.93**	**7,957.90**
Net increase in cash and cash equivalents		**(2,974.95)**	**7,811.49**
Cash and cash equivalents at 1 January		7,811.49	-
Cash and cash equivalents at 31 December	11	**4,836.54**	**7,811.49**

1 General information

Banka Credins Kosove sh.a. (hereinafter "the Bank") is a Kosovo financial institution which was incorporated on 17 March 2020 under the Kosovo Commercial Law and was licensed by the Central Bank of Kosovo on 28 September 2020 to operate as a bank in all fields of banking activity in Kosovo in accordance with the law No 04/L-093, "On banks, micro financing institutions and non-banking financial institutions", dated July 2012. The Bank is also subject to law No. 03/L-209, dated December 2010, "On the Central Bank of the Republic of Kosovo" hereinafter referred to as "Central Bank").

The main shareholder of Credins Bank Kosovo is Credins Bank Albania, which is a company established in Albania and owns 75.11% of the shares (2020: 100& of the shares). Credins Bank sh.a is a financial institution which was established on 31 January 2003 under the Albanian commercial law and was licensed by the Central Bank of Albania on 31 March 2003 to operate as a bank in all areas of banking activity in Albania in accordance with law no. 8365, "On the banks of the Republic of Albania", (dated July 1998). Credins Bank Albania operates through 57 branches and agencies in Albania. It has 999 employees as of December 31, 2021. Credins Bank Albania occupies the first place in the market for the loan portfolio and the second for the deposit portfolio. The capital of Credins Bank Albania is about 98 million shares with a nominal value of 109.27 usd / share. The shareholder structure of Credins Bank Albania consists of shareholders, individuals and companies. The main shareholders of Credins bank Albania are Renis Tërshana who owns 18.16% of the shares and B.F.S.E Holding BV who owns 15.13% of the shares. The shareholder A.F.C owns 17.39% of the share capital of Credins Bank Kosovo while the other shareholders own less than 5% of the capital. During 2021 Credins Bank Kosovo has increased sufficiently its capital for the performance and development of its activity in the amount of 2.8 million euros. In order to achieve the strategic goals, Credins Bank Kosovo, annual documents including strategy and policies, have been drafted and adapted to the situation with Covid-19 for each specific risk in order to maintain key risk indicators, to control and monitor on the basis of regular, always based on the bank's available capital. The bank's performance and financial stability is stable, based on key risk indicators.

Registered address and principal place of business: The address of the head office of the bank and principal place of business is: "UÇK," Street, No. 240, Prishtinë, Kosovo.

Main activity: The Bank operated as a bank with full rights, in compliance with the Law No. 04/L-093 On Banks micro financing institutions and non-banking financial institutions and offers services for all client categories in the Republic of Kosovo through its branch network comprised of four branches located in Prishtina, Ferizaj, Prizren, Fushekosove and 1 branch in Gjakova which will start operating from February 2022.

The Board of Directors of the Bank as at 31 December 2021 and 2020 is composed of:

- Lars Jonas Hasselrot – Chairman
- Clive Moody – Member
- Raimonda Duka – Member
- Dorina Kripa – Member
- Ardi Shita - Member

As at 31 December 2021 the Bank had 62 employees (2020: 29 employees).

2 Accounting policies

2.1 Basis of preparation

The Financial Statements have been prepared on the historical cost basis.

The Financial Statements are presented in EUR, which is the Bank's functional currency and all values are rounded to the nearest thousand up to two decimals (EUR '000), except when otherwise indicated.

2.1.1 Statement of compliance

The Financial Statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) and with the tax law applicable in the Republic of Kosovo as well as the regulatory requirements of Central Bank of Kosovo.

2.1.2 Presentation of Financial Statements

The Bank presents its statement of financial position broadly in order of liquidity.
Financial assets and financial 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 settle on a net basis, or to realize the assets and settle the liability simulaneously. Income and expense is not offset unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.2 Significant accounting judgements, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities (if any). Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions

2 Accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur.

2.2.1 Impairment losses on financial assets

The bank considers exposure as non-performing/impaired when one or more of following events that have a detrimental impact on the estimated future cash flows have occurred:

► Days past due of an account greater than 90 days
► Loan is characterized by bad rating (loans that have rating equal to 7 or economic rating equal to 10)

The mentioned default (impairment) definition is applied on the account (loan) level.

Loans that are not individually tested for impairment are assessed collectively.

The collective impairment is calculated according to stage 2 and stage 1.

Stage 2: For collectively assessed accounts in Stage 2 impairment allowance is equal to lifetime ECL. Lifetime ECL is defined as all possible default loss events over the expected life of a financial instrument (i.e., risk of a default occurring on the financial instrument during its expected life).

Stage 1: For collectively assessed accounts in Stage 1, 12 month Expected Credit Loss (ECL) is calculated. 12-month ECLs is a loss that is expected to materialize in the following 12 months – therefore 12 months' probability is multiplied by current EAD and corresponding LGD. In the case, remaining maturity is shorter than 12 months, instead of 12 months PD, the remaining lifetime PD is considered.

The measurement of impairment losses under IFRS across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment Segmentation of financial assets when their ECL is assessed on a collective basis
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

2.2.2 Significant events during the reporting period

During the beginning of 2020 and onwards in 2021, the COVID-19 pandemic spread globally. In March 2020, the Kosovo government took drastic measures by suspending all non-vital activities. This situation has negatively affected the opening and operation of the Bank in the market, leading to delays in its licensing and commencement of activity in mid-October 2020. The commencement of activity in the last quarter of the year meant that the operating results were not be satisfactory and have had a negative impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and Central Bank measures, remains unclear at this time. It is not possible to reliably assess the duration of these consequences, as well as their impact on the financial position and results of the Bank for future periods. During 2021 the bank has shown a stability and a performance which has been at budgeted levels. Looking at the macroeconomic situation in the country, the bank forecasts that its performance in 2022 will have even more significant improvements and development than what has been identified in 2021.

2. Accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

2.2.2 Significant events during the reporting period (continued)

The Bank's activity has continued uninterrupted since mid-October 2020, and has had a relatively stable performance in collecting receivables from customers. During 2021 the Bank has achieved its quantitative and qualitative objectives although the pandemic situation has had a negative impact in the campaigns and in its market expansion at the projected levels. By the end of 2022, the Bank expects an increase in its performing loan portfolio despite the economic downturn. Following the emergence of the COVID-19 pandemic emergency, the Bank is analysing macroeconomic changes and will reflect these changes in the Stress Tests used to describe the impact of COVID-19 on the calculation of Expected Credit Losses. Based on these calculations the bank has budgeted and implemented the business plan for 2022-2024 with all the expected elements to anticipate any kind of ongoing situation.

The Bank considers in assessing the adequacy of its domestic capital the stress scenario in calculating the capital requirement for market risk in relation to its investment portfolio, most of which is measured at fair value with other comprehensive income and has a direct impact on capital.

The Bank considers liquidity risk in recovery plans, in the process of assessing domestic capital adequacy, by setting well-defined limits for its risk requirement. The Bank estimates that its capital resources are available and there are alternative elements for increasing these resources over time. The Bank will regularly conduct stress test analysis to test the potential impact of macroeconomic indicators on its financial position, performance and regulatory compliance. These stress tests will mainly focus on the impact that some macro and microeconomic scenarios may have on the loan portfolio, being the main source of income in the Bank's financial position, including market risk. This analysis will use the official models of forecasting the internal risk assessment of the Central Bank and the Bank. In the baseline scenario based on the bank's forecasts according to the strategy approved by the Bank Board, In the baseline scenario based on the bank forecasts according to the strategy approved by the Bank Board, the Bank forecasts a CAR rate for 2022 (23.6%) and 2023 (18%). The Bank has foreseen a capital increase in order to maintain the regulatory requirements for the minimum capital of the Central Bank of Kosovo. According to the budget, this increase will take place in the first quarter of 2022 and the second quarter of 2022. Potential shareholders are semi-qualified by the Central Bank of Kosovo and will follow the rest of the process during the first quarter of 2022. In terms of liquidity scenarios, the Bank will conduct stress tests considering the specific liquidity crisis scenario only for Credins Bank Kosovo and the liquidity crisis scenario for the banking system assuming a 10% reduction in receipts and a withdrawal of deposits from 3% to 5%. Dynamic tests have been performed to assess the potential impact of increasing / decreasing customers on different items of financial position, and revenue and expenditure, over a period of time.

During the first two months of 2022 the Bank has managed to achieve the budgeted results. For the year ending 2022, the Bank expects to have a negative deviation in the budgeted figures due to the effects that the war happening in Ukraine will have in the region and the banning imposed on Russia, which at the moment is not possible to measure reliably, however Management strongly believes that it will remain in positive results.

The Bank's management has made an assessment of the Bank's ability to continue on a going concern basis taking into account all of the above factors and is confident that the Bank has sufficient resources to continue operating for the foreseeable future. Furthermore, Management is unaware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on going concern basis. For additional explanatory notes on capital management refer to note 29.6.

2.2.3. Going concern assumption

The Bank's financial statements have been prepared on a going concern basis, as explained in Note 2.2.2 above, which assumes that the Bank will continue with its operations for the foreseeable future.

The ability of the Bank to continue as a going concern is dependent on continued financial support from its Shareholder and the availability of continuous sources of funding.

The Bank's shareholder has no intention to liquidate or to terminate the business operations of the Bank. In addition, the Shareholder has declared that it is able to provide support and has committed to continue providing financial and other support to the Bank for a period of at least 12 months from the support letter dated 11 March 2022.

2.2.4 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

2. Accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

2.2.5 Effective Interest Rate (EIR) method

The Bank’s EIR method, as explained in Note 2.4.7.1, recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognizes the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments.

2.2.6 Deferred tax asset

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilized. Although in Kosovo tax losses can be utilized within 4 years of the date it occurred, judgement is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

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

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

The Bank has long term lease contracts. The Bank has invested in leasehold improvements of the leased assets in order to make the best use of its premises.

2.2.8 Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses the average annual lending rate (‘IBR’) in the banking system based on the Statistical Bulletin of the Central Bank of Kosovo to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank ‘would have to pay’, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency).The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as to reflect the terms and conditions of the lease). On first implementation of IFRS 16 the IBR applied to lease liabilities recognised under IFRS 16 was 6.0364%. The same rate is used for 2021 due to minimal changes in the market which have no significant impact.

2.2.9 Impairment of investment securities

The treatment of financial instruments (government bonds and exposures with/to banks) is different from the general approach described for credit instruments only in terms of setting parameters. While the LGD is simply set at 45% (according to the CRR regulation), the DP is extracted from the specific S&P rating of the unit. More specifically, the empirical default annual average rate is taken from the S&P Annual Sovereign Default and Rating Transition Study.
The significant increase in credit risk for financial instruments is determined in the same way as for credit instruments. Cumulative PDs are calculated up to the 12th month. Whereas, for all exposures to the Central Bank of Kosovo CBK, as they will be exposures to the central government of the state in which the Bank is operating, making reference to the weighting factor 0% for the calculation of risk assets for these exposures according to the Regulation on Capital Adequacy and finally, because no concrete PD is given for the exposures of the CBK or Kosovo, the Bank will consider the PD equal to 0%.

2. Accounting policies (continued)

2.3 Changes in accounting policies and disclosures

2.3.1 New standards and interpretations

➢ The new and amended standards that have been issued, and effective from 1 January 2021, applicable until the date of issue of the bank's financial statements are described below:

- **Amendment to IFRS 16**

On March 31, 2021, the IASB issued 'Covid-19 Related Lease Concessions beyond 30 June 2021 (IFRS Amendment 16)' which extends by one year, a review conducted in May 2020 that gives tenants an exemption from valuation. if a COVID-19 related lease concession is a lease modification. The change is effective for annual reporting periods beginning on or after 1 April 2021.

- **Interest rate standard (IBOR) reform Phase 2 - amendments**

On 27 August 2020, the IASB issued "Interest Rate Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" with amendments addressing issues that may affect financial reporting following the reform of the IASB an interest rate standard, including its replacement by alternative base rates. The changes are effective for annual periods beginning on or after 1 January 2021.

2.3.2 Published ineffective standards and interpretations

Other standards and amendments that are not yet effective and have not been approved early by the Bank include:

- Difficult contracts - The cost of fulfilling a contract (Amendments to IAS 37).
- COVID-19 related lease concessions beyond 30 June 2021 (Amendment to IFRS 16).
- Annual Improvements to IFRS Standards 2018–2020.
- Property, plant and equipment: Income before intended use (Amendments to IAS 16).
- Reference to the Conceptual Framework (Amendments to IFRS 3).
- Classification of liabilities as current or current liabilities (Amendments to IAS 1).

Amendments to IAS 1, issued in January 2020 (amendments 2020), are subject to future developments. Several application issues resulting from the 2020 changes have been raised in the IFRS Interpretations Committee, which referred them to the Board. In November 2021, the Board published a draft exposition - Liabilities under the Agreement: Proposed Amendments to IAS 1 Proposing Narrow-Scale Amendments to IAS 1.

- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of accounting policies (Amendments to IAS 1 and IFRS 2 Statement of Practice).
- Definition of Accounting Estimates (Amendments to IAS 8).
- Amendments to IAS 12 Deferred Tax on Assets and Liabilities Arising from a Single Transaction

These changes did not affect the financial statements in the period of the initial application and therefore the explanatory notes have not been prepared.

Standards effective since January 1, 2022 and further

IAS 1 amendments on classification
On 23 January 2020, the IASB issued 'Classification of Liabilities as Current or Non-current (Amendments to IAS 1)' providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022, however, their effective date has been delayed to 1 January 2023.

IAS 12 amendments on deferred tax
On 7 May 2021, the IASB issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)' that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after 1 January 2023.

Ammendments to IFRS 17
On 25 June 2020, the IASB issued 'Amendments to IFRS 17' to address concerns and implementation challenges that were identified after IFRS 17 'Insurance Contracts' was published in 2017. The amendments are effective for annual periods beginning on or after 1 January 2023.

(amounts in EUR '000, unless otherwise stated)

2. Accounting policies (continued)

2.3 Changes in accounting policies and disclosures (continued)

2.3.2 Published ineffective standards and interpretations (continued)

Amendments on disclosure of accounting policies
On 12 February 2021, the IASB issued 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)' with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.

IAS 8 Amendments on accounting estimates
On 12 February 2021, the IASB issued 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023.

IFRS 17
IFRS 17 'Insurance Contracts' was issued by the IASB on 18 May 2017 and is effective for periods beginning on or after 1 January 2023.

IAS 16 amendments regarding proceeds before intended use
On 14 May 2020, the IASB issued 'Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)' regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

2018-2020 annual improvements cycle
On 14 May 2020, the IASB issued 'Annual Improvements to IFRS Standards 2018–2020'. The pronouncement contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

IAS 37 amendments regarding onerous contracts
On 14 May 2020, the IASB issued 'Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)' amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

IFRS 3 amendments updating a reference to the Conceptual Framework
On 14 May 2020, the IASB issued 'Reference to the Conceptual Framework (Amendments to IFRS 3)' with amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing its requirements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies

2.4.1 Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the Bank's functional currency are recognized at the exchange rates prevailing at the dates of the transactions.

Transactions in foreign currencies are translated into the respective functional currency of the operation at the exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rates at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rates at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The applicable rate of exchange (EUR to foreign currency unity) for principal currencies as at 31 December 2021 (31 December 2020) were as follows:

	31 December 2021	31 December 2020
USD	1.1326	1.2281
GBP	0.84028	0.90307
CHF	1.0331	1.0857
CAD	1.4393	1.5701

2.4.2 Financial instruments – initial recognition and subsequent measurement

2.4.2.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

2.4.2.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.4.4.1.1 and 2.4.4.1.2. Financial instruments are initially measured at their fair value (as defined in Note 2.4.3), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below:

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is de-recognized.

2.4.2.3 Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

• Amortised cost, as explained in Note 2.4.4.1
• FVOCI, as explained in Notes 2.4.4.4 and 2.4.4.5
• FVTPL, as set out Note 2.4.4.6.

The Bank classifies and measures its derivative and trading portfolio at FVPL, as explained in Notes 2.4.4.2 and 2.4.4.3. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 2.4.4.6.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 2.4.4.6.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies(continued)

2.4.2 Financial instruments – initial recognition and subsequent measurement (continued)

2.4.2.4 De-recognition of financial assets

2.4.2.4.1 De-recognition due to substantial modification of terms and conditions

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a de-recognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to de-recognize 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, as set out below, the modification does not result in de-recognition. 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. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

2.4.2.4.2 De-recognition other than for substantial modification

2.4.2.4.2.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognized when the rights to receive cash flows from the financial asset have expired. The Bank also de-recognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition. The Bank has transferred the financial asset if, and only if, either:

• The Bank has transferred its contractual rights to receive cash flows from the financial asset

or

• It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
• The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
• The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
• The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.
In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.
A transfer only qualifies for de-recognition if either:
• The Bank has transferred substantially all the risks and rewards of the asset
Or
• The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continued involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies(continued)

2.4.2 Financial instruments – initial recognition and subsequent measurement (continued)

2.4.2.4 De-recognition of financial assets (continued)

2.4.2.4.2 De-recognition other than for substantial modification (continued)

2.4.2.4.2.2 Financial liabilities

A financial liability is de-recognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

2.4.3 Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarized below.

- Level 1 financial instruments − Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- Level 2 financial instruments − Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- Level 3 financial instruments − Those that include one or more unobservable input that is significant to the measurement as whole.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralized financial instruments. The Bank estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts on itself. The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments, when necessary, based on the facts at the end of the reporting period.

2.4.4 Financial assets and liabilities

2.4.4.1 Due from banks, Loans and advances to customers, financial investments at amortized cost

The Bank measures Due from banks, Loans and advances to customers and other financial investments at amortized cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

2.4.4.1.1 Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.
• The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
• How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.
The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.4 Financial assets and liabilities (continued)

2.4.4.1.2. The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test. ‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).
The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.
In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.4.4.2 Derivatives recorded at fair value through profit or loss

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative cause some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument. Financial assets are classified based on the business model and SPPI assessments as outlined in Note 2.4.4.1.1 and 2.4.4.1.2.

2.4.4.3 *Financial instruments at FVPL*

The Bank classifies financial assets or financial liabilities at FVPL when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. FVPL assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established. Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

2.4.4.4 Debt instruments at FVOCI

The Bank classifies debt instruments at FVOCI when both of the following conditions are met:

• The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
• The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in Note 2.4.2. The ECL calculation for Debt instruments at FVOCI is explained in Note 2.4.6.3 Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On de-recognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

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Notes to the financial statement for the year ended 31 December 2021
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2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.4 Financial assets and liabilities (continued)

2.4.4.5 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.
The Bank has issued financial instruments with equity conversion rights. When establishing the accounting treatment for these non-derivative instruments, the Bank first establishes whether the instrument is a compound instrument and classifies such instrument’s components separately as financial liabilities, financial assets, or equity instruments in accordance with IAS 32. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercising the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to the equity and liability components, the equity component is assigned as the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. Once the Bank has determined the split between equity and liability, it further evaluates whether the liability component has embedded derivatives that must be separately accounted for (as outlined in Note 2.4.4.2). As of 31 December 2021, the Bank has not recognized debt issued and other borrowed funds.

2.4.4.6 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met.

Such designation is determined on an instrument-by-instrument basis:

• The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis,
or
• The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy,
or
• The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank’s own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate. As of 31 December 2020, the Bank has not recognized financial assets and liabilities at fair value through profit or loss.

2.4.4.7 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and an ECL allowance.

The premium received (if any) is recognized in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.5 Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

2.4.6 Impairment of financial assets

2.4.6.1 Overview of the ECL principles

The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 29.2.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

2.4.6.1 Overview of the ECL principles (continued)

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 29.2.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 29.2.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

• Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

• Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

• Stage 3: Loans considered credit-impaired. The bank records an allowance for the LTECLs.

• POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

2.4.6.2 The calculation of ECL

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

• PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de-recognized and is still in the portfolio.

• EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, collateral coverage and accrued interest from missed payments.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.6 Impairment of financial assets (continued)

2.4.6.2 The calculation of ECL (continued)

• LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, as set out in Note 2.4. It is usually expressed as a percentage of the EAD. The LGD values are based on cash recoveries without discriminating whether the exposure is secured or not secured. For the loan to customer portfolio the LGD values vary from 40% to 80% depending if they are secured through a residential property or commercial.

When estimating the ECLs, the Bank considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarized below:

• Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.
• Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
• Stage 3: For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
• Default: Any financial asset that is past due more than 90 days.
• POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.

2.4.6.3 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon de-recognition of the assets.

2.4.6.4 Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognizes the cumulative changes in LTECL since initial recognition in the loss allowance.

2.4.6.5 Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

GDP growth

• Unemployment rates

• Central Bank base rates

• House price indices

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 29.2.

(amounts in EUR '000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.6 Impairment of financial assets (continued)

2.4.6.6 Offsetting financial instruments

Financial assets and liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

2.4.7 Recognition of interest income and expenses

2.4.7.1 The effective interest rate method

Under both IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortized cost, interest rate derivatives for which hedge accounting is applied and the related amortization/recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortized cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognized at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

2.4.7.2 Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information. In its Interest income/expense calculated using the effective interest method.

In its Interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out in Note 2.4.7.1 above.

Other interest income/expense includes interest on all financial assets/liabilities measured at FVPL, other than those held for trading, using the contractual interest rate. Interest income/expense on all trading financial assets/liabilities is recognized as a part of the fair value change in Net trading income. The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired (and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures (and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI financial asset.

The Bank also holds investments in financial assets issued in countries with negative interest rates. The Bank discloses interest received on these financial assets as interest expense. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.8 Fee and commission income and expense

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed.

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

2.4.9 Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading. This is included in interest income line as Net trading income.

2.4.10 Net loss on financial assets and liabilities designated at fair value through profit or loss

Net loss on financial instruments at FVTPL represents non-trading derivatives held for risk management purposes used in economic hedge relationship but not qualifying for hedge accounting relationships, financial assets and financial liabilities designated as at FVTPL, also non-trading assets measured at FVTPL, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

2.4.11 Cash and cash equivalents

Cash and cash equivalents include banknotes and coins on hand, unrestricted balances held with Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

2.4.12 Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either debt securities at amortized cost, debt securities though other comprehensive income or debt securities at fair value through profit or loss (mandatory).

2.4.13 Property Plant and equipment and right-of-use assets

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent Cost

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a declining balance method over the estimated useful life of the assets, except for depreciation of property which is based on the straight-line method. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Depreciation methods, useful lives and residual values are reassessed at the reporting date. Right-of-use assets are depreciated on a straight-line basis over the lease term. The depreciation rates for the current and comparative periods are as follows:

Fixed Assets Category	Depreciation %
Buildings	10%
Electronic equipment	20%
Vehicles	20%
Furniture's, fittings and office equipment	20%
Leasehold improvements	10%

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.14 Intangible assets

(i) Software

Software acquired by the Bank is stated at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is recognized in profit or loss at 20% and 5% for intangible assets which have an indefinite duration based on the initial cost method from the date that it is available for use.

(ii) Licenses

Licenses and rights to use that are acquired by Bank are stated at cost less accumulated amortization and impairment losses, if any. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss when incurred. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the license 10 Years (10%) or 20 years (5%), from the date that it is available for use.

2.4.15 Impairment of non – financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2.4.16 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

2.4.17 Pension benefits

(i) Compulsory social security contributions

The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement. KPST authorities are responsible for providing the legally set minimum threshold for pensions under a defined contribution pension plan. The Bank's contributions to the benefit pension plan are charged to the profit or loss as incurred

(ii) Paid annual leave

The Bank recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange of the employee's service for the period completed.

2.4.18 Provisions for contingent liabilities and commitments

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

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognizes any impairment loss on the assets associated with that contract.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.19 Taxes

Income tax expense represents the sum of the tax currently payable.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Corporate tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years in accordance with the Kosovo tax legislation. Taxable income is calculated by adjusting the profit before taxes for certain income and expenses as required by law in the Republic of Kosovo.

(ii) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws in Albania that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

2.4.20 Repossessed properties

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations of the Bank are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

The Bank holds some repossessed properties that it has acquired through enforcement of collateral over loans and advances. The Bank measures these repossessed assets initially at their cost (purchase price). At the end of each reporting period, these assets are measured at the lowest of their cost or net realizable value. Gains and losses arising from changes in the net realizable value of these repossessed properties are included in profit or loss in the period in which they arise. These assets are derecognized upon disposal or when these are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the properties (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized, under the apllicable law in the Republic of Kosovo.

2.4.21 Deposits and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's chief sources of debt funding. When the Bank sells a financial asset and simultaneously enters into a "repo" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the Bank's Financial Statements.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period.

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.22 Dividends

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders.

For the year on 31 December 2021, the Bank has not declared any dividends payable to its shareholders.

2.4.23 Equity reserves

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

"General reserve" reserve which comprises changes made for legal and statutory reserve as determined in the Central Bank Law and Commercial Companies Law applicable in Kosovo and

"Revaluation reserve" which is used to record exchange differences arising from the revaluation of investment securities.

For the year ending 31 December 2021, the Bank has recorded "revaluation reserve" as a result of the securities investment portfolio.

2.4.24 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

2.4.25 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.
De-recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

2.4.26 *Leases*

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

Right-of-use assets

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

The right-of-use assets are presented within Note 17 Right-of-use assets and are subject to impairment in line with the Bank's policy as described in Note 2.4.15 Impairment of non-financial assets.

Lease liabilities

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

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.26 *Leases (continued*)

2.4.26.1 Bank as a lessor

Leases where the Bank transfers substantially all the risk and benefits of ownership of the asset are classified as finance leases. In the statement of financial position, the Bank presents the receivable amount equal to the net investment value. The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

The sales revenue recognized at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest.

3 Net Interest income

	Year ended 31.12.2021	Year ended 31.12.2020
Interest income calculated using the effective interest method		
Total interest income	229.05	0.00
Interest expense calculated using the effective interest method		
Restricted cash with Central Bank	(28.51)	(5.69)
Interest expense related to the lease (note 17)	(98.05)	(19.99)
Deposits from customers	(60.50)	-
Deposits from banks	(4.39)	-
Total interest expense	***(191.45)***	***(25.68)***
Net interest income / (expense)	**37.61**	**(25.68)**

Interest rates on term deposits vary depending on the maturity of the deposit. The annual interest rates on time deposits with customers at the end of the reporting period were as follows: • 2021 – max N/I 2.5%, min N/I 0.1% • 2020 – max N/I 0.1%, min N/I 0.0%

4 Net Fee and commission income and expense

	Year ended 31.12.2021	Year ended 31.12.2020
Fee and commission income		
Banking customer fees	24.45	0.10
Fee and commissions from lending services	21.03	0.03
Total fee and commission income	***45.48***	***0.13***
Fee and commission expense		
Inter bank transaction fees	(26.41)	(0.01)
Other	(10.08)	(0.07)
Total fee and commission expense	***(36.49)***	***(0.08)***
Net fee and commission income	**8.99**	**0.05**

5 Net gains/(losses) on financial assets and liabilities at FV

	Year ended 31.12.2021	Year ended 31.12.2020
Premium amortized	(0.49)	-
Interest income of Government bonds	77.75	-
Deferred discount	2.31	-
Net gains/(losses) on financial assets and liabilities at FV	***79.57***	**-**

6 Foreign exchange gains/(losses)

	Year ended 31.12.2021	Year ended 31.12.2020
From Investments in Foreign Entities	-	-
From Other Items in Foreign Currency	3.50	-
Net Foreign exchange gains/(losses)	***3.50***	**-**

6.1 Net other income

	Year ended 31.12.2021	Year ended 31.12.2020
Other expenses	36.06	40.43
Other income	-	-
Net other income	**36.06**	**40.43**

Other expenses related to banking activity for the year ended as at 31 December 2021 include expenses for licenses purchased during 2021.

7 Credit losses on financial assets, net

	Year ended 31.12.2021	Year ended 31/12/2020
Charges for ECL on loans and advances to banks	(0.41)	-
Charges for ECL on off balance sheet item	(9.28)	-
Charges for ECL on loans and advances to customer	(241.50)	(0.05)
Total	***(251.19)***	***(0.05)***

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Notes to the financial statement for the year ended 31 December 2021
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8 Personnel expenses

	Year ended 31.12.2021	Year ended 31.12.2020
Remuneration of Executive and Supervision Boards	79.92	26.26
Remuneration of Employees	349.05	43.41
Mandatory Social Charges	4.58	8.12
Other Staff Costs	0.32	1.21
Total	***433.87***	***79.00***

9 General and administrative expenses

	Year ended 31.12.2021	Year ended 31.12.2020
General administrative expenses	182.20	-
Other tariffs	165.15	13.86
Other Sundry Supplies & Services	75.66	3.13
Security	49.67	16.22
Outsourcing, Consultancy & Specialized Work	32.43	0.83
Electricity & Water	28.91	6.30
Communications	19.13	5.26
Advertising & Marketing	18.49	0.02
Insurance and surveillance	7.24	26.38
Cleaning And Hygiene	1.49	9.23
Transportation	0.15	0.59
Lawyers And Other Legal Assistance	0.10	0.65
	580.62	***82.47***

General administrative include software maintenance for licenses less than one year. Other tariffs include mainly the amortisation of annual licenses paid to Mastercard, VISA or CBK as well as other tariffs payable by the Bank. Insurance and surveillance include the payment of the initial premium paid to the Deposit Insurance Fund as per the applicable law. Safety includes the contracts for the safety of the Banks premises. Other Sundry supplies and services has increased as a result of the increase of the banking activity and as a result of anti-COVID measures.

10 Income tax expense

		Year ended 31.12.2021	Year ended 31.12.2020
Current tax		-	(0.04)
Deferred tax expense / (benefit)	10%	-	
Reversal deferred tax of the prior year		-	-
Income tax expense		***-***	***(0.04)***

Impairment costs recognized by the Bank in accordance with IFRSs are considered as a deductible expense for tax purposes, provided that they are certified by an external auditor and do not exceed the limits set by the Central Bank. In accordance with the tax legislation in Kosovo, the applicable corporate income tax rate for the year ended 31 December 2021 and 2020 is 10%. The period for transferring tax losses in accordance with the Law on Taxation in Kosovo is four years. For the year 2021, the Bank is at a loss, it has paid through tax returns the tax liability under applicable law taking into account that has not realized income as per the minimum threshold according to tax law.

Tax returns are submitted annually to the Tax Authorities but the declared profits or losses for fiscal purposes are considered provisional until the tax returns and tax calculations are inspected by the tax authorities and a final assessment is issued. Kosovo tax legislation is subject to interpretation by the tax authorities.

11 Cash and deposits at central bank and Deposits in banks

	31 December 2021	31 December 2020
Current accounts with banks	1,133.11	-
Allowance for ECL for balances with banks	(0.41)	-
Cash on hand	1,456.52	148.74
Unrestricted balances with Central bank	2,247.32	7,662.75
	4,836.54	**7,811.49**

11 Cash and deposits at central bank and Deposits in banks (continued)

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

				31.12.2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance 1.1.2021	-	-	-	-
Balance at 1 January IFRS 9	-	-	-	-
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-		-
New financial assets originated or purchased	1,133.11	-	-	1,133.11
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31.12.2021	1,133.11	-	-	1,133.11

				31.12.2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance 1.1.2021	-	-	-	-
Balance at 1 January IFRS 9	-	-	-	-
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-		-
New financial assets originated or purchased	0.41	-	-	0.41
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31.12.2021	0.41	-	-	0.41

12 Restricted balances with Central Bank

	31 December 2021	31 December 2020
Restricted balances with Central Bank	880.00	223.95
Negative interest for balances with Central Bank	*(0.73)*	*(3.97)*
Balances with Central Bank, net	**879.27**	**219.98**

In accordance with the requirements of the Central Bank regarding the deposit reserve for liquidity purposes, the Bank must maintain a minimum of 10% of customer deposits with a maturity of up to one year, in the Central Bank as a reserve account. Mandatory reserves represent instruments with high liquidity, including cash, accounts with the CBK, or with other banks in Kosovo, and the amounts held with the CBK shall not be less than half of the total reserves. The assets with which the Bank can meet its liquidity requirements are Euro deposits with the CBK and 50% of the Euro equivalent of cash in easily convertible currencies. Deposits with the CBK should not be less than 5% of the applicable deposit base.
The reserve expressed in euro represents an interest rate that is equal to the deposit rate announced by the European Central Bank which on 31 December 2021 was (0.7%). The Central Bank does not calculate any interest on the mandatory reserve.

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13 Financial assets measured at FVOCI

Investment securities held for trading as at 31 December 2021 and 31 December 2020 are as follows:

	31.12.2021	31.12.2020
Government bonds	4,921.54	-
	4,921.54	**-**

As of 31 December 2021, the Bank had a portfolio of government bonds 3Y, 5Y, 7Y and 10Y expressed in local currency (EUR). Interest is received semi-annually with a coupon rate 1.1%-1.3% (3Y), 2%-2.2% (5Y), 2.9%-3.2% (7Y) and 3.85% (10Y).

Details of the government bonds as of 31 December 2021 and 31 December 2020 by maturity, book value and fair value as at the reporting date are as below:

Government bonds

	31 December 2021						
	Nominal value	**Premium to be amortized**	**Deferred discount**	**Accrued interest**	**Amortized cost**	**Revaluation difference**	**Fair value**
36 months	760.00	-	(1.88)	2.49	760.61	2.77	763.38
60 months	500.00	-	(0.52)	3.61	503.09	9.17	512.26
84 months	1,600.00	3.22	(5.85)	13.92	1,611.29	35.41	1,646.70
120 months	1,950.00	4.67	(20.32)	22.18	1,956.53	42.67	1,999.20
	4,810.00	***7.89***	***(28.57)***	***42.20***	***4,831.52***	***90.02***	***4,921.54***

Government bonds

	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
AAA		-	-	0
AA+ to AA-	-	-	-	-
A+ to A-	-	-	-	-
BBB+ to BBB-	-	-	-	-
Lower than BBB-	-	-	-	-
Unrated	4,921.54	-	-	4,921.54
Exposure before impairment	4,921.54	-	-	4,921.54
Loss allowance	-	-	-	-
Carrying amount	**4,921.54**	**-**	**-**	**4,921.54**

(amounts in EUR '000, unless otherwise stated)

13 Financial assets measured at FVOCI (continued)

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

	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January under IFRS 9 (note 2.5)	**0**	**-**	**-**	**0**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	4,921.54	-	-	4,921.54
De-recognition of financial assets		-	-	-
Change in fair value	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31.12.2021	**4,921.54**	**-**	**-**	**4,921.54**

	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January under IFRS 9 (note 2.5)	**0**	**-**	**-**	**0**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	0.00	-	-	0.00
De-recognition of financial assets		-	-	0
Change in fair value	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31.12.2021	**0.00**	**-**	**-**	**0.00**

14 Loans and advances to customers

Loans and advances to customers consist of the following:

	31 December 2021	**31 December 2020**
Loans and advances to customers consisted of the following:		
Loans and advances to customers at amortized cost	11,008.16	5.96
Allowances for ECL	(241.55)	(0.05)
Loans and advances to customers, net	**10,766.61**	**5.91**

Loans and advances to customers by product classification are presented as follows:

	31 December 2021	**31 December 2020**
Corporate lending	3,352.31	3.96
Mortgage lending	859.08	0.00
Private individuals lending	449.56	2.00
Other secured lending	6,347.21	0.00
Total gross	**11,008.16**	***5.96***
Allowances for ECL	(241.55)	(0.05)
	10,766.61	**5.91**

14 Loans and advances to customers (continued)

Movements in the allowance provision is presented below:

	Year ended 31 December 2021	**Year ended 31 December 2020**
At the beginning of the year	**(0.05)**	**-**
Allowance for ECL (note 7)	(267.40)	(0.05)
Recovery of provisions(note 7)	25.90	
Writte offs	-	-
Effect of foreign currency movements	-	-
At the end of the year	**(241.55)**	**(0.05)**

	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January under IFRS 9 (note 2.5)	**5.97**	**-**	**-**	**5.97**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	(44,69)	44.69	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	12,254.24	-	-	**12,254.24**
De-recognition of financial assets	(1,252.05)	-	-	**(1,252.05)**
Change in fair value	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31.12.2021	**11,008.16**	**(44.69)**	**44.69**	**11,008.16**

	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January under IFRS 9 (note 2.5)	**0.05**	**-**	**-**	**0.05**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	(32.55)	32.55	
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	266.54	-	-	**266.54**
De-recognition of financial assets	(25.04)	-	-	**(25.04)**
Change in fair value	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31.12.2021	**241.55**	**(32.55)**	**32.55**	**241.55**

(amounts in EUR '000, unless otherwise stated)

14 Loans and advances to customers (continued)

The tables below show an analysis of changes in gross carrying amount and the corresponding allowance for ECL for each of the above categories:

	31 December 2021								
Gross carrying amount	**Stage 1**		**Stage 2**		**Stage 3**		**POCI**		**Total**
	Non Past Due	**Past due**	**Non Past Due**	**Past due**	**Non Past Due**	**Past due**	**Non Past Due**	**Past due**	
Retail lending	**1,308.65**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,308.65**
Mortgage	859.09	-	-	-	-	-	-	-	859.09
Consumer	449.56	-	-	-	-	-	-	-	449.56
Other	-	-	-	-	-	-	-	-	-
Corporate lending	**9,654.82**	**-**	**-**	**-**	**-**	**44.69**	**-**	**-**	**9,699.51**
Large	3,352.32	-	-	-	-	-	-	-	3,352.32
SME's	6,302.52	-	-	-	-	44.69	-	-	6,347.21
Public sector									
Total	**10,963.47**	**-**	**-**	**-**	**-**	**44.69**	**-**	**-**	**11,008.16**

ECL allowance	**Stage 1**		**Stage 2**		**Stage 3**		**POCI**		**Total**
	Non Past Due	**Past due**	**Non Past Due**	**Past due**	**Non Past Due**	**Past due**	**Non Past Due**	**Past due**	
Retail lending	**9.21**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9.21**
Mortgage	7.79	-	-	-	-	-	-	-	7.79
Consumer	1.42	-	-	-	-	-	-	-	1.42
Other	-	-	-	-	-	-	-	-	-
Corporate lending	**199.79**	**-**	**-**	**-**	**-**	**32.55**	**-**	**-**	**232.34**
Large	65.93	-	-	-	-	-	-	-	65.93
SME's	133.86	-	-	-	-	32.55	-	-	166.41
Public sector									
Total	209.00	-	-	-	-	32.55	-	-	241.55
Net carrying amount	**10,754.47**	**-**	**-**	**-**	**-**	**12.14**	**-**	**-**	**10,766.61**

14 Loans and advances to customers (continued)

The tables below show an analysis of changes in gross carrying amount and the corresponding allowance for ECL for each of the above categories:

	31 December 2020								
Gross carrying amount	**Stage 1**		**Stage 2**		**Stage 3**		**POCI**		**Total**
	Non Past Due	**Past due**	**Non Past Due**	**Past due**	**Non Past Due**	**Past due**	**Non Past Due**	**Past due**	
Retail lending	**2.01**						**-**	**-**	**2.01**
Mortgage	-	-	-	-	-	-	-	-	-
Consumer	2.01						-	-	2.01
Other (incl. SBL)	-	-	-	-	-	-	-	-	-
Corporate lending	**3.96**						**-**	**-**	**3.96**
Large	3.96						-	-	3.96
SME's	-	-	-	-	-	-	-	-	-
Public sector	-	-	-	-	-	-	-	-	-
Total	**5.97**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5.97**

ECL allowance	**Stage 1**		**Stage 2**		**Stage 3**		**POCI**		**Total**
	Non Past Due	**Past due**	**Non Past Due**	**Past due**	**Non Past Due**	**Past due**	**Non Past Due**	**Past due**	
Retail lending	**0.01**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.01**
Mortgage	-	-	-	-	-	-	-	-	-
Consumer	0.01	-	-	-	-	-	-	-	0.01
Other (incl. SBL)	-	-	-	-	-	-	-	-	-
Corporate lending	**0.04**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.04**
Large	0.04	-	-	-	-	-	-	-	0.04
SME's	-	-	-	-	-	-	-	-	-
Public sector	-	-	-	-	-	-	-	-	-
Total	**0.05**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.05**
Net carrying amount	**5.91**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5.91**

(amounts in EUR '000, unless otherwise stated)

15 Property and equipment

	Buildings	Electronic and office equipment	Vehicles, Furniture & Fittings	Leasehold improvements	Work in process	Total
Cost						
Balance at 17 March 2020	**0**	**0**	**0**	**0**	**0**	**0**
Additions	0	367.51	156.59	808.33	773.93	**2,106.36**
Balance at 31 December 2020	**0**	**367.51**	**156.59**	**808.33**	**773.93**	**2,106.36**
Additions		115.33	20.82	181.39	619.51	**937.05**
Transfers		112.43	276.86	408.4	-797.69	**0**
Disposals		(0.07)	(1.29)	-	-	**(1.36)**
Balance at 31 December 2021	**0**	**595.2**	**452.98**	**1,398.12**	**595.75**	**3,042.05**
Depreciation						
Balance at 17 March 2020	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Depreciation for the period	0.00	(15.29)	(5.56)	(15.57)	0.00	(36.42)
Balance at 31 December 2020	**0.00**	**(15.29)**	**(5.56)**	**(15.57)**	**0.00**	**(36.42)**
Depreciation for the period		(107.52)	(77.57)	(123.45)		(308.54)
Balance at 31 December 2021	**0.00**	**(122.81)**	**(83.13)**	**(139.02)**	**0.00**	**(344.96)**
Net Book Value						
Balance at 17 March 2020	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Balance at 31 December 2020	**0.00**	**352.22**	**151.03**	**792.76**	**773.94**	**2,069.95**
Balance at 31 December 2021	**0.00**	**472.39**	**369.85**	**1,259.10**	**595.75**	**2,697.09**

As at 31 December 2021, work in progress consist of payments made towards suppliers for purchase of assets or services that contribute to the investment in the Credins Bank Kosovë branch in Gjakovë that has started operation in February 2022.

As at 31 December 2021 there are no property and equipment encumbered of pledged to secure bank liabilities.

16 Intangible assets

Cost	**Software**	**Patents and licenses**	**Total**
Balance at 31 December 2020	-	-	-
Additions	463.86	44.25	**508.11**
Transfers			
Balance at 31 December 2021	**463.86**	**44.25**	**508.11**
Amortization			
Balance at 31 December 2020	-		
Amortization charge for the year	(7.56)	(0.58)	**(8.14)**
Balance at 31 December 2021	**(7.56)**	**(0.58)**	**(8.14)**
Carrying amounts			
Balance at 31 December 2021	**456.30**	**43.67**	**499.97**

17 Right-of-use assets

Bank as a lessee
The Bank has lease contracts for various buildings that it uses for the branches' operations. Leases of the premises generally have lease terms between 5 and 20 years. The Bank's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Bank is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options, which are further discussed below.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	31 December 2021	**31 December 2020**
Cost		
Balance as at 1 January	1,647.76	-
Effect of adoption of IFRS 16	339.92	1,647.76
Balance at 31 December	**1,987.68**	**1,647.76**
Amortization		
Balance at 1 January	(47.07)	-
Depreciation charge for the year	(180.35)	(47.07)
Balance at 31 December	**(227.42)**	**(47.07)**
Net Book Value		
Balance at 31 December	**1,760.26**	**1,600.69**

The following are the amounts recognized in profit or loss:

	31 December 2021	**31 December 2020**
Depreciation expense of right-of-use assets	(180.35)	(47.07)
Interest expense on lease liabilities (note 3)	(98.05)	(19.99)
Total amount recognized in profit or loss	**(278.40)**	**(67.06)**

18 Other assets

	31 December 2021	**31 December 2020**
Debtors	0.55	0.01
Inventory warehouse	4.03	5.71
Deferred expenses	152.59	0.00
Prepaid expenses	2.57	82.47
Total	**159.74**	**88.19**

Other debtors include commission liabilities for negative client accounts, which will be settled in the beginning of 2022. Inventory include all purchases in the warehouse which are not yet in use, which will be used for the new branches in Fushe kosove and Gjakove for the year 2022. Deferred expenses include all expenses for the new branches which will start operating in 2022 as the result of contract with the supplier.

19 Due to banks and other financial institutions

	31 December 2021	**31 December 2020**
Due to Banks	2,000.00	-
Accrued interest	1.94	-
	2,001.94	**-**

Due to banks include two deposits placed from Credins bank Albania with maturity 1 year and negative rate 0.7%.

(amounts in EUR '000, unless otherwise stated)

20 Due to customers

	31 December 2021	31 December 2020
Private individuals	1,362.17	203.64
Sovereign governments	-	36.70
Corporate	12,153.52	0.05
Other customers	32.49	-
	13,548.18	**240.39**

The table below shows due to customers by currency are detailed as follows:

	31 December 2021	31 December 2020
Current accounts		
Local currency	4,917.92	240.37
Foreign currency	5.55	0.01
Saving accounts		
Local currency	831.60	0.01
Foreign currency	98.34	-
Term deposits		
Local currency	7,681.12	-
Foreign currency	13.65	-
Other customers accounts		
Local currency	-	-
Foreign currency	-	-
Total	**13,548.18**	**240.39**

21 Deferred tax liabilities

	31 December 2021	31 December 2020
Revaluation difference Government bonds	90.02	-
Deferred tax liabilities 10%	9	-
Net liabilities for deferred tax	**81.02**	-

Deferred tax assets are recorded at gross value. The deferred tax liability or asset arises from the revaluation of instruments for which fair value fluctuations are recorded in the revaluation reserve in equity, through the statement of comprehensive income.

22 Provisions

	31 December 2021	31 December 2020
ECL for off balance sheet items individual	0.01	-
ECL for off balance sheet items Private entities	9.27	-
Total	**9.28**	-

23 Lease liability

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	31 December 2021	31 December 2020
As at 1 January	**1,605.66**	**0.00**
Additions	339.92	1,647.76
Payments	(237.70)	(62.09)
Total	**1,707.88**	**1,585.67**
Accretion of interest	98.05	19.99
Balance as at 31 December	**1,805.93**	**1,605.66**

23 Lease liability (continued)

Minimal lease payments related to lease contracts for buildings of the branches' operations are analysed as follows:

	Minimal lease payments						
31 December 2021	**Within 1 year**	**1-2 year**	**2-3 year**	**3-4 year**	**4 - 5 year**	**After 5 years**	**Total**
Lease payments	262.85	262.85	262.85	262.84	262.84	1,005.11	2,319.34
Finance charges	(101.87)	(92.14)	(81.83)	(70.89)	(59.28)	(107.40)	(513.41)
Total	**160.98**	**170.70**	**181.02**	**191.96**	**203.56**	**897.72**	**1,805.93**

31 December 2020	**within the year**	**1-2 years**	**1-3 years**	**3-4 years**	**4-5 years**	**After 5 years**	**Total**
Lease payments	217.35	217.35	217.35	217.35	217.34	1,024.38	2,111.12
Finance charges	(91.02)	(83.38)	(75.29)	(66.71)	(57.60)	(131.46)	(505.46)
Total	**126.33**	**133.96**	**142.06**	**150.64**	**159.74**	**892.93**	**1,605.66**

24 Other liabilities

Other liabilities are comprised of the following:

	31 December 2021	31 December 2020
Payment in favor of Banka Credins Albania	-	2,156.30
Taxes - Payable	31.26	10.88
Other Payble Creditors	140.42	94.09
Total	**171.68**	**2,261.27**

Liabilities to Credins Bank Albania are paid during the financial year 2021. Tax liabilities are liabilities incurred for withholding tax of December 2021 which are paid in January 2022. Other liabilities include liabilities to suppliers which are paid in January year 2022.

25 Shareholders Capital

In accordance with Law no. 04 / L-093 on "Banks, Microfinance Institutions and Non-Bank Financial Institutions", the minimum share capital for banks operating in Kosovo must be 7 million Euro.

The bank's shareholders capital consists of 10,651,628 (ten-million-six hundred and fifty ne thousand six hundred and twenty-eight) Euros (2020: 8,000,000 euro). The share capital consists of 10,651,628 shares with a nominal value of 1 (one) Euro per share (2020: 8,000,000). The share capital is 75.11% owned by Credins JSC Bank in Albania, which constitutes the share capital. During 2021, three other shareholders were added, where A.F.C occupies the largest share of 17.39% of the total number of shares of the bank.

The shareholders of the Bank and the respective shares held by them are as follows:

	31 December 2021 (%)	31 December 2020 (%)
Credins Bank Albania	75.11%	100.00%
A.F.C	17.39%	0.00%
Other	7.51%	0.00%
Total	**100.00%**	**100.00%**

Reconciliation of the paid capital for the beginning and end of the period is as below:

	Number of shares		Amount in EUR	
	31-Dec-21	**31-Dec-20**	**31-Dec-21**	**31-Dec-20**
As at 1 January	8,000,000	-	8,000.00	-
Increase	2,651,628	8,000,000	2,651.63	8,000.00
As at 31 December	**10,651,628**	**8,000,000**	**10,651.63**	**8,000.00**

The capital amount per 10,651,628 shares was signed and registered with the Kosovo Business Registration Agency (KBRA). The Bank's shares have a nominal value and are indivisible. Each share entitles its holder to one vote. The shareholder's capital is fully paid as at 31 December 2021.

(amounts in EUR '000, unless otherwise stated)

26 Maturity analysis of assets and liabilities

31 December 2021	< 12 months	> 12 months	Total
Assets			
Cash and deposits at central banks	3,703.43	-	3,703.43
Deposits in banks	1,133.11	-	1,133.11
Restricted balances with Central Bank	879.27	-	879.27
Financial assets designated at FVOCI	141.05	4,780.49	4,921.54
Loans and advances to clients	1,819.36	8,947.25	10,766.61
Property and equipment	595.75	2,101.34	2,697.09
Intangible assets	-	499.97	499.97
Right-of-use assets	199.48	1,560.78	1,760.26
Other assets	157.19	2.55	159.74
Total assets	**8,628.64**	**17,892.38**	**26,521.02**
Liabilities			
Due to banks and other financial institutions	2,001.94	-	2,001.94
Due to customers	8,312.28	5,235.90	13,548.18
Deferred tax liabilities	9.00	0	9.00
Provisions	9.28	0	9.28
Lease	160.98	1,644.95	1,805.93
Other liabilities	113.56	58.12	171.68
Total liabilities	**10,607.04**	**6,938.97**	**17,546.01**
Net	**(1,978.40)**	**10,953.41**	**8,975.01**

31 December 2020	< 12 months	> 12 months	Total
Assets			
Cash and cash equivalent	7,811.49	0.00	7,811.49
Restricted balances with Central Bank	219.98	0.00	219.98
Loans and advances to customers	5.91	0.00	5.91
Property and equipment	2.86	2,067.09	2,069.95
Prepaid expenses	82.47	0.00	82.47
Right-of-use assets	164.80	1,435.89	1,600.69
Other assets	5.72	0.00	5.72
Total assets	**8,293.22**	**3,502.98**	**11,796.20**
Liabilities			
Due to customers	240.39	0.00	240.39
Lease liability	126.33	1,479.33	1,605.66
Other liabilities	2,261.27	0.00	2,261.27
Total liabilities	**2,627.99**	**1,479.33**	**4,107.32**
Net	**5,665.24**	**2,023.65**	**7,688.89**

Expected maturity dates do not differ significantly from the contract dates, except for:

- Retail deposits, which are included within Due to customers, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers, and are renewable at the end of their contractual term.

27 Contingent liabilities and commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities.

Lease commitments – Bank as lessee

The Bank has leased offices in Prishtina and Ferizaj, Prizren for a period of 10 years. It is also awaiting the opening of the Fushekosovo, Gjakova, Peja branch and another branch in Prishtina for 2022. A detailed information regarding the changes that occurred according to the requirements of IFRS 16. These future commitments for the year ended 31 December 2021:

	Year ended 31 December 2021	Year ended 31 December 2020
Not later than 1 year	0	0.00
Later than 1 year and not later than 5 years	0	0.00
Later than 5 years	1,805.93	1,600.69
Total	**1,805.93**	**1,600.69**

Litigation and claims

Until December 31, 2021, the Bank is subject to claims and lawsuits only with one client which are considered of a normal nature for its activity. The Bank's management is of the opinion that the final cost of resolving these issues will not have a material effect on the Bank's financial position, results of operations or cash flows.

Litigation is a common occurrence in the banking industry due to the nature of the Bank's business. The Bank has formal controls and policies for managing these matters. Once professional advice has been obtained and the amount of the loss has been determined, the Bank makes the necessary adjustments to take into account the adverse effects that these matters may have on its financial position. At the end of the year, the Bank had no outstanding court cases without adverse effects, consequently, no provision other than that included in note 22 was recorded.

Capital commitments

As at 31 December 2021, the Bank has capital commitments with different suppliers for the production of office equipments as well as safety equipments for its branches in Gjakove and Fushe kosove. These contracts are to be finalized during 2022.

28 Related party disclosures

In the following tables, the Bank presents the relationships that existed between the Bank and its related parties, the nature of the transactions, outstanding amounts and expenses and/or income recognized as at 31 December 2021 and 2020.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director (whether executive or otherwise) of the Bank. Persons or entities that are related to the Bank, by being either a person or close member of that person's family to the Bank, by having control or joint control by a person or close member of that person's family, or by having significant influence over the entity, are presented as other related parties.

Related party transactions

	31 December 2021	
Transaction	**Parent**	**Other related parties**
Assets	126,63	-
Liabilities	2,102.74	-
Income	0.11	-
Expenses	1.94	-

	31 December 2020	
Transaction	**Parent**	**Other related parties**
Assets	-	-
Liabilities	2,156.30	-
Income	-	-
Expenses	-	-

	Interest rates (in %)	Interest rates (in %)
Type of transaction	**31 December 2021**	**31 December 2020**
Current account	-	-
Deposits	-0.70%	0.00%
Loans	5.50%	0.00%

(amounts in EUR '000, unless otherwise stated)

In addition, the key management personnel remuneration has been as follows, with no other benefits to disclose as at 31 December 2021:

	Salaries	Bonuses
Year ended 31 December 2021		
Key management remuneration	121.31	0
Board of Directors remuneration	19.92	0

	Salaries	Bonuses
Year ended 31 December 2020		
Key management remuneration	21.87	0.00
Board of Directors remuneration	16.25	0.00

29 Risk management

29.1 Introduction and overview

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

- credit risk
- liquidity risk
- market risk
- operational risks.

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight and control of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO) and the Credit Committee, which are responsible for developing and monitoring Bank risk management policies in specified areas up to predetermined limits of exposure.

The risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Since the past year, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening.

The government has taken measures to implement the Economic Recovery Program for 2021, increase the coverage of new loans and facilitate access to finance. The government has begun to carry out its mission to the fullest extent possible in facilitating access to finance for those in sectors with difficult access to finance, facilitating access to banking finance, especially for those who have difficulty securing it independently. CBK regulatory measures for the treatment of loans guaranteed by KCGF as risk-free assets for banks, represent a very important relief in terms of regulatory capital requirements to banks, as well as the coverage of the guarantee fee by the Government of Kosovo, which is considered to reflect more favourable conditions by lending institutions for guaranteed loans. Banks have coped well with the recession so far, relying on high levels of liquidity and initial capital Covid-19 pandemic, which have contributed to maintaining the stability of the financial system. The reforms implemented by the Central Bank of the Republic of Kosovo in previous years, which focused on strengthening financial security and the banking supervisory framework, helped alleviate the pressures from the pandemic. In order to maintain sound levels of capital within the banking system and to support Kosovo's economy through lending, the CBK has decided to suspend the distribution of dividends by banks for 2020. The CBK has published the loan-restructuring guide in order to establish the criteria on which the loan restructuring process should be based for borrowers who have encountered financial difficulties because of the pandemic. The Credit Restructuring Guide has made it possible to ease the credit burden on borrowers without implicating any deterioration in their classification in the Kosovo credit register. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank measures, remain difficult to determine in time. It is not possible to reliably assess the duration and severity of these consequences, as well as their impact on the Bank's financial position and results for future periods. The Audit Committee is supported by the Bank's internal audit to perform its functions. Internal control regularly and 'ad-hoc' monitors risk management policies and procedures, and reports the results of observations to the Audit Committee.

29 Risk management (continued)

29.2 Credit risk

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

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committees for all credit exposures within 5% of the Bank's regulatory capital. The Board of Directors in cooperation with the Credit Committee is responsible for oversight of the Bank's credit risk, including: formulating credit policies, covering collateral requirements, credit assessment, documentary and legal procedures, compliance with regulatory and statutory requirements, establishing the authorization structure for the approval and renewal of credit facilities.

Authorization limits are allocated to Risk Division Credit Committees. Larger facilities require approval by Senior Credit Committee, with the involvement of the High Management level or the Board of Directors as appropriate. Credit decision-making Authorities assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

Developing and maintaining the Bank's risk classifications in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk-grading framework consists of five grades in accordance with the Central Bank of Kosovo, reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approval by Credit Committee and these grades are subject to regular monthly reviews. The Bank's Credit Committee regularly receives and reviews credit quality reports and takes appropriate corrective action. Each business unit must implement the Bank's credit risk management policies and procedures authorized by the Credit Committee. Each business unit / branch is responsible for the quality and performance of its loan portfolio, including those with central approval.

By the end of 2022, the Bank expects an increase in its loan portfolio despite the economic downturn. Following the emergence of the COVID-19 pandemic emergency, the Bank is analysing macroeconomic changes and will reflect these changes in the Stress Tests used to describe the impact of COVID-19 on the calculation of Expected Credit Losses (note 2.4.6.2).

(amounts in EUR '000, unless otherwise stated)

29 Risk management (continued)

29.2 Credit risk (continued)

Regular audits of business units and Bank Credit processes are undertaken by Internal Audit. Based on the Bank's internal rating policy, the portfolio rating as at 31 December 2020 is as follows:

Bank's Credit Rating	31 December 2021	% to Total Gross	31 December 2020	% to Total Gross
A+	0.00	0.00%	0.00	0.00%
A	1,856.54	16.87%	0.00	0.00%
A-	4,102.13	37.26%	0.00	0.00%
B+	2,661.13	24.17%	0.00	0.00%
B	126.03	1.14%	0.00	0.00%
B-	0.00	0.00%	0.00	0.00%
C+	0.00	0.00%	0.00	0.00%
C	0.00	0.00%	0.00	0.00%
C-	0.00	0.00%	0.00	0.00%
D+	0.00	0.00%	0.00	0.00%
D	0.00	0.00%	0.00	0.00%
E+	0.00	0.00%	0.00	0.00%
E	0.00	0.00%	0.00	0.00%
E-	0.00	0.00%	0.00	0.00%
Loans with a credit rating	**8,745.83**	**79.45%**	**0.00**	**0.00%**
Loans with no rating	2,262.33	20.55%	5.96	100.00%
Loans with credit score	0.00	0.00%	0.00	0.00%
Total Gross Loan portfolio	**11,008.16**	**100.00%**	**5.96**	**100.00%**

The table below shows the credit quality by class of asset for loans and advances to customers to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowances.

	31 December 2021		31 December 2020	
Credit ranking by Bank	**Default rates in %**	**Total**	**Default rates in %**	**Total**
High rank		**5,958.67**		**0.00**
Risk rating class 1	0.00%	0.00	0.00%	0.00
Risk rating class 2	0.00%	1,856.54	0.00%	0.00
Risk rating class 3	0.00%	4,102.13	0.00%	0.00
Standard rank		**2,787.16**		**0.00**
Risk rating class 4	0.00%	2,661.13	0.00%	0.00
Risk rating class 5	0.00%	126.03	0.00%	0.00
Sub–standard grade		**0**		**0.00**
Risk rating class 6 and lower	0.00%	0	0.00%	0.00
No rating	**1.98%**	**2,262.33**	**100.00%**	**5.96**
Total		**11,008.16**		**5.96**

The classification of the internal rating is in accordance with the Bank's procedures regarding the different segments of the client. In the high grade class are included the valuations for the commercial clients (A+,A,A-) and the valuations for individuals and micro (classes 1,2). For the standard grade are included the valuations for the commercial clients (B+,B) and the valuations for individuals and micro (classes 3,4,5). And in the sub-standard grade are included the valuations for the commercial clients (B- and lower) the valuations for individuals and micro (classes 6,7).

29 Risk management (continued)

29.2 Credit risk (continued)

Exposure to credit risk

	Gross maximum exposure 31 December 2021	Gross maximum exposure 31 December 2020
Cash and deposits at central bank (excluding cash on hand)	2,246.59	7,662.65
Restricted balances with Central Bank	880.00	219.98
Deposits in banks	1,133.11	
Loans and advances to customers (gross)	11,008.16	5.96
Financial assets designated at fair value	4,921.54	
Other assets	3.11	0.01
Total	**20,192.51**	**7,888.60**
Unsecured lending commitments	1,302.00	
Total Credit related commitments	**1,302.00**	0.00
Total Credit Risk Exposure	**21,494.51**	**7,888.60**

As at 31 December 2021, the Bank does not have past due and not impaired exposures for loans and advances to customers.

29 Risk management (continued)

29.2 Credit Risk (continued)

Exposure to credit risk (continued)

The table below shows the credit quality for loans and advances to customers for the year as at 31 December 2021, based on the Bank's internal credit rating system. The amounts presented are gross of ECL allowances.

31 December 2021	Neither past due nor impaired Investment grade	Standard grade	Substandard grade	Without rating	Past due but not impaired	Individually impaired	Total
Corporate lending	3,352.31	0.00	0.00	0.00	0.00	0.00	**3,352.31**
Small business lending	2,606.38	2,787.16	0.00	908.98	0.00	44.69	**6,347.21**
Consumer lending	0.00	0.00	0.00	449.56	0.00	0.00	**449.56**
Residential mortgage	0.00	0.00	0.00	859.08	0.00	0.00	**859.08**
Total	**5,958.69**	**2,787.16**	**0.00**	**2,217.62**	**0.00**	**44.69**	**11,008.16**
Allowance for ECL of loans	(122.08)	(58.79)	0.00	(28.13)	0.00	(32.55)	(241.55)
Loan exposure, net of allowances	**5,836.61**	**2,728.37**	**0.00**	**2,189.49**	**0.00**	**12.14**	**10,766.61**

31 December 2020	Neither past due nor impaired Investment grade	Standard grade	Substandard grade	Without rating	Past due but not impaired	Individually impaired	Total
Corporate lending	0.00	0.00	0.00	3.96	0.00	0.00	**3.96**
Small business lending	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
Consumer lending	0.00	0.00	0.00	2.00	0.00	0.00	**2.00**
Residential mortgage	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
Total	**0.00**	**0.00**	**0.00**	**5.96**	**0.00**	**0.00**	**5.96**
Allowance for ECL of loans	0.00	0.00	0.00	0.05	0.00	0.00	0.05
Loan exposure, net of allowances	**0.00**	**0.00**	**0.00**	**5.91**	**0.00**	**0.00**	**5.91**

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Notes to the financial statements for the year ended 31 December 2021
(amounts in Eur'000, unless otherwise stated)

29 Risk management (continued)

29.2 Credit risk (continued)

Exposure to credit risk (continued)

The following tables set out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed. Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 2.4.6.1.

	Stage 1	Stage 2	Stage 3	31 December 2021 Total
Current accounts with banks				
Low- fair risk	1,133.52	0.00	0.00	1,133.52
Less: allowance	(0.41)	0.00	0.00	(0.41)
Carrying amount	**1,133.11**	**0.00**	**0.00**	**1,133.11**
Cash on hand and unrestricted balances with central bank				
Low- fair risk	3,703.43	0.00	0.00	3,703.43
Less: allowance	0.00	0.00	0.00	0.00
Carrying amount	**3,703.43**	**0.00**	**0.00**	**3,703.43**
Total	**4,836.54**	**0.00**	**0.00**	**4,836.54**

	Stage 1	Stage 2	Stage 3	31 December 2020 Total
Current accounts with banks				
Low- fair risk	-	-	-	-
Less: allowance	-	-	-	-
Carrying amount	**-**	**-**	**-**	**-**
Unrestricted balances with central bank				
Low- fair risk	7,811.49	-	-	7,811.49
Less: allowance	-	-	-	-
Carrying amount	**7,811.49**			**7,811.49**
Total	**7,811.49**	**-**	**-**	**7,811.49**

(amounts in Eur'000, unless otherwise stated)

29 Risk management (continued)

29.2 Credit risk (continued)

Exposure to credit risk (continued)

				31 December 2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Restricted cash at Central Bank				
Low- fair risk	879.27			879.27
Less: allowance	-	-	-	-
Carrying amount	879.27			879.27

				31 December 2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Restricted cash at Central Bank				
Low- fair risk	219.98	-	-	219.98
Less: allowance	-	-	-	-
Carrying amount	**219.98**	-	-	**219.98**

29 Risk management (continued)

29.2 Credit risk (continued)

Exposure to credit risk (continued)

				31 December 2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers				
Low- fair risk	10,963.47	-	44.69	11,008.16
Less: allowance	(209.01)	-	(32.54)	(241.55)
Carrying amount	**10,754.46**	-	12.15	**10,766.61**

				31 December 2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers				
Low- fair risk	5.96	0.00	0.00	5.96
Less: allowance	(0.05)	0.00	0.00	(0.05)
Carrying amount	**5.91**	**0.00**	**0.00**	**5.91**

				31 December 2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers				
Standart – low risk	10,963.47			10,963.47
Special mention				
Substandard				
Doubtful			44.69	44.69
Lost				
Allowance for impairment	(209.01)		(32.54)	(241.55)
Net	**10,754.46**		**12.15**	**10,766.61**

				31 December 2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers				
Standart – low risk	5.96	0.00	0.00	5.96
Allowance for impairment	(0.05)	0.00	0.00	(0.05)
Net	**5.91**	**0.00**	**0.00**	**5.91**

(amounts in Eur'000, unless otherwise stated)
(amounts in Eur'000, unless otherwise stated)

29 Risk management (continued)

29.2 Credit risk (continued)

Exposure to credit risk (continued)

The table below shows the net exposure to loans and advances to customers as at 31 December 2021 categorized as per individual and collective impaired portfolio:

	Net exposure of loans and advances to clients	
	31 December 2021	**31 December 2020**
Individually impaired	44.69	0.00
Allowance for ECL	**(32.54)**	**0.00**
Carrying amount	**12.15**	**0.00**
Collectively assessed for impaired		
Past due and impaired	0.00	0.00
Allowance for ECL	0.00	0.00
Carrying amount	**0.00**	**0.00**
Neither past due nor individually impaired	10,963.47	5.96
Allowance for ECL	(209.01)	(0.05)
Carrying amount	**10,754.46**	**5.91**
Total carrying amount on loans and advances to customers	**10,766.61**	**5.91**

Impaired loans and securities

Impaired loans and securities are those loans and securities for which the Bank has determined that it is possible that it will not collect the full amount of interest and the loan under the terms of the contract.

Impairment allowance

The Bank creates an impairment allowance that represents the Bank's estimate of the portfolio impairment losses incurred. The main components of this provision are, a component for specific losses related to significant exposures, and a general provision for groups of similar assets related to realize losses but not identified in loans that are subject to individual assessment for depreciation.

Credit write-off policy

The reduction on the value of losses is done by a decision of the Board of Directors when the legal process for loan repayment has ended and the client continues to remain a debtor for the unpaid part of the loan.

Loans and advances to customers

The Bank holds collateral to loans and advances to customers in the form of mortgages, other collaterals recorded on assets and guarantees. Calculations of the fair value of collateral assessed at the time of the loan are usually not updated unless a loan is assessed as impaired. Collateral on loans and advances to banks is usually not held. Collateral is not held against investments in financial instruments and no such collateral is held for the year ended 31 December 2021 or 31 December 2020. It is the Bank's policy to put up for sale properties repossessed during the normal course of banking activity. Proceeds from these sales are used to reduce or repay the outstanding value of loans. In general, the Bank does not use these repossessed properties for the purposes of its own banking activity.

An estimate of the fair value of collateral and other securities held against financial assets is as follows:

	31 december 2021	**31 december 2020**
Loans assessed for ECL individually:	**173.37**	**0**
Properties	173.37	0
Other	-	0
Loans assessed for ECL in group	**41,509.17**	**0**
Properties	28,878.22	0
Other	12,630.95	0
	41,682.54	**0**

29 Risk management (continued)

29.2 Credit risk (continued)

Exposure to credit risk (continued)

The financial effect of collateral, by showing the level of provisions if no collateral would be considered is shown as below:

	31 dhjetor 2021	**31 dhjetor 2020**
Gross amount (loans, advances and financial lease)	11,008.16	5.96
Provisions if no collateral would be considered	(241.55)	(0.05)
Total carrying amount on loans and advances to customers	**10,766.61**	**5.91**

Risk concentration

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

Loans and advances to customers	**31 December 2021**			**31 December 2020**		
	Kosovo	**Others**	**Total**	**Kosovo**	**Others**	**Total**
Construction	1,711.78	-	**1,711.78**	-	-	**-**
Commerce	3,942.67	19.38	**3,962.05**	-	-	**-**
Consumer loans	1,290.10	9.34	**1,299.44**	-	2.00	**2.00**
Public,social and personal services	1,112.23	-	**1,112.23**	-	-	**-**
Processing industry	339.44	-	**339.44**	-	-	**-**
Hotels and restaurants	405.55	38.72	**444.27**	-	-	**-**
Production and distribution of electricity/water	-	-	**-**	-	-	**-**
Real estate	1.27	-	**1.27**	-	-	**-**
Transport and telecommunication	41.05	-	**41.05**	-	-	**-**
Agriculture	19.80	-	**19.80**	-	-	**-**
Mining	-	-	**-**	-	-	**-**
Health and social activities	462.54	-	**462.54**	3.91	-	**3.91**
Fishery	-	-	**-**	-	-	**-**
Other	1,372.74	-	**1,372.74**	-	-	**-**
	10,699.17	**67,44**	**10.766,61**	**3.91**	**2.00**	**5.91**

(amounts in Eur'000, unless otherwise stated)

29 Risk management (continued)

29.2 Credit risk (continued)

Exposure to credit risk (continued)

An analysis of concentrations of credit risk by industry sector at the reporting date is shown below:

31 December 2021	Corporate lending	Small business lending	Consumer lending	Residential mortgage	Total
Individuals	-	-	448.15	851.29	**1,299.44**
Public Sector	-	-	-	-	**-**
Trade	1,921.45	2,496.97	-	-	**4,418.42**
Manufacturing	-	339.44	-	-	**339.44**
Construction	-	1,711.78	-	-	**1,711.78**
Services	-	1,112.23	-	-	**1,112.23**
Others	1,364.92	520.38	-	-	**1,885.30**
Total	**3,286.37**	**6,180.80**	**448.15**	**851.29**	**10,766.61**
Financial Services	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

31 December 2020	Corporate lending	Small business lending	Consumer lending	Residential mortgage	Total
Individuals	0.00	0.00	2.00	0.00	2.00
Public Sector	0.00	0.00	0.00	0.00	0.00
Trade	0.00	0.00	0.00	0.00	0.00
Manufacturing	0.00	0.00	0.00	0.00	0.00
Construction	0.00	0.00	0.00	0.00	0.00
Services	0.00	3.91	0.00	0.00	3.91
Others	0.00	0.00	0.00	0.00	0.00
Total	**0.00**	**3.91**	**2.00**	**0.00**	**5.91**
Financial Services	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

29.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Administration of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Bank's reputation. Short-term liquidity is managed by the Treasury Department, while mid-term and long-term liquidity is managed by ALCO. The Risk Management Division reports regularly to ALCO and the Treasury Department on level of exposure to liquidity risk.

Treasury Department maintains a portfolio of short-term liquid assets, made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained by the Bank. Daily reports produced by Treasury as well as weekly and monthly reports produced by the Risk Management Division cover the liquidity position of the Bank. All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The key measures used by the Bank for managing liquidity risk are the calculation of liquidity ratios and the evaluation of liquidity gaps for specific periods.
The Bank calculates on a weekly basis the following ratios: liquid assets to short-term liabilities, loans to deposits, and liquid assets to deposits. Liquid assets are considered as including cash and cash equivalents, Albanian government treasury bills and any short term deposits with banks maturing within one month. Details of the liquid assets to short-term liabilities ratio during the reporting period were as follows:

	31 December 2021	31 December 2020
Average for the period	170.73%	311.30%
Minimum for the period	92.57%	251.36%
Maximum for the period	284.04%	377.24%

29 Risk management (continued)

29.3 Liquidity risk (continued)

Exposure to liquidity risk (continued)

The Bank has in place an emergency plan for liquidity risk management in unusual circumstances, considering various scenarios, which may affect the level of liquidity of the Bank. The Bank considers the liquidity risk in the recovery plans, in the internal capital adequacy assessment process, setting well-defined limits on its appetite for risk. The Bank is confident that its sources of capital can be available at any time. Depending on the escalation of the situation created by the pandemic COVID -19 and preventive measures, the Bank will consider various scenarios that may affect the inflows in measuring its indicators increasing its financing through:

- Capital increase through new capital issuance (new capital injection in the Bank);
- Increase through the issuance of subordinated debt.

Maturity gaps for each major currency are calculated and analysed by the Bank on a monthly basis. The tables below show an analysis of the Bank's assets and liabilities as of 31 December 2021 according to their remaining maturity.

The table shows the liquidity situation of the Bank as currently monitored by the Bank's management, as at 31 December 2021. It considers the undiscounted cash flows in/out of the Bank for on and off financial assets and liabilities, reflecting any earlier repayment or retention history assumptions.

31 December 2021	< 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Assets (Cash flow in)	**5,759.35**	**639.98**	**1,324.42**	**7,034.65**	**6,890.23**	**21,648.62**
Cash and deposits at Central Bank	3,703.43	-	-	-	-	**3,703.43**
Restriced balances with Central Bank	879.27	-	-	-	-	**879.27**
Deposits in banks	1,133.11	-	-	-	-	**1,133.11**
Loans and advances to customers (gross)	20.13	617.46	1,226.18	5,329.22	3,815.17	**11,008.16**
Investment securities	20.30	22.52	98.24	1,705.43	3,075.06	**4,921.55**
Other assets	3.10	-	0.00	0.00	0.00	**3.10**
Liabilities (Cash flow out)	**5,968.43**	**66.02**	**4,554.31**	**6,041.26**	**897.72**	**17,527.74**
Deposits from bank and customers-Current account	-	-	-	-	-	
Current account with banks	-	-	2,001.94	-	-	**2,001.94**
Current account with customers	5,854.87	66.02	2,391.39	5,235.90	-	**13,548.18**
Lease liabilities	-	-	160.98	747.24	897.72	**1,805.94**
Other liabilities	113.56	-	-	58.12	-	**171.68**
Total gap on balance sheet	**(209.09)**	**573.96**	**(3,229.89)**	**993.39**	**5,992.51**	**4,120.88**
Off Balace sheet (Cash flow out)	-	-	-	-	-	-
Total gap off balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Total GAP 31 December 2021	**(209.09)**	**573.96**	**(3,229.89)**	**993.39**	**5,992.51**	**4,120.88**
Cumulative GAP 31 December 2021	**(209.09)**	**364.87**	**(2,865.02)**	**(1,871.63)**	**4,120.88**	**-**

(amounts in Eur'000, unless otherwise stated)

29 Risk management (continued)

29.3 Liquidity risk (continued)

Exposure to liquidity risk (continued)

31 December 2020	< 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Assets (Cash flow in)	**8,031.47**	**0.00**	**5.97**	**0.00**	**0.00**	**8,037.44**
Cash and deposit at Central Bank	7,811.49	0.00	0.00	0.00	0.00	**7,811.49**
Restricted balances with Central Bank	219.98	0.00	0.00	0.00	0.00	**219.98**
Loans and advances to customers (gross)	0.00	0.00	5.96	0.00	0.00	**5.96**
Other assets	-	-	0.01	-	-	**0.01**
Liabilities (Cash flow out)	**251.27**	**0**	**2,376.72**	**586.4**	**892.93**	**4,107.32**
Deposits from bank and customers-Current account	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Current account with customers	240.39	0.00	0.00	0.00	0.00	**240.39**
Lease liabilities	-	-	126.33	586.40	892.93	**1,605.66**
Other liabilities	10.88	-	2,250.39	0.00	0.00	**2,261.27**
Total gap on balance sheet	**7,780.20**	**0.00**	**(2,370.75)**	**(586.40)**	**(892.93)**	**3,930.12**
Off Balance sheet (Cash flow out)	0.00	0.00	0.00	0.00	0.00	**0.00**
Total gap off balance sheet	**0.00**	**-**	**-**	**-**	**-**	**0.00**
Total GAP 31 December 2020	**7,780.20**	**0**	**(2,370.75)**	**(586.4)**	**(892.93)**	**3,930.12**
Cumulative GAP 31 December 2020	**7,780.20**	**7,780.20**	**5,409.45**	**4,823.05**	**3,930.12**	**-**

29 Risk management (continued)

29.3 Liquidity risk (continued)

Exposure to liquidity risk (continued)

The table below summarizes the maturity profile of the Bank's financial liabilities based on contractual undiscounted payments.

	< 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
31 December 2021						
Deposits from bank and customers-Current account						
Current account with banks						
Current account with customers	4,924.94					**4,924.94**
Deposits from banks			2,001.94			**2,001.94**
Liabilities to clients – Term deposits	929.93	66.02	2,391.39	5,235.90	-	**8,623.24**
Lease	-	-	160.98	747.24	897.72	**1,805.94**
Other liabilities	113.56	-	-	58.12	-	**171.68**
Total	**5,968.43**	**66.02**	**4,554.31**	**6,041.26**	**897.72**	**17,527.74**

	< 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
31 December 2020						
Current account with customers	240.39	0.00	0.00	0.00	0.00	**240.39**
Lease	-	-	126.33	586.40	892.93	**1,605.66**
Other liabilities	10.87	0.00	2,250.39	0.00	0.00	**2,261.27**
Total	**251.27**	**0.00**	**2,376.72**	**586.40**	**892.93**	**4,107.32**

(amounts in Eur'000, unless otherwise stated)

29 Risk management (continued)

29.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments.

Management of market risks

ALCO is responsible for the overall management of market risks. The risk of foreign exchange positions is measured and reported by the Risk Management Department on a daily basis. The Bank manages this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. The Bank manages interest rate risk by conducting reprising gap analysis and profit margin analysis for each major currency. The Risk Management Department produces these reports on a monthly basis.

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ALCO has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis to ensure positions are maintained within established limits.

The analysis of assets and liabilities as of 31 December 2021 by the foreign currencies in which they were denominated is as follows:

31 December 2021	EUR	USD	ALL	Other	TOTAL
Cash and deposits at Central Bank	3,571.57	123.57	0.08	8.21	3,703.43
Restricted balances with Central Bank	879.27	-	-	-	879.27
Deposits in banks	1,094.98	3.30	0	34.83	1,133.11
Investment Securities	4,921.55	-	-	-	4,921.55
Loans and advances to customers	11,008.16	-	-	-	11,008.16
Other assets (debtors)	3.11	-	-	-	3.11
Total assets	**21,478.64**	**126.87**	**0.08**	**43.04**	**21,648.63**
Due to banks	2,001.94				**2,001.94**
Due to customers	13,430.63	117.52	-	0.03	**13,548.18**
Lease liabilities	1,805.93				**1,805.93**
Other liabilities	171.68				**171.68**
Total liabilities	**17,410.18**	**117.52**	**0.00**	**0.03**	**17,527.73**
Net position	**4,068.46**	**9.35**	**0.08**	**43.01**	**4,120.90**

31 December 2020	EUR	USD	ALL	Other	TOTAL
Cash and deposits at Central Bank	7,811.49	0.00	0.00	0.00	**7,811.49**
Restricted balances with Central Bank	219.98	0.00	0.00	0.00	**219.98**
Loans and advances to customers	5.91	0.00	0.00	0.00	**5.91**
Other assets	0.01	0.00	0.00	0.00	**0.01**
Total assets	**8,037.39**	**0.00**	**0.00**	**0.00**	**8,037.39**
Due to customers	240.38	0.01	0.00	0.00	**240.39**
Lease liabilities	1,605.66	0.00	0.00	0.00	**1,605.66**
Other liabilities	2,261.27	0.00	0.00	0.00	**2,261.27**
Total liabilities	**4,107.31**	**0.01**	**0.00**	**0.00**	**4,107.32**
Net position	**3,930.08**	**(0.01)**	**0.00**	**0.00**	**3,930.07**

For the period ended 31 December 2021, there are no capital items in foreign currency (paid up capital is in EUR), the effect in the capital of the Bank is the same as the effect of profit/loss after tax.

29 Risk management (continued)

29.4 Market risk (continued)

Exposure to interest rate risk

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities and interest rate gap position as at 31 December 2021. The Bank's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re–pricing or maturity dates.

31 December 2021	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Non-interest bearing	Total
Assets							
Cash and deposits at Central Bank						3,703.43	**3,703.43**
Restricted balances with Central Bank						879.27	**879.27**
Deposits in banks						1,133.11	**1,133.11**
Investment Securities	20.30	22.51	98.24	1,705.43	3,075.06	-	**4,921.54**
Loans and advances to customers	20.13	617.46	1,226.18	5,329.22	3,815.17	-	**11,008.16**
Right-of-use assets						1,760.26	**1,760.26**
Total assets	**40.43**	**639.97**	**1,324.42**	**7,034.65**	**6,890.23**	**7,476.07**	**23,405.77**
Liabilities							
Due to banks	0.00	0.00	2,001.94	0.00	0.00	0.00	2,001.94
Due to customers	5,854.87	66.02	2,391.39	5,235.90			13,548.18
Lease liabilities						1,805.93	1,805.93
Total liabilities	**5,854.87**	**66.02**	**4,393.33**	**5,235.90**	**-**	**1,805.93**	**17,356.05**
GAP as at 31 December 2021	**(5,814.44)**	**573.95**	**(3,068.91)**	**1,798.75**	**6,890.23**	**5,670.14**	**6,049.72**

31 December 2020	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Non-interest bearing	Total
Assets							
Cash and cash equivalents	7,811.49	-	-	-	-	-	**7,811.49**
Restricted balances with Central Bank	219.98	-	-	-	-	-	**219.98**
Loans and advances to customers (gross)	-	-	5.96	-	-	-	**5.96**
Right-of-use assets	-	-	164.79	659.18	776.72	-	**1,600.69**
Total assets	**8,031.47**	**-**	**170.75**	**659.18**	**776.72**	**-**	**9,638.12**
Liabilities							
Due to customers	240.39	-	-	-	-	-	**240.39**
Lease liabilities	-	-	126.33	586.40	892.93	-	**1,605.66**
Total liabilities	**240.39**	**-**	**126.33**	**586.40**	**892.93**	**-**	**1,846.05**
GAP as at 31 December 2020	**7,791.08**	**-**	**44.42**	**72.78**	**(116.21)**	**-**	**7,792.07**

(amounts in Eur'000, unless otherwise stated)

29 Risk management (continued)

29.5 Operational risk

In accordance with CBK regulation, operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people, systems or external events. This definition includes legal risk, but excludes strategic risk and reputational risk. To ensure effective operational risk management, the Bank has implemented an operational risk framework which includes policies and procedures, techniques and tools for identifying, assessing, preventing / controlling and monitoring operational risk. To improve and enhance the effectiveness of internal controls in the bank's processes and to record all operational risk losses, the bank has established a "loss event database" where all events that cause operational losses or potential risks are recorded. The limits and reporting lines of these losses are defined in operational risk management policies. Furthermore, the operational risk procedure describes in detail the steps that the Bank takes from the information collected in the operational risk events database. This database is considered to be the best source of information for the development of models for measuring the bank's exposure to operational risk as it provides information on the causes of loss. Furthermore, through the information collected from this database, corrective or preventive measures have been put in place to prevent / control this risk. The annual assessment of the various processes in the bank is part of the bank's operational risk management framework. Through this assessment, the Bank collects useful information for determining the Bank's operational risk profile and assesses the risks to which the Bank has been exposed, including the degree of control implementation. This enables the improvement of control processes through various measures, thus reducing the impact of losses from operational risk. Effective operational risk management means recognizing the bank's position and risk profile. Therefore, for this purpose, the bank uses key risk indicators (KRIs) to monitor exposure managers related to key risks. These indicators are monitored on a regular basis (monthly / quarterly) in order to facilitate operational risk management by providing early warning signals for changes that may indicate risk concerns. In creating an effective operational risk management, the Bank has undertaken various activities related to raising risk awareness mainly through trainings, which are provided to all bank staff on an annual basis. These trainings aim to increase knowledge about operational risk management by discussing different scenarios in previous operational risk events. Furthermore, the trainings address the channels through which operational risk events should be monitored and reported. In addition, the Bank has implemented a process to ensure that changes in products, services or processes (existing or new) pass the risk review and approval. This will ensure that operational risk arising from new processes, products or services at the Bank is monitored and addressed promptly. The Bank calculates the capital payment for operational risk using the Base Indicator (BIA) approach as defined by the Central Bank Regulation on Operational Risk Management.

29.6 Capital management

Regulatory capital

The objectives of the Bank in the case of capital management are: - to comply with the capital requirements set by the Central Bank of Kosovo (CBK); - maintain the Bank's ability to continue its activity on an ongoing basis and to continue to provide returns to the shareholder; and - 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 using techniques based on CBK guidelines. Necessary information is provided to the CBK on a quarterly basis. Assets are classified using a ranking of five risk categories, reflecting an assessment of credit risk, market risk and other risks associated with each asset and off-balance sheet exposure. The regulation requires banks to maintain a minimum regulatory capital of 7,000,000 ml Euro (seven million euro), to maintain a minimum ratio of 9% of Tier I capital to risk weighted assets (currently in 2021: 50.93%), (2020: 212.58%), a minimum of 12% of total regulatory capital to risk weighted assets (currently in 2021: 50.93%) (2020: 212.58%), and a minimum of 3% of the ratio of total capital to total assets (leverage ratio) (currently at 2021: 30.53%) (2020: 67.82%). The Bank complied with regulatory requirements at the reporting dates of 31 December 2021. The Bank monitors its capital adequacy using, among other measures, the rules and reports established by the Central Bank of Kosovo (CBK), which ultimately determines the legal capital required to underpin its business.

29.6 Capital management (continued)

Regulatory capital (continued)

The Bank manages its capital to ensure that the Bank will be able to continue on a going concern basis while maximizing shareholder returns through improved debt and equity. The Bank's capital structure consists of paid-in capital, general risk reserves and retained earnings. The Bank's policy is to maintain a strong capital base in order to maintain the confidence of investors, creditors and the market and to support the future development of the business. The impact of capital level on shareholder returns is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that may be possible with higher returns and the advantages and security that a strong capital position offers. The Bank monitors capital adequacy, with particular emphasis on rules and reports issued by the Central Bank of Kosovo ("CBK"). Capital Adequacy Ratio is the ratio of regulatory capital to risk-weighted assets, off-balance sheet items and other risks, expressed as a percentage. The minimum required for the Capital Adequacy Ratio is 9% for Tier 1 capital and 12% for total equity. Risk Weighted Assets (RIS)
Assets are weighted according to broad categories of national risk, setting the weight of risk according to the amount of capital that would be needed to support them. Six risk weighing categories (0%, 20%, 50%, 75%, 100%, 150%) apply; for example, cash and money market instruments are weighted at zero risk, which means that no additional capital is needed to hold these assets. Property and equipment are weighted at 100% risk, which means that they must be backed by Capital (First Class) equal to 9% of the book value. Credit commitments on off-balance sheet items have been considered. The amounts are then risk weighted at the same rate as for balance sheet assets.

	31 December 2021	31 December 2020
Weighted risk assets	15,802.68	3,763.26
Total risk-weighted off-balance sheet exposures	249.27	0.00
Total risk weighted assets for operational risk	0	0.00
Total	**16,051.95**	**3,763.26**
Regulatory Capital (Total Capital)	**8,484.00**	**8,000.00**
Capital Adequacy Ratio (Total Capital)	**52.85%**	**212.58%**

To ensure capital adequacy, the Bank has begun building models that define the additional capital required in Pillar II to cover the risks to which the Bank is exposed as required by the CBK Regulation on the Internal Capital Valuation Process. (ICAAP).

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is also dependent upon the regulatory capital. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, and is subject to review by the Bank Credit Committee or ALCO as appropriate.

29.7 Fair value disclosures

Fair value estimates are based on existing statement of financial position financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.
Investment securities - Treasury bills and government bonds are interest-bearing assets designated at fair value. Their fair value is estimated using the discounted cash flow model based on a market profitability rate that is appropriate for the remaining maturity of these securities, according to the last auction price declared by the Central Bank for securities. Similar values. For these securities, information belonging to the second level of the fair value hierarchy is used.
Loans and advances to customers – Loans and advances are presented net of allowances for ECL. The majority of the loan portfolio is subject to reprising within a year, by changing the base rate. The fair value is calculated using the cash flow of the payments for their remaining maturity discounted with an average market interest rate.
Deposits from banks - Fair value of time deposits which include interest-bearing deposits, fair value is calculated using the discounted future cash flow model based on the current rate of return appropriate to the remaining maturity, according to current interest rates in the market for deposits with similar maturity and currency.
Deposits from customers - Because no active market exists for these instruments, the fair value has been estimated using effective interes rate.

29 Risk management (continued)

29.7 Fair value disclosures (continued)

As of 31 December 2020, there are no financial instruments measured at fair value.

The following table presents the fair value of financial instruments that are not measured at fair value and analyzes them from the level of the fair value hierarchy:

31 December 2021	Carrying amount	Level 1	Level 2	Level 3	Total fair value
Assets					
Cash and deposits at Central Bank	3,703.43	3,703.43	-	-	**3,703.43**
Deposits in banks	1,133.11	1,133.11	-	-	**1,133.11**
Restricted balances with Central Bank	879.27	879.27	-	-	**879.27**
Investment securities	4,921.54	4,921.54	-	-	**4,921.54**
Loans and advances to customers	10,766.61	10,766.61	-	-	**10,766.61**
Liabilities					
Due to banks	2,001.94	2,001.94	-	-	**2,001.94**
Due to customers	13,548.18	13,548.18	-	-	**13,548.18**

31 December 2020	Carrying amount	Level 1	Level 2	Level 3	Total fair value
Assets					
Cash and cash equivalents	7,811.49	7,811.49	-	-	**7,811.49**
Restricted Balances with Central Bank	219.98	219.98	-	-	**219.98**
Loans and advances to customers	5.96	5.91	-	-	**5.91**
Liabilities			-		
Due to customers	240.39	240.39	-	-	**240.39**

Banka Credins Kosovë sh.a.
Notes to the financial statements for the year ended 31 December 2021
(amounts in Eur'000, unless otherwise stated)

30 Events after the reporting date

I. Return of global inflation

After almost four decades, inflation has become the today concern of advanced economies and emerging markets and developing economies all over the world. It seems that this time inflation came back faster, more noticeable and probably is more persistent than central banks perceived at the beginning. Today we are experiencing another major event, the war in Ukraine, which not only has created immense human suffering, but it has also damaged the global economy at a critical stage. Not only has affected further increase of energy and commodity prices but also has significantly increased the global uncertainty, which undermine growth. One development impacting inflation, that is common across advanced and developing countries is the increase in commodity prices alongside rising global demand. Repercussions of the war and ensuing sanctions continue to reverberate. The resilience of the global financial system will be tested through various potential amplification channels. These include the exposures of financial institutions to Russian and Ukrainian assets; market liquidity and funding strains; and the acceleration of cryptoization — residents opting to use crypto assets instead of the local currency — in emerging markets. Europe bears a higher risk than other regions due to its geographic proximity to the war, reliance on Russian energy, and the non-negligible exposure of some banks and other financial institutions to Russian financial assets and markets. Moreover, ongoing volatility in commodity prices may severely pressure commodity financing and derivatives markets and could even cause more disruptions like the wild swings that halted some nickel trading last month. Such episodes, amid heightened geopolitical uncertainty, may weigh on liquidity and funding conditions. Another major issue affecting this indicator is global supply chain, which continue to be severely by the recent lockdown of China due to increased number of Covid-19 infections. Transport costs have skyrocketed. The most noticeable feature of today inflation is its omnipresence. In the absence of global policy options to resolve supply-chains disruptions, the task of addressing the inflation will fall to the world's major central banks. To be sure, a more timely and robust policy response from major central banks would not be good news for emerging markets and developing economies in the short run. Most would experience higher funding costs, and debt crises could become significantly more likely for some. Based on IMF estimates, the rise in uncertainty in the first quarter could be enough to reduce full-year global growth by up to 0.35 percentage point. Inflation expected to remain high globally over the coming months up to 2023.

II. Impact of global inflation in Balkan region

In emerging markets, many central banks have already significantly tightened policy. They should continue to do so—depending on individual circumstances—to preserve their inflation-fighting credibility and anchor inflation expectations. Interest rates might have to rise beyond what is currently priced in markets to get inflation back to target in a timely manner. This may entail pushing interest rates well above their neutral level. For advanced-economy central banks, clear communication is crucial to avoid unnecessary volatility in financial markets, by providing clear guidance about the tightening process while remaining data dependent. Federal Reserve has increased the base interest rate twice up to now, followed by Bank of England. European Central Bank has not yet performed any changes to key interest rates. Returning to our region, Central Bank of Serbia, decided to raise the key policy rate by 50 bp, to 1.5%. This increase accompanied by an increase of repo rate and on deposit and lending facilities. Central Bank of Albania did the same by increasing the base interest rate with 50 bp to 1% (at the pre-pandemic levels) but kept unchanged the deposit and lending facility rates. The National Bank of Macedonia, decided to increase interest rate on CB bills by 0.25 percentage points to 1.5%, primarily as a preventive response to the increasing inflation expectations. Meanwhile, Central banks of Bosnia &Hercegovina, Monte Negro and Kosovo have not yet taken any action although the inflation is above their target level. These decisions intent to control further increase of inflation but at the same time not to have a significant impact on economic growth of the countries, which are still recovering from the pandemic years. However, the upside risk of inflation to which all Balkan economies are exposed, is a further increase of energy, natural gas, oil prices and fertilizers due to war in Ukraine. Inflation reduces the purchasing power of the population, which will be reflect in the reduction of personal consumption, which is the main component of the GDP of the Western Balkans. The increase in transport costs is an additional risk for the business of companies in the region. According to latest data published from central banks of Balkan Countries, the GDP growth rate or the year 2022 and 2023 revised downward to initial forecast performed in 2021due to consequences of current situation. Further growth of the oil price would also lead to an increased deficit of the current account (balance of payments) in all Balkan economies, as well as to an increase in the foreign trade deficit. From the other side, increase of inflation and base interest rate will affect an increase of interest rate of lending, deposits and of government securities in the financial markets. Increase of the last means an increase of government debt and annual budgetary deficit. Increase of lending interest rate will increase credit risk of borrower and would require tighten of the banks' lending policies and procedures.

The management of the Bank is not aware of any other event after the reporting date that would require either adjustments or additional disclosures in these Financial Statements.