# ANNUAL REPORT 2021

BANKA KOMBETARE TREGTARE

# ANNUAL REPORT 2021

# CONTENT


# THE JOURNEY THROUGH THE YEARS

The roots of Banka Kombëtare Tregtare were founded on 29 November 1925 with the establishment of the first branch in the historical building in Durrës that represents the oldest financial institution in Albania.

BKT, with the name it holds today, was established in January 1993 by the joint venture of Banka Tregtare Shqiptare with Banka Kombëtare e Shqipërisë. BKT was registered as a shareholder in 1997, and today is the largest and the oldest bank in Albania. BKT accomplished its privatisation process in 2000 and on 30 June 2009, Çalık Holding became the only shareholder of BKT.

Having a consolidated capital structure and with extensive and dynamic competitive advantages, BKT began a new phase of growth and sustained success. Being the oldest bank and the first provider of financial services in the country, BKT has deep-rooted experience, in-depth local knowledge, a solid corporate culture and a more innovative approach to support its vision.

BKT opened its first branch in Kosova, respectively, in November 2007, a few months prior to Kosova's declaration of Independence (17 February 2008). BKT brought its long experience and heritage to this newborn country. From that moment on, BKT and Kosova continued to grow together and help each other prosper. With maximum dedication, starting with a staff of 11 people, Banka Kombëtare Tregtare expanded its network in 15 cities of Kosova by positioning closer to clients with 21 branches and at the same time increasing the number of employees to 394.

On 30 April 2018, Banka Kombëtare Tregtare Kosova Branch, changed its status from branch of a foreign Bank to a subsidiary Bank. Now, it is a Bank licensed by the Central Bank of the Republic of Kosova, with the change of the status, the bank changed its name from Banka Kombëtare Tregtare Kosova Branch to Banka Kombëtare Tregtare Kosovë J.S.C.

BKT Kosova operates with a strong focus placed on international banking and global partnerships, as well as on enhancing its customer service with the aim to provide access to banking for all customer categories: Individuals, Corporations, SMEs and Micro-enterprises. BKT Kosova is one of the fastest-growing banks in the Kosova market and it runs the fastest and most innovative pace of digitalization in the banking industry of the country.

# MISSION, VISION AND CORE VALUES

# Mission

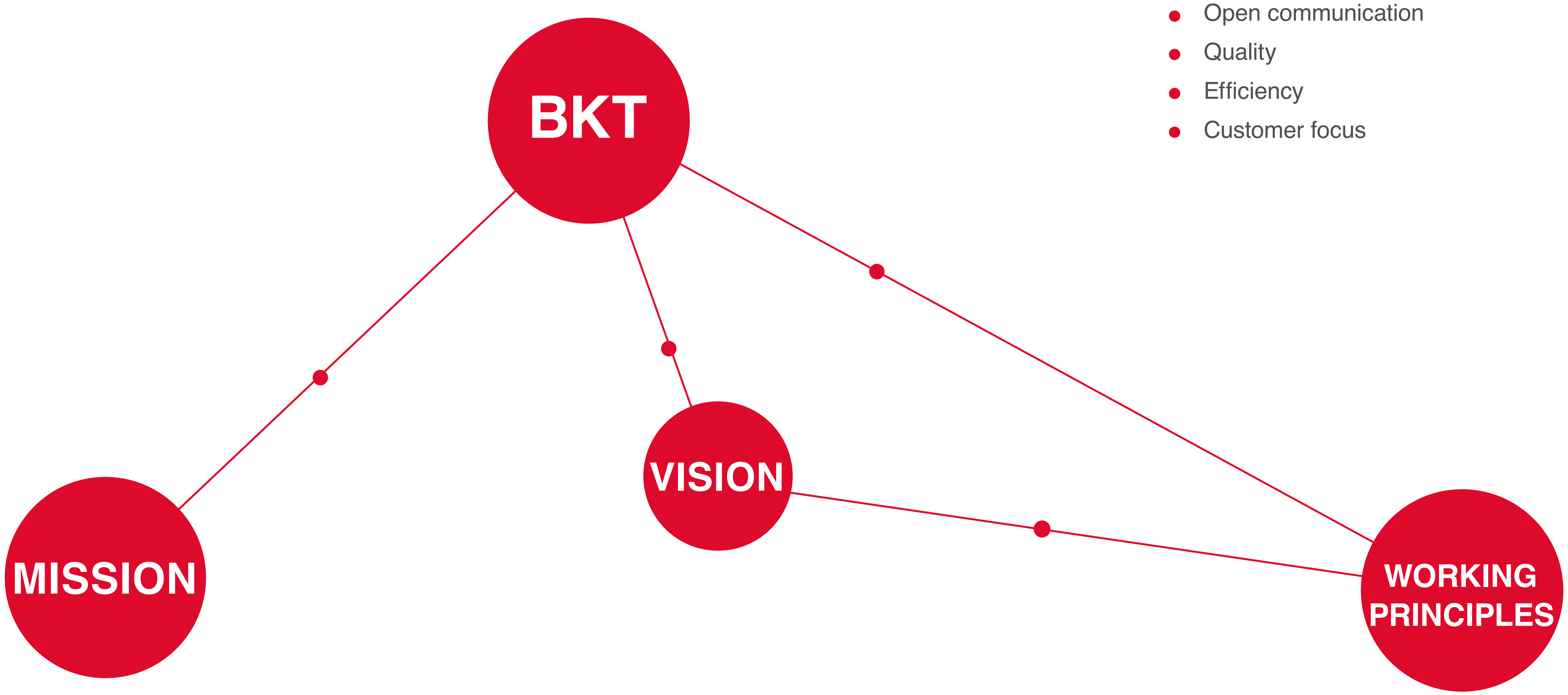
To contribute to rising standards of living by using our talents and energy to develop solutions that add value to people's lives, by providing people with peace of mind, convenience, and possibilities in the banking sector.

# Vision

To grow and become a leading bank in Kosova, by adding value to every life we touch, in each of our areas of operation, with reliable teams empowered by our innovative and entrepreneurial spirit.

# Values and Working Principles

Our people are guided by the fundamental values and main working principles as follows:






# Our Core Values:

- Fairness
- Heart-guided work
- Reputation
- People orientation
- Innovation
- Agility
- Sustainability
- Integrity
- Confidentiality
- Transparency

# Our Work Principles:

- Teamwork
- Accountability
- Open communication
- Quality
- Efficiency
- Customer focus

# MILESTONES

**1925**

The inauguration of the Bank's Durrës headquarters on 30 November 1925.

**1993**

Following the merging of the Albanian Commercial Bank (ACB) and the National Bank of Albania (NBA), BKT assumes its present name.

**1997**

BKT is established as a Joint Stock Company in July 1997, with assets reaching ALL 2.7 billion.

**2000**

BKT accomplishes its privatization process. The new shareholders invest US$ 10 million, resulting in the strong capitalization of the Bank.

**2001**

The new shareholders structure brings BKT major transformations including the development of a new infrastructure and the restructuring of all aspects of the Bank's operations.

**2006**

60% of the BKT shares are transferred to Çalık - Seker Konsorsiyum Yatirim A.S.

**2007**

A new branch opens in Pristina, Kosova in November 2007 as the foreign investment of BKT.

**2009**

BKT becomes a 100% subsidiary of the Çalık Group following the acquisition of the remaining shares by Çalık Finans Hizmetler.

**2010**

BKT celebrates its tenth anniversary of privatization and the 85th anniversary of its first branch in Durrës.

**2013**

The first Islamic Leasing Company in Albania, Albania Leasing Company, was established in a partnership with BKT.

**2014**

BKT officially becomes the largest bank by assets within the Albanian banking system.

**2015**

BKT celebrates its 90th anniversary.

**2017**

BKT made the first dividend payment by 30 million USD.

**2018**

On April 30, 2018, Banka Kombëtare Tregtare Kosova Branch changed its status from foreign branch to Joint Stock Company. Now its bank license issued from Central Bank of Kosova, has changed from Banka Kombëtare Tregtare Kosova Branch to Banka Kombëtare Tregtare J.S.C Kosova, BKT Kosova.

**2020**

BKT Kosova is honored with prestigious award by the Banker as “Bank of the Year in Kosova for 2020”.

**2021**

BKT Kosova has been honored with multiple prestigious awards in the areas of business excellence, digital banking, retail banking, brand recognition, innovation, mobile banking, e-banking and leadership. BKT Kosova was awarded as “The Best Bank in Kosova for 2021” by The Banker for the second consecutive year, “Best Bank in Kosova” by Euromoney and Global Finance.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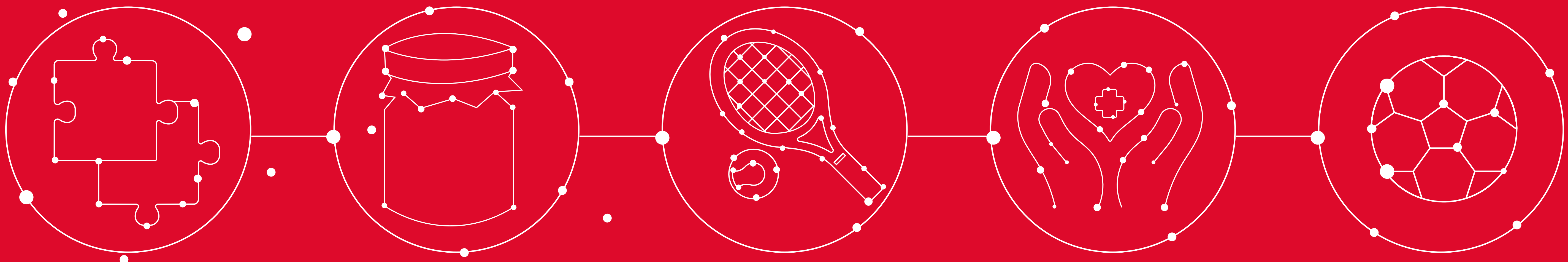
# CORPORATE SOCIAL RESPONSIBILITY



Over the years, BKT Kosova has developed its Corporate Social Responsibility framework around solid internal foundations, built to create a lasting positive impact on the lives of individuals, businesses, and society as a whole.

Corporate Social Responsibility lies at the heart of BKT Kosova’s culture. The bank is proud of employees’ involvement in a multitude of CSR activities, demonstrating the commitments of the whole Bank to responsible initiatives.

BKT Kosova Corporate Social Responsibility framework is built to accelerate meaningful change that benefits various segments of the society, namely in the fields of Environment, Education, Economic Development, Arts, Sports and Social Welfare.

Throughout the year 2021, the Bank continued its support towards many projects, committed to play a broader role in the community in which it operates by way of supporting various initiatives through donations, sponsorships, volunteering and charitable activities, actions that reflect the institution‘s values to society and its stakeholders.



## BKT Kosova in support of the Agricultural Cooperative KRUSHA

On March 8th 2021, BKT Kosova supported the opening and functioning of the new factory of the Agricultural Cooperative KRUSHA, a support which facilitated increased production capacities and created better working conditions for women of Krusha. Agricultural Cooperative Krusha is now a successful business, 100% run by women, not only selling its products in Kosova, but exporting to several European countries.

The history of Krusha cooperative is closely linked to the power of the women of Krusha e Madhe, an inspiring story of survival, courage, solidarity, and women’s economic empowerment.

Mrs. Fahrije Hoti together with the women of Krusha, have opened the doors of the new factory, continuing to make an unparalleled contribution to the empowerment of the role of women in society.

## “Your blood saves lives”

BKT Kosova in cooperation with the National Blood Transfusion Center, continued blood donation, which is already a tradition of the bank for several years. BKT continues to support individual-centered actions and their support in the community. The high level of participation of bank’s employees in the blood donation activity and their willingness to contribute to the health of others constantly proves that our focus should be on creating a positive impact on society. „Your blood saves lives“ is part of the bank’s social responsibility program, based on the principle „Contribute to society“, which addresses the support of the BKT Kosova to charitable activities.

## BKT Kosova continues to support children with autism

As part of ongoing support and care for people with special needs in Kosova, the Bank has continued with various initiatives and financial support for children living with conditions such as autism.

BKT Kosova has extended the cooperation agreement with the Association ‚Autism‘, to continue financial support in the treatment of children with autism. This support was welcomed by the Association „Autism“ - Pristina, which hopes that such an example will be followed by others. Financial supporters are considered as an irreplaceable source for achieving the mission and vision of the association, towards creating a better social environment in support of children with autism.

## Banka Kombëtare Tregtare general sponsor of the Kosova Superleague in football

As part of corporate social responsibility, over the years BKT Kosova has supported many projects contributing to development of sports in Kosova. In 2021, BKT has extended it sports sponsorship to football of Kosova by becoming title sponsor to the country's Superleague for the season 2021/22, becoming BKT Superliga.

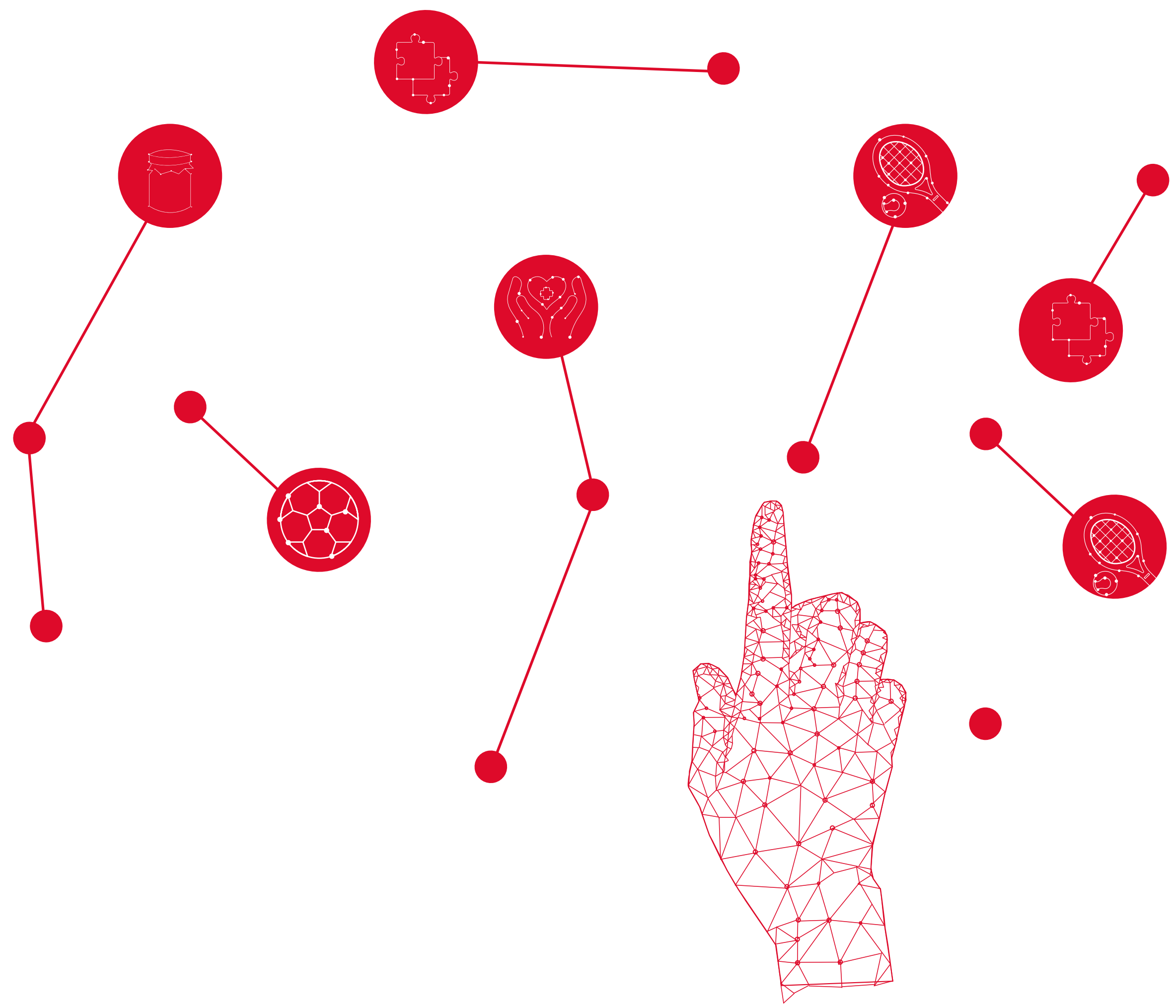
Through this partnership the Bank is dedicated to make a further contribution to the development and promotion of football in Kosova at the highest level, especially after the implementation of VAR, with Kosova being the first country in the region to implement it. In the framework of such digitalization and the aim for further advancement of football in Kosova and the processes of digitalization, the Bank extended its sponsorship for the development of the digital platform-Electronic System of Ticketing Sales which will serve all Super League clubs, community, as well as the public good.



## Banka Kombëtare Tregtare sponsor of tennis player Drinor Shamolli

Dedicated to support projects related to sports and especially young talents of the society, the Bank has taken the initiative to give young sports talents of Kosova an optimal support of reaching the highest level of achievement in their chosen sport.

As part of support for young talents program BKT Kosova became the sponsor for the talented tennis player Drinor Shamolli. The 16-year-old has shown great determination towards a bright future for tennis in Kosova and beyond. The support to identify, nourish and develop local talents across the sportive disciplines of young Kosovar athletes is necessary for further development of the sport both internally and representation in international arena.



# AWARDS 2021

Our efforts have been recognized worldwide BKT Kosova has been honoured with multiple prestigious awards in the areas of business excellence, digital banking, retail banking, brand recognition, innovation, mobile banking, e-banking and leadership. These awards are a testimony of Bank's commitment to be the fastest growing bank with a digital-first mindset, capable of providing world-leading banking services to its customers.



- **The Banker**
  Bank of the Year in Kosova for 2020 and 2021
- **Euromoney Awards for Excellence 2021**
  Best Bank in Kosova
- **Global Finance Magazine**
  The Best Bank in Kosova for 2021
- **International Business Awards (IBA) 2021 Stevie® Award**
  Award in the 'Company of the Year' category
  Gold Stevie® Award for the 'Executive of the Year' category
- **World Finance (World News Media Ltd.)**
  Best Banking Group 2021 - Kosova
- **Global Banking dhe Finance Review**
  Best Digital Bank Kosova 2021
  Best Retail Bank Kosova 2021
  Retail Brand of the Year Kosova 2021
- **Global Brands Magazine:**
  Best Bank in Kosova 2021
- **Global Business Review Magazine**
  Best Bank in Kosova 2021
  Banking CEO of The Year Kosova 2021
- **The Global Economics**
  Best Mobile Banking Application
  Best Retail Bank
- **ICERTIAS**
  Best Buy Award 2021/2022
- **Cosmopolitan The Daily Business Awards 2021**
  Best Digital Bank – Kosova 2021
  Best Retail Bank – Kosova 2021
  Best E-Banking Products – Kosova 2021
  Most Innovative Digital Transformation Bank – Kosova 2021
- **World Confederation of Business (WORLDCOB)**
  THE BIZZ HYBRID Business Excellence Award


# Çalık Holding at a glance

Established by Ahmet Çalık in 1981, Çalık Holding operates in energy, construction, mining, textile, finance, telecommunications and digital sectors. With operations in 31 countries across Central Asia, Balkans and MENA, the Group employs more than 19,000 people.

Çalık Holding stands out as a major player in Turkey and in the world with its subsidiaries: Çalık Enerji in the energy sector; Çalık Petrol in oil exploration; YEDAŞ, YEPAŞ, Limak joint venture KEDS and Kiler joint ventures ARAS EDAŞ and ARAS EPAŞ in electricity distribution; Lidya Madencilik in mining; Gap İnşaat in construction; Aktif Bank, BKT (Banka Kombetare Tregtare) Albania and BKT Kosova in finance; Çalık Denim and Gap Pazarlama in textile; Albtelecom Albania in telecom; and Çalık Digital in digital.

Throughout its operations across the world, Çalık Holding is known for its integrity, reliability, robust financial structure and long-term collaborations with international companies. It develops innovative business models and moves forward in its lines of business with sustainable growth. Dedicated to creating lasting value in every geography it operates, Çalık Holding realises pioneering projects for society and business world through its corporate processes, services and products developed with Industry 4.0, Society 5.0 and sustainability approaches it has embraced.

# A MESSAGE FROM THE CHAIRMAN

**Mehmet Usta**
*Chairman of the Board of Directors*

As Kosova economy recovers and is reshaped to reflect the circumstances imposed by the global pandemic, we remained steadfast on performing our core role as a financial services provider with clear principles and values, deepening relationships with our customers by providing them the support they need.

Although the year was abundantly challenging, we collectively stood strong in the face of adversity, representing resilience, innovation and agility across the organisation. We began the year in a state of constant change and innovation, as we developed and implemented state-of-the-art solutions to our clientele. We never ceased investing and improving our processes. These efforts were mainly in support of the strategic plans of further digitization of the Bank, enhancing customer experience, maximising bank's capabilities and transforming the way the bank operates.

Our employees proved to be our greatest asset. They constitute the foundations of our strengths and opportunities, and we are grateful for their hard work, resilience and commitment to our vision. In this regard, employee well-being and workforce flexibility remain a priority for our organisation. During the year we further strengthened our Business Continuity Plan (BCP) with the focus to enable effective operational preparedness and proactive measures to ensure employee safety and engagement.

BKT Kosova delivered a strong performance, growing across all indicators, ensuring a positive outlook for future development and setting benchmarks for future growth, with the aim to become the largest bank in the market. Our assets grew by 23%, where loans portfolio grew by 19%, while on the Liabilities side deposits grew by 23% , altogether achieved within a very energetic and dynamic frame, exercised by our professional workforce and management. The achieved results ensured a net profit of EUR 15.9 million for the year.



The key driver of this growth was the alignment of the Banks' strategic approach to the unique needs of customers. Responding to these needs, our priority has been to transform the Bank into a digitised, fast, and simple financial services provider. Thus, throughout the year we continued investing not only in our existing infrastructure, but also in bringing new products, in developing new channels of service and in improving the customer experience in doing banking.

The Board of Directors is very proud that BKT Kosova has been honoured with multiple prestigious awards in the areas of business excellence, digital banking, retail banking, brand recognition, innovation, mobile banking, e-banking and leadership. BKT Kosova was awarded as "The Best Bank in Kosova for 2021" by The Banker for the second consecutive year, "Best Bank in Kosova" by Euromoney, Global Finance, Global Brands Magazine and Global Business Review Magazine. Global Banking and Finance Review selected BKT Kosova as "Best Digital Bank in Kosova", "Best Retail Bank Kosova", "Retail Brand of the Year", whereas International Business Awards -Stevie Award, awarded BKT Kosova with "Executive of the Year" and "Company of the Year Award", among several other international recognitions received during the year. Winning these awards is a testimony to the strength of our business, the dedication of our staff and most importantly, the trust placed in us.

To remain on this growth trajectory, BKT will continue to be the pioneer of digital innovation across the market and will lead the market in that regard. Guided by our vision of offering the best possible service to customers and facilitating access to financial services, our organisation will continue creating lasting value for the country, economy and society in the years to come.

On behalf of the Board, I would like to thank all our employees for their tremendous efforts they put forth to make BKT the great bank we know it to be. I want to extend my gratitude and appreciation to all my colleagues on the Board of Directors for their continued dedication and commitment. I also want to thank our shareholders for their ongoing support and lastly, I would like to thank our customers for the opportunity they give us to serve them every day. We look forward to bigger achievements during the years to come.

*Sincerely,*
*Mehmet Usta*
*Chairman of the Board of Directors*

# CEO'S MESSAGE

**Suat Bakkal**
*CEO & Board Member*

This reporting year summoned our resilience and determination to face the challenges, individual and organisational ones, propelled by the global pandemic. And, despite it all, I proudly emphasise that we have emerged stronger, more focused and attentive to the opportunities created by the rapid changes all around us. The bedrock of our past efforts facilitated a sustained implementation of our long-term strategy, by further advancing our technologies, focusing on innovation and empowering our culture to continue to meet the wants and needs of our clients.

The benefits of our business model were validated during the year. We continued achieving record results across all performance indicators. This accomplishment is an outcome of our continuous effort and commitment to deliver value to stakeholders, with the right elements to succeed: a solid financial foundation, dedicated team, strong corporate culture, loyal client base, digitalization, innovation and having a diversified business model.

BKT Kosova continued to contribute to the overall economic development and to help shape a better future for everyone, and reshaping the banking sector. During the year, BKT Kosova marked yet another year enriched with various applications, products and breakthrough services in the local market. Digital Account Opening, the Digital Loan, Third-Party Lending, as well as launching the first QR supported payment method, are some of the products set in motion by BKT Kosova, all aligned to be close to customers in every mode they choose, be it physically or digitally, offering all sorts of banking services and solutions.

Despite the customers rapid acceptance rate of digital solutions across our mobile and other digital channels, traditional and conventional banking will certainly persist to be an important part of our operations.



In order to facilitate unique customer requirements, changes will continue to be made to the branch footprint, reflecting reduced cash services and increased advisory banking services.

Social responsibility is one of the main pillars upon which we function. We warrant to bring the full strength of our organisation to help create a lasting positive impact in the community. We are continuously discovering ways to contribute to a better and cleaner environment, while engaging directly in activities that have a direct impact on expanding the green footprint in the environment we operate in. Consequently, during 2021 we have been treating Project Finance with a special focus on renewable energy and energy efficiency related projects. Our objective remains to finance projects that have a direct positive impact on the environment and economic development of the country. Moreover, our bank continues to contribute to society, by participating in many activities in the nature of donations and sponsorships that benefit various segments of society.

Our efforts, to be the fastest growing bank with a digital-first mindset, capable of providing world-leading banking services to our customers, did not go unnoticed. BKT Kosova received numerous international awards, including "Bank of the year 2021 in Kosova" for the second consecutive year form The Banker and "Best Bank in Kosova" by Euromoney and Global Finance, among several other international recognitions received during the year.

Today, we are digitally enabled, continuing to pursue our tradition of excellence and following through our long-term growth strategies as we strive towards our vision.

Moving forward we will continue investing on our digital platforms and innovative solutions, across all of our business segments, building on the strengths that deliver more value to clients. As we strive towards our vision, we will deliver convenience, speed, quality and remain fully focused on further expanding our products and services to meet our customers' needs.

Finally, I want to thank each of the bank's customers and all related stakeholders for their trust. But above all, thank you to my colleagues across the organization for being the solid foundation of our vision, mission and shared values.

*Sincerely,*
*Suat Bakkal*
*CEO & Board Member*

# BOARD OF DIRECTORS

**Mehmet Usta**
Chairman of the Board

**Seyhan Pencabligil**
Vice Chairman of the Board

**Abdurrahman Balkiz**
Board Member

**Galip Tözge**
Board Member

**Gürol Güngör**
Board Member

**Mert Turgut Çalık**
Board Member

**Serdar Sümer**
Board Member

**Suat Bakkal**
CEO and Board Member

# SENIOR MANAGEMENT

# SENIOR MANAGEMENT

**SUAT BAKKAL**
CEO and Board Member

**ALBION MULAKU**
Corporate and Business Banking Group Head and First Deputy CEO

**AGON SKEJA**
Finance and Administration Group Head and Second Deputy CEO

**ELTON XHAFAJ**
Internal Audit Group Head

**HAMDI ÖNDER**
Risk Management Group Head

**KUSHTRIM ALIU**
Central Operations, Information Technology and Human Resources Group Head

**MUHARREM INAN**
Treasury, Financial Institution and Private Banking Group Head

**NAIM RATKOCERI**
Loan Management and Legal Group Head

**NJOMZA BUXHOVI AHMETAJ**
Retail Banking Group Head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# RETAIL BANKING

# Retail Banking designed to meet customer needs

2021 marked yet another successful year for Retail Banking, with successful strategic execution, ongoing investment and developments, enabling the Group to succeed in its customer focused areas. This resulted in a solid financial performance, with continued business momentum and growth. Many investments were made to enhance and enrich the brand and improve customer experience, to resonate on creativity, innovation and putting customers at the heart of decision making. As such, Retail Banking kept focused on innovative and state-of-art product offerings with the aim to make the customer experience superior and easy.

Retail Banking delivered a strong performance, growing across all indicators, ensuring a positive outlook for future development and setting benchmarks for future growth. While the overall market in retail deposits grew by 14%, BKT Kosova retail deposit portfolio grew by 24%. The positive trend was also reflective in retail loans, with BKT Kosova increasing by 23%, in comparison to the market that showed 17% increase in overall retail loan portfolio.

Retail Banking growth in deposits and loan portfolios contributed directly to enhanced market presence and growth of market share across all business indicators.

In response to market dynamics, with increased customer expectations for convenience, speed, and innovation, throughout 2021 Retail Banking focus remained on:

- Developing and driving stronger relationships with both existing and new customers across all channels, in order to provide them with accessibility, choice and flexibility. In response to fast evolving customer expectations, providing customers with choice to interact with bank services, through physical branch network, merchant partner channel and by developing state-of-the-art technological solutions.
- Analyzing customer expectations and focusing on providing customers with the tools to help make smart financial decisions that create value for them.
- Product differentiation – in responding to changing customer expectations and preferences during the year product offering was further enriched to deepen customer relationships, to meet wider range of needs and provide compelling, competitive propositions enhanced to deliver broader financing and savings solutions in all areas of Retail Banking activities, throughout all channels of distribution. As such, Retail Banking stands uniquely positioned to serve customer's lifetime banking, insurance and wealth needs in one place through a comprehensive product range.
- Enhancing processes by analyzing working practices aimed at achieving better outcome for customers and stakeholders.

# Saving Account and Term Deposit Leader

Throughout 2021 Retail Banking continued successful transformation creating significant benefits to its customers, being a market pioneer and market leader in meeting evolving customer needs and expectations. As such, during 2021 Retail Banking group's main objective was to further promote a culture of savings by providing quality financial advising personalized to customer needs, as well as a large array of deposit-related products driven by customers' needs. Financial education, accomplished through customer advisers and regular customer meetings, clearly demonstrated the objective of the bank to promote savings as a very important way to achieve financial sustainability. As such, in 2021, the Bank launched another unique saving account in the market, Pika Saving Account with product features that offers compound interest calculated and credited on daily basis for clients. The product offers the flexibility of unlimited credit/debit transactions, meaning that the customer is able to deposit and withdraw their funds whenever they need them, without any contractual restriction.

As a result of a diversified saving and deposit product range, total retail deposits reflected continued success, growing by 24%, while saving balances achieved a record growth of 304%.

# First Choice Partner for Loans and Mortgages

The bank continued to support individual clients' investment plans and quick access to funds with great financing conditions during the year. Although banking through branches certainly continued to be an important part of financing for each category of the clients, public/private salary receivers, affluent clients and rent receivers, expanding market reach through merchant partner channel, enabled client's easy access to banking services and financing through third-party intermediary relationships. Throughout the year the Bank further expanded its offer to customers from many merchant partners, for big-ticket items such as real estate and cars, to smaller-ticket items such as furniture and white/grey/brown goods. In cooperation with many local business partners, the bank managed to offer fast and efficient service, accompanied with advising and concrete opportunities provided to interested customers in order to fulfill their financing needs. This strategy, focusing on personalized products, enabled offering loans with very good conditions. During the year the partnership through partners was also extended to real estate agents, offering clients a wider choice of options to purchase or build their homes.

The large network of merchant dealers, provided clients a one-stop-shop and easy access to financing.

Enabled through maximizing the potential of dedicated people, technology and data capabilities, Retail Banking strategy represents an exciting new chapter for the Bank in the years to come.


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**Driven by the vision and commitment to make the customers' life easier, BKT Kosova continued to enhance business processes in all areas of operation, and achieved an upwards momentum with its innovative products and services through ongoing investments in digital channels. While Covid-19 pandemic was unavoidable even during 2021, BKT Kosova continued with the acceleration of digital transformation processes in the market.**

The bank succeeded to advance digital banking on a massive scale whilst re-engineering the banking experience and driving engagement across digital platforms, to meet customers' needs and expectations. Developing a digital transformation strategy paved the way for numerous desirable benefits, including: increased opportunities, higher level of productivity, innovation, staff motivation and customer satisfaction.

In staying customer focused and improve customer experience, all interactions were designed to be fast, simple, transparent and efficient.

The outcome of bank digitization, not only resulted in dramatic increase in the customer satisfaction but also in financial figures. Business volumes, transaction numbers, income and service quality, all marked significant increase.

Throughout 2021, the bank further focused on re-engineering the banking experience and driving engagement across digital platforms, to meet customers' needs and expectations.

Retail Banking launched numerous unique products and solutions in digital channels. The banks orientation towards digitalization of banking services was further enriched with secure digital payment options. In 2021 the Bank successfully implemented QR payment option through Mobile Banking and its POS devices, thus, becoming the only bank in the Kosova market offering such unique payment and money transfer service. Transfers with QR Code changes the customer experience in banking, providing the customer with the comfort of commanding the payment /transfers at a higher level of security.

As a result of developments through digital channels, bank transformed the way for customers to manage their finances, marking a tremendous increase. Number of users increased by 32%, active users reached 57%, and the volume of transactions increased by 68%.

BKT Kosova has a clear strategic vision to be Kosova's customer-focused digital leader and integrated financial services provider, capitalizing on new opportunities, at scale. Moving forward, the bank will further deepen customer relationships, through digital value propositions designed to meet more of their financial needs.

# CORPORATE AND BUSINESS BANKING

The pandemic situation during 2020-2021 had a real impact on the global economy and as a result, the outcome was also felt in Kosova.

The Government's measures on movement restriction and the limitations in operation for several business activities had immediate effects in overall Kosova economy.

However, the year 2021 has demonstrated that a recovery from the year 2020 is possible and even faster than anticipated by different local and international organizations. This increase came mainly from the increase in market demand and the growth from the following business activities:

- Hotels and restaurants sector
- Transportation and storage
- Trade

The important indicator for Kosova economy is the income from remittances, which according to CBK report up to December 2021 the contribution from this category was EUR 1.15 Mio ~ 18% increase comparing with the previous year.

The private sector in Kosova is considered to be a key factor in the economic development of the country, therefore, BKT Kosova will remain strategic partner in business development and financing.

Corporate and Business Banking Group has analyzed the potential of business in coming years as well the possible risks which may follow the banking sector due to unknown situation and has set the business objectives for the upcoming years.

The banks primary goal in coming years will remain supportive for the private sector by increasing cooperation with the existing clients and creating partnership with the new ones. Its commitment to financing clients will continue to be orientated towards increasing capacities, modernization of their equipment's/production lines as well for working capital and other needs. In general, the bank will continue supporting customers to increase their competitiveness in the market and create export opportunities.

In 2021 the bank increased cooperation with the Green for Growth Fund (GGF), in order to intensify and increase mind-awareness for potential in "energy saving" in the years to come. In this regard, the bank has launched a product for financing energy saving projects.

In addition, the bank also increased the cooperation with the Kosova Credit Guarantee Fund-KCGF, to further increase the support to Kosova businesses. During 2021, BKT Kosova was one of the leading banks in implementation the KCGF/Economic Recovery Package in order to support Government on implementing the economic measures for businesses. Thus, another area of focus for the bank remains to continue with the same approach also for other Government initiatives which are approved in 2021 and planned to be implemented in the following years.

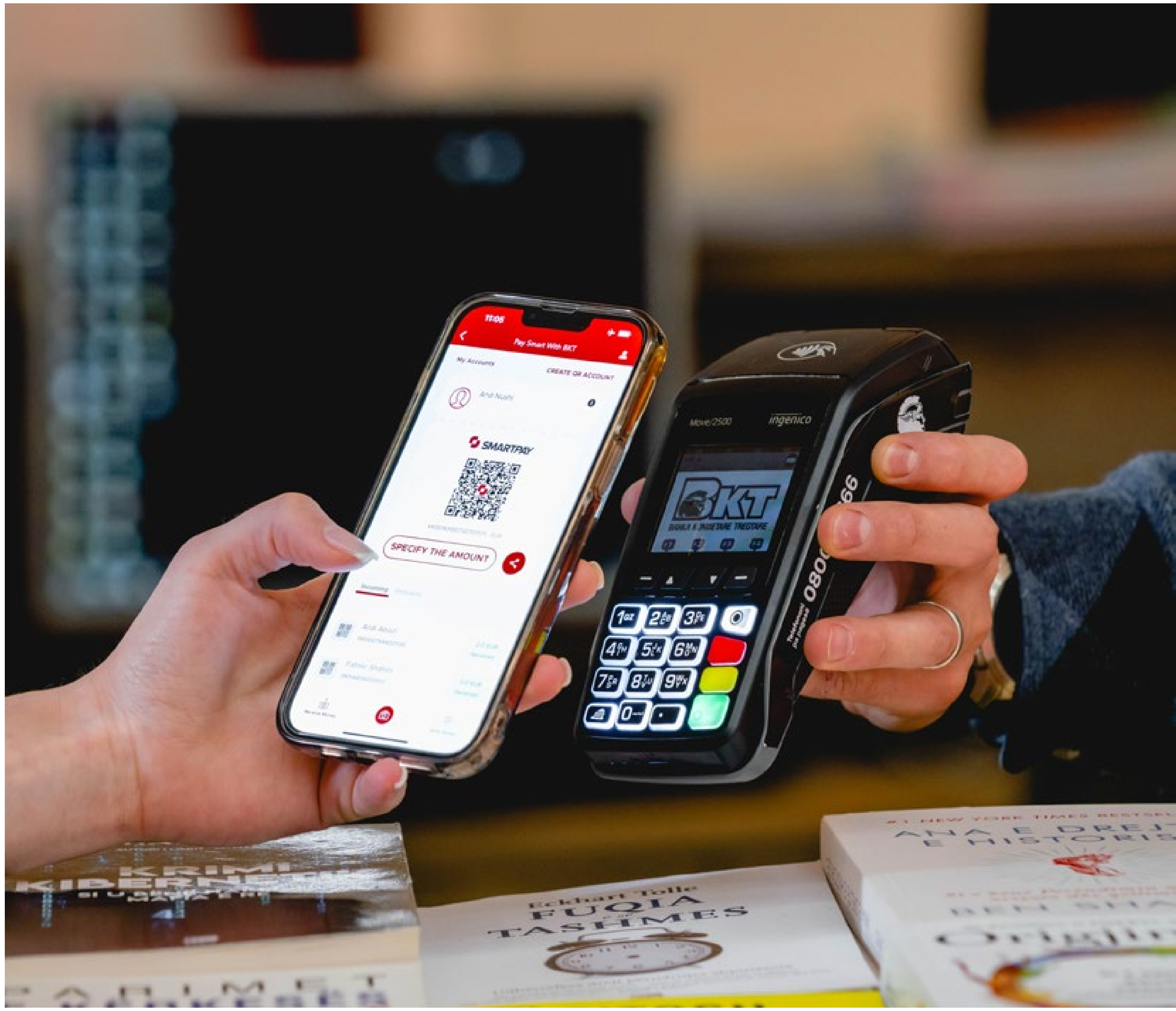
The group will continue to identify well-analyzed and feasible projects to be financed by the bank.

The Corporate and Business Banking Group, achieved to maintain significant increase in overall business loans and business deposit portfolio. While the overall market in business loans increased for ~ 11%, BKT Kosova business loan portfolio increased for ~16%. Accordingly, the bank managed to increase the market share on business loans from ~ 11.2% during 2020 to 11.4% in 2021. Also, the positive trend continued for business deposits, while BKT managed to increase deposit portfolio for 22% and market share participation for deposit reached 14.3%. The quality of the loan portfolio is a priority for business group, besides the increase in portfolio, the percentage of non-performing loans remains below the overall NPL of the sector.

The trade finance business is an important segment in the overall business of the group, hence the bank continued to have stable market share in this category, and by end of 2021 the bank participates with 11% in trade finance (LG&LC) in the market. In response to the challenges resulting from the pandemic, the bank ensured to finance their business partners to help them maintain their business during these times.

The Corporate and Business Banking Group has continued investments in digitalization of services. Due to the recent pandemic, online transactions have increased rapidly and new channels were created and updated to ease clients' transactions.

Alternative Banking Channels such as business e-banking and mobile banking have been advanced by offering additional features so the bank can create flexibility for the clients. The Virtual POS e-Commerce and QR payments in POS services will be next steps towards providing a broader range of services in the market.



# TREASURY, FI & PRIVATE BANKING

## Regardless of unprecedented circumstances created worldwide throughout 2021, Treasury, Financial Institutions and Private Banking Group continued growing by marking a successful year in the local and international market.

Despite the volatility in international markets during 2021, Treasury Department has successfully managed market risks in the balance sheet while the bank has continued increasing its market share. Although there was high competition in the local market, the bank has maintained an efficient and comfortable level of liquidity, in all operating currencies with timely and proactive liquidity management. The Treasury Department was very active in the local and international market, with a portfolio consisting of syndications and securities in multiple currencies of sovereigns, financial institutions and corporates which contributed to profitability of the bank. Compared with the pre-pandemic level of 2019 the bank achieved more than 20% growth in FX volume. In 2021, the department continued digitizing its core systems such as Kondor+ in order to ensure high-quality results. Development of Kondor+ by integrating to Bloomberg platform allowed the straight-through processing „STP“ so that transactions are booked in a faster way without manual intervention. In this way, Treasury Department has been relieved of a significant manual processing.



On the other hand, Financial Institutions Department continued to expand its relationship network by establishing RMA with counterparties from different countries. Thanks to worldwide relationships established, the bank has significantly increased its Trade Finance activities. As a result of tremendous financial growth, innovation and digitization, the bank has been awarded by 12 prestigious institutions/magazines in 20 different categories.

Launching a separate website of Premier Banking was an important milestone that Private Banking Department pioneered in local market, in order to differentiate services for high income clients. Banking Department aimed to be a step closer with its clients. Besides, the department expanded by recruiting new staff in the branches and by forming a sales team in Headquarters. Private Banking Department has opened an exclusive-tailored meeting room at Headquarters for Premier clients to provide comfortable venue to further serve to their needs. Premier clients have received exclusive and privileged services in coordination with their personal banker that aspires to establish a long-term, trust-based relationship, by taking into consideration clients‘ financial objectives and investment preferences.

As a pioneer bank in providing investment services in digital channels through “Smart Invest”, the bank continued to improve services. With establishment of the Private Banking department, the bank analyzed customer requirements through CRM analysis. In this regard, the bank introduced the demo version of platform so that customers can get used to the platform before starting trading. The bank gives individual customers the opportunity to test their own know-how on financial instruments in international markets through Smart Invest Demo version. This demo will help individuals to initially try and learn about financial markets before investing their own funds.

# LOAN MANAGEMENT AND LEGAL

Despite the increased risks due to uncertainties caused by the Covid-19 pandemic, the banking sector has continued to maintain a high level of capitalization, liquidity and profitability, as well as high quality loan portfolio. Lending activity continued the upward trend it had before the onset of the pandemic, while deposits continued to grow at high rates.

Non-performing loans marked a decreasing trend in comparison to the previous year, by closing the year 2021 with NPL rate to total loans at 2.25%, compared to 2020 that was 2.7%. The level of NPLs to total loans remains low compared to countries in the region (Southeast Europe).

Loan collection activities impacted the further improvement of credit portfolio quality. A part of the declining effect in NPLs during 2021 is also attributable to other factors such as CBK relief measures and decisions on encouraging the Banks to consider borrower's request on performing moratorium periods and loan restructuring during the period of economic recovery due to Covid-19 pandemic.

Thus, as a result of quick and flexible measures taken by the banks in banking sector on implementing relief (facilitations) of loan terms and conditions according to the guidelines of CBK, it contributed to the solvency of these borrowers as well as better risk management practices in the banks. Consequently, these factors and measures have been reflected in lower sources of non-performing loans and their recovery during 2021.

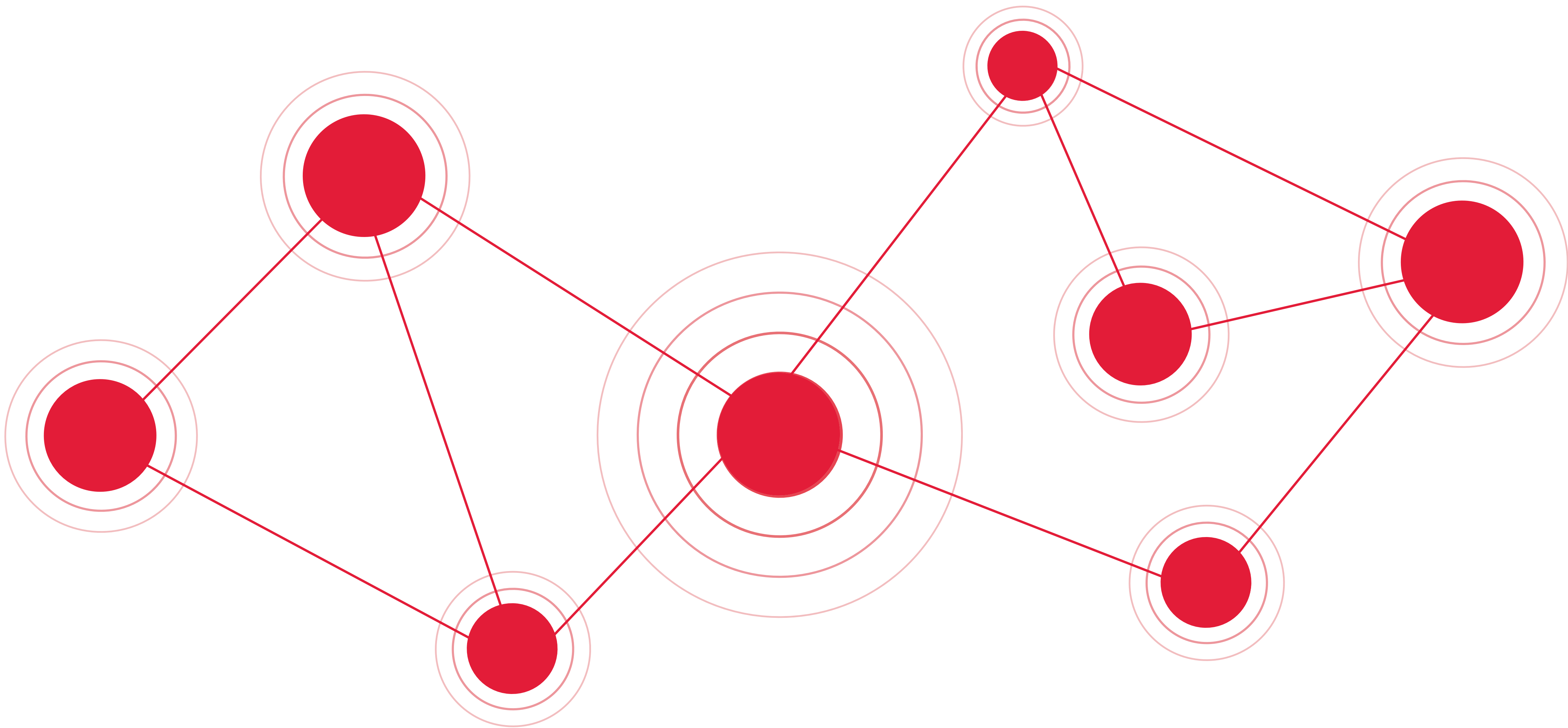
Regarding BKT Kosova, the quality of credit exposures was maintained and monitored through a diligent process of identification, management and mitigation of credit exposures for all portfolio segments and products. During the year 2021, the Loan Collection & Restructuring Department within their scope of duties and responsibilities, was focused and engaged in the highest monitoring and collection activity. Furthermore, during this year, field visits were increased, whilst other forms of contacts, communications with clients were in the focus of Department in order to have early reaction and prevention measures towards clients showing difficulties in repayment.

In terms of NPL management performance, during 2021 BKT Kosova managed to further decrease the NPL ratio to 1.51% compared to 2020 which was 1.99%.

Moving forward, to further progress with its NPL management, BKT Kosova will remain focused on strengthening its structures, systems and resources by applying new ideas and best practices.

During 2021, despite the circumstances created by the pandemic, legal issues were addressed in line with legal requirements and business and clients' needs, thus providing appropriate legal solutions that have contributed to the achievement of objectives and priorities set by the bank.

Loan Assessment Department continued with its coordinated activities during the year, to ensure that all loan requests were treated on time by meeting the client financial needs. On the other hand, besides daily operations, the department remained fully engaged to achieve many other milestones by contributing on process automation and process improvements. Hence, the relevant department with related parties were involved on the projects for loan digitalization and other internal projects by reviewing and evaluating existing processes and looking forward to optimizing retail and business operations work for faster and more accurate decision-making process.



# RISK MANAGEMENT

As a banking financial institution with a focus of supporting the financial needs of clients for short or long term investments and maintenance of their funds, the risk function is committed to ensure a financial stability and security for both sides, the organization and its clients.

The Risk Management function in the frame of organization structure is independent from the business lines, it is not part of the execution and reports directly to the Risk Management Committee (all members are non-executive Board Members) and Board of Directors. This structure ensures to have a strong and independent risk function in place without the interference of the execution side.  The risk is managed mainly within the three pillars of credit risk, market and liquidity risk and operational risk, with a full engagement in setting the risk appetite and tolerance of the bank in line with the strategic decision of shareholders in close coordination with the legislation and regulatory framework requirements.

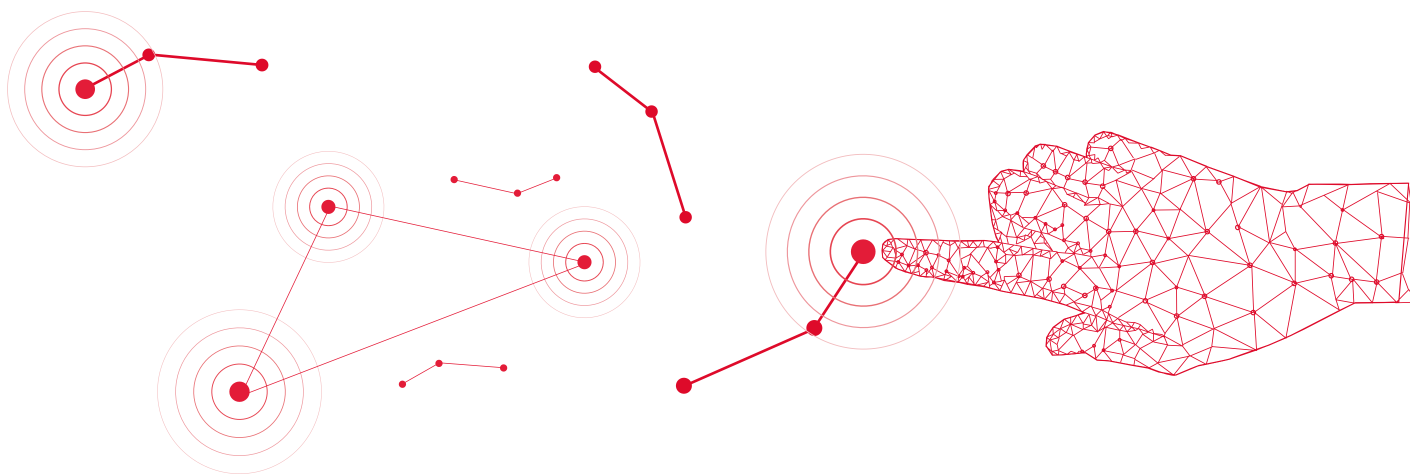
The involvement into day to day operation is crucial in ensuring an effective managing and monitoring of a risk. Therefore, in managing the most volumize risk, the credit risk, the risk members are part of the credit committees as observer with the aim to closely monitor the treatment of new credit exposures whether are in line with bank's policies and strategic decision. This function ensures that quality of portfolio remains within the risk appetite and act prior any potential deterioration may take place, which information/ action is shared with Risk management Committee and the Board of Directors.

Being a leader of Treasury portfolio in the banking sector in Kosova requires a big experience in managing the risk arising from market fluctuations in prices and rates on a real time. To manage and monitor the market and liquidity risk, the bank uses a comprehensive infrastructure and appropriate risk tools to assess the extent of any liquidity and asset/liability mismatch, the probability of losses in their investment portfolios, their overall leverage ratio, interest rate sensitivities and the risk to economic capital. In this regard, constraints are widely used in risk management in the form of risk budgets, position limits, scenario limits, stop-loss limits, capital allocation, etc.

The managing of the operations risk starts from bottom to top approach, where the first infrastructure is built within the first line of defense who are directly involved in the execution of operational duties and continue to centralized department for further identification and managing of operational risk.  The operational risk function assesses the identified risk, monitor and reports to respective parties/ committees, while taking a proactive role in improvement of processes in order to minimize and prevent the potential losses arise from operational mistakes.

As the main activity of the function remain the step up of the risk appetite of the institutions and create the appropriate infrastructure to fully comply with it on real time, the RMG is fully engaged to support the business lines in development of new products and services in order to be in line with the bank's strategy and objectives.

Details of the risk management function in regard to the credit risk, market and liquidity risk are presented in the financial audited report.



# HUMAN RESOURCES


Health, safety and wellbeing is a priority in building a good working environment for our institution.

**2021**

394 employees

This focus was intensified during the COVID-19 pandemic which continued in 2021, during which the bank's Human Resources Department adopted a number of initiatives to minimize the risk of infection, break the chain of transmission and enhance safety for all our employees. For this purpose, in a short period of time, the employees at the head office and certain groups of employees in the Branch Network, whose nature of work allows, were given the opportunity to work from home, or working in rotation.

Nevertheless this did not affect our growth. We continued with our recruitment program. At the end of 2021 BKT Kosova totaled 394 employees, 54% percent of which were employed in the branch network, 46% per cent in the Head office of the Bank; and 54% percent of our employees are female.

We are proud to have highly professional and motivated colleagues in our institution with whom we share a common vision on a clear business approach and on top the desire to further grow our bank.

Attracting, retaining and developing the best various talents has evolved. At the core of our strategy is strong leadership, based on trust, teamwork and understanding. We know that learning is not a set path, in fact it is freer than ever before. So, we need to adapt our learning culture to ensure our people take the time each day to learn independently and from each other.

**54%**

Employed in the branch network

**46%**

Head office of the Bank

**54%**

Employees are female

2021 was a challenging year for those looking to start their career. But we proudly continued to develop our internship program to offer a route into banking for unique talent. Our interns diversify our institution and contribute to the bank's transformation from day one through new ideas and insights.

More importantly even in spite of the challenges related to the pandemic we continued with our training program. Training was adapted and presented in virtual and online format.

The main highlights of the employee training and development programs were the topics related to:

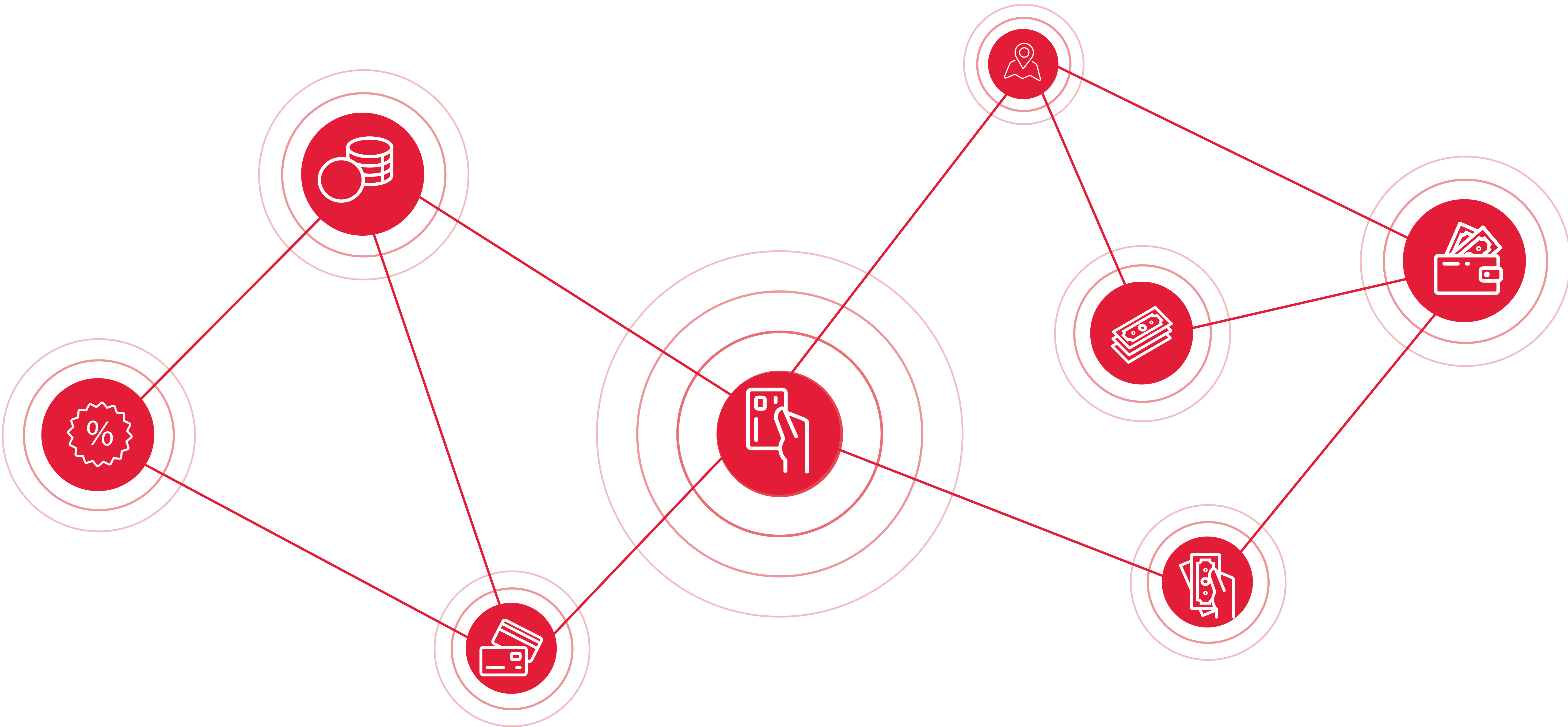
- Capacity building for knowledge about banking and business,
- Development and increase of technical skills,
- Improving services to clients, and
- Development of new leaders.

Creating harmony between our personal and professional lives allows us to be more engaged in both realms of our lives. However, when employees struggle to maintain healthy boundaries between work and home, it's hard to be fully invested and engaged at work.  We encourage our employees to adopt a healthy work-life balance, we made sure to set the stage for healthy, highly engaged employees.

The staff assessment is one of the most important parts for the HR Department and the institution itself.  But it surely gives us one of the clearest benefits; the opportunity to improve the overall performance in our bank. Taking the time to analyse the work produced by our staff, is the perfect opportunity to find areas that need attention. Analysing problems and finding solutions. By reviewing the performance of our employees, they gain greater understanding of how their position contributes to the goals of the bank and likely become more invested in the outcome.


BKT
BANKA KOMBËTARE TREGTARE

# AUDITED FINANCIALS



# Banka Kombëtare Tregtare Kosovë Sh.a.

**Financial Statements as at and for the year ended December 31, 2021**
**with the Independent Auditor's Report there-on**



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# Independent Auditor's Report

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To the Shareholders of

Banka Kombëtare Tregtare Kosovë Sh.a.

### Opinion

We have audited the accompanying financial statements of Banka Kombëtare Tregtare 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.

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

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

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

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

### Auditor's Responsibilities for the Audit of the Financial Statements

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



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

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

We communicate with those charged with governance of Banka Kombëtare Tregtare 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,
29 April 2022

Suzana Stavrikj
Statutory Auditor

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**Banka Kombëtare Tregtare Kosovë sh.a.**
Statement of Financial Position as at 31st December 2021
(Amounts in EUR, unless otherwise stated)

| | Notes | December 31, 2021 | December 31, 2020 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Bank | 6 | 115,840,781 | 102,398,903 |
| Placements and balances with banks | 7 | 29,492,205 | 30,402,526 |
| Financial assets at fair value through other comprehensive income | 8 | 166,435,895 | 101,467,602 |
| Financial assets at amortized cost | 8 | 48,885,792 | 28,230,433 |
| Due from BKT Albania | 25 | 221,756 | 38,658 |
| Loans and advances to banks and other syndication loans | 9.1 | 18,741,863 | 32,008,794 |
| Loans to customers, net | 9.2 | 417,474,266 | 351,964,719 |
| Property and equipment | 10 | 15,705,453 | 15,957,343 |
| Right of use assets | 10.1 | 4,168,264 | 2,331,338 |
| Intangible assets | 11 | 93,539 | 43,633 |
| Income tax receivables | 27 | - | 95,494 |
| Deferred tax asset | 27 | 285,934 | 300,337 |
| Other assets | 12 | 8,491,967 | 6,981,921 |
| **Total assets** | | **825,837,715** | **672,221,701** |
| **Liabilities** | | | |
| Customer deposits | 13 | 665,173,509 | 539,308,400 |
| Due to banks | 14 | 20,675,623 | 12,509,157 |
| Liabilities based on Repo Transactions | 14 | 30,093,037 | 22,066,897 |
| Due to BKT Albania | 14 | 552,999 | 1,320,571 |
| Income tax liability | 27 | 235,431 | - |
| Provisions | 24 | 379,007 | 654,968 |
| Accruals and other liabilities | 15 | 3,888,452 | 1,978,468 |
| Lease liabilities | 10.1 | 4,250,239 | 2,394,595 |
| Borrowings | 16 | 13,347,815 | 18,247,148 |
| **Total liabilities** | | **738,596,112** | **598,480,204** |
| **Equity** | | | |
| Share capital | 17 | 31,000,000 | 31,000,000 |
| Accumulated profit from previous years | | 40,071,621 | 29,018,336 |
| Profit for the year/ period | | 15,937,375 | 11,053,285 |
| Fair value reserve and Securities measured at FVOCI provision | | 524,609 | 2,961,878 |
| Other reserves | | (292,002) | (292,002) |
| **Total shareholder's equity** | | **87,241,603** | **73,741,497** |
| **Liabilities and shareholder's equity** | | **825,837,715** | **672,221,701** |

The audited statement of financial position is to be read in conjunction with the notes set out in pages 7 to 83 that form part of the audited financial information.
The audited financial information was authorised for release by the Board of Directors on 21 April 2022 and signed on its behalf by:

**Suat Bakkal**
CEO and Board Member

**Agon Skeja**
Head of Finance and Administration Group



**Banka Kombëtare Tregtare Kosovë sh.a.**
Statement of profit or loss and other comprehensive income for the year ended 31st December 2021
(Amounts in EUR, unless otherwise stated)

| | Notes | For the year ended December 31, 2021 | For the year ended December 31, 2020 |
|---|---|---|---|
| Interest income calculated using the effective interest method | 18 | 30,359,980 | 25,699,458 |
| Interest expense calculated using the effective interest method | 19 | (6,153,931) | (5,495,560) |
| **Net interest income** | | **24,206,049** | **20,203,898** |
| Fees and commissions, net | 20 | 6,103,498 | 4,357,849 |
| Foreign exchange revaluation gain, net | | 76,861 | 79,388 |
| Gain/(Loss) from sale of Investment securities measured at FVOCI | 8 | 1,575,165 | 2,313,753 |
| Profit / (loss) from FX trading activities, net | | 501,999 | 33,688 |
| Other (expenses) / income, net | 21 | 173,654 | 243,078 |
| **Total non-interest income, net** | | **8,431,177** | **7,027,756** |
| *Operating expenses* | | | |
| Personnel expenses | 22 | (5,468,484) | (4,994,245) |
| Administrative expenses | 23 | (6,098,909) | (4,991,964) |
| Depreciation and amortization | 10, 10.1, 11 | (1,530,729) | (1,532,998) |
| **Total operating expenses** | | **(13,098,122)** | **(11,519,207)** |
| Impairment losses on loans to customers | 9.2 | (1,320,491) | (3,241,489) |
| Impairment losses on financial assets, other than loans to customers, and provisions for off balance items | 24 | (665,235) | (253,116) |
| **Profit before income tax** | | **17,553,378** | **12,217,842** |
| **Income tax expense** | **27** | **(1,616,003)** | **(1,164,557)** |
| Current year income tax expense | | (1,601,600) | (1,187,347) |
| Deferred income tax | | (14,403) | 22,790 |
| **Profit (Loss) for the period** | | **15,937,375** | **11,053,285** |
| Revaluation of investment securities and provision of securities measured at FVOCI | | (2,437,269) | (510,263) |
| **Total of other comprehensive income for the period** | | **(2,437,269)** | **(510,263)** |
| **Total comprehensive income for the period** | | **13,500,106** | **10,543,022** |

The audited statement of comprehensive income is to be read in conjunction with the notes set out in pages 7 to 83 that form part of the audited financial information.

**Banka Kombëtare Tregtare Kosovë sh.a.**
Statement of changes in equity for the year ended 31st December 2021
(Amounts in EUR, unless otherwise stated)

| | Share capital | Fair value reserves | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance as at 1 January 2020** | **22,000,000** | **3,263,811** | **(292,002)** | **29,018,336** | **53,990,145** |
| **Transactions with owners recorded directly in equity** | | | | | |
| Contributions by and distributions to owners | - | - | - | - | - |
| Increase in share capital | 9,000,000 | - | - | - | 9,000,000 |
| **Total transactions with owners recorded in equity** | **9,000,000** | **-** | **-** | **-** | **9,000,000** |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | - | - | - | 11,053,285 | 11,053,285 |
| Net change in fair value of financial assets through other comprehensive income | - | (510,263) | - | - | (510,263) |
| **Total comprehensive income for the year** | **-** | **(510,263)** | **-** | **11,053,285** | **10,543,022** |
| **Balance at 31 December 2020/01 January 2021 as stated** | **31,000,000** | **2,753,548** | **(292,002)** | **40,071,621** | **73,533,167** |
| | - | 208,330 | - | - | **208,330** |
| **Balance at 31 December 2020/01 January 2021-restated** | **31,000,000** | **2,961,878** | **(292,002)** | **40,071,621** | **73,741,497** |
| **Transactions with owners recorded directly in equity** | | | | | |
| Contributions by and distributions to owners | - | - | - | - | - |
| Increase in share capital | - | - | - | - | - |
| **Total transactions with owners recorded in equity** | **-** | **-** | **-** | **-** | **-** |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | - | - | - | 15,937,375 | 15,937,375 |
| Net change in fair value and FVOCI provision of financial assets through other comprehensive income (Note 8) | - | (2,437,269) | - | - | (2,437,269) |
| **Total comprehensive income for the year** | **-** | **(2,437,269)** | **-** | **15,937,375** | **13,500,106** |
| **Balance at 31 December 2021** | **31,000,000** | **524,609** | **(292,002)** | **56,008,996** | **87,241,603** |

The audited statement of changes in equity is to be read in conjunction with the notes set out in pages 7 to 83 that form part of the audited financial information.



**Banka Kombëtare Tregtare Kosovë sh.a.**
Statement of cash flow for the year ended 31st December 2021
*(Amounts in EUR, unless otherwise stated*

| | Notes | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit before income tax | | **17,553,378** | **12,217,842** |
| *Adjustments to reconcile changes in net assets to net cash provided by operating activities:* | | | |
| Interest expense | 19 | 6,153,931 | 5,495,560 |
| Interest income | 18 | (30,359,980) | (25,699,458) |
| Depreciation | 10, 10.1, 11 | 1,530,729 | 1,532,998 |
| Gain/ Loss on disposal of property, plant & equipment | | - | - |
| Gain/loss on sale of investment securities | | (1,575,165) | (2,313,753) |
| Gain on recovery of written off loans to customers | | (245,089) | (261,782) |
| Write-off of loans to customers | | 769,999 | 622,978 |
| Other non-monetary income | | - | - |
| Impairment of loans to customers, net | | 1,320,491 | 3,241,487 |
| Impairment of other financial assets, net | | 665,235 | 253,116 |
| Impairment of other assets | | - | - |
| **Cash flows from operating profit before changes in operating assets and liabilities** | | **(4,186,471)** | **(4,911,012)** |
| *(Increase)/decrease in operating assets:* | | | |
| Restricted balances with Central Bank | | (7,823,458) | (4,165,605) |
| Placement and balance with banks | | 2,146,751 | (3,043,411) |
| Loans to banks and other syndication loans | 9.1 | 13,176,000 | (32,000,000) |
| Loans to customers | 9.2 | (66,930,955) | (49,405,274) |
| Due from BKT Albania | | (183,098) | (13,519) |
| Other assets | | (1,453,472) | (1,429,937) |
| | | **(61,068,232)** | **(90,057,746)** |
| *Increase/(decrease) in operating liabilities:* | | | |
| Due to customers | | 125,552,554 | 89,997,119 |
| Due to banks and syndication loans | | 16,193,145 | 7,873,869 |
| Due to BKT Albania | | (767,572) | 22,613,063 |
| Accruals and other liabilities | | 1,538,527 | (679,846) |
| Lease liabilities | | 272,007 | 78,350 |
| Impairment losses on financial assets, other than loans to customers, and provisions for off balance items | | - | (33,072) |
| | | **142,788,661** | **119,849,483** |
| Interest paid | | (5,837,026) | (5,282,727) |
| Interest IFRS 16 paid | | (116,543) | (78,340) |
| Interest received | | 31,334,154 | 24,770,121 |
| Income taxes paid | | (1,270,675) | (1,024,997) |
| **Net cash flows from / (used in) operating activities** | | **101,643,868** | **43,264,782** |
| ***Cash flows used in investing activities*** | | - | - |
| Proceeds from sale of investment securities | | (88,358,437) | (13,366,534) |
| Purchases of property, equipment and intangible assets | | (562,326) | (14,432,566) |
| Proceeds from sale of Properties, plant & equipment | | - | - |
| **Net cash from/ (used in) investing activities** | | **(88,920,763)** | **(27,799,100)** |
| **Cash flows from financing activities** | | | |
| (Repayments of)/ Proceeds from due to banks | | (4,904,223) | (4,037,222) |
| Paid in capital | | - | 9,000,000 |
| Change in lease principal | | (864,244) | (803,153) |
| **Net cash generated from financing activities** | | **(5,768,467)** | **4,159,625** |
| **Net increase in cash and cash equivalents** | | **6,954,638** | **19,625,307** |
| Cash and cash equivalents at the beginning of the period | 6 | 91,135,529 | 71,510,222 |
| **Cash and cash equivalents at the end of the period** | **6** | **98,090,167** | **91,135,529** |

The audited statement of cash flows is to be read in conjunction with the notes set out in pages 7 to 83 that form part of the audited financial information.

## 1. General

Banka Kombëtare Tregtare Kosovë sh.a (the "Bank") is a commercial bank offering a wide range of universal services. The Bank provides banking services to public and privately-owned enterprises and to individuals in Kosova.

Banka Kombëtare Tregtare J.S.C. Kosova (the "Bank") is a fully owned subsidiary of Banka Kombëtare Tregtare J.S.C in Albania. BKT – Kosova, registered on 30 August 2007 with the Central Bank of Republic of Kosova ('CBK') to operate as a foreign branch in the Republic of Kosova and is subject to CBK regulations. On April 30, 2018, Banka Kombëtare Tregtare Kosova Branch changed its status from foreign branch to Joint Stock Company. Now its bank license has changed from Banka Kombëtare Tregtare Kosova Branch to Banka Kombëtare Tregtare J.S.C Kosova. The Bank offers a wide range of products and services to public and privately-owned enterprises and to individuals in the Republic of Kosova. The main source of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both EUR and foreign currency. BKT offers a variety of corporate and consumer loans, debit and credit cards, ATMs, sophisticated alternative channels, qualified international banking services and various treasury products. The network of BKT Kosova consists of 21 units. Seven units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti, Lipjan and Skenderaj. The number of employees at the end of 2021 was 394 (2020: 389).

**Share capital**
At 31 December 2021 the authorised share capital is EUR 31,000,000 (2020: EUR 31,000,000). The Bank is a joint stock company 100% owned by Banka Kombëtare Tregtare J.S.C in Albania. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank's residual assets.
Upon the Shareholder's Decision dated 25 June 2020, the Bank share capital was increased from EUR 22,000,000 to EUR 31,000,000 by capital injection performed on 29 June 2020.

## 2. Basis of preparation

### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). They have been prepared under the assumption that the Bank operates on a going concern basis.

The Bank has considered the impact of Covid-19 in preparing their financial statements. While the specific areas of judgement may not change, the impact of Covid-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event.

More information about circumstances caused by the global pandemic of COVID-19 that affected Bank's operations and activities in 2020 and 2021 is disclosed in Note 4. These circumstances did not affect the appropriateness of the going concern assumption of the Bank.

### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for Financial instruments measured at FVOCI which are measured at fair value.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.





## 2. Basis of preparation (continued)

### (c) Functional and presentation currency

These financial statements are presented in EUR, which is also the Bank's functional and presentation currency.

### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4 and 5.

## 3. Significant accounting policies

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

### (a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate 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 spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction.

The assets and liabilities of foreign operations are translated into Euro at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Euro at spot exchange rates at the dates of the transactions. Foreign currency differences on the translation of foreign operations are recognised directly in other comprehensive income.
The Bank during the normal course of business enters into spot foreign exchange transactions with settlement dates 1 or 2 days after the trade date. These transactions are recorded in the financial statements on the settlement date. Foreign currency differences are recognised in profit or loss on the settlement date.

### (b) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.
The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

**3. Significant accounting policies (continued)**

**(c) Fees and commission**

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

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

**(d) Lease payments made**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

**(e) Current and deferred income tax expense**

Income tax expense comprises current and deferred tax. Income 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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Bank considers the impact of uncertain tax positions and whether additional taxes and interest may be due.

The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The applicable corporate tax rate in Republic of Kosovo is 10% (31 December 2020: 10%). Under Kosovo tax legislation system, tax losses can be carried forward to be offset against future taxable income for up to six years.





**3. Significant accounting policies (continued)**

**(f) Financial assets and liabilities**

***(i) Recognition***

The Bank initially recognises financial assets and liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset, with the exception of spot foreign exchange transactions which are recognized on settlement date. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value corrected by (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***(ii) De-recognition***

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

**3. Significant accounting policies (continued)**

**(f) Financial assets and liabilities (continued)**

**(ii) De-recognition (continued)**

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Central Bank of Kosova "On Credit Risk Management". The write off procedure is initiated after the following conditions are met:

- Credit exposures not covered by collateral, either in pledge form or in mortgage form, classified as non-performing exposure shall be written off from the balance sheet within eighteen (18) months of the period when they are classified in this category;
- Credit exposures that are covered by pledged collateral classified as non-performing must be written off from the balance sheet within thirty-six (36) months of the period when they were classified non-performing;
- Credit exposures that are covered by collateral in the form of mortgages classified non-performing exposure must be written off from the balance sheet within sixty (60) months from the period when they are classified as "non-performing".

***(iii) Classification and initial measurement of financial assets***

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable).
Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.





**3. Significant accounting policies (continued)**

**(f) Financial assets and liabilities (continued)**

**(iii) Classification and initial measurement of financial assets (continued)**

All income and expenses relating to financial assets are recognised in profit or loss.

– ***Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)***

As per the new standard, one of the conditions for financial assets to be classified either under 'amortised cost' or 'Fair Value Through Profit or Loss ("FVTPL") category is that the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank has performed the SPPI test and has determined the business models for its financial assets.

– ***Business model assessment***

There are three business models under IFRS 9 – 'Held to Collect ("HTC")', 'Held to Collect and Sell ("HTCS")' and 'Other ("Other BM")'.

1. Under the HTC model, cash flows result from collecting contractual payments. If an SPPI product is HTC, it is measured at amortised cost.
2. Under HTCS, cash flows result from contractual payments, as well as from selling the financial assets. If an SPPI product is HTCS, it is measured at fair value though other comprehensive income ("FVOCI").
3. Other BM are those that are neither HTC, nor HTCS. One example could be a model under which trading is the primary purpose with contractual payment collection not constituting an integral part of the model. If a product (SPPI or not) is held under Other BM, it is measured at fair value though profit or loss ("FVTPL"). The Bank has assessed the business model for its financial assets as follows;

*Treasury*

Treasury assets consist of cash or equivalents, Government Bonds, Investment securities such as Eurobonds, Bonds and Certificates.

Investment securities are accounted for depending on their classification as either Financial instruments measured at amortized cost or Financial instruments measured at FVOCI and in some cases as HTC.

The business model of the Bank under IFRS 9 is:
- "HTC" for HTM products. Such products shall be measured at amortised cost;
- "HTCS" for AFS products. Such products shall be measured at FVOCI; and
- "Other BM" for TRD products and shall be measured at FVTPL.

*Retail*

The Retail assets consist of various financing facilities to individuals (e.g. Mortgage loans, Consumer loans, Home improvement loans, Car loans, Credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.
The fair value of the Retail assets is not a critical aspect in the Bank's management of the portfolio.

The business model of the Banks under IFRS 9 is "HTC" and the Retail loans shall be measured at amortised cost.

*Corporate*

The Corporate assets consist of various financing facilities to corporates (e.g. Cash loans, Non-cash loans, Agro loans, Project & structured finance, Business credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.
The fair value of the Corporate assets is not a critical aspect in the Bank's management of the portfolio.
The business model of the Banks under IFRS 9 is "HTC" and the corporate loans shall be measured at amortised cost.

**3. Significant accounting policies (continued)**

**(f) Financial assets and liabilities (continued)**

***(iv) Subsequent measurement of financial assets***

*Financial assets at amortised cost*
Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method.
Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and most of other receivables fall into this category of financial instruments as well as government bonds and forfeiting instruments that were previously classified as held-to-maturity under IAS 39.

*Financial assets at fair value through profit or loss (FVTPL)*
Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.
The category also contains an equity investment. In the current financial year, the fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Bank determined that in the current period the Fair Value of these investments approximates to their carrying amount. Government bonds that are held for trading are classified as held-for-trading under IAS 39 fall into this category.

*Financial assets at fair value through other comprehensive income (FVOCI)*
The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon de-recognition of the asset. The Bank's government bonds, treasury notes and treasury bills, corporate bonds, promissory notes, assets backed securities and equity portfolio that were previously classified as available for sale fall into this category.

***(v) Offsetting***

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

***(vi) Amortised cost measurement***

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.





**3. Significant accounting policies (continued)**

**(f) Financial assets and liabilities (continued)**

***(vii) Fair value measurement***
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

In many cases the transaction price equals the fair value (that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold). When determining whether fair value at initial recognition equals the transaction price, the Bank considers factors specific to the transaction and to the asset or liability.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

***(viii) Impairment of financial assets***
IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'.
Restructured loans are kept directly in Bucket 2 for minimum 2 years based on the payment process in line with Central Bank regulation on NPE.
Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss. Recognition of credit losses is no longer dependent on the Bank first identifying a credit loss event. Instead the Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.
In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.
'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

**3. Significant accounting policies (continued)**

**(f) Financial assets and liabilities (continued)**

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument. Significant changes defines: IFRS 9 has advised to take into account qualitative factors such as watch lists or financial analysis by experts. Similarly, to the previous case, there is also a second time threshold. In case the repayment of an asset is overdue for more than 30 days and less than 90 days, it is assigned to "Bucket 2". Relative Threshold: if the counterparty has suffered significant deterioration in credit risk, that is if its credit quality since initial recognition has dropped more than a specific pre-defined relative threshold, then it is assigned to "Bucket 2".

**Write off loans**

The bank takes measurements to write a loan off in three below conditions have been met:

**Category 1 -** Credit exposures not covered by collateral, either in pledge form or in mortgage form, classified as non-performing exposure shall be written off from the balance sheet within eighteen (18) months of the period when they are classified in this category;

**Category 2 -** Credit exposures that are covered by pledged collateral classified as non-performing must be written off from the balance sheet within thirty-six (36) months of the period when they were classified non-performing;

**Category 3 -** Credit exposures that are covered by collateral in the form of mortgages classified non-performing exposure must be written off from the balance sheet within sixty (60) months from the period when they are classified as "non-performing";

**Category 4 -** Credit exposures that are covered by combined collateral, in pledge form and in mortgage form, in cases where the mortgage covers more than fifty percent (50%) of the exposure at the time of approval, then for the purpose of repayment, the credit exposure be treated according to paragraph 2.3 of this article;

***(ix) Classification and measurement of financial liabilities***

The Bank's financial liabilities include Customer deposits, borrowings from banks and other financial institutions, subordinated debt and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

***(x) Derivative financial instruments and hedge accounting***

The Bank applies the new hedge accounting requirements in IFRS 9 prospectively.

Derivative financial instruments are accounted for at fair value through profit and loss (FVTPL) except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

• There is an economic relationship between the hedged item and the hedging instrument

• The effect of credit risk does not dominate the value changes that result from that economic relationship.





**3. Significant accounting policies (continued)**

**(f) Financial assets and liabilities (continued)**

***(x) Derivative financial instruments and hedge accounting (continued)***

• The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item. If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss.

If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

**(g) Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets, 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 amortised cost in the statement of financial position.

**(h) Derivatives held for risk management purposes**

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

**(i) Loans**

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans at fair value through profit or loss as described in accounting policy 3(f), (iii).

**(j) Property and equipment and intangibles**

***(i) Recognition and measurement***

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. 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.

**3. Significant accounting policies (continued)**

**(j) Property and equipment and intangibles (continued)**

***(ii) Subsequent costs***

The cost of replacing a part of an item of property or equipment is recognised 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 carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

***(iii) Depreciation***

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| • Leased hold improvements | 1 to 10 years |
| • Motor vehicles and machinery | 5 years |
| • Office furniture | 5 years |
| • Computers and electronic equipment | 5 years |

Depreciation methods, useful lives and residual values are reassessed at the reporting dates.

***(iv) Intangible assets***

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives, which at 31 December 2021 and 2020 is from 1 to 20 years.

Intangible assets consist of software licences.





**3. Significant accounting policies (continued)**

**(j) Property and equipment and intangibles (continued)**

***(v) Leased property and equipment***

For contracts in place, the Bank has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

*Initial direct costs*

An entity may exclude initial direct costs from the measurement of the Right of Use asset at the date of initial application.

Based on IFRS 16, if a lessee elects to apply the standard with the modified retrospective application, the lessee shall choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

Option 1 – its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. The practical expedient to exclude initial direct costs from the measurement of the Right of Use asset at the date of initial application is applicable under Option 1 or;

Option 2 – an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease. Although it is not stated explicitly in the new standard, the practical expedient on initial direct costs is not relevant under Option 2. The Bank does not adjust the Right of Use asset for historical amounts e.g. initial direct costs.

The Bank has opted to apply the modified retrospective method under Option 2.

*Low-value assets*

Lessees can also make an election to apply a method similar to current operating lease accounting to leases for which the underlying asset is of low-value. IFRS 16 does not define the term low-value.

Banka Kombëtare Tregtare Kosovë Sh.a uses the EUR 5,000 as a threshold and simultaneously analyses the nature of the asset in order to assess whether a leased asset qualifies for the low-value asset exemption. The types of assets that qualify for the low-value asset exemption might change over time if, due to market developments, the price of a particular type of asset changes.

*Incremental Borrowing Rate*

The rate used for calculation of the RoU asset and the Lease liability has taken into consideration the term, FX denomination, risk associated with the bank, security, risk associated with the asset and economic environment.

The closest values matching this definition are Funds Transfer Pricing (FTP) rates. The term and FX denomination are taken into consideration when constructing the EUR yield curves. The Bank considered at the initial application date the rates published by 31 December 2018.

After consideration, the Bank determined that there are no differences in terms of security, due to the fact that the lessor effectively has security of owning the asset. Therefore, no adjustments were required. Since the starting point is in the same jurisdiction and in the same currency as leases, no adjustment is required for this segment as well. In addition, for assets such as office buildings and ATM space, considering that they are in a frequented area, are not highly illiquid or specialized assets, specific asset premium would be nil.

**3. Significant accounting policies (continued)**

**(j) Property and equipment and intangibles (continued)**

***(v) Leased property and equipment (continued)***

The incremental borrowing rate is determined as the base rate yield curve plus the credit spread.

a. Base rate yield curve

Input data in the model are money market rates (inter-bank rates in maturity bucket ON-1Y). These data are published on daily basis in "Reuters" (inter-bank trading platform). For higher maturities, the rate is calculated by extrapolating starting from the money market rates of December 2018.

The Bank uses the Cubic spline interpolation for EUR yield curve construction. Cubic spline interpolation is a special case of spline type interpolation that is used very often to avoid the problem of Runge's phenomenon. This method gives an interpolating polynomial that is smoother and has smaller error than some other interpolating polynomials such as Lagrange polynomial and Newton polynomial. Cubic smoothing splines fitted to univariate time series data can be used to obtain local linear forecasts. The approach is based on a stochastic state space model which allows the use of a likelihood approach for estimating the smoothing parameter, and which enables easy construction of prediction intervals. In essence the same mathematical mechanic is followed by the NSS (Nelson-Siegel-Svensson) model. Whereas an interpolation typically begins with specifying a functional form either to approximate discount function or forward rates, and then estimates the unknown parameters. The cubic spline approach, brings more flexibility on the shape of a yield curve and is thus good for financial practitioners who are looking for small pricing anomalies.

b. Credit spread

For the credit spread calculations, the Bank has approached the following logic:

1) Identify the international long-term Issuer Default Rating of the financial institution ("Bank"). International long-term IDR is given by the External Credit Rating Agency such as Moody's, Fitch or Standard & Poor. The Bank will use only the official, world-wide accepted, external credit rating agencies such as Fitch, Moody's and S&P because only these 3 agencies do the analyses world-wide, make and publish the studies on PDs, LGD's (where credit spread will be determined as PD*LGD) etc. on the global level. These three agencies are also the only ones allowed to be used for the purpose of relying on the expert-data parameters for e.g. in EU (as per CRD/CRR regulation etc.).

2) If the financial institution (Bank) does not have such a rating and it is part of a Bank, the lower rating of the country ceiling for the country where Bank is located and the external agency's international long-term Issuer Default Rating of the ultimate parent is used. The underlying reason for this approach is that when a bank is part of a Bank, support is more likely.

3) If neither of these steps results in a rating, country ceiling for the country in which Bank is located is identified and at least one notch is subtracted. The country ceiling is the best rating that an entity based in that country can receive, so this is used as a benchmark as we tend to work with the biggest and most robust institutions. Additionally, the downward risk adjustment is made for the sake of prudence.

   The state of Kosova does not have a credit rating.

The credit rating of BKT Kosova (B-) is determined by starting from the credit rating of BKT Albania (B), as the parent company, deducted by one notch for the sake of prudence.

In this manner, is determined the credit rating of the Bank at B-. That particular rating of the Bank is assigned proper probability of default rate (PD rate), which is externally calculated – expert data given by the external credit rating agency. However, PD is just a probability. In order to approximate full credit risk, LGD is needed. By multiplying the PD rate and LGD rate, credit loss rate is obtained and this is the approximation of credit risk. It is recommended to use Basel LGD value as fixed at 45% at all times.





**3. Significant accounting policies (continued)**

**(j) Property and equipment and intangibles (continued)**

***(v) Leased property and equipment (continued)***

| | |
|---|---|
| BKT Kosova | B- |

At initial application date, the credit spread of the Bank is 4.07%. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.95% (2.59% for newly recognized right of use assets in 2021, 2.55% in 2020).

The Bank has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

For leases previously classified as operating leases under IAS 17, a lessee recognizes a lease liability measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2021.

**3. Significant accounting policies (continued)**

**(k) Assets acquired through legal process (repossessed collateral)**

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. The Bank applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Collaterals repossessed by the Bank represent the repossessed collaterals of some unrecoverable loans, the ownership of which was taken by the Bank. The Bank has established an Asset Sale Committee, responsible for the disposal of these assets. These assets are accounted for as foreclosed assets. The fair value of these assets at the reporting date is determined with reference to the current market prices. Write off for repossessed collateral is booked for all the repossessed assets more than 10 years from the end of actual reporting period.

**(l) Impairment of non-financial assets**

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

An impairment loss is recognized if the carrying amount of an asset 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. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. 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. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(m) Deposits and borrowings**

Deposits and borrowings are part of the Bank's sources of funding. When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements. Deposits and borrowings are initially measured at fair value net of directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.





**3. Significant accounting policies (continued)**

**(n) Provisions**

A provision is recognised 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 recognised 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 recognised 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 recognises any impairment loss on the assets associated with that contract.

ECL is estimated under Baseline (typical), Best (favourable) and Adverse (unfavourable) conditions.

The only Point-in-Time estimates are for Probability of Default. LGD assumes Basel estimates and EAD uses amortisation type payment schedules. Once all components (PD, EAD, LGD) have been computed, the ECL is estimated under three different scenarios: Baseline (typical), Best (favourable) and Adverse (unfavourable) condition, with weights 52%, 30% and 18% respectively

o) Financial guarantees and loan commitments

The Bank's liability under each commitment is measured at the higher of the amount initially recognized minus the cumulative depreciation recognized in the income statement, and the provision measured by HPK. To this end, the Bank assesses HPKs based on the present value of the expected payments to reimburse the holder for a credit loss it causes. Deficiencies are deducted from an interest rate adjustment adjusted by the risk associated with the exposure. HPKs related to financial guarantee contracts are recognized within the provisions. Financial guarantees are contracts that oblige the Bank to make specific payments to reimburse the holder for a loss that arises when a specific debtor fails to pay on time under the terms of a lending instrument. Loan commitments are defined commitments to secure loans under pre-defined terms and conditions. Such financial commitments are recorded in the statement of financial position, if and when they become payable.

p) Dividends

Dividend is declared at the General Meeting of Shareholders, based on the recommendation of the Board of Directors. The shareholders can decide on any dividend amount, within the range of payable dividend proposed by the Board of Directors.

The decision regarding dividend shall be taken only by the General Meeting of Shareholders and not by a Committee of the Board or by any way of a Resolution passed by circulation.

Final dividend shall be paid only after approval at the General Meeting of Shareholders of the Bank.

Dividends shall be distributed proportionately to the par value of shares, unless the Articles of Association of the Bank provides otherwise.

**(o) Employee benefits**

***(i)* Defined contribution plans**

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

**3. Significant accounting policies (continued)**

**(o) Employee benefits (continued)**

***(ii) Short-term benefits***

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

### 3.1 New Standards adopted as at 1 January 2021

The Bank has adopted the new accounting pronouncements which have become effective this year, and are as follows:

Standards and amendments that are effective for the first time in 2021 (for an entity with a 31 December 2021 year-end) and could be applicable to the Bank are:

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

These amendments do not have a significant impact on these Financial Statements and therefore the disclosures have not been made.

### 3.2 Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

Standards and amendments that are not yet effective and have not been adopted early by the Bank include:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Deferred Tax related to Assets and Liabilities from a Single Transaction.

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





**4. Use of estimates and judgements**

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 5).

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (note 3, (f), (iii)). The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

***ECL Determination***

Significant increase of credit risk: As explained in note 3 (f) (viii) and 5 (b) (ii), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank considers qualitative and quantitative reasonable and supportable forward-looking information.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 (f) (viii) and 5 (b) (ii), for more details on ECL and note 3 (f) (vii) for more details on fair value measurement.

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Models and assumptions used: The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 (f) (viii) and 5 (b) (ii), for more details on ECL and note 3 (f) (vii) for more details on fair value measurement.





## 4. Use of estimates and judgements (continued)

**Fair values**

The table below sets out the carrying amounts and fair values of the financial assets and liabilities by the level in the fair value hierarchy into which the fair value measurement is categorised:

| 31-Dec-21 | | | Fair Value | | | |
|---|---|---|---|---|---|---|
| | Note | Carrying Amount | Level 1 | Level 2 | Level 3 | Total |
| Placement and balances with banks | 7 | 29,492,205 | - | - | 29,492,205 | 29,492,205 |
| Investment securities | 8 | 215,321,687 | 166,435,895 | - | 48,885,792 | 215,321,687 |
| Due from BKT Albania | 25 | 221,756 | - | - | 221,756 | 221,756 |
| Loans and advances to banks and other syndication loans | 9 | 18,741,863 | - | - | 18,741,863 | 18,741,863 |
| Loans to customers | 9 | 417,474,266 | - | - | 417,474,266 | 417,474,266 |
| **Total financial assets** | | **681,251,777** | **166,435,895** | **-** | **514,815,882** | **681,251,777** |
| Customer deposits | 13 | 665,173,509 | - | - | 665,173,509 | 665,173,509 |
| Due to banks | 14 | 21,228,622 | - | - | 21,228,622 | 21,228,622 |
| Liabilities based on Repo Transactions | 14 | 30,093,037 | - | - | 30,093,037 | 30,093,037 |
| Borrowings | 16 | 13,347,815 | - | - | 13,347,815 | 13,347,815 |
| **Total financial liabilities** | | **729,842,983** | **-** | **-** | **729,842,983** | **729,842,983** |

| 31-Dec-20 | | | | | | Fair Value |
|---|---|---|---|---|---|---|
| | Note | Carrying Amount | Level 1 | Level 2 | Level 3 | Total |
| Placement and balances with banks | 7 | 30,402,526 | - | - | 30,402,526 | 30,402,526 |
| Investment securities | 8 | 129,698,035 | 101,467,602 | - | 28,230,433 | 129,698,035 |
| Due from BKT Albania | 25 | 38,658 | - | - | 38,658 | 38,658 |
| Loans and advances to banks and other syndication loans | 9 | 32,008,794 | - | - | 32,008,794 | 32,008,794 |
| Loans to customers | 9 | 351,964,719 | - | - | 351,964,719 | 351,964,719 |
| **Total financial assets** | | **544,112,732** | **101,467,602** | **-** | **442,645,130** | **544,112,732** |
| Customer deposits | 13 | 539,308,400 | - | - | 539,308,400 | 539,308,400 |
| Due to banks | 14 | 13,829,728 | - | - | 13,829,728 | 13,829,728 |
| Liabilities based on Repo Transactions | 14 | 22,066,897 | - | - | 22,066,897 | 22,066,897 |
| Borrowings | 16 | 18,247,148 | - | - | 18,247,148 | 18,247,148 |
| **Total financial liabilities** | | **593,452,173** | **-** | **-** | **593,452,173** | **593,452,173** |

**4. Use of estimates and judgements (continued)**

**Going Concern**

During the beginning of 2020, the pandemic of COVID-19 was spread globally. In response to the situation, in March 2020 the Government of Kosova took drastic measures by suspending all activities that were not vital. Furthermore, facing the consequences of the COVID-19 Pandemic, which go far beyond the crucial element of public health, both the Government of Kosova and Central Bank of Kosova implemented immediate measures in order to mitigate the social and economic impact of the outbreak.
The government on 27 March 2020 approved the emergency fiscal package in amount Eur 170.6Mil Euro, the package includes:

- Euro 41mio for payment of salaries for private sector with the monthly amount Eur 170 for 2 months
- Euro 20mio for companies public & private that offers municipalities services that are affected by the restriction of movement
- Euro 15mio for micro and small companies affected directly by the covid-19 (through KCGF)
- Euro 5mio for subvention for Agro sector (and Euro 5Mil additional to budget)
- Euro 10mio for supporting companies which are exportin
- Other amount is distributed for measures for fighting COVID-19 and families in need (for 98.100 citizens)
- Extension of deadlines for implementation of the unfinished Grants project for farmers
- Securing the feed corridor for livestock and poultry from Bulgaria and northern Macedonia.
- Subvention of the rent's payments for businesses up to 50%

Furthermore, Government of Kosova announced the second phase of Economic recover package in amount of EUR 1.2billion, including:

- Government Approval of Project Law for Economic Recovery – COVID 19,
- Withdrawal 10 % of savings funds from the pension trust
- Increasing coverage of new loans through the Kosovo Credit Guaranty Fond-KCGF,
- Reprogramming of existing bank loans where the government receives the reprogramming fee,
- Facilitate the tax burden on businesses to improve their short-term liquidity,
- Payment subsidy for existing employers as well as new employers for specific sectors affected by pandemics,
- Doubling the budget for agriculture and increasing subsidies,
- Development of local agricultural markets and their digitalization as well as support for the sale of fresh agricultural products,
- Subsidizing interest rates on agricultural loans,
- Support for the extension of the Greek period for the purchase of apartments and houses based on income criteria as well as the return of a part of the saved funds to the contributors from pension trust,

Central Bank of Kosova has announced that customers that will face liquidity problems can request a postponement of the settlement of their liabilities toward the Banks until 30.10.2020.

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 determines that its capital resources are available.

In terms of liquidity scenarios, the Bank conducts periodically stress tests exercises to assess its liquidity position. In these exercises the Bank conduct 3 liquidity crisis scenario which are: business as usual scenario, idiosyncratic scenario and systemic scenario. In this regard, throughout 2020, the exercises have confirmed that even if the liquidity stress situation would continue for a period of 3 months, the Bank would meet the demand for funds for its main currencies.





**4. Use of estimates and judgements (continued)**

**Going Concern (continued)**

Moreover, in the frame of managing and monitoring the liquidity risk, it has been performed the projection of liquidity in terms of not cash flow based on the trend performance during the period of pandemic situation. It is worth emphasizing that in the above liquidity cash flow analysis, we have taken into consideration how long the cash available, including the cash inflows, would be sufficient to cover the cash outflows. From the results, the Bank would be able to cover its cash outflow, with current cash available and potential cash inflow up to 7 months in loan repayment, security portfolio and deposit withdrawal. In this regard, throughout 2020, the exercises have confirmed that even if the liquidity stress situation would continue for a period of 3 months, the Bank would meet the demand for funds for its main currencies.

In the scenarios considering the pandemic extent, the CAR in both, baseline and adverse scenarios, have resulted above the minimum requirement threshold set by Central Bank of Kosova. Hoverer, the Bank has taken necessary protective action by increasing the capital during 2020.

For the year ending 2021, the Bank expected an increase on the nonperforming loans portfolio due to the economic downturn, but in contrary it resulted in better performance of the loans for the bank, decreasing NPL ratio compared to the year 2020. Following the emergence of COVID - 19 pandemics, the Bank has analysed and considered the macroeconomic changes to reflect the impact of COVID - 19 in the calculation of the Expected Credit Loss.

At year-end 2021, the Bank has managed to achieve and the budgeted results, exceeding them in terms of balance sheet size, while in terms of profitability the Bank achieved 118% of targets. For the year ending 2021, the Bank performance was sustainable, regardless the pandemic situation continued with lower indications than in 2020.

During 2020, the decline in share prices on global listed stock exchanges occurred in the beginning of 2020 reversed gradually in the upcoming month resulting to a higher fair value of the Bank listed investments. In 2021 the Management expect a stable performance of the fair value reserve.

The Banks management evaluates the Banks ability to continue as a going concern considering all the factors stated above and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Banks ability to continue as a going concern. Therefore, the Consolidated Financial Statements continue to be prepared on the going concern basis.
The below table shows the detailed postponed amount and number of customers, divided in corporate and retail:

| | **Phase 1** | | **Phase 2** | |
|---|---|---|---|---|
| | **Postponed Debt** | **Number of Customers** | **Postponed Debt** | **Number of Customers** |
| Corporate | 25,819,074 | 247 | 70,591,066 | 172 |
| Retail | 36,830,892 | 3,243 | 4,913,030 | 219 |
| **Total** | **62,649,966** | **3,490** | **75,504,096** | **391** |

For the year 2021, there are no measures taken in regard of postponement of loan instalments.

## 5. Financial risk management

### (a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks
- 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.

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risks.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO), Risk Management Group and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All these bodies report regularly to the Board of Directors on their activities.

The Bank's 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. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. 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.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. Bank entered in an agreement with KCGF (Kosova Credit Guaranty Fund) in order to guaranty the customer loans from minimum 20% up to 80% with new emergency package. Gross Loans increased by EUR 66,674,898 in 2021 compared to the year 2020, while NPL ratio declined from 1.99% in 2020 to 1.51% in 2021.

### (b) 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 to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). BKT Kosova has formed a Credit Committee to oversee the approval of requests for credits up to the limit of 500,000 EUR. Credit requests with amounts over EUR 500,000 up to EUR 1,000,000 are approved by only two Board Members, while credit requests with amount over EUR 1,000,000 are approved only upon decision of the Board of Directors (all members). There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

Each business unit is required to comply with Bank credit policies and procedures. Regular audits of business units and Credit Risk Management processes are undertaken by Internal Audit.





## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

*i. **Maximum credit exposure***

The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets. Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2021 and 31 December 2020 are as follows:

| Financial Instruments Credit Risk | Note | 31-Dec-21 | | | 31-Dec-20 | | |
|---|---|---|---|---|---|---|---|
| | | Exposure before impairment | Impairment | Net exposure for credit risk | Exposure before impairment | Impairment | Net exposure for credit risk |
| **A. Credit risk exposure relating to balance sheet items** | | | | | | | |
| Cash and Cash Balances with Central Banks | | 115,840,781 | - | 115,840,781 | 102,398,903 | - | 102,398,903 |
| Placements and Balances with the Banks | | 29,494,207 | (2,002) | 29,492,205 | 30,408,198 | (5,672) | 30,402,526 |
| Investment securities - measured at FVOCI | | 166,435,895 | - | 166,435,895 | 101,467,602 | | 101,467,602 |
| Investment securities - measured at amortised cost | | 49,353662 | (467,870) | 48885,792 | 28,317,762 | (87,329) | 28,230,433 |
| Loans to customers | | 430,854,609 | (13,380,343) | 417,474,266 | 364,368,180 | (12,403,461) | 351,964,719 |
| Loans and advances to banks | | 18,868,183 | (126,320) | 18,741,863 | 32,108,988 | (100,194) | 32,008,794 |
| Other Assets | | 8,491,967 | - | 8,491,967 | 6,981,921 | - | 6,981,921 |
| **Total Assets** | | **819,339,304** | **(13,976,535)** | **805,362,769** | **666,051,554** | **(12,596,656)** | **653,454,898** |
| **Off balance sheet items** | | | | | | | |
| Undrawn credit commitments | | 53,140,755 | (379,007) | 52,963,284 | 40,578,963 | - | 40,578,963 |
| Swap foreign currency contract | 29 | 56,464,609 | | 56,464,609 | 39,308,879 | - | 39,308,879 |
| Collaterals for loan portfolio | | 922,955,613 | | 922,955,613 | 802,594,080 | - | 802,594,080 |
| Securities pledged as collateral | | - | - | | - | - | - |
| **Total off-balance sheet** | | **1,032,560,977** | **(379,007)** | **1,032,383,506** | **882,481,922** | **-** | **882,481,922** |
| **Total credit risk exposure** | | **1,851,900,281** | **(14,355,542)** | **1,837,746,275** | **1,548,533,476** | **(12,596,656)** | **1,535,936,820** |

**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***ii. Expected credit loss measurement***

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. This credit quality depends on the extent of credit deterioration since initial recognition and will spread over three stages:

“Stage 1” comprises of assets that have not suffered any significant deterioration of credit quality since initial recognition;

“Stage 2” comprises of assets that have suffered significant deterioration since initial recognition;

“Stage 3” concerns all assets where a default has occurred.

Under this general approach, the ECL for an asset is calculated over different time horizons according to the stage it was assigned to:

ECL over one year for assets in stage 1;

ECL over remaining lifetime for assets in stage 2 and stage 3.

The stage assignment is done according to the following rules:

Impairment: if the counterparty for the considered asset has defaulted, the asset is assigned to “Stage 3”. An asset is considered as having defaulted if any repayment (principal or interest) is overdue for more than 90 days or if the counterparty is in a proven situation of default (bankruptcy).

Rating D (lower than C): Assets with this rating are currently considered to be in stage 3.

Qualitative factors: IFRS 9 has advised to consider qualitative factors such as watch lists or financial analysis by experts. Similarly, to the previous case, there is also a second time threshold. In case the repayment of an asset is overdue for more than 30 days and less than 90 days, it is assigned to “Stage 2”.

Relative Threshold: if the counterparty has suffered significant deterioration in credit risk, that is if its credit quality since initial recognition has dropped more than a specific pre-defined relative threshold, then it is assigned to “Stage 2”.

All assets that are not in the previous cases are assigned to “Stage 1”.

*Grouping of instruments for losses measured on a collective basis*

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible.

Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes.

The Bank has three main portfolios, which are:

– Loan portfolio

This category includes wholesale and individual/retail accounts loans.

– Treasury portfolio

This category includes bonds, treasury bills and equity accounts.

– Project and Structured Finance

This category includes letters of credit and bank guarantees.





**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***ii Expected credit loss measurement (continued)***

*Significant Deterioration through relative threshold*

The bank computes a relative threshold matrix that gives for each rating a prediction of what the expected rating for each time horizon should be.

Through-the-cycle (TTC) transition matrices give the percentage of counterparties which moved from one rating to another over a specific time interval. TTC matrices over a 10-year horizon are taken since this gives a comfortable horizon for a relative threshold.

*Credit risk grading*

The bank relied on proxies provided by external credit rating agencies. External TTC transition matrices for all European entities provided by international credit rating agencies are used. The following steps are then carried out:

First the mapping between the internal and external rating systems is performed;

From there, a TTC transition matrix with the number of observations (number of entities that changed from one specific rating to another) is used and a weighted average per mapped rating is computed in order to compute the internal ratings TTC matrix.

*Forward-looking information incorporated in the ECL models*

The TTC PDs are transformed into PIT PDs by taking into account the macroeconomic environment through a set of macroeconomic variables: real GDP growth rate, inflation rate and unemployment rate. These variables were sourced from the IMF2, including historical data spanning 1990 – 2017 and baseline projections for 2018 – 2021. The first PD model includes a simplified form of the Merton model. In this framework, a systemic variable $Xt$which represents the macroeconomic environment is introduced. The sensitivity of each rating’s PD to this variable is obtained via the calibration of the $\rho$parameter. The model takes into account the global default rate of each year and calculates $Xt$for each year, which is then regressed over with the different combinations of macro-economic variables. Using projections of the macroeconomic variables, the regression formula is used to deduce projections of $Xt$, and based on the one factor Merton model the PIT PDs are obtained. The second PD model considers the default rate per rating in each year, which enables the calibration of the sensitivity ρi for all ratings.

*Measuring ECL – Explanation of inputs, assumptions and estimation techniques*

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

1. Probability of default (PD);
2. Loss given default (LGD); and
3. Exposure at default (EAD).

ECL is estimated under Baseline (typical), Best (favourable) and Adverse (unfavourable) conditions.
The only Point-in-Time estimates are for Probability of Default. LGD assumes Basel estimates and EAD uses amortisation type payment schedules. Once all components (PD, EAD, LGD) have been computed, the ECL is estimated under three different scenarios: Baseline (typical), Best (favourable) and Adverse (unfavourable) condition, with weights 52%, 30% and 18% respectively, please refer note 3, n) provisions. The final ECL is the probability-weighted ECL under those three scenarios.

**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***ii Expected credit loss measurement (continued)***

*1. Probability of Default*

The probability of default has been modelled on the basis of the one factor Merton model. The approach to model the point-in-time forward looking and macroeconomic PD is divided into three different steps: - The first step is to calibrate the cumulated TTC PDs; - The second step is to include the forward-looking information and transform the cumulated TTC PDs to PIT PDs; - The final step is to describe the conversion of PIT PDs to TTC PDs after a certain horizon. Default rates are essential for the calculation of Point-in-Time Probability of Default (PD) and for the estimation of ECL. The Bank used external default rate data for each relevant sector and region. A number of macro-economic variables sourced from the IMF2, including historical data spanning 1990 – 2017 and baseline projections for 2018 – 2021, were considered in modelling of PIT PD. For non-rated accounts, PD are estimated using the nominal weighted average PD of all rated accounts within the same rating system. However, this does not guarantee that the PD for non-rated accounts in stage 2 (NRB2) is higher than for stage 1 (NRB1). To account for the higher risk of NRB2 exposures, the Bank mapped NRB2 to an equivalent risk grade with similar PIT PD as the PD for NRB1 exposure for a time horizon equal to the average residual lifetime of all unexpired accounts within the same sector.

*2. Loss Given Default (LGD)*

Loss Given Default is defined as the percentage of the Exposure at Default (EAD) that is ultimately lost in case of default of a counterparty, after all possible recoveries through selling of collateral or collection procedures. As regards to the loan to customers' portfolio, LGD is modelled using historical recovery rates or using the collateral value of the asset. The bank has considered information about past collateral value, time in default, time to sale, sale costs, in calculating the LGD. A defaulted collateralised asset can move through different stages post default. The bank can seize the collateral ("Possession") in order to sell it ("Sale") and make up for the potential loss due to the default of the counterparty. Possession of collateral can occur voluntarily ("handing over the keys") or via litigation (court proceedings). And sales may be carried out by the institution (after obtaining possession) or by means of a customer self-sale. On the date of collateral sale, any shortfall is recognised in the P&L (write-off expense) and subsequent recoveries (debt collection either internal or external) may occur. Write-off occurs when there is a shortfall on collateral sale. Closed and cures occur when the full outstanding is recovered with the former resulting in the account closing (i.e. no lending). Cure refers to both closed and curing accounts. For the unsecured/uncollateralised types of assets the value of the collateral is supposed to be 0 and the actual model is still applied taking into account pure debt collection. In the light of this recovery process, the Bank defines LGD as the expected severity (loss) given a default. The Banks mapped each collateral type in BKT portfolios to the Basel LGD segments1, each with their own LGD parameters for Corporate and Retail Portfolio based on historical data. For Sovereigns and Banks Segment, LGD value is fixed 45% as per Basel requirements.

*3. Exposure at Default (EAD)*

An asset can have a customised, linear or bullet amortisation type. For assets with a customised amortisation type, repayment schedules are used to estimate EAD. For assets without any amortisation type, a linear repayment plan is assumed. For off balance sheet exposures, it is required that provisions are held against undrawn commitments. BKT's calculation of the credit conversion factor (CCF) values is in line with Basel II requirements under the standardised approach: "Commitments with an original maturity up to one year and commitments with an original maturity over one year will receive a CCF of 20% and 50%, respectively." Early repayment/refinance assumptions are also incorporated into the calculation. However, the early repayments are considered to be 0 for all assets as the Bank's historical data suggests insignificant material impact.





**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***ii Expected credit loss measurement (continued)***

The following table sets out the changes in gross carrying amount of loans to customers at amortised cost.

**CHANGES IN GROSS CARRYING AMOUNT OF LOANS TO CUSTOMERS AT AMORTISED COST**

| | Loans and advances to customers | | | |
|---|---|---|---|---|
| **31 December 2021** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Balance at 1 January 2021** | **266,429,701** | **92,154,362** | **6,079,099** | **364,663,162** |
| Transfer to Stage 1 (from 2 or 3) | 28,057,179 | (27,866,005) | (191,174) | - |
| Transfer to Stage 2 (from 1 or 3) | (6,277,637) | 6,298,592 | (20,955) | - |
| Transfer to Stage 3 (from 1 or 2) | (873,510) | (1,712,721) | 2,586,231 | - |
| New financial assets originated or purchased | 190,309,456 | 7,054,372 | 1,417,909 | 198,781,737 |
| De-recognition of financial assets | (64,108,608) | (13,427,162) | (1,757,821) | (79,293,591) |
| Changes due to change in credit risk that did not result in de-recognition | (44,035,861) | (7,185,032) | (822,357) | (52,043,250) |
| Write-offs | - | - | (769,999) | (769,999) |
| **Gross Balance at 31 December 2021** | **369,500,720** | **55,316,406** | **6,520,933** | **431,338,059** |

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included. As of 31 December 2021 unamortized deferred fee amounts 483,449 Eur.

**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***ii Expected credit loss measurement (continued)***

**CHANGES IN GROSS CARRYING AMOUNT OF LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 December 2020 | Loans and advances to customers | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2020** | **298,290,214** | **11,165,637** | **6,554,854** | **316,010,705** |
| Transfer to Stage 1 (from 2 or 3) | 3,326,933 | (3,117,191) | (209,742) | - |
| Transfer to Stage 2 (from 1 or 3) | (14,588,409) | 14,677,740 | (89,331) | - |
| Transfer to Stage 3 (from 1 or 2) | (1,209,389) | (845,775) | 2,055,164 | - |
| New financial assets originated or purchased | 121,541,929 | 79,692,328 | 215,018 | 201,449,275 |
| De-recognition of financial assets | (118,827,177) | (6,198,411) | (794,093) | (125,819,681) |
| Changes due to change in credit risk that did not result in de-recognition | (22,104,400) | (3,219,966) | (1,029,793) | (26,354,159) |
| Write-offs | - | - | (622,978) | (622,978) |
| **Gross Balance at 31 December 2020** | **266,429,701** | **92,154,362** | **6,079,099** | **364,663,162** |

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included. As of 31 December 2020, Unamortized deferred fee amounts 294,982 Eur.



**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***ii Expected credit loss measurement (continued)***
The following table sets out the changes in allowance of loans to customers at amortised cost

**ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 December 2021 | Loans to customers allowance | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2021** | 4,351,494 | 6,255,535 | 1,796,432 | 12,403,461 |
| Transfer to Stage 1 (from 2 or 3) | 2,511,379 | (2,379,554) | (131,825) | - |
| Transfer to Stage 2 (from 1 or 3) | (52,739) | 68,173 | (15,434) | - |
| Transfer to Stage 3 (from 1 or 2) | (8,332) | (72,690) | 81,022 | - |
| New financial assets originated or purchased | 2,919,725 | 295,844 | 561,805 | 3,777,374 |
| De-recognition of financial assets | (744,224) | (936,141) | (344,370) | (2,024,735) |
| Write-offs | - | - | (343,609) | (343,609) |
| Changes in models/risk parameters | (2,746,272) | 208,799 | 2,105,325 | (432,148) |
| Foreign exchange and other changes | - | - | - | - |
| **Allowance at 31 December 2021** | **6,231,031** | **3,439,966** | **3,709,346** | **13,380,343** |

**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***ii Expected credit loss measurement (continued)***

The following table sets out the changes in allowance of loans to customers at amortised cost

**ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 December 2020 | Loans to customers allowance | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2020** | **7,070,848** | **436,735** | **2,099,573** | **9,607,157** |
| Transfer to Stage 1 (from 2 or 3) | 377,980 | (162,271) | (215,709) | - |
| Transfer to Stage 2 (from 1 or 3) | (228,327) | 263,529 | (35,202) | - |
| Transfer to Stage 3 (from 1 or 2) | (16,580) | (7,726) | 24,306 | - |
| New financial assets originated or purchased | 1,435,297 | 6,003,691 | 122,939 | 7,561,927 |
| De-recognition of financial assets | (3,468,160) | (252,557) | (246,365) | (3,967,082) |
| Write-offs | - | - | (445,178) | (445,178) |
| Changes in models/risk parameters | (819,564) | (25,866) | 492,068 | (353,362) |
| Foreign exchange and other changes | - | - | - | - |
| **Allowance at 31 December 2020** | **4,351,494** | **6,255,535** | **1,796,432** | **12,403,461** |





**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***ii Expected credit loss measurement (continued)***

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans). Fair values and discount / premiums are excluded.

**CHANGES IN GROSS CARRYING AMOUNT OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS)**

| 31 December 2021 | Due from Banks | | | | Investment Securities at FVOCI | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2021** | **7,206,181** | **-** | **-** | **7,206,181** | **98,188,727** | **-** | **-** | **98,188,727** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - | - | - | - |
| New financial assets originated or purchased | 4,967,493 | - | - | 4,967,493 | 166,162,549 | - | - | 166,162,549 |
| De-recognition of financial assets | (7,206,181) | - | - | (7,206,181) | (98,188,727) | - | - | (98,188,727) |
| Changes due to modifications that did not result in de-recognition | - | - | - | - | - | - | - | - |
| Write-offs | - | - | - | - | - | - | - | - |
| Foreign exchange and other changes | - | - | - | - | - | - | - | - |
| **Gross Balance at 31 December 2021** | **4,967,493** | **-** | **-** | **4,967,493** | **166,162,549** | **-** | **-** | **166,162,549** |

| 31 December 2021 | Investment Securities at amortised cost | | | | Loan Commitments and financial guarantee | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage1 | Stage2 | Stage3 | Total | Stage1 | Stage2 | Stage3 | Total |
| **Balance at 1 January 2021** | **28,340,121** | **-** | **-** | **28,340,121** | **18,418,679** | **1,813,395** | **-** | **20,232,074** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | 5,000 | (5,000) | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | (150,000) | 150,000 | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - | - | - | - |
| New financial assets originated or purchased | 49,342,716 | - | - | 49,342,716 | 9,656,597 | 250,000 | - | 9,906,597 |
| De-recognition of financial assets | (28,340,121) | - | - | (28,340,121) | (2,399,265) | (1,716,295) | - | (4,115,561) |
| Changes due to modifications that did not result in de-recognition | - | - | - | - | (17,600) | - | - | (17,600) |
| Write-offs | - | - | - | - | - | - | - | - |
| Foreign exchange and other changes | - | - | - | - | - | - | - | - |
| **Gross Balance at 31 December 2021** | **49,342,716** | **-** | **-** | **49,342,716** | **25,513,411** | **492,100** | **-** | **26,005,510** |

The gross carrying amounts include only Nominal amounts and Accrued interest. Unamortized discount and marked to market gain/ (loss) are not included.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in gross carrying amount of financial assets where impairment requirements apply (other than loans).

**CHANGES IN GROSS CARRYING AMOUNT OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS)**

| 31 December 2020 | Due from Banks | | | | Investment Securities at FVOCI | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2020** | **12,209,523** | **-** | **-** | **12,209,523** | **101,457,813** | **-** | **-** | **101,457,813** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - | - | - | - |
| New financial assets originated or purchased | 7,206,181 | - | - | 7,206,181 | 43,429,220 | - | - | 43,429,220 |
| De-recognition of financial assets | (12,209,523) | - | - | (12,209,523) | (45,689,756) | - | - | (45,689,756) |
| Changes due to modifications that did not result in de-recognition | - | - | - | - | (1,008,550) | - | - | (1,008,550) |
| Write-offs | - | - | - | - | - | - | - | - |
| Foreign exchange and other changes | - | - | - | - | - | - | - | - |
| **Gross Balance at 31 December 2020** | **7,206,181** | **-** | **-** | **7,206,181** | **98,188,727** | **-** | **-** | **98,188,727** |

| 31 December 2020 | Investment Securities at amortised cost | | | | Loan Commitments and financial guarantee | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage1 | Stage2 | Stage3 | Total | Stage1 | Stage2 | Stage3 | Total |
| **Balance at 1 January 2020** | **8,132,409** | **-** | **-** | **8,132,409** | **12,284,809** | **-** | **5,000** | **12,289,809** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | (5,000) | 5,000 | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - | - | - | - |
| New financial assets originated or purchased | 20,894,968 | - | - | 20,894,968 | 12,401,889 | 1,808,395 | - | 14,210,285 |
| De-recognition of financial assets | - | - | - | - | (6,263,720) | - | (5,000) | (6,268,720) |
| Changes due to modifications that did not result in de-recognition | (687,255) | - | - | (687,255) | 700 | - | - | 700 |
| Write-offs | - | - | - | - | - | - | - | - |
| Foreign exchange and other changes | - | - | - | - | - | - | - | - |
| **Gross Balance at 31 December 2020** | **28,340,121** | **-** | **-** | **28,340,122** | **18,418,679** | **1,813,395** | **-** | **20,232,074** |

The gross carrying amounts include only Nominal amounts and Accrued interest. Unamortized discount and Marked to market gain/ (loss) are not included.





## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans).

**RECONCILATION OF THE ACCUMULATED IMPAIRMENT ALLOWANCE OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS)**

| 31 December 2021 | Due from Banks | | | | Investment Securities at FVOCI | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2021** | **5,672** | **-** | **-** | **5,672** | **208,330** | **-** | **-** | **208,330** |
| | | | | | | | | - |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - | - | - | - |
| New financial assets originated or purchased | (5,672) | - | - | (5,672) | 413,000 | - | - | 413,000 |
| Derecognition of financial assets | 2,002 | - | - | 2,002 | (208,330) | - | - | (208,330) |
| Write-offs | - | - | - | - | - | - | - | - |
| Changes in models/risk parameters | - | - | - | - | 333,528 | - | - | 333,528 |
| Foreign exchange and other movements | | | | | | | | - |
| **Gross Balance at 31 December 2021** | **2,002** | **-** | **-** | **2,002** | **746,528** | **-** | **-** | **746,528** |

| 31 December 2021 | Debt Investment Securities at amortised cost | | | | Loan Commitments and financial guarantee contracts | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2021** | **87,329** | **-** | **-** | **87,329** | **651,722** | **3,246** | **-** | **654,968** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | | | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | (129) | 129 | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | | | - | - |
| New financial assets originated or purchased | 225,936 | - | - | 225,936 | 128,860 | 356 | - | 129,216 |
| Derecognition of financial assets | (87,329) | - | - | (87,329) | (23,813) | (51) | - | (23,864) |
| Write-offs | - | - | - | - | | | - | - |
| Changes in models/risk parameters | 241,934 | - | - | 241,934 | (383,184) | 1,871 | - | (381,313) |
| Foreign exchange and other movements | - | - | - | - | - | - | - | - |
| **Gross Balance at 31 December 2021** | **467,870** | **-** | **-** | **467,870** | **373,456** | **5,551** | **-** | **379,007** |

**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**
***ii Expected credit loss measurement (continued)***

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans).

**RECONCILATION OF THE ACCUMULATED IMPAIRMENT ALLOWANCE OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS)**

| 31 December 2020 | Due from Banks | | | | Investment Securities at FVOCI | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2020** | 7,174 | - | - | 7,174 | 234,855 | - | - | 234,855 |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - | - | - | - |
| New financial assets originated or purchased | 5,672 | - | - | 5,672 | 88,077 | - | - | 88,077 |
| Derecognition of financial assets | (7,174) | - | - | (7,174) | (108,702) | - | - | (108,702) |
| Write-offs | - | - | - | - | - | - | - | - |
| Changes in models/risk parameters | - | - | - | - | (5,900) | - | - | (5,900) |
| Foreign exchange and other movements | | | | | | | | |
| **Gross Balance at 31 December 2020** | 5,672 | - | - | 5,672 | 208,330 | - | - | 208,330 |

| 31 December 2020 | Debt Investment Securities at amortised cost | | | | Loan Commitments and financial guarantee contracts | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2020** | 24,727 | - | - | 24,727 | 536,621 | - | - | 536,621 |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | 64,692 | - | - | 64,692 | 395,789 | 3,246 | - | 399,035 |
| New financial assets originated or purchased | - | - | - | - | (112,096) | - | - | (112,096) |
| Derecognition of financial assets | - | - | - | - | - | - | - | - |
| Write-offs | - | - | - | - | - | - | - | - |
| Changes in models/risk parameters | (2,090) | - | - | (2,090) | (168,591) | - | - | (168,591) |
| Foreign exchange and other movements | - | - | - | - | - | - | - | - |
| **Gross Balance at 31 December 2020** | 87,329 | - | - | 87,329 | 651,722 | 3,246 | - | 654,968 |





**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***iii. Credit quality analysis***

The following table sets out information about the credit quality of loan to customers in 2021 and 2020 by asset quality at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

| | | 31-Dec-21 | 31-Dec-20 |
|---|---|---|---|
| Stage 1 | Non-Past Due | 358,604,508 | 258,653,456 |
| | Past due | 10,896,212 | 7,781,577 |
| | **Total** | **369,500,720** | **266,435,033** |
| | Allowance | 6,231,031 | 4,345,954 |
| | **Total Carrying Amount** | **363,269,689** | **262,089,079** |
| Stage 2 | Non-Past Due | 36,344,306 | 2,245,311 |
| | Past due | 18,972,100 | 89,902,678 |
| | **Total** | **55,316,406** | **92,147,989** |
| | Allowance | 3,439,966 | 6,276,187 |
| | **Total Carrying Amount** | **51,876,440** | **85,871,802** |
| Stage 3 | Non-Past Due | 645,370 | 27,882 |
| | Past due | 5,875,564 | 6,052,258 |
| | **Total** | **6,520,934** | **6,080,140** |
| | Allowance | 3,534,811 | 1,781,320 |
| | **Total Carrying Amount** | **2,986,123** | **4,298,820** |
| **Total net amount at amortised cost** | | **418,132,252** | **352,259,701** |
| **Value of collateral** | | **922,955,613** | **802,594,080** |

Past due related to each stage is referred as follows: Stage 1: Past due 1-30 days past due, otherwise Non-Past Due, Stage 2: Past due 31-90 days past due, otherwise Non Past Due, Stage 3: Past due over 90 days past due, otherwise Non Past Due.

**5. Financial risk management (continued)**
**(b) Credit Risk (continued)**
***iii. Credit quality analysis (continued)***

The following table sets out information about the aging analyses of loans to customers in 2021 and 2020:

| 31 December | Loans to customers 2021 | | | | Loans to customers 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Current | 352,845,189 | 33,983,859 | 332,743 | 387,161,791 | 254,434,060 | 2,145,148 | 14,708 | 256,593,916 |
| 1 - 30 days | 10,424,500 | 9,730,586 | 160,292 | 20,315,378 | 7,655,019 | 365,944 | 10,196 | 8,031,159 |
| 31 - 90 days | - | 8,161,995 | 144,096 | 8,306,091 | - | 83,175,692 | 94 | 83,175,786 |
| 91 - 180 days | - | - | 411,288 | 411,288 | - | 185,019 | 248,774 | 433,793 |
| 181 - 360 days | - | - | 730,819 | 730,819 | - | - | 670,920 | 670,920 |
| > 361 days | - | - | 1,032,348 | 1,032,348 | - | - | 3,354,128 | 3,354,128 |
| **Total** | **363,269,689** | **51,876,440** | **2,811,586** | **417,957,716** | **262,089,079** | **85,871,803** | **4,298,820** | **352,259,702** |
| **Value of collateral** | **747,124,342** | **146,596,771** | **29,234,501** | **922,955,613** | **542,469,835** | **237,629,503** | **22,494,742** | **802,594,080** |



**5. Financial risk management (continued)**
**(b) Credit Risk (continued)**
***iii. Credit quality analysis (continued)***

The following table sets out information about the credit quality of financial assets, other than loans to customers, measured at amortised cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts, which includes principal, accrued interest, premium/discounts is applicable.

**FINANCIAL INSTRUMENTS CREDIT RISK - OTHER THAN LOANS TO CUSTOMERS**

| | 2021 | | | | | 2020 |
|---|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Purchased credit-impaired | Total | Total |
| ***Placements and Balances with banks at amortised cost*** | | | | | | |
| Aa1 to Aa3 | - | - | - | - | - | - |
| A1 to A3 | - | - | - | - | - | - |
| Baa1 to Baa3 | 3,838,027 | - | - | - | 3,838,027 | 3,003,000 |
| Ba1 to Ba3 | - | - | - | - | - | - |
| B1 to B3 | - | - | - | - | - | - |
| Unrated | 1,129,466 | - | - | - | 1,129,466 | 4,214,701 |
| **Exposure before impairment** | **4,967,493** | **-** | **-** | **-** | **4,967,493** | **7,217,701** |
| Loss allowance | 2,002 | - | - | - | 2,002 | 5,672 |
| **Carrying amount** | **4,965,491** | **-** | **-** | **-** | **4,965,491** | **7,212,029** |
| ***Investment Securities at FVOCI*** | | | | | | |
| Aa1 to Aa3 | 76,241,115 | - | - | - | 76,241,115 | - |
| A1 to A3 | 3,692,612 | - | - | - | 3,692,612 | 1,144,323 |
| Baa1 to Baa3 | 891,338 | - | - | - | 891,338 | 2,574,386 |
| Ba1 to Ba3 | 26,000,360 | - | - | - | 26,000,360 | 17,381,724 |
| B1 to B3 | 59,610,469 | - | - | - | 59,610,469 | 42,239,681 |
| Unrated | - | - | - | - | - | 38,127,488 |
| **Exposure before impairment** | **166,435,895** | **-** | **-** | **-** | **166,435,895** | **101,467,602** |
| Loss allowance | 746,528 | - | - | - | 746,528 | 208,330 |
| **Carrying amount** | **165,689,367** | **-** | **-** | **-** | **165,689,367** | **101,259,272** |

## 5. Financial risk management (continued)
### (b) Credit Risk (continued)
### *iii. Credit quality analysis (continued)*

| | | | | | | |
|---|---|---|---|---|---|---|
| ***Investment Securities at Amortised Cost*** | | | | | | |
| Aa1 to Aa3 | - | - | - | - | - | - |
| A1 to A3 | - | - | - | - | - | - |
| Baa1 to Baa3 | - | - | - | - | - | - |
| Ba1 to Ba3 | | - | - | - | - | 1,503,347 |
| B1 to B3 | 48,377,064 | - | - | - | 48,377,064 | 26,814,414 |
| Unrated | 976,598 | - | - | - | 976,598 | - |
| **Exposure before impairment** | **49,353,662** | **-** | **-** | **-** | **49,353,662** | **28,317,761** |
| Loss allowance | 467,870 | - | - | - | 467,870 | 87,329 |
| **Carrying amount** | **48,885,792** | **-** | **-** | **-** | **48,885,792** | **28,230,432** |

Credit quality of financial assets other than loan and advances to customers, based on the internal rating system of the Bank is categorised as follows:

| 31-Dec-21 | Cash and balances with Central Bank | Due from other banks | Investment securities | Loans to banks and syndicated loans | Other Assets | Total |
|---|---|---|---|---|---|---|
| Good | 115,840,781 | 29,492,205 | 215,321,687 | 18,741,863 | 8,491,967 | 387,888,503 |
| Acceptable | - | - | - | - | - | - |
| Close monitoring | - | - | - | - | - | - |
| **Total** | **115,840,781** | **29,492,205** | **215,321,687** | **18,741,863** | **8,491,967** | **387,888,503** |



## 5. Financial risk management (continued)
### (b) Credit Risk (continued)
### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality for loans to customers for the corporate portfolio in 2021. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST - CORPORATE PORTFOLIO**[1)]

| 31 December 2021 | 12-month ECL | Lifetime ECL not credit- | Lifetime ECL credit- | Total |
|---|---|---|---|---|
| ***Large Corporate*** | | | | |
| Strong (rating A) | 3,991,052 | - | - | 3,991,052 |
| Satisfactory (rating B&C) | 145,824,206 | 34,969,267 | - | |
| Watch list (higher risk) (rating D lower than C) | - | - | - | - |
| Default (Lower than D and over 90 days past due) | - | - | 720,662 | 720,662 |
| **Total Rated** | **149,815,258** | **34,969,267** | **720,662** | |
| **Non-Rated** | **500,651** | **-** | **-** | **500,651** |
| **Total gross amount** | **150,315,909** | **34,969,267** | **720,662** | |
| **Carrying amount** | **146,435,284** | **32,462,245** | **346,859** | |
| Collateral held for credit impaired assets & assets at FVPL | 361,843,434 | 80,246,428 | 3,562,600 | |
| **SME Corporate** | | | | |
| Strong (rating A) | 2,528,955 | - | - | 2,528,955 |
| Satisfactory (rating B&C) | 40,741,344 | 9,731,164 | - | 50,472,508 |
| Watch list (higher risk) (rating D lower than C) | - | - | - | - |
| Default (Lower than D and over 90 days past due) | - | - | 3,005,149 | 3,005,149 |
| **Total Rated** | **43,270,299** | **9,731,164** | **3,005,149** | **56,006,612** |
| **Non-Rated** | **304,841** | **27,240** | **-** | **332,080** |
| **Total gross amount** | **43,575,140** | **9,758,403** | **3,005,149** | **56,338,693** |
| | | | | - |
| **Carrying amount** | **42,787,971** | **9,221,355** | **1,547,423** | **53,556,749** |
| Collateral held for credit impaired assets & assets at FVPL | 118,967,103 | 29,393,225 | 12,920,866 | |
| **Micro Corporate** | | | | |
| Strong (rating A) | 2,166,423 | - | - | 2,166,423 |
| Satisfactory (rating B&C) | 15,649,830 | 4,427,850 | - | 20,077,681 |
| Watch list (higher risk) (rating D lower than C) | - | - | - | - |
| Default (Lower than D and over 90 days past due) | - | - | 779,496 | 779,496 |
| **Total Rated** | **17,816,254** | **4,427,850** | **779,496** | **23,023,600** |
| **Non-Rated** | **2,667,300** | **356,397** | **-** | **3,023,697** |
| **Total gross amount** | **20,483,554** | **4,784,247** | **779,496** | **26,047,297** |
| | | | | - |
| **Carrying amount** | **20,092,744** | **4,569,798** | **463,538** | **25,126,080** |
| Collateral held for credit impaired assets & assets at FVPL | 62,134,336 | 21,205,424 | 5,285,555 | 88,625,315 |
| | | | | - |
| **OFF BALANCE SHEET** | **266,209** | **11,344** | **8,579** | **286,131** |
| Credit cards Loss allowance | 6,253 | 1,568 | 3,514 | 11,335 |

## 5. Financial risk management (continued)
## (b) Credit Risk (continued)
### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality loans to customers for the corporate portfolio in 2020. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts

**DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST - CORPORATE PORTFOLIO**

| 31 December 2020 | 12-month ECL | Lifetime ECL not credit- | Lifetime ECL credit-impaired | Total |
|---|---|---|---|---|
| ***Large Corporate*** | | | | |
| Strong (rating A) | 4,270,387 | 2,331 | - | **4,272,718** |
| Satisfactory (rating B&C) | 110,248,392 | 61,584,283 | 11,849 | 171,844,524 |
| Watch list (higher risk) (rating D lower than C) | - | - | - | - |
| Default (Lower than D and over 90 days past due) | - | 381 | 591,896 | **592,277** |
| **Total Rated** | **114,518,779** | **61,586,995** | **603,745** | **176,709,519** |
| **Non-Rated** | 31,875 | 18,929 | 388 | 51,192 |
| **Total gross amount** | **114,550,654** | **61,605,924** | **604,133** | **176,760,711** |
| **Carrying amount** | **111,927,725** | **56,842,923** | **454,422** | **169,225,069** |
| Collateral held for credit impaired assets & assets at FVPL | 270,340,887 | 143,935,732 | 1,505,511 | 415,782,130 |
| **SME Corporate** | | | | |
| Strong (rating A) | 1,222,803 | 280,670 | | 1,503,473 |
| Satisfactory (rating B&C) | 19,693,069 | 14,600,395 | 2,089 | 34,295,553 |
| Watch list (higher risk) (rating D lower than C) | - | - | - | - |
| Default (Lower than D and over 90 days past due) | - | 73,861 | 2,496,411 | 2,570,272 |
| **Total Rated** | **20,915,872** | **14,954,926** | **2,498,500** | **38,369,298** |
| **Non-Rated** | 139,849 | 73,890 | 6,457 | 220,196 |
| **Total gross amount** | **21,055,721** | **15,028,816** | **2,504,957** | **38,589,494** |
| **Carrying amount** | **20,652,712** | **13,951,720** | **2,167,972** | **36,772,404** |
| Collateral held for credit impaired assets & assets at FVPL | 64,109,408 | 42,126,760 | 11,353,954 | 117,590,122 |
| **Micro Corporate** | | | | |
| Strong (rating A) | 1,417,328 | 138,059 | | **1,555,387** |
| Satisfactory (rating B&C) | 7,356,792 | 5,222,079 | 2,017 | **12,580,888** |
| Watch list (higher risk) (rating D lower than C) | - | - | - | - |
| Default (Lower than D and over 90 days past due) | - | - | 547,886 | 547,886 |
| **Total Rated** | **8,774,120** | **5,360,138** | **549,903** | **14,684,161** |
| **Non-Rated** | 1,571,390 | 731,501 | **-** | 2,302,891 |
| **Total gross amount** | **10,345,509** | **6,091,638** | **549,903** | **16,987,050** |
| **Carrying amount** | **9,990,842** | **5,840,409** | **460,720** | **16,291,971** |
| Collateral held for credit impaired assets & assets at FVPL | 36,009,187 | 25,691,015 | 3,446,925 | 65,147,127 |
| **OFF BALANCE SHEET** | **160,434** | **24,782** | **38,687** | **223,903** |
| Credit cards Loss allowance | 4,421 | 334 | 7,842 | 12,597 |





## 5. Financial risk management (continued)
## (b) Credit Risk (continued)
### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2020. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST – RETAIL PORTFOLIO[1)]**

| 31 December 2021 | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total |
|---|---|---|---|---|
| **Mortgage** | | | | |
| Defaults | - | - | 728,777 | 728,777 |
| Non-Rated | 44,622,476 | 2,516,875 | - | 47,139,351 |
| **Total gross amount** | **44,622,476** | **2,516,875** | **728,777** | **47,868,128** |
| Collateral held for credit impaired assets & assets at FVPL | 115,444,128 | 11,224,665 | 6,788,930 | 133,457,723 |
| **Consumer** | | | | |
| Defaults | - | - | 972,324 | 972,324 |
| Non-Rated | 107,169,127 | 3,272,325 | 0 | 110,441,452 |
| **Total gross amount** | **107,169,127** | **3,272,325** | **972,324** | **111,413,776** |
| Collateral held for credit impaired assets & assets at FVPL | 88,735,341 | 4,527,029 | 676,550 | 93,938,920 |
| **Creditcards** | | | | |
| Defaults | - | - | 314,525 | 314,525 |
| Non-Rated | 3,334,514 | 15,289 | - | 3,349,803 |
| **Total gross amount** | **3,334,514** | **15,289** | **314,525** | **3,664,328** |
| Collateral held for credit impaired assets & assets at FVPL | - | - | - | - |
| **OFF BALANCE SHEET** | **7,138,036** | **-** | **156,605** | **7,294,641** |
| Credit cards Loss allowance | 82,680 | 321 | 323,763 | 406,765 |

**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***iii. Credit quality analysis (continued)***

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2019. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST – RETAIL PORTFOLIO**

| 31 December 2020 | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total |
|---|---|---|---|---|
| **Mortgage** | | | | |
| Defaults | - | 25,179 | 1,290,756 | 1,315,935 |
| Non-Rated | 33,668,866 | 4,552,549 | | 38,221,415 |
| **Total gross amount** | **33,668,866** | **4,577,728** | **1,290,756** | **39,537,350** |
| Collateral held for credit impaired assets & assets at FVPL | 102,644,128 | 19,908,237 | 5,269,160 | 127,821,525 |
| **Consumer** | | | | |
| Defaults | - | 62,925 | 808,994 | 871,919 |
| Non-Rated | 83,740,363 | 4,727,220 | 1,540 | 88,469,123 |
| **Total gross amount** | **83,740,363** | **4,790,145** | **810,534** | **89,341,042** |
| Collateral held for credit impaired assets & assets at FVPL | 69,366,224 | 5,967,758 | 919,192 | 76,253,174 |
| **Credit Cards** | | | | |
| Defaults | - | 28,015 | 290,218 | 318,233 |
| Non-Rated | 3,074,957 | 25,724 | 29,640 | 3,130,321 |
| **Total gross amount** | **3,074,957** | **53,739** | **319,858** | **3,448,554** |
| Collateral held for credit impaired assets & assets at FVPL | - | - | - | - |
| **OFF BALANCE SHEET** | **5,746,724** | **32,630** | **1,136,625** | **6,915,979** |
| Credit cards Loss allowance | 58,035 | 1,253 | 322,815 | 382,104 |

| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
|---|---|---|---|---|
| Total loss allowance as per December 2021 | 6,231,031 | 3,439,966[1)] | 3,534,810[1)] | 13,205,807 |
| Total loss allowance as per December 2020 | 4,413,785 | 6,275,607 | 1,714,069 | 12,403,461 |



**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***iii. Credit quality analysis (continued)***

*Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, its performance is closely monitored for the purpose of impairment testing. Set out below are the carrying amounts of loans to customers whose term have been renegotiated and are under monitoring:

**FORBORNE LOANS TO CUSTOMERS ACCORDING TO THEIR CREDIT QUALITY AT AMORTISED COST**

| 31 December 2021 | Total amount of Loans | Total amount of Forborne Loans | Forborne Loans (%) |
|---|---|---|---|
| Stage 1 | 369,500,720 | 2,257,699 | 0.61% |
| Stage 2 | 55,316,406 | 2,431,144 | 4.39% |
| Stage 3 | 6,520,933 | 2,825,416 | 43.33% |
| **Exposure before impairment** | **431,338,059** | **7,514,259** | **1.74%** |
| Stage 1 Allowance | 6,231,031 | 8,722 | 0.14% |
| Stage 2 Allowance | 3,439,966 | 176,746 | 5.14% |
| Stage 3 Allowance | 3,534,810 | 1,397,208 | 39.53% |
| **Total net amount** | **418,132,252** | **5,931,583** | **1.42%** |
| Value of collateral | 922,955,613 | 42,598,719 | 4.62% |

FORBORNE LOANS TO CUSTOMERS ACCORDING TO THEIR CREDIT QUALITY AT AMORTISED COST

| 31 December 2020 | Total amount of Loans | Total amount of Forborne Loans | Forborne Loans (%) |
|---|---|---|---|
| Stage 1 | 266,435,033 | 627,437 | 0.24% |
| Stage 2 | 92,147,989 | 2,064,136 | 2.24% |
| Stage 3 | 6,080,140 | 2,606,390 | 42.87% |
| **Exposure before impairment** | **364,663,162** | **5,297,963** | **1.45%** |
| Stage 1 Allowance | 4,345,954 | 2,711 | 1.08% |
| Stage 2 Allowance | 6,276,187 | 72,137 | 1.15% |
| Stage 3 Allowance | 1,781,320 | 435,466 | 25.41% |
| **Total net amount** | **352,259,701** | **4,787,649** | **1.36%** |
| Value of collateral | 802,594,080 | 25,003,810 | 3.12% |

**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***iv. Credit Collateral and other credit enhancement***

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.
The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Financial Assets
- Charges over business assets such as premises, machineries, and accounts receivable;

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.
The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.
Set out below is an analysis of collateral and credit enhancement obtained during the years:

| | Loans to customers | | |
|---|---|---|---|
| **31 December 2021** | **Retail** | **Corporate** | **Total Loans** |
| Residential, commercial or industrial property | 131,578,536 | 421,145,196 | 552,723,732 |
| Financial assets | 17,667,757 | 51,961,530 | 69,629,287 |
| Other | 78,150,349 | 222,452,245 | 300,602,595 |
| **Total** | **227,396,643** | **695,558,971** | **922,955,613** |

| | Loans to customers | | |
|---|---|---|---|
| **31 December 2020** | **Retail** | **Corporate** | **Total Loans** |
| Residential, commercial or industrial property | 170,475,344 | 524,392,277 | 694,867,621 |
| Financial assets | 11,629,594 | 13,483,295 | 25,112,889 |
| Other | 21,969,762 | 60,643,808 | 82,613,570 |
| **Total** | **204,074,700** | **598,519,380** | **802,594,080** |





**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***iv. Credit Collateral and other credit enhancement (continued)***

*Impaired loans and securities*

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). The Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes of grading and takes the necessary actions according to the monitoring procedures. The Risk Committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***iv. Credit Collateral and other credit enhancement (continued)***

*Past due but not impaired loans*

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

*Allowances for impairment*

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio and other financial assets. It relates to the specific loss component for individually significant exposures.

*Write-off policy*

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Central Bank of Kosova "On Credit Risk Management". The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.





**5. Financial risk management (continued)**

**(b) Credit Risk (continued)**

***v. Concentration of credit risk***

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and investment securities as at 31 December 2021 and 31 December 2020 is shown below:

| | Note | Loans to customers | | Loans to banks | | Investment Securities | |
|---|---|---|---|---|---|---|---|
| | | 31-Dec-21 | 31-Dec-20 | 31-Dec-21 | 31-Dec-20 | 31-Dec-21 | 31-Dec-20 |
| Carrying amount | 8,9.1,9.2 | 416,976,235 | 351,964,719 | 18,741,863 | 32,008,794 | 215,321,687 | 129,489,705 |
| **Concentration by sector** | | | | | | | |
| Corporate | | 257,777,499 | 222,076,965 | 18,741,863 | 4,995,384 | 18,959,024 | 4,512,249 |
| Government | | - | - | - | - | 138,332,522 | 82,056,533 |
| Banks | | - | - | - | 27,013,410 | 58,030,141 | 42,920,924 |
| Retail | | 159,871,304 | 129,887,754 | - | - | - | - |
| **Total** | | **417,648,803** | **351,964,719** | **18,741,863** | **32,008,794** | **215,321,687** | **129,489,705** |

| **Concentration by location** | Note | Loans to customers | | Loans to banks | | Investment securities | |
|---|---|---|---|---|---|---|---|
| | | 31-Dec-20 | 31-Dec-20 | 31-Dec-20 | 31-Dec-20 | 31-Dec-21 | 31-Dec-20 |
| Albania | | - | - | - | - | 6,878,414 | 1,606,516 |
| Kosova | | 417,648,803 | 351,964,719 | - | - | 76,241,115 | 41,302,217 |
| Montenegro | | - | - | - | - | 6,759,182 | 4,834,707 |
| United Kingdom | | - | - | - | - | 2,580,318 | 3,365,079 |
| Turkey | | - | - | 14,934,799 | 14,987,804 | 64,163,557 | 48,968,169 |
| Egypt | | - | - | - | | 8,213,775 | 6,450,632 |
| Ukraine | | - | - | - | | 8,605,763 | 8,288,664 |
| Nigeria | | - | - | 3,807,064 | 5,005,647 | 5,227,618 | - |
| Uzbekistan | | - | - | - | 12,015,343 | - | - |
| Japan | | - | - | - | - | 1,930,271 | 1,562,473 |
| Mexico | | - | - | - | - | 5,274,105 | 1,411,141 |
| Middle East and Africa | | - | - | - | - | 9,661,847 | 11,700,106 |
| The Republic of North Macedonia | | - | - | - | - | 4,687,884 | - |
| Senegal | | - | - | - | - | 3,846,207 | - |
| Côte D'Ivoire | | - | - | - | - | 1,862,259 | - |
| Togo | | - | - | - | - | 1,416,639 | - |
| Uzbekistan | | - | - | - | - | 7,024,680 | - |
| Tunisia | | - | - | - | - | 948,053 | - |
| **Total** | 8,9.1,9.2 | **417,648,803** | **351,964,719** | **18,741,863** | **32,008,794** | **215,321,687** | **129,489,704** |

## 5. Financial risk management (continued)

### (c) Liquidity risk

**Liquidity risk** is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The purpose of Liquidity Risk Management (LRM) is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Bank's LRM policy includes how the Bank identifies, measures, monitors and control that risk.

**Organization of LRM:** Bank's LRM Organization includes two different bodies in the monitoring and management of liquidity. The involvement of different bodies helps provide clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to the Treasury and FI Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to the Risk Management Group. The main purpose of the Risk Management Group, which conducts daily overview of LRM reports, is to provide an early warning signal of liquidity risk to the senior management of the Bank.

**LRM Reports:** Bank's LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under "business as usual" scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows/ outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity.

The LRM approach of the Bank results in positive liquidity gaps for all time stages up to one year as at 31 December 2019.





## 5. Financial risk management (continued)

### (c) Liquidity risk (continued)

As at 31 December 2021, the Bank's assets and liabilities have remaining contractual maturities as follows:

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Non-specified | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with Central Bank | 115,840,781 | - | - | - | - | - | 115,840,781 |
| Placement and balances with Banks | 25,973,466 | 3,518,739 | - | - | - | - | 29,492,205 |
| Financial instruments measured at FVOCI | - | - | 13,294,208 | 112,345,429 | 40,796,258 | - | 166,435,895 |
| Financial instruments measured at amortized cost | 1,604,688 | - | 3,181,343 | 39,056,690 | 5,043,071 | - | 48,885,792 |
| Due from BKT Albania | 221,756 | - | - | - | - | - | 221,756 |
| Loans and advances to banks | - | - | 14,934,799 | 3,807,064 | - | - | 18,741,863 |
| Loans and advances to customers, net | 12,807,595 | 24,809,764 | 113,925,501 | 265,187,924 | 743,482 | - | 417,474,266 |
| Other assets | 6,161,411 | - | - | 2,330,556 | - | - | 8,491,967 |
| Right of use assets | - | - | 37,726 | 907,110 | 3,223,428 | - | 4,168,264 |
| **Total assets** | **162,609,697** | **28,328,503** | **145,373,577** | **423,634,773** | **49,806,238** | **-** | **809,752,789** |
| **Liabilities** | | | | | | | |
| Customer deposits | 394,284,217 | 15,364,298 | 62,902,417 | 191,987,536 | 635,041 | - | 665,173,509 |
| Due to banks and REPO Agreements | 31,155,128 | 10,677,525 | 8,936,007 | - | - | - | 50,768,661 |
| Due to BKT Albania | 552,999 | - | - | - | - | - | 552,999 |
| Accruals and other liabilities | 1,475,865 | 117,548 | 2,010,273 | 142,995 | 141,770 | - | 3,888,451 |
| Lease Liability | - | - | 38,712 | 942,018 | 3,269,509 | - | 4,250,239 |
| Borrowings | - | - | 4,444,444 | 8,903,371 | - | - | 13,347,815 |
| **Total liabilities** | **427,468,209** | **26,159,371** | **78,331,853** | **201,975,919** | **4,046,320** | **-** | **737,981,674** |
| **Net Position** | (264,858,512) | 2,169,132 | 67,041,724 | 221,658,854 | 45,759,918 | - | 71,771,115 |
| **Cumulative net position** | (264,858,512) | (262,689,380) | (195,647,656) | 26,011,198 | 71,771,116 | - | - |

## 5. Financial risk management (continued)

### (c) Liquidity risk (continued)

LRM reports are produced for Euro currency and for the total statement of financial position as well. Maximum cumulative outflow limits, which are managed and monitored on a daily-basis, have been assigned.

The assets and liabilities are presented at their remaining maturity in the table above. The cumulative liquidity gaps are in negative due to the high concentration of deposits (current accounts).

As at 31 December 2020, the Bank's assets and liabilities have remaining contractual maturities as follows:

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Non-specified | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with Central Bank | 102,398,903 | - | - | - | - | - | 102,398,903 |
| Placement and balances with Banks | 23,282,835 | 6,106,566 | 1,013,125 | - | - | - | 30,402,526 |
| Financial instruments measured at FVOCI | - | 2,112,908 | 3,664,930 | 68,804,278 | 26,885,487 | - | 101,467,603 |
| Financial instruments measured at amortized cost | | 2,213,107 | - | 17,728,661 | 8,288,664 | - | 28,230,433 |
| Due from BKT Albania | 38,658 | - | - | - | - | - | 38,658 |
| Loans and advances to banks | - | - | 27,003,147 | 5,005,647 | - | - | 32,008,794 |
| Loans and advances to customers, net | 4,197,476 | 3,958,618 | 37,663,384 | 158,948,130 | 147,197,111 | - | 351,964,719 |
| Other assets | 3,963,626 | 837,430 | 2,180,865 | - | - | | 6,981,921 |
| Right of use assets | | - | - | - | - | 2,331,338 | 2,331,338 |
| **Total assets** | **133,881,498** | **15,228,629** | **71,525,451** | **250,486,716** | **182,371,262** | 2,331,338 | 655,824,895 |
| **Liabilities** | | | | | | | |
| Customer deposits | 275,314,387 | 15,136,120 | 122,994,449 | 125,346,032 | 517,413 | - | 539,308,400 |
| Due to banks and REPO Agreements | 23,455,131 | - | 11,120,923 | - | - | - | 34,576,054 |
| Due to BKT Albania | 1,320,571 | - | - | - | - | - | 1,320,571 |
| Accruals and other liabilities | 1,978,468 | - | - | - | - | - | 1,978,468 |
| Lease Liability | - | - | - | - | - | 2,394,595 | 2,394,595 |
| Borrowings | - | - | 450,062 | 17,797,086 | - | - | 18,247,148 |
| **Total liabilities** | **302,068,557** | **15,136,120** | **134,565,434** | **143,143,118** | **517,413** | 2,394,595 | 597,825,236 |
| **Net Position** | (168,187,059) | 92,509 | (63,039,983) | 107,343,598 | 181,853,849 | (63,257) | 57,999,659 |
| **Cumulative net position** | (168,187,059) | (168,094,550) | (231,134,533) | (123,790,935) | 58,062,914 | 57,999,657 | - |



## 5. Financial risk management (continued)

### (d) Market risk

*1) Foreign currency risk*

Foreign currency risk is the risk that the value of assets and liabilities will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Central Bank of Republic of Kosova guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions. The Treasury and FI Group manages the foreign currency positions and balances the currency spread of the Bank on an ongoing basis. The following tables present the equivalent amount of assets, liabilities and shareholder's equity by currency as at 31 December 2021 and 2020:

| **2021** | EUR | ALL | USD | GBP | CHF | Other | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with Central Bank | 98,517,852 | 1,639 | 793,046 | 908,388 | 15,603,068 | 16,788 | 115,840,781 |
| Placement and balances with Banks | 25,253,587 | 128,358 | 2,383,000 | 96,441 | 1,312,791 | 318,028 | 29,492,205 |
| Financial instruments measured at FVOCI | 128,688,814 | - | 32,669,483 | 1,384,986 | 3,692,612 | - | 166,435,895 |
| Financial instruments measured at amortized cost | 13,983,294 | - | 33,914,630 | - | 987,868 | - | 48,885,792 |
| Due from BKT Albania | 176,558 | 45,198 | - | - | - | - | 221,756 |
| Loans and advances to banks | 18,741,863 | - | - | - | - | - | 18,741,863 |
| Loans and advances to customers | 417,474,234 | - | 29 | - | 3 | - | 417,474,267 |
| Other assets | 8,392,270 | 7,398 | 51,248 | 27,906 | 13,133 | 10 | 8,491,965 |
| **Total assets** | **711,228,472** | **182,593** | **69,811,436** | **2,417,721** | **21,609,475** | **334,826** | **805,584,525** |
| Liabilities | | | | | | | |
| Customer deposits | 646,113,558 | 360 | 10,030,030 | 2,124,638 | 6,587,181 | 317,742 | 665,173,509 |
| Due to banks | 9,015,475 | - | 2,941,857 | 881 | 8,717,410 | - | 20,675,623 |
| Liabilities based on Repo Transactions | 30,093,037 | | - | - | - | - | 30,093,037 |
| Due to BKT Albania | - | - | 552,949 | 1 | 4 | 45 | 552,999 |
| Deferred tax liabilities | - | - | - | - | - | - | - |
| Provisions | 379,007 | - | - | - | - | - | 379,007 |
| Lease liabilities | 4,250,239 | - | - | - | - | - | 4,250,239 |
| Accruals and other liabilities | 3,463,445 | 195,772 | 219,741 | 8,739 | 754 | - | 3,888,451 |
| **Total liability** | **693,314,761** | **196,131** | **13,744,577** | **2,134,259** | **15,305,349** | **317,787** | **725,012,865** |
| **Net position** | 17,913,711 | -13,539 | 56,066,859 | 283,462 | 6,304,126 | 17,039 | 80,571,660 |
| **Net position (GAP)** | 17,913,711 | 17,900,172 | 73,967,030 | 74,250,492 | 80,554,619 | 80,571,658 | - |
| **Liabilities based on Repo Transactions** | 30,093,037 | - | - | - | - | - | 30,093,037 |

**5. Financial risk management (continued)**

**(d) Market risk (continued)**

***1) Foreign currency risk (continued)***

| **2020** | **EUR** | **ALL** | **USD** | **GBP** | **CHF** | **Other** | **Total** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with Central Bank | 89,169,171 | 104 | 749,673 | 422,667 | 11,996,001 | 61,287 | 102,398,903 |
| Placement and balances with Banks | 24,912,092 | 80,819 | 2,422,428 | 219,657 | 2,758,767 | 8,763 | 30,402,526 |
| Financial instruments measured at FVOCI | 75,447,701 | - | 22,654,822 | 2,220,797 | 1,144,282 | - | 101,467,602 |
| Financial instruments measured at amortized cost | 9,790,769 | - | 18,439,663 | - | - | - | 28,230,433 |
| Due from BKT Albania | | 25,886 | | | 12,771 | | 38,658 |
| Loans and advances to banks | 32,008,794 | - | - | - | - | - | 32,008,794 |
| Loans and advances to customers | 351,964,707 | - | 11 | - | 1 | - | 351,964,719 |
| Other assets | 5,812,008 | - | 1,232,401 | - | 33,007 | - | 7,077,415 |
| **Total assets** | **589,105,242** | **106,809** | **45,498,998** | **2,863,121** | **15,944,829** | **70,050** | **653,589,050** |
| **Liabilities** | | | | | | | |
| Customer deposits | 521,260,262 | 355 | 10,596,460 | 2,151,131 | 5,299,055 | 1,136 | 539,308,400 |
| Due to banks | 31,581,460 | - | 1,137,721 | 23 | 1,856,850 | - | 34,576,054 |
| Due to BKT Albania | 941,269 | - | 378,870 | 383 | - | 49 | 1,320,571 |
| Deferred tax liabilities | - | - | - | - | - | - | - |
| Provisions | 654,968 | - | - | - | - | - | 654,968 |
| Income tax liability | - | - | - | - | - | - | - |
| **Total liability** | **554,437,959** | **355** | **12,113,051** | **2,151,537** | **7,155,905** | **1,185** | **575,859,993** |
| **Net position** | 34,667,283 | 106,454 | 33,385,947 | 711,584 | 8,788,924 | 68,865 | 77,729,057 |
| **Net position (GAP)** | 34,667,283 | 34,773,737 | 68,159,684 | 68,871,268 | 77,660,192 | 77,729,057 | - |





**5. Financial risk management (continued)**

**(d) Market risk (continued)**

***1) Foreign currency risk (continued)***

The following table shows the sensitivity of the Bank for foreign currency risk. The sensitivity analysis includes only the monetary items denominated in foreign currency at the end of the year, thus making adjustment of their value when the exchange rate of the foreign currencies is changed by 1% and/or 5%. Adverse amount below marks a decrease of the profit or loss which appears in case the EUR increases its value compared to the foreign currencies by 1% and/or 5%. When the value of the EUR compared to foreign currencies decreases by 1% and/or 5%, the effect on the profit or loss is equal but with reverse index as showed in the table below:

| *in EUR* | **Change in 2021** | **Profit or loss 2021** |
|---|---|---|
| ALL | 5% | (677) |
| USD | 5% | 2,803,343 |
| GBP | 1% | 2,835 |
| CHF | 5% | 315,206 |
| Other | 5% | 852 |

## 5. Financial risk management (continued)

### (d) Market risk (continued)

#### *2) Interest rate risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department in Head Office manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee in Head Office. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date were outstanding for the whole year.

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

| **2021** | **up to 1 Year scenarios** | | **over 1 Year scenarios** | |
|---|---|---|---|---|
| | 100 bp | 100 bp | 100 bp | 100 bp |
| | Decrease | Increase | Increase | Decrease |
| Estimated Profit (loss) effect | (2,447,176) | 2,447,176 | 3,121,417 | (3,121,417) |

| **2020** | **up to 1 Year scenarios** | | **over 1 Year scenarios** | |
|---|---|---|---|---|
| | 100 bp | 100 bp | 100 bp | 100 bp |
| | Decrease | Increase | Increase | Decrease |
| Estimated Profit (loss) effect | (2,716,050) | 2,716,050 | 2,900,022 | (2,900,022) |





## 5. Financial risk management (continued)

### (d) Market risk (continued)

#### *2) Interest rate risk (continued)*

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2021 and 2020 are as follows:

| **2021** | *Up to 1 month* | *1-3 months* | *3-12 months* | *1-5 years* | *Over 5 years* | *Non-interest bearing* | *Total* |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with Central Bank | 73,563,452 | - | - | - | - | 42,277,329 | 115,840,781 |
| Balances with banks | 25,973,466 | 3,518,739 | - | - | - | - | 29,492,205 |
| Financial instruments measured at FVOCI | - | - | 9,509,387 | 114,199,978 | 42,726,530 | - | 166,435,895 |
| Financial instruments measured at amortized cost | 616,947 | 988,131 | 2,745,900 | 39,439,002 | 5,095,812 | - | 48,885,792 |
| Due from BKT Albania | 221,756 | - | - | - | - | - | 221,756 |
| Loans and advances to banks | - | - | 14,918,775 | 3,823,088 | - | - | 18,741,863 |
| Loans to customers | 12,807,596 | 24,809,764 | 113,925,501 | 265,362,460 | 743,482 | - | 417,648,803 |
| **Total assets (TA)** | **113,183,217** | **29,316,635** | **141,099,563** | **422,824,528** | **48,565,824** | **42,277,329** | **797,267,095** |
| **Liabilities** | | | | | | | |
| Customer Deposits, Due to banks& Liabilities based on Repo Transactions | 425,992,344 | 26,041,824 | 76,282,868 | 187,543,092 | 635,041 | - | 716,495,169 |
| Borrowings | - | - | - | 13,347,815 | - | - | 13,347,815 |
| **Total liabilities (TL)** | **425,992,344** | **26,041,824** | **76,282,868** | **200,890,907** | **635,041** | **-** | **729,842,984** |

| **2020** | *Up to 1 month* | *1-3 months* | *3-12 months* | *1-5 years* | *Over 5 years* | *Non-interest bearing* | *Total* |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with Central Bank | 67,945,029 | - | - | - | - | 34,453,874 | 102,398,903 |
| Balances with banks | 23,282,835 | 6,106,566 | - | 1,013,125 | - | - | 30,402,526 |
| Financial instruments measured at FVOCI | - | 2,112,908 | 3,664,930 | 68,804,278 | 26,885,487 | - | 101,467,603 |
| Financial instruments measured at amortized cost | - | 2,213,107 | - | 17,728,662 | 8,288,664 | - | 28,230,433 |
| Due from BKT Albania | 38,658 | - | - | - | - | - | 38,658 |
| Loans and advances to banks | - | - | 27,003,147 | 5,005,647 | - | - | 32,008,794 |
| Loans to customers | 4,197,476 | 3,958,618 | 37,663,384 | 158,948,130 | 147,197,111 | - | 351,964,719 |
| **Total assets (TA)** | **95,463,998** | **14,391,199** | **68,331,461** | **251,499,842** | **182,371,261** | **34,453,874** | **646,511,636** |
| **Liabilities** | | | | | | | |
| Customer Deposits, Due to banks& Liabilities based on Repo Transactions | 300,090,089 | 15,136,120 | 134,115,371 | 125,346,032 | 517,413 | - | 575,205,024 |
| Borrowings | - | - | 450,062 | 17,797,086 | - | - | 18,247,148 |
| **Total liabilities (TL)** | **300,090,089** | **15,136,120** | **134,565,433** | **143,143,118** | **517,413** | **-** | **593,452,173** |

**5. Financial risk management (continued)**

**(e) Operational risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk and carried out with collaboration with Head Office.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with internal standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

**(f) Capital management**

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

*Regulatory capital*

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosova ("CBK"), which ultimately determines the statutory capital required to underpin its business.





**5. Financial risk management (continued)**

**(f) Capital management (continued)**

*Capital Adequacy*

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted exposures, calculated as the sum of the risk-weighted exposure amounts, on- and off-balance sheet for credit risk and for credit counterparty risk, capital requirement for market and operational risk.

The minimum Regulatory Capital Ratio against the risk weighted exposures required by Central Bank of Kosova is 12%. The minimum Tier 1 Capital Ratio is 8.0% and the minimum Regulatory Capital Ratio is 12%.

In December 2021, BKT has reported the following ratios which does not include the profit of the second half of the year.

- 2021 Tier 1 Capital Ratio 12.70% (2020: 12.98%)
- 2021 Total Capital Ratio 13.89% (2020: 14.03%)

*Risk-Weighted Assets (RWAs)*

Each exposure class has its own specific requirements on how to assess the appropriate risk weight and respective risk weighted exposures. For credit risk and counterparty risk is applied the Standardised Approach. Operational risk capital requirement is calculated based on the Basic Indicator Approach.

**6. Cash and balances with Central Bank**

Cash and balances with Central Bank as at 31 December 2021 and 2020 are detailed as following:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Cash on hand | 29,860,191 | 28,916,839 |
| Balances with CBK | 85,980,590 | 73,482,064 |
| | **115,840,781** | **102,398,903** |

Balances with the Central Bank of Kosova include the statutory reserve of 10% of customer deposits in Kosova.

Cash and cash equivalents included in Statement of cash flows as at 31 December 2021 and 2020 are presented as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Cash and balances with Central Bank | 115,840,781 | 102,398,903 |
| Statutory reserves | (42,277,328) | (34,453,870) |
| Balances with banks | 24,526,714 | 23,190,495 |
| | **98,090,167** | **91,135,529** |

Balances with banks at 31 December 2021 and 2020 include current accounts with resident and non-resident banks.

## 7. Placements and balances with banks

Placements and balances with banks as at 31 December 2021 and 31 December 2020 consisted as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Placements | 4,945,611 | 7,092,362 |
| Current accounts | 24,526,714 | 23,190,496 |
| Accrued interest | 21,882 | 125,340 |
| Impairment provision | (2,002) | (5,672) |
| | **29,492,205** | **30,402,526** |

The placements in banks are with original maturity up to 1 year and bear interest income from 0.30% up to 14.00% (31 December 2020: EUR 7,092,362 with original maturity up to 1 year).

## 8. Investment securities

Investment securities as at 31 December 2021 and 31 December 2020 are presented as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Treasury bonds and Eurobonds- measured at FVOCI | 166,435,895 | 101,467,602 |
| Corporate bonds- measured at amortised cost | 48,885,792 | 28,230,433 |
| **Total** | **215,321,687** | **129,698,035** |

During 2021, the bank has realised gain in the amount of 1,575,165 Eur due to sale of investments securities measured at FVOCI (2020: 2,313,753 Eur).

### a) Investment securities - measured at FVOCI

Treasury bonds and Eurobonds as at 31 December 2021 comprise as follows:

| Type | Nominal Value | Unamortized discount/premium | Accrued Interest | Changes in fair value | Impairment | Book Value |
|---|---|---|---|---|---|---|
| EUR Denominated | 125,790,000 | 964,777 | 1,681,795 | 252,242 | - | 128,688,814 |
| CHF Denominated | 3,581,454 | 57,040 | 13,505 | 40,612 | - | 3,692,611 |
| GBP Denominated | 1,249,583 | 54,641 | 16,629 | 64,136 | - | 1,384,986 |
| USD Denominated | 33,264,171 | (581,193) | 565,412 | (578,906) | - | 32,669,483 |
| | **163,885,208** | **495,265** | **2,277,341** | **(221,919)** | **-** | **166,435,895** |

Treasury bonds and Eurobonds as at 31 December 2020 comprise as follows:

| Type | Nominal Value | Unamortized discount | Accrued Interest | Changes in fair value | Impairment | Book Value |
|---|---|---|---|---|---|---|
| EUR Denominated | 71,713,000 | 1,003,466 | 1,017,194 | 1,649,126 | - | 75,382,788 |
| CHF Denominated | 1,110,905 | 638 | 5,867 | 26,912 | - | 1,144,322 |
| GBP Denominated | 2,002,158 | 108,922 | 21,784 | 88,871 | - | 2,221,735 |
| USD Denominated | 21,925,678 | (587,698) | 392,140 | 988,637 | - | 22,718,757 |
| | **96,751,741** | **525,328** | **1,436,987** | **2,753,546** | **-** | **101,467,602** |





## 8. Investment securities (continued)

### b) Investment securities - measured at amortised cost

Investment securities measured at amortized cost as at 31 December 2021 comprise as follows:

| Type | Nominal Value | Unamortized Discount/ Premium | Accrued interest | Impairment | Book Value |
|---|---|---|---|---|---|
| EUR Denominated | 13,800,000 | (116,659) | 459,614 | (159,661) | 13,983,294 |
| CHF Denominated | 967,961 | (4,392) | 24,891 | (592) | 987,868 |
| USD Denominated | 33,515,804 | 131,997 | 574,446 | (307,617) | 33,914,630 |
| **Total** | **48,283,765** | **10,947** | **1,058,951** | **(467,870)** | **48,885,792** |

Investment securities measured at amortized cost as at 31 December 2020 comprise as follows:

| Type | Nominal Value | Unamortized Discount/ Premium | Accrued interest | Impairment | Book Value |
|---|---|---|---|---|---|
| EUR Denominated | 9,400,000 | 61,669 | 360,487 | (31,387) | 9,790,769 |
| USD Denominated | 18,270,720 | (84,029) | 308,915 | (55,942) | 18,439,663 |
| **Total** | **27,670,720** | **(22,360)** | **669,402** | **(87,329)** | **28,230,433** |

## 9. Loans to customers, banks and other syndication loans

### 9.1 Loans and advances to banks and syndication loans

Loans and advances to banks are comprised of syndicated loans to foreign banks/entities as presented in the table below:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Bank of Industry Limited | 3,824,000 | 5,000,000 |
| Ipoteka-Bank | - | 7,000,000 |
| Akbank T.A.S | - | 6,000,000 |
| Yapi Ve Kredi Bankasi AS | - | 1,000,000 |
| Turkiye Ihracat Kredi Bankasi A.S | - | 1,000,000 |
| Turkiye Garanti Bankasi AS | 7,000,000 | 3,000,000 |
| QNB FinansBank AS | 2,000,000 | 2,000,000 |
| Uzauto Motors JSC | - | 5,000,000 |
| Denizbank A.S. | 2,000,000 | 2,000,000 |
| Turkiye Vakiflar Bankasi Tao | 1,500,000 | - |
| Turk Eximbank-Export Credit Bank | 2,500,000 | - |
| **Total Loans to banks** | **18,824,000** | **32,000,000** |
| Accrued interest | 44,184 | 108,988 |
| Less allowances for impairment on loans (note 24) | (126,321) | (100,194) |
| **Loans and advances to banks** | **18,741,863** | **32,008,794** |

All loans are in EUR and bear interest rates ranging from 1.40% to 4.50%. All loans will mature within one year, except "Bank of Industry Limited" that will mature in four years. The loans are not secured with collateral, beside "Bank of Industry Limited" which is guaranteed by Central Bank of Nigeria.

**9. Loans to customers, banks and other syndication loans (continued)**

**9.2 Loans to customers, net**

Loans to customers consisted of the following:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Loans to customers, gross | 428,978,104 | 362,539,025 |
| Accrued interest | 2,359,955 | 2,124,137 |
| Less allowances for impairment on loans | (13,380,344) | (12,403,461) |
| Less deferred fee income | (483,449) | (294,982) |
| | **417,474,266** | **351,964,719** |

Movements in the allowance for impairment on loans to customers:

| | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|
| At 1 January | 12,403,461 | 9,607,157 |
| Impairment charge for the year, net | 1,320,491 | 3,241,489 |
| Written off loans | (343,609) | (445,185) |
| **At the end of the period** | **13,380,343** | **12,403,461** |

During the year based on decision from the Board of Directors the Bank has written off loans in total amount of EUR 769,999 (2020: EUR 622,978), out of which impaired loans in amount of EUR 343,609 (2020: EUR 445,185).

The breakdown of the loan portfolio is as follows:

| | 2021 | 2020 |
|---|---|---|
| Retail (individuals) | 38% | 37% |
| Private Enterprises | 62% | 63% |

All loans are in EUR and bear interest rates ranging from 0.5% to 22.2% (2020: 1.85% to 4.50%). The Bank has granted a few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals.





**9. Loans to customers (continued)**

**9.3 Loans to customers, net (continued)**

The classification of gross corporate loans including accrued interest by industry is as follows:

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | **EUR** | **%** | **EUR** | **%** |
| Construction and other industries | 50,237,720 | 19% | 57,506,724 | 25% |
| Wholesale Trade | 72,947,317 | 27% | 48,984,192 | 21% |
| Retail Trade | 40,334,342 | 15% | 49,626,216 | 21% |
| Manufacturing | 40,491,576 | 15% | 25,110,423 | 11% |
| Hotels and other services | 10,106,851 | 4% | 8,630,121 | 4% |
| Services | 35,000,478 | 13% | 21,720,758 | 9% |
| Agriculture | 5,347,728 | 2% | 7,634,992 | 3% |
| Other | 13,776,044 | 5% | 13,122,799 | 6% |
| **Total** | **268,242,056** | **100%** | **232,336,226** | **100%** |

The classification of gross retail loans including accrued interest by type is as follows:

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | **EUR** | **%** | **EUR** | **%** |
| Loans | 157,645,987 | 97% | 127,974,476 | 97% |
| Overdraft and credit cards | 4,966,517 | 3% | 4,352,459 | 3% |
| **Total** | **162,612,504** | **100%** | **132,326,936** | **100%** |

## 10. Property and equipment

Property and equipment as at 31 December 2021 and 2020 are composed as follows:

| (In EUR) | Land | Leasehold improvements | Motor vehicles | Computers and electronic equipment | Furniture and equipment | TOTAL |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 1 January 2020** | - | 3,088,546 | 800,139 | 5,795,997 | 1,539,743 | 11,224,425 |
| Additions | 13,875,000 | 71,388 | - | 383,357 | 21,525 | 14,351,270 |
| Disposals | - | - | - | - | - | - |
| **At 31 December 2020/ 01 January 2021** | **13,875,000** | **3,159,934** | **800,139** | **6,179,354** | **1,561,268** | **25,575,695** |
| Additions | - | 40,561 | 182,950 | 230,954 | 25,927 | **480,392** |
| Disposals | - | - | - | - | - | - |
| **At 31 December 2021** | **13,875,000** | **3,200,495** | **983,089** | **6,410,308** | **1,587,195** | **26,056,087** |
| **Accumulated** | | | | | | |
| **At 1 January 2020** | - | (2,582,316) | (234,453) | (4,615,203) | (1,449,442) | (8,881,414) |
| Charge for the year | - | (219,961) | (132,432) | (368,262) | (16,283) | (736,938) |
| **At 31 December 2020/ 01 January 2021** | - | (2,802,277) | (366,885) | (4,983,465) | (1,465,725) | (9,618,352) |
| Charge for the year | - | (176,552) | (142,239) | (396,481) | (17,010) | (732,282) |
| Disposals | - | - | - | - | - | - |
| **At 31 December 2021** | - | **(2,978,829)** | **(509,124)** | **(5,379,946)** | **(1,482,735)** | **(10,350,634)** |
| **Net book value** | | | | | | |
| **At 1 January 2020** | - | **506,230** | **565,686** | **1,180,794** | **90,301** | **2,343,011** |
| **At 31 December 2020** | **13,875,000** | **357,657** | **433,254** | **1,195,889** | **95,543** | **15,957,343** |
| **At 31 December 2021** | **13,875,000** | **221,666** | **473,965** | **1,030,362** | **104,460** | **15,705,453** |

During 2021 the Bank did not sell any asset.
During 2020, the bank bought a land in amount of EUR 13,875,000, which will be used for Head Office location.

As at 31 December 2021 and 31 December 2020 there are no property and equipment pledged.





### 10.1 Right of use assets

The Bank leases property used for branches' operations. Information about leases for which the Bank is a lessee is presented below:

| | Right of use assets | |
|---|---|---|
| | **Property** | **Total** |
| **As at 1 January 2020** | **2,799,428** | **2,799,428** |
| Additions | - | - |
| Depreciation expense | (746,345) | (746,345) |
| **As at 31 December 2020/1 January 2021 as stated** | **2,053,083** | **2,053,083** |
| Corrected opening balance | 278,255 | 278,255 |
| **As at 31 December 2020/1 January 2021 restated** | **2,331,338** | **2,331,338** |
| Additions | 2,603,345 | 2,603,345 |
| Depreciation expense | (766,419) | (766,419) |
| **As at 31 December 2021** | **4,168,264** | **4,168,264** |

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

| | **31-Dec-21** | **31-Dec-20** |
|---|---|---|
| **As at 1 January 2020 as stated** | **2,116,340** | **2,841,154** |
| **Corrected opening balance** | **278,255** | **-** |
| **As at 31 December 2020/1 January 2021 restated** | **2,394,595** | **2,841,154** |
| Additions | 2,603,345 | - |
| Interest expense (note 19) | 116,543 | 78,340 |
| Payments | (864,244) | (803,153) |
| **As at 31 December** | **4,250,239** | **2,116,340** |

Set out below, are the amounts recognized in profit or loss:

| | **For the year ended as at 31 December 2021** | **For the year ended as at 31 December 2020** |
|---|---|---|
| Depreciation expense of right-of-use assets | 766,419 | 746,345 |
| Interest expense on lease liabilities (note 19) | 116,543 | 78,340 |
| Rent expense - short term leases payments (note 23) | 103,509 | 143,118 |
| **Total amounts recognized in profit or loss** | **986,472** | **967,802** |

Set out below, are the amounts of short-term and long-term lease liabilities:

| | **31-Dec-21** | **31-Dec-20** |
|---|---|---|
| Short-term lease liabilities | 38,711 | 123,653 |
| Long-term lease liabilities | 4,211,528 | 1,992,687 |
| **Total lease liabilities** | **4,250,239** | **2,116,340** |

## 11. Intangible assets

Intangible assets as at 31 December 2021 and 2020 are composed as follows:

| | Intangible assets | Total |
|---|---|---|
| ***Cost*** | | |
| At 1 January 2020 | 282,307 | 282,307 |
| Additions | 81,296 | 81,296 |
| Disposals | - | - |
| **At 31 December 2020/ January 2021** | **363,603** | **363,603** |
| Additions | 81,934 | 81,934 |
| Disposals | - | - |
| **At 31 December 2021** | **445,537** | **445,537** |
| ***Accumulated depreciation*** | | |
| At 1 January 2020 | (270,255) | (270,255) |
| Charge for the year | (49,715) | (49,715) |
| Disposals | - | - |
| **At 31 December 2020/01 January 2021** | **(319,970)** | **(319,970)** |
| Charge for the year | (32,028) | (32,028) |
| Disposals | - | - |
| **At 31 December 2021** | **(351,998)** | **(351,998)** |
| ***Net book value*** | | |
| **At 01 January 2020** | **12,052** | **12,052** |
| **At 31 December 2020** | **43,633** | **43,633** |
| **At 31 December 2021** | **93,539** | **93,539** |

As at December 31, 2021 and December 31, 2020 there are no intangible assets pledged.





## 12. Other assets

Other assets as at 31 December 2021 and 2020 are as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Cards transactions settlement | 4,548,436 | 2,579,403 |
| Prepaid expenses | 728,291 | 545,276 |
| Advances to suppliers | 2,383 | 86,924 |
| Collaterals repossessed by the Bank | 2,330,556 | 2,085,071 |
| Other assets | 1,107,303 | 1,910,249 |
| | **8,716,969** | **7,206,923** |
| Less allowance for impairment | (225,002) | (225,002) |
| | **8,491,967** | **6,981,921** |

**Movements in impairment of other assets**

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| As of 01 January 2021 | 225,002 | 225,002 |
| Additions during 2021 | - | - |
| Reverse charge | - | - |
| Balance as of 31 December 2021 | **225,002** | **225,002** |

Movements in the repossessed collateral, which consists of immovable properties, are presented as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| At 1 January | 2,085,071 | 1,892,971 |
| Additions | 413,035 | 860,041 |
| Sales and disposals | (167,550) | (667,940) |
| **At 31 December** | **2,330,556** | **2,085,071** |

## 13. Customer deposits

Customer deposits as of 31 December 2021 and 2020 are composed as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| ***Current accounts:*** | | |
| Individuals | 233,478,527 | 169,685,262 |
| Private enterprises | 109,929,876 | 77,918,978 |
| State owned entities | 38,701,914 | 17,639,575 |
| | **382,110,317** | **265,243,814** |
| Add: Current maturity of long-term customer deposits | 94,494,483 | 148,201,141 |
| **Total short-term customer deposits** | **476,604,800** | **413,444,955** |
| **Term Deposits:** | | |
| Individuals | 220,766,048 | 197,280,131 |
| Private enterprises | 38,205,751 | 35,161,133 |
| State owned entities | 24,091,392 | 41,623,322 |
| | **283,063,191** | **274,064,585** |
| Less: Current maturity of long-term customer deposits | (94,494,483) | (148,201,141) |
| **Total long-term customer deposits** | **188,568,708** | **125,863,444** |
| | **665,173,509** | **539,308,400** |

### 13. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | Local currency | Foreign currency | Total | Local currency | Foreign currency | Total |
| **Current accounts** | **367,377,800** | **14,732,518** | **382,110,317** | **250,897,674** | **14,346,140** | **265,243,814** |
| **Term deposits** | **278,735,758** | **4,327,433** | **283,063,191** | **270,362,588** | **3,701,998** | **274,064,585** |
| One month | 684,102 | - | 684,102 | 1,471,765 | - | 1,471,765 |
| Three months | 943,549 | - | 943,549 | 1,247,578 | - | 1,247,578 |
| Six months | 2,517,297 | 812,082 | 3,329,379 | 7,228,419 | 755,042 | 7,983,461 |
| Twelve months | 56,948,887 | 2,873,672 | 59,822,559 | 91,935,989 | 2,576,527 | 94,512,516 |
| Over two years | 217,641,923 | 641,679 | 218,283,602 | 168,478,837 | 370,428 | 168,849,265 |
| **Total deposits** | **646,113,558** | **19,059,951** | **665,173,509** | **521,260,262** | **18,048,138** | **539,308,400** |

### 14. Due to banks and financial institutions

Due to banks as at 31 December 2021 and 31 December 2020 consisted as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Current accounts | 1,092,061 | 95,944 |
| Time deposits | 19,581,148 | 12,410,917 |
| Accrued interest | 2,413 | 2,296 |
| **Due to banks** | **20,675,623** | **12,509,157** |
| **Due to BKT Albania** | **552,999** | **1,320,571** |
| Repo Agreements | 30,069,369 | 22,043,649 |
| Accrued interest | 23,668 | 23,248 |
| **Liabilities based on Repo Transactions** | **30,093,037** | **22,066,897** |
| **Total** | **51,321,660** | **35,896,625** |

Kosovo Government Bonds and Securities with a total value of EUR 36,110,000 (31 December 2020: EUR 27,394,350) were used to secure Repo agreements and borrowings from banks.

Due to BKT Albania represents vostro accounts.

### 15. Accruals and other liabilities

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Accounts payable | 2,262,511 | 1,890,412 |
| Guarantee deposits received | 7,192 | 7,123 |
| Other liabilities | 1,618,748 | 80,933 |
| | **3,888,451** | **1,978,468** |

As of 31 December 2021, the balance of accounts payables includes: inter-branch account for cards settlement, payable taxes such as withholding taxes for interest, salaries etc.; payable management bonuses, other payable expenses.

“Guarantee deposits received” represents guarantees received from suppliers based on contracts with them.



**Banka Kombetare Tregtare Kosovë sh.a.**
Explanatory notes as of and for the period ended 31 December 2021
*(amounts in EUR, unless otherwise stated)*

### 16. Borrowings

Borrowings as at 31 December 2021 and 31 December 2020 consisted as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Current maturity of long – term borrowings | 4,444,444 | 4,894,444 |
| Non-current part of long – term borrowings | 8,888,889 | 13,333,334 |
| **Borrowings** | **13,333,333** | **18,227,778** |
| Accrued interest | 14,481 | 19,371 |
| | **13,347,815** | **18,247,148** |

1. A loan by European Fund for Southeast Europe S.A. (“EFSE”) in amount of EUR 10,000,000 was disbursed on December 20, 2019. The applicable margin for the loan is 2.35% per annum.
The loan will be repaid in consecutive semi-annual instalments starting from December 15, 2020 to December 15, 2024.

2. A loan by Green for Growth Fund, Southeast Europe S.A. (“GGF”) in amount of EUR 10,000,000 was disbursed on December 16, 2019. The applicable margin for the loan is 2.25% per annum.
The loan will be repaid in consecutive semi-annual instalments starting from December 15, 2020 to December 15, 2024.

Loans are given with the purpose to be placed to private micro and small enterprises and entrepreneurs (MSEs) that are registered and/or residents in Kosova to finance working capital and investment requirements.

## 17. Share capital

At 31 December 2021 the authorized share capital is EUR 31,000,000 (2020: EUR 31,000,000). The Bank is a joint stock company 100% owned by Banka Kombëtare Tregtare J.S.C in Albania. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank's residual assets.

The following table show the shareholder's structure as of 31 December 2021 and 2020.

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | No. of shares | Total in EUR | % | No. of shares | Total in EUR | % |
| Banka Kombetare Tregtare J.S.C in Albania | **3,100,000** | **31,000,000** | **100** | **3,100,000** | **31,000,000** | **100** |

**Reserves**
The fair value reserve comprises the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are de-recognized or reclassified. This amount is increased by the amount of ECL loss allowance.

The table below sets out the movements in fair value and ECL loss allowance for 2021 and 2020:

| Movements on reserves | Fair Value Reserves | ECL | Other reserves | Total reserves |
|---|---|---|---|---|
| **Balance at 01 January 2020 as stated** | 2,753,548 | - | (292,002) | 2,461,546 |
| Corrected opening balance | - | 208,330 | - | 208,330 |
| **Balance at 01 January 2020 as re-stated** | 2,753,548 | 208,330 | (292,002) | 2,669,876 |
| Movements | (2,975,466) | 538,197 | - | (2,437,269) |
| **Balance at 31 December 2021** | (221,919) | 746,528 | (292,002) | 232,607 |

**Other reserves**

| **Changes between CBK Regulations and IFRS** | |
|---|---|
| Changes on provision fund | (664,017) |
| Changes on accrued interest | 99,440 |
| Changes on deferred tax | 277,547 |
| Changes on Accumulated profit from previous years | (5,564) |
| Changes on other liabilities | 592 |
| **Total other reserves** | **(292,002)** |

During the year ended at 31 December 2020, the Central Bank of Kosovo (CBK) changed its regulatory reporting framework and discontinued the requirement for issuing statutory financial statements prepared based on a reporting framework different than IFRS, which resulted on a one-time effect of EUR 292,002. This amount may not be distributed as dividend payment or any other form of distribution, until further instructions or approval received by CBK.

**Retained earnings**
Retained earnings as at 31 December 2021, includes the cumulative non-distributed earnings.



**Banka Kombetare Tregtare Kosovë sh.a.**
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*(amounts in EUR, unless otherwise stated)*

## 18. Interest income calculated using the effective interest method

Interest income is composed as follows:

| | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|
| Loans to customers | 24,069,939 | 20,357,142 |
| Due from BKT Albania (Note 25) | 2,901 | 2,130 |
| Investment securities | 6,114,097 | 4,654,369 |
| Balances with banks | 173,043 | 685,817 |
| | **30,359,980** | **25,699,458** |

## 19. Interest expenses calculated using the effective interest method

| | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|
| Customer deposits | 5,182,781 | 4,641,540 |
| Due to banks | 327,015 | 261,257 |
| Interest expenses for borrowings | 389,339 | 514,424 |
| Interest expenses for leases (Note 10.1) | 116,543 | 78,340 |
| Other interest expense | 138,253 | - |
| | **6,153,931** | **5,495,560** |

## 20. Fees and commissions, net

Fee and commission income and expense are comprised of the following items:

| | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|
| *Fee and commission income* | | |
| Lending activity | 218,956 | 104,818 |
| Payment services to clients | 3,509,663 | 2,549,532 |
| Customer accounts' maintenance | 1,909,332 | 1,386,481 |
| Cash transactions with clients | 745,564 | 501,385 |
| Total | **6,383,515** | **4,542,217** |
| Fee and commission expense | | |
| Inter-bank transactions | (280,018) | (184,368) |
| Total | **(280,018)** | **(184,368)** |
| **Fees and commissions, net** | **6,103,498** | **4,357,849** |

| **21. Other (expense) / income, net** | For the year ended as at December 31, 2020 | For the year ended as at December 31, 2019 |
|---|---|---|
| *Other income* | | |
| Gain on sale of fixed assets | - | - |
| Income from collection of written off loans | 245,089 | 261,782 |
| Other income | 354,955 | 159,090 |
| | 600,044 | **420,872** |
| *Other expenses* | | |
| Write off of loans to customers, net | (426,390) | (177,794) |
| Other expenses | - | - |
| | **(426,390)** | **(177,794)** |
| **Other (expense) / income, net** | **173,654** | **243,078** |

## 22. Personnel expenses

Personnel expenses are composed as follows:

| | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|
| Salaries | 4,546,432 | 4,158,471 |
| Social insurance | 200,486 | 189,262 |
| Other employee benefits | 721,567 | 646,513 |
| | **5,468,484** | **4,994,245** |

## 23. Administrative expenses

Administrative expenses are composed as follows:

| | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|
| Credit/debit cards expenses | 1,905,520 | 1,472,807 |
| Other external services | 1,529,006 | 1,224,765 |
| Taxes other than tax on profits | 679,677 | 501,252 |
| Repairs and maintenance | 472,932 | 437,333 |
| Telephone, electricity and IT expenses | 471,734 | 365,330 |
| Marketing expenses | 374,624 | 290,833 |
| Security and insurance expenses | 347,123 | 313,802 |
| Short term Lease expenses (note 10.1) | 103,509 | 143,118 |
| Sundry | 91,082 | 95,439 |
| Office stationery and supplies | 52,487 | 75,283 |
| Representation expenses | 44,787 | 38,499 |
| Training | 26,427 | 33,503 |
| Impairment expenses | - | - |
| | **6,098,909** | **4,991,964** |

Credit / debit card operational expenses are related to expenses for issuing, maintenance and operational expenses for credit and debit cards.

## 24. Impairment of financial assets other than loans to customers, and provisions for off balance sheet items

Movements in the allowance for impairment of financial assets other than loans to customers and provisions for off balance sheet items:

| | Investment securities at amortised cost | Investment securities at FVOCI | Loans and advances to banks | Placements in banks | Provision for off balance items | Total |
|---|---|---|---|---|---|---|
| **At 01 January 2020** | **259,582** | **234,855** | **-** | **7,174** | **536,621** | **803,377** |
| Impairment charge/ (release) for the year | 36,078 | (26,525) | 100,194 | (1,503) | 118,347 | 253,116 |
| **At 31 December 2020/01 January 2021** | **87,329** | **208,330** | **100,194** | **5,671** | **654,968** | **1,056,493** |
| Impairment charge/ (release) for the year | 380,541 | 538,197 | 26,127 | (3,669) | (275,961) | 665,235 |
| **At 31 December 2021** | **467,870** | **746,528** | **126,321** | **2,002** | **379,007** | **1,721,728** |





## 25. Related party transactions

In accordance with IAS 24 “Related Party Disclosures”, a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank’s sole shareholder is BKT Albania owned by Calik Finansal Hizmetler, which is owned by Calik Holding. The ultimate controlling party is Mr. Ahmet Calik. The ultimate parent company is Calik Holding A.S.

Aktif Yatirim Bankasi and Kosova Electricity Distribution and Supply Company J.S.C (KEDS) are controlled by Calik Holding. As at January 1, 2015 KEDS is divided into two companies: KEDS and Kosova Electricity Supply Company (KESCO).

Albtelcom sha is a telecommunication company located in Albania and is controlled at 93.2% by Cetel Telecom owned by Calik Holding.

***Balances and transactions with related parties***

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Assets** | | |
| ***Placements and balances with banks:*** | | |
| Aktif Yatirim Bankasi | 17,070 | 42,325 |
| Due from BKT Albania | 221,756 | 38,658 |
| ***Loans to customers:*** | | |
| KEDS / KESCO | 2,753 | 489 |
| Albtelecom Sh.a | - | 2,359,618 |
| Senior management | 336,066 | 418,332 |
| Other | 139,722 | 100,159 |
| **Total Assets** | **717,367** | **2,959,581** |
| **Liabilities** | | |
| ***Customer current accounts and deposits:*** | | |
| KEDS / KESCO | 13,761,160 | 16,157,788 |
| KEDS SHA | 6,421,197 | 99,797 |
| Aktif Yatirim Bankasi | 14,879,379 | 8,517,679 |
| Senior management | 864,522 | 575,380 |
| Due to BKT Albania | 552,999 | 1,320,571 |
| REPO BKT Albania | 20,448,836 | 12,546,399 |
| ALBTELECOM | - | 541 |
| OTHER RELATED | 220,850 | 753,029 |
| ***Other liabilities:*** | - | |
| Aktif Yatirim Bankasi | - | - |
| **Total Liabilities** | **57,148,944** | **39,971,185** |

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Commitments and contingencies** | | |
| ***Guaranties in favour of customers:*** | | |
| BKT Albania | 160,000 | 150,000 |
| KEDS / KESCO | - | - |
| Senior management | 15,050 | 12,650 |
| ***Commitments in favour of customers:*** | | |
| KEDS / KESCO | 17,247 | 4,511 |
| Senior Management | 64,575 | 54,198 |
| Other Related | 18,290 | 22,515 |

### 25. Related party transactions (continued)

The balances due from Head Office include transfers of funds on behalf of the Bank or its customers, management of foreign currency positions performed by the BKT Kosova, and other inter-company balances.

| | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|
| **Statement of comprehensive income** | | |
| ***Interest income from:*** | **125,394** | **168,331** |
| *Aktif Yatirim Bankasi* | 215 | 1,958 |
| *KESCO JSC & KEDS SHA* | 14 | 14 |
| *BKT ALBANIA* | 2,901 | 2,130 |
| *Albtelecom SHA* | 110,836 | 157,304 |
| *Other Related* | 11,429 | 6,924 |
| ***Interest expenses for:*** | **(11,039)** | **(14,122)** |
| *Aktif Yatirim Bankasi* | - | (2,037) |
| *BKT Albania* | - | (3,514) |
| *KESCO JSC & KEDS SHA* | (2,105) | - |
| *Other Related* | (8,935) | (8,571) |
| ***Fees and commissions Income:*** | **106,064** | **61,155** |
| *KESCO JSC & KEDS SHA* | 48,151 | 37,243 |
| *Albtelecom SHA* | 50 | - |
| *Aktif Yatirim Bankas* | 55,302 | 22,673 |
| *Other Related* | 2,561 | 1,238 |
| **Net** | **220,419** | **215,364** |

***Transactions with directors and executive officers***

The remuneration of directors and executive officers is included in personnel expenses. It can be detailed as follows:

| | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|
| Directors | 566,960 | 462,131 |
| Executive officers | 546,761 | 454,105 |
| | **1,113,720** | **916,236** |

### 26. Contingencies and commitments

| **Guarantees and letters of credit** | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Guarantees in favour of customers | 18,250,028 | 20,232,074 |
| Letters of credit issued to customers | 5,755,482 | - |
| | 24,005,510 | 20,232,074 |
| Provision (note 24) | (379,007) | (654,968) |
| **Guarantees and letters of credit, net** | **23,626,503** | **19,577,106** |

Guarantees issued in favour of customers are guaranteed by mortgages or fully cash collateralised.

| **Other** | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Undrawn credit commitments | 52,761,748 | 40,578,963 |
| Collaterals for loan portfolio | 922,955,613 | 802,594,080 |





### 26. Contingencies and commitments (continued)

**Legal**

In the normal course of business, the Bank is presented with legal claims and litigation in amount of EUR 7,236,572 (2020: EUR 5,444,379); the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2021.

**Lease commitments**

Lease commitments for the years ended 31 December 2021 and 2020 are composed as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Not later than 1 year | 38,712 | 123,653 |
| Later than 1 year and not later than 5 years | 942,018 | 786,845 |
| Later than 5 years | 3,269,509 | 1,205,843 |
| **Total** | **4,250,239** | **2,116,340** |

The Bank has entered into lease commitments with duration up to ten years. The Bank may cancel these leases upon giving three months' notice period. Therefore, at 31 December 2021 the maximum non-cancellable commitment payable not later than one year is EUR 175,769 (2020: EUR 225,944).

### 27. Income tax

Income tax is comprised as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Current income tax expense | 1,601,600 | 1,187,347 |
| Deferred tax income | 14,403 | (22,790) |
| | **1,616,003** | **1,164,557** |

The tax on the Bank's results before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Banks as follows:

| | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|
| Profit before tax | 17,553,378 | 12,217,842 |
| Add/Less: non-deductible expenses | (1,744,642) | (1,167,789) |
| Non-allowable tax depreciation | 743,916 | 744,745 |
| CBK Impairment losses not allowed for tax purposes | 135,912 | 742,687 |
| Difference in impairment expenses Tax Adm. vs IFRS | (672,568) | (664,016) |
| **Taxable profit/ (losses) for the year** | **16,015,997** | **11,873,469** |
| **Current tax expense** | **1,601,600** | **1,187,347** |
| **Effective tax rate** | **9.12%** | **9.72%** |

**27. Income tax (continued)**

Deferred tax is calculated based on the enacted tax rate of 10%. The carry forward period for any tax losses in accordance with the laws in Kosova is seven years. The Bank did not recognize the net deferred tax assets relating to temporary differences, due to the fact that it is not certain that the deferred tax asset will be utilized. The tax losses are detailed as follows:

The movement on the deferred income tax account is as follows:

| | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|
| Assets / (Liability) at 1 January | 300,337 | 277,547 |
| Release for the period | (14,403) | 22,790 |
| Asset/ (Liability) at the end of the year | **285,934** | **300,337** |

Deferred income tax liabilities are attributable to the following items:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Allowance for loan impairment | - | - |
| Deferred fee for loan commissions | 18,847 | (12,261) |
| Decelerated depreciation | (2,250) | 160 |
| Deferred interest expenses | (31,000) | 34,891 |
| | **(14,403)** | **22,790** |

**Income tax liability is consisted as follow:**

| | For the year ended as at December 31, 2021 | For the year ended as at December 31, 2020 |
|---|---|---|
| **Accumulated taxable profit** | **16,015,997** | **11,873,469** |
| 10% tax on income | 1,601,600 | 1,187,347 |
| Prepayments of income tax during the year | (1,366,169) | (1,282,841) |
| **Income tax payable/(receivable)** | **235,431** | **(95,494)** |

**28. Exchange rates**

Official exchange rates used in the translation of the items denominated in foreign currencies in the statement of financial position were as follows:

| | 31-Dec-21 | | 31-Dec-20 | |
|---|---|---|---|---|
| **Currency** | **Units per EUR** | **EUR per Unit** | **Units per EUR** | **EUR per Unit** |
| **USD** | 1.1326000000 | 0.882924245 | 1.227099999 | 0.814929509 |
| **GBP** | 0.8402800000 | 1.190079497 | 0.899030000 | 1.112309934 |
| **CHF** | 1.0331000000 | 0.967960507 | 1.080200000 | 0.92575449 |
| **ALL** | 120.76000000 | 0.008280888 | 123.4000000 | 0.008103728 |





**29. Swap Contracts**

**2021**

| *Name* | *Value Date* | *Maturity Date* | *Amount in EUR* | *Currency* |
|---|---|---|---|---|
| Aktif Investment Bank | 14/07/2021 | 18/01/2022 | 2,603,331 | EUR |
| Aktif Investment Bank | 12/08/2021 | 11/02/2022 | 3,107,842 | EUR |
| Aktif Investment Bank | 31/08/2021 | 28/02/2022 | 10,376,666 | EUR |
| Aktif Investment Bank | 08/09/2021 | 10/03/2022 | 5,222,832 | EUR |
| Aktif Investment Bank | 29/09/2021 | 01/04/2022 | 10,299,691 | EUR |
| Aktif Investment Bank | 26/11/2021 | 27/05/2022 | 9,906,802 | EUR |
| Aktif Investment Bank | 13/12/2021 | 14/06/2022 | 4,974,816 | EUR |
| Aktif Investment Bank | 23/12/2021 | 06/05/2022 | 4,986,756 | EUR |
| Aktif Investment Bank | 23/12/2021 | 24/06/2022 | 4,985,873 | EUR |
| TOTAL | | | **56,464,609** | |

**2020**

| *Name* | *Value Date* | *Maturity Date* | *Amount in EUR* | *Currency* |
|---|---|---|---|---|
| Aktif Investment Bank | 04/08/2020 | 02/02/2021 | 7,000,000 | EUR |
| Aktif Investment Bank | 06/08/2020 | 16/02/2021 | 1,108,879 | GBP |
| Aktif Investment Bank | 06/08/2020 | 23/02/2021 | 3,000,000 | EUR |
| Aktif Investment Bank | 02/09/2020 | 02/03/2021 | 5,000,000 | EUR |
| Aktif Investment Bank | 06/10/2020 | 07/04/2021 | 10,000,000 | EUR |
| Aktif Investment Bank | 30/10/2020 | 17/02/2021 | 1,700,000 | EUR |
| Aktif Investment Bank | 10/11/2020 | 14/05/2021 | 5,000,000 | EUR |
| Aktif Investment Bank | 30/12/2020 | 12/01/2021 | 6,500,000 | EUR |
| TOTAL | | | **39,308,879** | |

**The income/expense**

The total expense for Swap contracts for 2021 included in "Profit / (loss) from FX trading activities, net" was EUR 265,493 (2020: EUR 321,060).

**30. Events after the reporting period**

After the reporting date, a major armed conflict between Russia and Ukraine occurs.
T invasion of Ukraine was a specific, defined event which occurred on 24 February 2022 and the significant sanctions to Russia imposed by the international community were a direct response to that invasion. The conflict between the two countries continues to evolve as military activity proceeds and additional sanctions continue to be imposed. The conflict is increasingly affecting economic and global financial markets and exacerbating ongoing economic challenges, including inflation and global supply chain disruption.

The Bank has direct exposure to the country in conflict, which result from government Eurobond investments in Ukraine.

The Banks's current total exposure in Ukraine totals for EUR 500K measured at FVOCI (31 December 2021: EUR 500K) and EUR 7.9M measured at amortized cost. The maturity range of these investments varies from June 2026 to January 2030.

The fair value loss of the Bank's investments in Ukraine measured at FVOCI reached the level of EUR 5.5M in total, as at 28 February 2022 (31 December 2021: EUR 1.2M). At the end of March, the situation has been slightly improving and the fair value losses have dropped to EUR 4.8M million in total.

Provisions for the exposure in Ukraine have been increase from 31 December 2021 amounting 122K to EUR 1.414M as at end of March 2022.

After the Russian invasion of Ukraine, the bank takes immediate action to evaluate the impact of the Ukraine's conflict in the bank's operations activity in line with its internal risk appetite and other regulatory covenants. The potential effects were raised and thoroughly discussed with the highest authority level of the bank, the Board of Directors (BoD). Several decisions were taken in the BoD meeting in order to reduce and prevent the risk by the existing exposure with the Ukraine Country, which includes the decision of decreasing the country limit of Ukraine and increasing the total treasury impairment including special individual treatment toward Ukraine investment but not limited too. Due to the investment structure of "Held to Maturity" that the bank has with the Ukraine country there is no current impact on the incomes or expenses, either there is no impact on the liquidity risk and did not breach any covenants. A close monitoring of the political, economic and financial factors of the Ukraine are being performed in real time in order to measure the impact on market risk and based on the deterioration of the situation to act accordingly.

There are no other events after the reporting period that would require either adjustments or additional disclosures in the financial statements, except for the above.


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