

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

To the Shareholders of
Banka Kombëtare Tregtare Kosovë Sh.a.

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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



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)

		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
<i>Operating expenses</i>			
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
<i>Adjustments to reconcile changes in net assets to net cash provided by operating activities:</i>			
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)
<i>(Increase)/decrease in operating assets:</i>			
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)
<i>Increase/(decrease) in operating liabilities:</i>			
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 through 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 through 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 $PD \times LGD$) 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 Kosovo 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.

4. Use of estimates and judgements (continued)

Determining fair values

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

Critical accounting judgments made in applying the Bank’s accounting policies include:

Valuation of financial instruments

The Bank’s accounting policy on fair value measurements is discussed under note 3 (f) (vii).

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

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			
	No te	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			
	No te	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. However, 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.

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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		31-Dec-21			31-Dec-20		
	Note	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		49,353,662	(467,870)	48,885,792	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 X_t which represents the macroeconomic environment is introduced. The sensitivity of each rating's PD to this variable is obtained via the calibration of the ρ parameter. The model takes into account the global default rate of each year and calculates X_t 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 X_t , 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 ρ_i 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.

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- 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

31 December 2021	Loans and advances to customers			Total
	Stage 1	Stage 2	Stage 3	
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.

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Notes to the Financial Statements for the year ended 31 December 2021
(Amounts in EUR, unless otherwise stated)

- 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			Total
	Stage 1	Stage 2	Stage 3	
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.

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Notes to the Financial Statements for the year ended 31 December 2021
(Amounts in EUR, unless otherwise stated)

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			Total
	Stage 1	Stage 2	Stage 3	
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

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Notes to the Financial Statements for the year ended 31 December 2021
(Amounts in EUR, unless otherwise stated)

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

	Loans to customers allowance			
	Stage 1	Stage 2	Stage 3	Total
31 December 2020	7,070,848	436,735	2,099,573	9,607,157
Balance at 1 January 2020				
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

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts in EUR, unless otherwise stated)

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
	7,206,181	-	-	7,206,181	98,188,727	-	-	98,188,727
Balance at 1 January 2021								
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
	28,340,121	-	-	28,340,121	18,418,679	1,813,395	-	20,232,074
Balance at 1 January 2021								
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.

Notes to the Financial Statements for the year ended 31 December 2021
(Amounts in EUR, unless otherwise stated)

(b) Credit Risk (continued)

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

31 December 2020

31 December 2020

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

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Notes to the Financial Statements for the year ended 31 December 2021
(Amounts in EUR, unless otherwise stated)

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).

RECONCILIATION 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
	5,672	-	-	5,672	208,330	-	-	208,330
Balance at 1 January 2021								
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

Balance at 1 January 2021

Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	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

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts in EUR, unless otherwise stated)

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).

RECONCILIATION 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
	7,174	-	-	7,174	234,855	-	-	234,855
Balance at 1 January 2020								
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
	24,727	-	-	24,727	536,621	-	-	536,621
Balance at 1 January 2020								
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.

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Explanatory notes as of and for the period ended 31 December 2021

(amounts in EUR, unless otherwise stated)

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

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Explanatory notes as of and for the period ended 31 December 2021
(amounts in EUR, unless otherwise stated)

- 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
<i>Placements and Balances with banks at amortised cost</i>						
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
<i>Investment Securities at FVOCI</i>						
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

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Explanatory notes as of and for the period ended 31 December 2021
(amounts in EUR, unless otherwise stated)

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

<i>Investment Securities at Amortised Cost</i>					
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

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Explanatory notes as of and for the period ended 31 December 2021

(amounts in EUR, unless otherwise stated)

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^(b)

	12-month ECL	Lifetime ECL, not credit-	Lifetime ECL, credit-	Total
Large Corporate				
31 December 2021				
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	-
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

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Explanatory notes as of and for the period ended 31 December 2021
(amounts in EUR, unless otherwise stated)

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		12-month ECL	Lifetime ECL not credit-	Lifetime ECL credit-impaired	Total
31 December 2020					
<i>Large Corporate</i>					
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
<i>SME Corporate</i>					
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
<i>Micro Corporate</i>					
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

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Explanatory notes as of and for the period ended 31 December 2021
(amounts in EUR, unless otherwise stated)

- 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 PORTFOLIO¹⁾

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

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Explanatory notes as of and for the period ended 31 December 2021

(amounts in EUR, unless otherwise stated)

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				
Credit cards Loss allowance	5,746,724	32,630	1,136,625	6,915,979
	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 ^{y)}	3,534,810 ^{y)}	13,205,807
Total loss allowance as per December 2020	4,413,785	6,275,607	1,714,069	12,403,461

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Explanatory notes as of and for the period ended 31 December 2021
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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		
	Retail	Corporate	Total Loans
31 December 2021			
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		
	Retail	Corporate	Total Loans
31 December 2020			
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.

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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
	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
Concentration by location							
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.

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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	-	10,677,525	-	-	-	-	-
Agreements	31,155,128	-	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	-	-

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Explanatory notes as of and for the period ended 31 December 2021

(amounts in EUR, unless otherwise stated)

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	-

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(amounts in EUR, unless otherwise stated)

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 Kosovo 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:

	EUR	ALL	USD	GBP	CHF	Other	Total
2021							
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

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(amounts in EUR, unless otherwise stated)

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:

<i>in EUR</i>	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 Decrease	100 bp Increase	100 bp Increase	100 bp 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 Decrease	100 bp Increase	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(2,716,050)	2,716,050	2,900,022	(2,900,022)

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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:

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

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:

	<u>31 December 2021</u>	<u>31 December 2020</u>
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
	<u>98,090,167</u>	<u>91,135,529</u>

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%

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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
<i>Cost</i>		
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
<i>Accumulated depreciation</i>		
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)
<i>Net book value</i>		
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.

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*(amounts in EUR, unless otherwise stated)***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.

16. Borrowings

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

	<u>31 December 2021</u>	<u>31 December 2020</u>
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
	<u>13,347,815</u>	<u>18,247,148</u>

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.

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*(amounts in EUR, unless otherwise stated)***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:

	Fair Value Reserves	ECL	Other reserves	Total reserves
Movements on 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.

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
<i>Fee and commission income</i>		
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
<i>Fee and commission expense</i>		
Inter-bank transactions	(280,018)	(184,368)
Total	(280,018)	(184,368)
Fees and commissions, net	6,103,498	4,357,849

	For the year ended as at December 31, 2020	For the year ended as at December 31, 2019
21. Other (expense) / income, net		
<i>Other income</i>		
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
<i>Other expenses</i>		
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

	<u>31 December 2021</u>	<u>31 December 2020</u>
Assets		
<i>Placements and balances with banks:</i>		
Aktif Yatirim Bankasi	17,070	42,325
Due from BKT Albania	221,756	38,658
<i>Loans to customers:</i>		
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		
<i>Customer current accounts and deposits:</i>		
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
<i>Other liabilities:</i>	-	-
Aktif Yatirim Bankasi	-	-
Total Liabilities	57,148,944	39,971,185

	<u>31 December 2021</u>	<u>31 December 2020</u>
Commitments and contingencies		
<i>Guaranties in favour of customers:</i>		
BKT Albania	160,000	150,000
KEDS / KESCO	-	-
Senior management	15,050	12,650
<i>Commitments in favour of customers:</i>		
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
<i>Aktif Yatirim Bankasi</i>	215	1,958
<i>KESCO JSC & KEDS SHA</i>	14	14
<i>BKT ALBANIA</i>	2,901	2,130
<i>Albtelecom SHA</i>	110,836	157,304
<i>Other Related</i>	11,429	6,924
Interest expenses for:	(11,039)	(14,122)
<i>Aktif Yatirim Bankasi</i>	-	(2,037)
<i>BKT Albania</i>	-	(3,514)
<i>KESCO JSC & KEDS SHA</i>	(2,105)	-
<i>Other Related</i>	(8,935)	(8,571)
Fees and commissions Income:	106,064	61,155
<i>KESCO JSC & KEDS SHA</i>	48,151	37,243
<i>Albtelecom SHA</i>	50	-
<i>Aktif Yatirim Bankas</i>	55,302	22,673
<i>Other Related</i>	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:

	<u>31 December 2021</u>	<u>31 December 2020</u>
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	<u>4,250,239</u>	<u>2,116,340</u>

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:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Current income tax expense	1,601,600	1,187,347
Deferred tax income	14,403	(22,790)
	<u>1,616,003</u>	<u>1,164,557</u>

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:

	<u>For the year ended as at December 31, 2021</u>	<u>For the year ended as at December 31, 2020</u>
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	<u>16,015,997</u>	<u>11,873,469</u>
Current tax expense	<u>1,601,600</u>	<u>1,187,347</u>
Effective tax rate	<u>9.12%</u>	<u>9.72%</u>

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*(amounts in EUR, unless otherwise stated)***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	1.132600000	0.882924245	1.227099999	0.814929509
GBP	0.840280000	1.190079497	0.899030000	1.112309934
CHF	1.033100000	0.967960507	1.080200000	0.92575449
ALL	120.7600000	0.008280888	123.4000000	0.008103728

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Explanatory notes as of and for the period ended 31 December 2021

*(amounts in EUR, unless otherwise stated)***29. Swap Contracts****2021**

<i>Name</i>	<i>Value Date</i>	<i>Maturity Date</i>	<i>Amount in EUR</i>	<i>Currency</i>
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

<i>Name</i>	<i>Value Date</i>	<i>Maturity Date</i>	<i>Amount in EUR</i>	<i>Currency</i>
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.

The 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 Bank'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.