BANKA KOMBETARE TREGTARE

ANNUAL REPORT 2023

BKT KOSOVA

WE ARE EVERYWHERE!

MISSION

Utilizing our talents and energy to develop solutions that contribute to the improvement of our joint ecosystem, both environmental by preserving our nature and its resources as well as societal by contributing to our communities, providing our people and stakeholders with peace of mind, convenience and numerous possibilities within the banking sector.

VISION

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

CORE VALUES

Our bank is committed to fairness, heart-guided work, innovation, transparency, sustainability, and agility. We value these principles and are pleased to see our efforts pay off in various ways, building trust with customers and stakeholders, making a positive impact on communities, and staying ahead of the curve.

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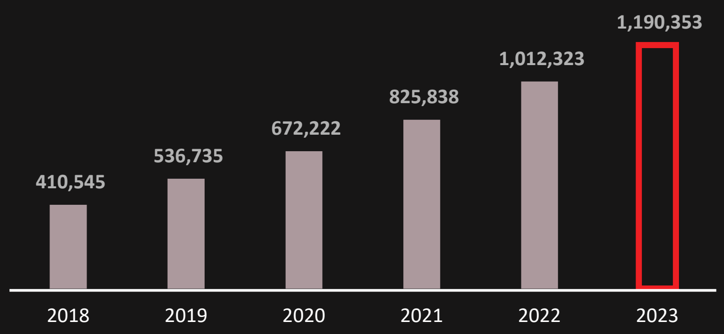
A VISION FOR CHANGE

BKT Kosova
Performance in Numbers

ASSETS



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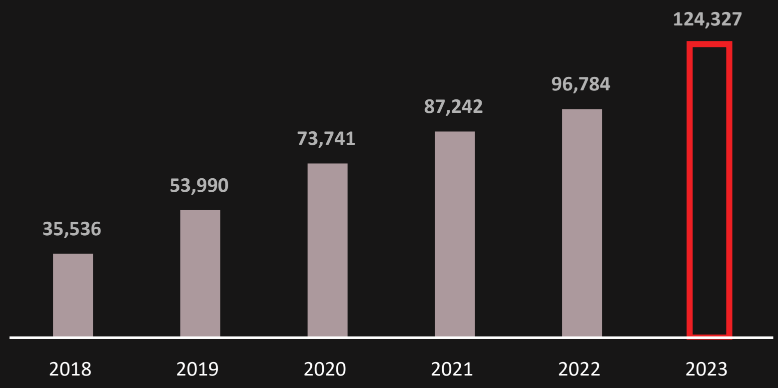

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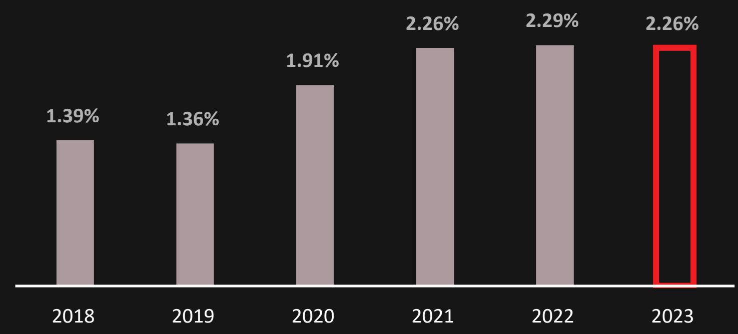

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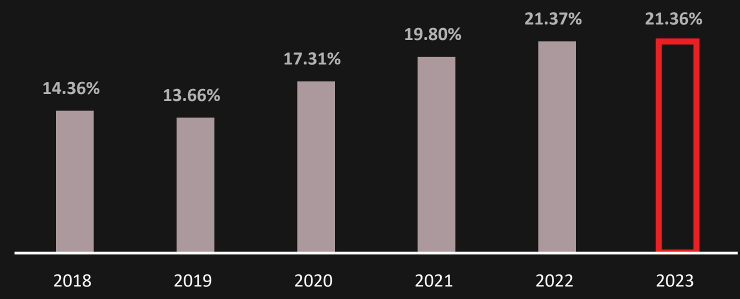

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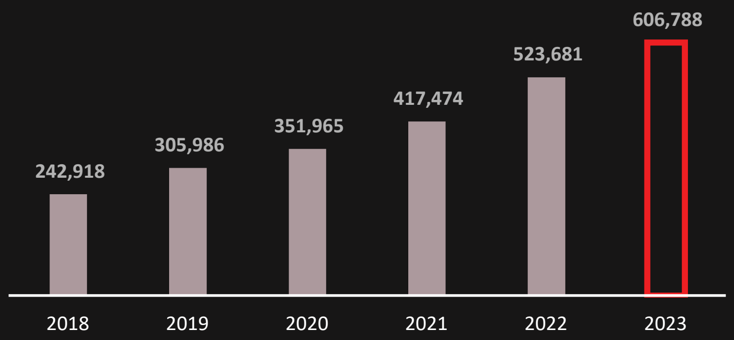

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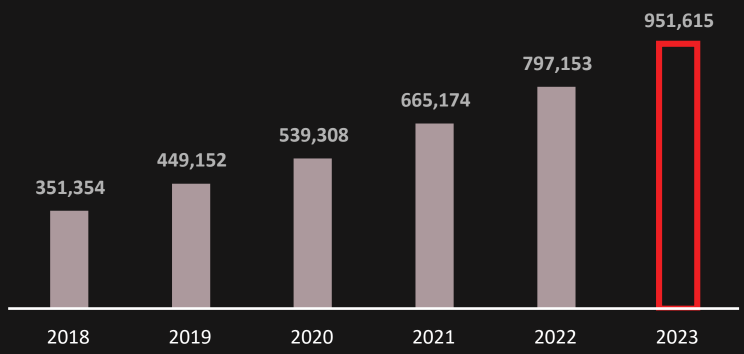

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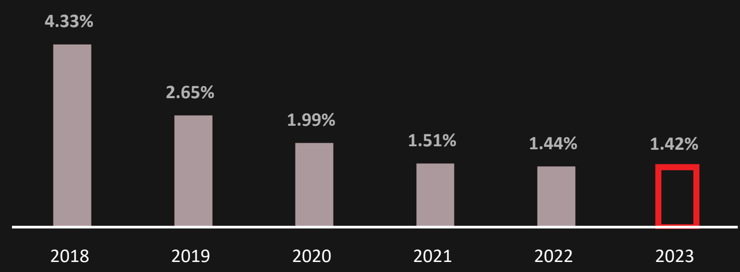

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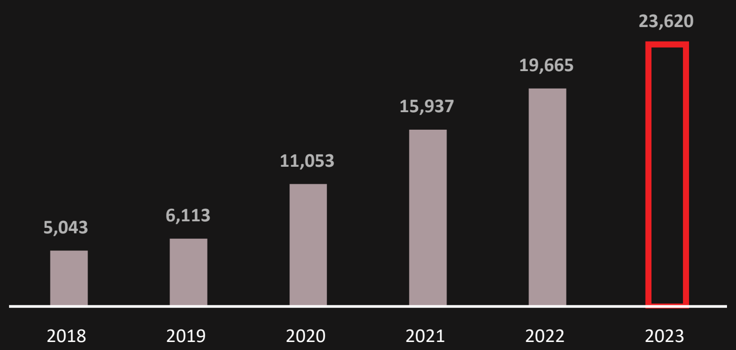

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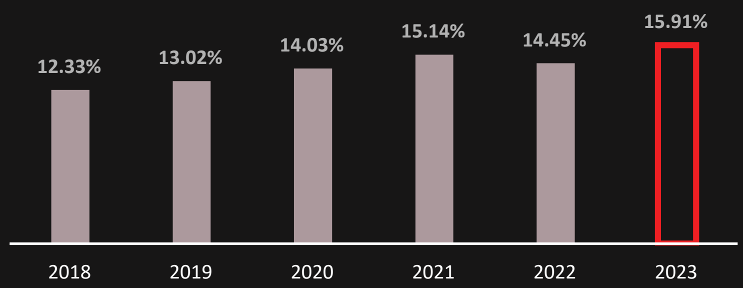
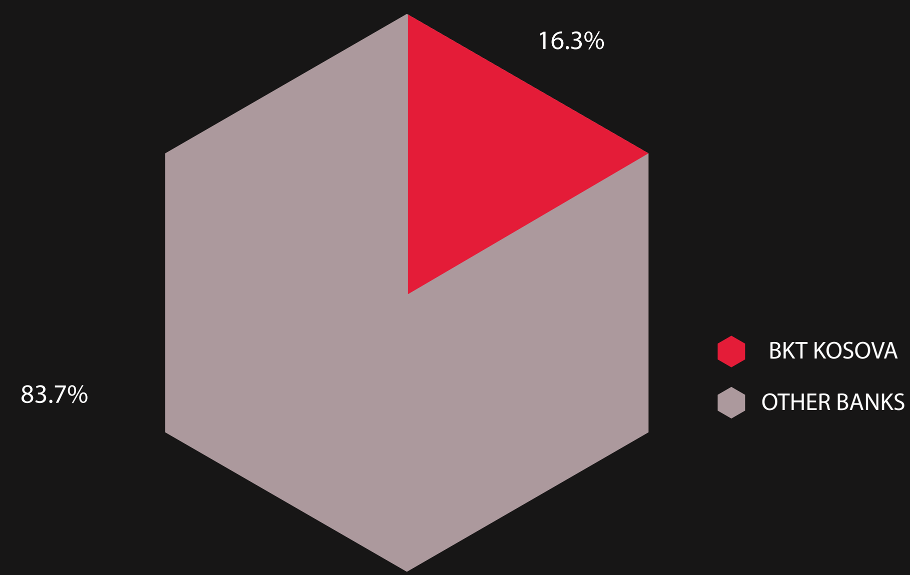


BKT KOSOVA MARKET SHARE



ÇALIK Holding

Çalık Holding

Established by Ahmet Çalık in 1981, Çalık Holding operates in 34 countries around the world with its companies in the fields of energy, construction, mining, textiles, and finance.

Recognized for its reputation, reliability, and long-term cooperation with global companies due to its ongoing operations in various regions of the world, Çalık Holding develops innovative business models and forges ahead by achieving sustainable growth in its lines of business. With the value it places on human resources and its employee-oriented management approach, Çalık Holding adheres to its economic, environmental, and social sustainability goals in all its investments, projects, and business.

As a United Nations Global Compact signatory, Çalık Holding prioritizes diversity, sustainability and durability in all sectors and regions it operates; acts in line with the principle of treating all cultures, faiths, ethnicities, and genders equally, and adopts an environmentally-friendly business approach.

From Left to Right:

Abdurrahman Balkız (Board Member), Suat Bakkal (CEO and Board Member), Serdar Sümer (Chairman of the Board), Mert Turgut Çalık (Board Member), Mehmet Usta (Board Chief Advisor), Galip Tözge (Board Member), Seyhan Pencablıgil (Vice Chairman of the Board)

BOARD OF DIRECTORS

SENIOR MANAGEMENT

TOP - From Left to Right:

Kushtrim Aliu (Central Operations, Information Technology and Human Resources Group Head), **Muharrem Inan** (Treasury, Financial Institutions and Private Banking Group Head), **Elton Xhafaj** (Internal Audit Group Head), **Hamdi Önder** (Risk Management Group Head), **Naim Ratkoceri** (Loan Management and Legal Group Head).

BOTTOM - From Left to Right:

Albion Mulaku (Corporate & Business Banking Group Head and First Deputy CEO), **Njomza Buxhovi Ahmetaj** (Retail Banking Group Head), **Suat Bakkal** (CEO and Board Member), **Agon Skeja** (Finance & Administration Group Head and Second Deputy CEO).

Chairman's Message

Dear Esteemed Stakeholders,

As Chairman of BKT Kosova, I am honored to share with you an overview of our bank's accomplishments and vision for the future.

Firstly, I am proud to highlight the immense potential of the Kosovo economy. Despite various challenges, Kosovo's economy has shown resilience and promise, presenting numerous opportunities for growth and development. As a leading financial institution in Kosovo, we are dedicated to playing a pivotal role in driving economic prosperity and empowering our communities.

In an era defined by rapid technological advancements and evolving customer expectations, innovation has emerged as the cornerstone of our strategy at BKT Kosovo. We understand that staying ahead of the curve is not just a competitive advantage; it is essential to meeting the diverse needs of our customers and positioning ourselves as leaders in the financial services industry.

Moreover, we recognize that innovation is not solely confined to technology; it permeates every aspect of our business. From reimagining traditional banking products to developing sustainable banking practices, we are continually exploring new avenues to create value for our customers and contribute positively to society.

In addition to our focus on innovation, I am excited to share our vision for the future growth and expansion of BKT Kosova. With a strong foundation built on trust, integrity, and customer-centricity, we are well-positioned to capitalize on the vast potential within our core business lines, including retail banking, corporate banking, and investment services.

I'm thrilled to announce that our efforts have not gone unnoticed. We've received numerous accolades and honors from esteemed institutions around the globe, validating our mission to deliver exceptional value and service to our customers while pushing the boundaries of what's possible.

But behind every groundbreaking achievement lies the dedication and hard work of our exceptional team. Their tireless commitment to our vision, paired with their unwavering passion for pushing boundaries, has been the driving force behind our success.

But we're not stopping here. With your continued support and our unwavering commitment to innovation, BKT Kosova is poised to lead the charge into a future where banking is smarter, more accessible, and more inclusive than ever before.

As we embark on this journey of innovation and growth, I am confident that together, we will continue to push the boundaries of what is possible in banking and create lasting value for all our stakeholders.

Thank you for your unwavering support and trust in BKT Kosova.

Warm regards,

Dr. Serdar Sümer
Chairman of the Board of Directors

CEO's Message

Amidst the dynamic economic landscape, Kosovo has not only maintained its upward growth trajectory but has outpaced its neighboring regions over the past decade. This period has witnessed a commendable push towards financial inclusivity, marking the nation's commitment to fostering a robust and inclusive economy. However, the year 2023 unfolded against a backdrop of transformative events that tested the resilience of businesses worldwide. As Kosovo faced the ripple effects of the war in Ukraine and grappled with an unprecedented surge in inflation, BKT Kosova, despite the challenges, demonstrated an unwavering commitment to its stakeholders and a steadfast ability to adapt.

In the face of economic uncertainties, our business model remained resolute, grounded in robust risk management practices. A cornerstone of our strategy was introducing a diverse range of innovative products and services tailored to meet the evolving needs of our customers. This commitment translated into the achievement of key strategic goals through persistent execution, supported by a positive organizational culture. Ambitious transformation projects, spanning various business segments and functions, further underscored our commitment to staying ahead of the curve.

The year unfolded as a defining moment for BKT Kosova, marked by an acceleration in growth across pivotal business indicators. Despite the challenging environment, the bank not only weathered the storm but excelled. Witnessing unparalleled growth in the market, our assets, loan portfolios, and deposit portfolios reached unprecedented values.

This success can be attributed to our strategic leveraging of experience, business diversification, and an unyielding dedication to pioneering innovative banking services and products. As a testament to our resilience and agility, the bank's balance sheet surpassed the established milestone, reinforcing our position as a leading financial institution in Kosovo.

A pivotal element of our success lies in our banking model, designed to offer personalized and convenient banking experiences. Investments in technology, products, and human capital enabled us to cater to a geographically dispersed customer base. With branches strategically positioned across Kosovo, in addition to the introduction of innovative digital services and products, we have fostered a comprehensive and accessible banking ecosystem.

Our digital transformation journey has been both thrilling and transformative. Several new digital products and services were introduced to the market, marking significant milestones. Notably, the launch of the Dora e Pare digital platform stands out as a groundbreaking development, seamlessly bringing together clients and our merchant partners. This platform not only enhances customer convenience but also symbolizes our commitment to fostering a digital ecosystem that creates value for both businesses and consumers.

Building on the success of Robotic Process Automation (RPA) in loan origination, throughout the year we continued to actively explore opportunities to expand the use of automation in various other facets of our operations. Overall, the introduction of RPA at BKT Kosova is a strategic move towards further modernization of the bank, as well as pioneering the implementation of advanced solutions in the banking industry in Kosovo.

Amidst the pursuit of technological progress, social responsibility continues to be a core tenet of our strategy. Aligned with sustainability principles, BKT Kosova recognizes the importance of integrating environmental, social, and governance (ESG) considerations into all facets of its business practices. Beyond delivering customer excellence, we believe in contributing positively to the community's wellbeing and quality of life. We are continuously discovering ways to contribute to a better and cleaner environment, while engaging directly in activities that have direct impact on expanding the green footprint in the environment we operate in.

Accordingly, during 2023 we launched the first green deposit in the country, whose interest income is conditioned directly to ESG criteria. What distinguishes this product is its unique feature, encouraging customers to invest their accrued interest in a diverse array of eco-friendly products and actively contributing to a more environmental and sustainable future. Moreover, we continue to contribute to society, by participating in many activities in the nature of donations and sponsorships that benefit various segments of society.

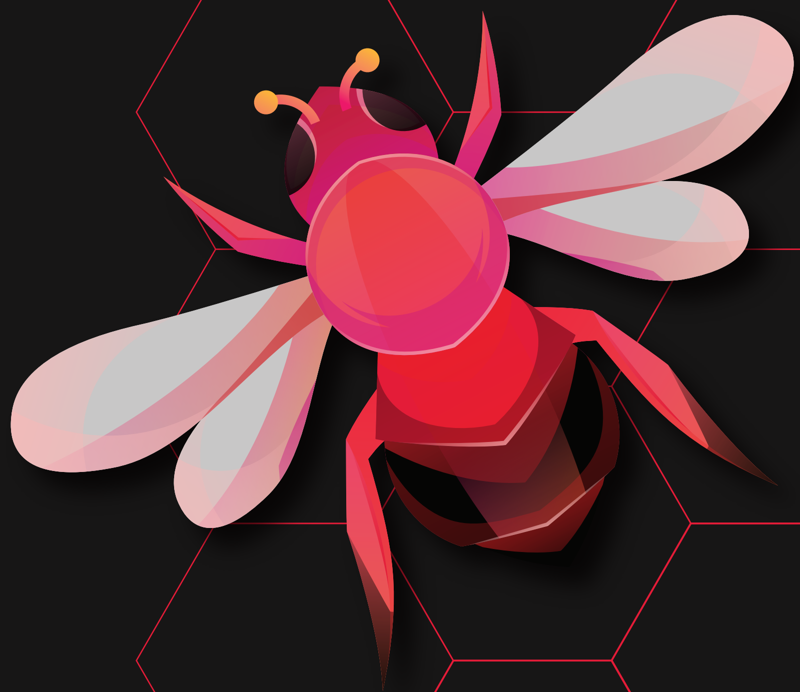
The recognition of our efforts has been echoed through international awards from reputable institutions and magazines. These accolades affirm our commitment to innovation and sustainability in the banking sector, motivating us to continually raise the bar.

Looking ahead, our commitment to leadership, innovation, and excellence remains unwavering. The dedication and hard work of our employees have been pivotal in our success, and we are committed to fostering their development and well-being. The ongoing investment in digital platforms and innovative solutions across all business segments reflects our commitment to delivering enhanced value to our clients.

In conclusion, we express our heartfelt gratitude to our customers, shareholders, and stakeholders for their trust and support. Above all, we extend appreciation to our colleagues, the foundation of our vision, mission, and shared values. As we chart the course forward, our dedication to enriching the lives of our customers, colleagues, and the community at large remains steadfast. In this journey towards sustainable growth, we are poised to embrace the challenges and opportunities that lie ahead, confident in our ability to navigate them with resilience, innovation, and a continued commitment to excellence.

Sincerely,

Suat Bakkal
CEO & Board Member



AWARDS

The Banker

- Bank of the Year 2023 in Kosovo

Euromoney: Market Leaders

- Corporate Banking
- Digital Solutions

Global Finance – The Innovators 2023

- Top Financial Innovations: Consumer Finance
- Top Financial Innovations: Foreign Exchange

EMEA Finance – Europe Banking Awards 2022

- Best Bank

Global Brand Magazine

- Most Admired Retail Banking Brand, Kosovo - 2023
- Best Digital Banking Brand, Kosovo - 2023

Euromoney Global Private Banking Awards 2023

- Best for High Net Worth Individuals in Kosovo

Global Finance

- The Best Bank in Kosovo for 2023

Finance Derivative Magazine

- Best Digital Bank Kosovo 2023

Cosmopolitan The Daily

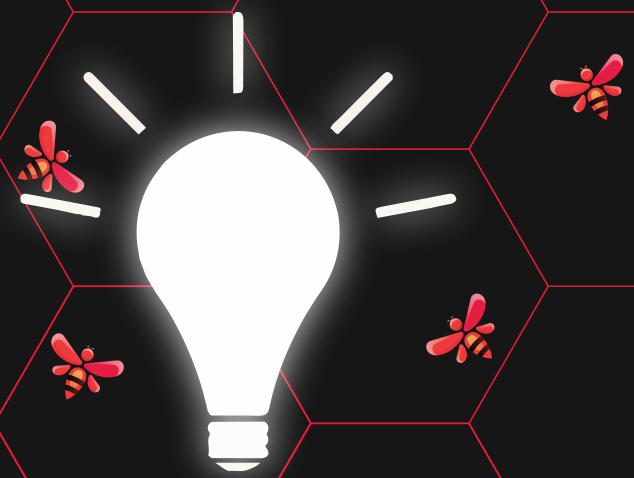
- Best Bank in Kosovo 2023

World Business Outlook Awards 2023

- Best Retail Banking Award Kosovo 2023

World Business Stars Magazine

- Best Bank In Kosovo 2023



INNOVATION & DIGITALIZATION

Digitalization and Innovation

A crucial aspect of BKT Kosova's strategy is its focus on creating and offering products and services tailored specifically to the needs of its clients, which are simultaneously unique in the market. As a leader in digitizing banking services in the Kosovo market, BKT Kosova continues to lead the developments in this field by introducing the most innovative services and products available.

The bank's digital transformation aims to enhance the customer journey and experience while providing greater convenience and benefits to its customers. The emphasis on customers is reflected by creating meaningful experiences, largely driven by digital evolution and technological enhancements. This includes continuous improvement of both back and front-end systems, resulting in integrated and extensive digital ecosystems that go beyond banking. Throughout 2023, BKT Kosova continued its journey of innovation and transformation, leading the way in digitalization of banking products and services.

The bank's ongoing efforts to be the fastest-growing bank with a digital-first mindset, capable of providing world-class banking services to its customers, have brought BKT Kosova widespread recognition as the most digitally advanced bank in the country. This recognition is evident in a series of Digital Banking awards which in 2023, including the Euromoney Market Leaders award for "Digital Solutions", "Best Digital Banking Brand, Kosovo – 2023" from Global Brands Magazine, and "Best Digital Bank Kosovo 2023" from Finance Derivative Magazine.

Green Deposit

In accordance with the bank's unwavering commitment to sustainability, BKT Kosova launched a pioneering initiative: the Green Deposit. This revolutionary product not only underscores dedication to environmental responsibility but also proudly establishes itself as the first of its kind in the Kosovo market. Clients opting for the Green Deposit at BKT Kosova will receive interest rates in advance with exceptionally competitive rates. What sets this product apart is its distinctive feature, allowing clients to invest their advance interest in a diverse range of eco-friendly products. By introducing the first-of-its-kind Green Deposit to the Kosovo market, the bank aims to not only promote financial growth but also to empower clients to actively contribute to a greener and more sustainable future.

This product aims to encourage customers to contribute to environmentally friendly practices by channeling their funds into projects that promote sustainability and mitigate climate change. By offering attractive incentives and interest rates, the bank's objective is to generate a substantial volume of green deposits, further reinforcing the bank's dedication to fostering a greener, more sustainable future. This innovative approach not only aligns with evolving consumer preferences but also positions BKT Kosova as a leader in driving positive environmental impact through responsible financial solutions.

Dora e Pare

BKT Kosova is the first bank in the country to introduce and launch a first-of-its-kind platform in the market, "Dora e Pare".

Dora e Pare is an online real estate and vehicle listing management platform powered by BKT Kosova. Through this platform, the bank has created a sustainable bridge connecting buyers and sellers, offering an on-demand experience for selling, buying, and financing options with transparency and seamless end-to-end service.

The platform features a curated selection of merchant partners, real estate agents, auto dealers, and individuals involved in the process of buying and selling properties and vehicles.

This diverse network ensures that clients have access to a wide range of options and opportunities, thereby increasing their chances of finding the perfect match for their requirements.

By leveraging advanced technology and continuous development, BKT Kosova ensures that clients have easy access to an exceptional platform where they can make informed decisions and achieve the best outcomes when selling or purchasing assets. Through this platform, the bank offers a user-friendly interface that simplifies the loan application process and enables convenient access to financing options for vehicles and real-estate. Through Dora e Pare app, users can search and find properties/vehicles using advanced filter options based on features, location, and prices. Simultaneously, they can apply for a loan as an easy option to get pre-approved and secure financial support for the pre-selected property/vehicle.

BKT Kosova's commitment to ongoing technological advancements and effective communication ensures that the Dora e Pare platform remains at the forefront of innovation. By continuously enhancing services and expanding the network of partners, the bank strives to provide clients with the best possible experience, combining seamless transactions, tailored solutions, and exceptional customer service.

Through Dora e Pare platform, the bank not only offers a cutting-edge platform for online loans but also establishes a reliable and efficient ecosystem that brings together sellers, buyers, and industry professionals. This unique proposition provides our bank with a competitive advantage in the market, setting us apart from traditional lenders and positioning the bank as a leader in providing innovative solutions.

Robotic Process Automation (RPA)

In 2022, BKT Kosova embarked on the next chapter of its digital evolution by incorporating the utilization of Robotic Process Automation (RPA) technology. RPA is an automation platform that enables businesses to automate repetitive and mundane tasks that were previously executed by human labor.

Throughout 2023, the bank further extended the use of RPA to automate a vast array of tasks. Overall, the introduction of RPA at BKT Kosova is a strategic move towards further modernization of the bank, as well as pioneering the implementation of advanced solutions in the banking industry in Kosovo. RPA improved the overall efficiency and competitiveness of the bank, allowing its employees to focus on more value-added tasks while also providing superior customer experiences.

The bank's strategic focus on utilization of RPA, coupled with a special focus on customer care, and has fueled its success, resulting in accolades for best financial innovations from prestigious institutions such as The Banker and Global Finance.

BKT Mobile

BKT Kosova has undertaken a significant upgrade to its mobile banking app. This upgrade has led to a complete interface overhaul, enhancing both the UI and UX to provide customers with a fresh and improved user experience. The new version of BKT Mobile introduces a multitude of exciting new features designed to simplify and streamline banking operations for both retail and corporate clients.

One notable addition to the app is Insurance Services, allowing users to explore and purchase various insurance products directly from their mobile devices. This feature provides bank's customers with a seamless and convenient way to safeguard their assets and loved ones with just a few taps on their screens.

The app upgrade also integrates the QR electricity payment feature, enabling users to conveniently pay their electricity bill using a simple scan-and-pay method. This eliminates the need for manual input of bill details and makes bill payments faster and more efficient.

Another exciting feature introduced in the upgraded BKT Mobile app is the ability to "Share the Bill" with family or friends. This feature allows users to split expenses with their contacts, making it easier to manage group payments for shared activities. It promotes transparency and convenience among friends and family members, eliminating the hassle of collecting money or keeping track of IOUs.

To assist users in managing their finances effectively, the new version of BKT Mobile includes a comprehensive Budget Planning tool. This tool empowers customers to set financial goals, track their expenses, and make informed decisions about their spending habits. By visualizing their financial health and gaining insights into their budget, customers can take control of their finances and work towards achieving their financial objectives.

In line with the bank's commitment to providing comprehensive banking services, the upgraded BKT Mobile now offers the convenience of paying Traffic Tickets directly through the app. This feature saves users time and effort by eliminating the need to visit physical locations or navigate through separate systems to settle traffic violations.

The international transfers feature has also been incorporated into the upgraded BKT Mobile app, enabling customers to send money abroad conveniently. This feature offers competitive secure transactions, empowering customers to conduct international transactions from the comfort of their mobile devices.

Furthermore, customers can conveniently apply for various financial products such as Loans, Credit Cards, or Overdraft facilities directly through the app. The streamlined application process ensures a hassle-free experience, allowing users to access the financial support they need with ease.

Lastly, the new version of BKT Mobile introduces a Cardless withdrawal feature, enabling users to withdraw cash from ATMs without the need for a physical card. This convenient and secure feature enhances flexibility and accessibility for customers, making it easier for them to access their funds when needed.

Insurance Solutions

BKT Kosova is the first bank in the market to offer its clients insurance products through its mobile banking platform. By embedding insurance solutions, the bank has further enriched its value propositions for clients and improved the customer experience.

Bank clients can now apply for travel health insurance, personal accident insurance, property insurance, and home insurance. Furthermore, the bank offers credit life insurance, fostering financial security for every loan.

In introducing these insurance solutions, BKT Kosova reaffirms its dedication to providing holistic financial services. With the client at the forefront, the bank continues to innovate, ensuring that the community thrives in an environment of security, convenience, and trust.

BKT Digital Package

BKT Kosova continues to lead the way with a comprehensive Digital Package in Mobile Banking. Offering services such as Digital Loan, Digital Credit Card, and Digital Overdraft entirely digitally modernizes the process for clients, from application to approval, all with just one signature. This not only enhances efficiency but also significantly reduces paper usage, which contributes also to protection of the environment.

Moreover, the increased digital penetration brings also positive results by reducing manual transactions in branches and promoting digital payments through various channels. The use of QR scanning for e-invoices further simplifies and ensures error-free digital payments, all while following the regulatory requirements.

This over-all approach to digitization not only benefits clients but also aligns with the broader trend towards digital banking solutions.

BUSINESS SEGMENTS

Business Segments

At BKT Kosova, we focus on results and how we deliver them. The concept we embrace **"BKT is everywhere"** reflects the bank's commitment to serving all clients, recognizing the significance of inclusivity for the community and society at large. We deliver best-in-class services and client experience by prioritizing advice and investing in initiatives that make it easier to do business with us.

Corporate & Business Banking

The Corporate and Business Banking vision achieved to sustain a notable increase in both overall business deposits and loan portfolios. The business deposit portfolio grew by 14.8%, while the business loan portfolio by 10.5%. This growth directly contributed to the division's enhanced market presence and increased share across all business indicators. Non-cash financing portfolio increased by 12% in 2023 compared to the previous year. Trade finance is an important segment with the group's overall business, and as such, the bank maintained a stable market share in this category. In response to challenges stemming from global developments, the bank provided financing to its business partners to support their financial stability. The quality of the loan portfolio is a priority for the business group. Despite the portfolio size increase, the percentage of non-performing loans (NPLs) remained below the sector's overall NPL rate.

In 2023, the bank intensified its collaboration with the Green for Growth Fund (GGF) to raise awareness about the potential for energy-saving initiatives and to provide support to MSMEs. Also, throughout the year, the bank expanded its partnership with the Kosovo Credit Guarantee Fund-KCGF to further support Women in Business, Agriculture, and MSMEs. The Corporate and Business Banking division continued to enhance its business processes across all operational areas. Further, the division consistently updated its products and improved service channels for business customers.

In 2023, the bank successfully implemented and operationalized the Virtual POS – Payment Gateway service, thus introducing a new tool/service that offers a broader range of services in the market. This initiatives was driven by recent sales developments worldwide and the growing trend towards online sales. Merchant partners are now offered a wide range of advantages, including cost savings, flexibility, improved customer experience, enhanced data analytics, security features, and adaptability to business growth.

The bank also launched the Digital Kiosk service, which provides a range of advantages, such as improved customer experience, efficiency gains, cost savings, and opportunities for data-driven insights and marketing. Throughout 2023, the Corporate and Business Banking Group continued investments in automation and digitalization of services. The Corporate Onboarding Platform is a new dashboard linked with the bank's Core System, which was launched to serve the branch business staff in terms of onboarding clients.

Online transactions experienced significant growth, prompting the creation and enhancement of new channels to facilitate clients' transactions. Alternative Banking Channels such as business e-banking and mobile banking were further advanced, offering additional features to enhance flexibility for clients.

Furthermore, in 2023, BKT Kosova expanded the functions of its Business e-Banking platform by adding new services and launching the BKT Mobile - an advanced business mobile banking platform. The updated version of BKT Mobile introduced a range of exciting features aimed at simplifying and streamlining banking operations for business clients.

The bank established several partnerships with Fintech Companies, recognizing that bank and Fintech partnerships are shaping the future of financial services. The main aim of the bank is to integrate unbanked clients into the financial system, leading to the digitization of the overall economy.

Retail Banking

Retail Banking marked another successful year, achieving the highest growth trends across all indicators within the Kosovo market. Driven by its commitment to enhancing customers experience, Retail Banking delivered continuous improvement and innovation, achieving an upwards momentum with innovative products and services and investments in digital channels. Leveraging a business model based on digital banking and innovative channels, Retail Banking recorded a successful year in 2023, making a difference through customer-focused innovation.

Retail Banking exhibited a strong performance, achieving growth across all indicators that position it at the top level of the banking industry. The deposit portfolio grew by 21.6%, while the overall market in retail deposits grew by 11.8%. The positive trend was reflected also in retail loans, with BKT Kosova increasing by 23%, in comparison to the market that showed 17% increase in the overall retail loan portfolio. The growth in deposits and loan portfolios directly contributed to heightened market presence and an increase in market share across all business indicators.
The expansion of the retail customer base accelerated, accompanied by an upward trend in sales across multiple product lines.

Retail Banking continued to enhance business processes across all operational areas, continuously updating products, and enriching service channels for customers. Ongoing investments in customer relationship management tools enabled teams to stay close to customers, providing regular and targeted interactions.

Throughout the year, the bank continued to support individual clients' investment plans, offering quick access to funds with favorable financing conditions. While banking through branches remained crucial for financing clients across all categories, further expansion of merchant partner channel enabled the clients' easy access to banking services and financing through third-party intermediary relationships.

In 2023, the Bank launched "Dora e Pare" real estate and vehicle listing management platform. This Platform features a curated selection of merchant partners, real estate agents, and auto dealers engaged in the buying and selling of properties and vehicles. The platform's diverse network ensures that clients have access to a wide range of options and opportunities, increasing their chances of finding the perfect match for their needs.

BKT Kosova's commitment to continuous technological advancements and effective communication ensures that the Dora e Pare platform remains at the forefront of innovation. By continuously improving services and expanding the network of partners, the bank strives to offer clients the best possible experience, blending seamless transactions, tailored solutions, and exceptional customer service. Through Dora e Pare platform, the bank not only provides a cutting-edge platform for online loans but also establishes a reliable and efficient ecosystem that connects sellers, buyers, and industry professionals.

In 2023, the bank underwent a significant upgrade to its retail mobile banking app. This upgrade involved a complete interface overhaul, UI and UX to provide customers with a fresh and improved user experience. The new version of BKT Mobile introduces a variety of exciting and new features designed to simplify and streamline banking operations for retail clients.

One of the notable additions to the mobile banking app is the Insurance Services, allowing users to browse and purchase various insurance products directly from their mobile devices. The upgrade also integrates new features such as a QR electricity payment feature, "Share the Bill" with family or friends, a budget planning tool, the ability to pay traffic tickets, and a Cardless withdrawal feature. This convenient and secure feature allows users to withdraw cash from ATMs without the need for a physical card, enhancing flexibility and accessibility for customers and making it easier for them to access their funds when needed.

Furthermore, the new app offers bank clients the option to apply for travel health insurance, personal accident insurance, property insurance, and home insurance. By integrating these insurance solutions, the bank has further enhanced its value propositions for clients.

Premier Banking

Premier Banking offers a broad range of personalized financial solutions for premier clients, including tailored financing, investment solutions, and advisory services.

Through Premier Banking, the bank adopts a client-centric and needs-based delivery model, providing a diverse range of premier banking solutions with favorable conditions, tailored to the specific needs of each client, while also advising them on their assets and liabilities.

Premier clients receive exclusive service through a dedicated website, social media channels, and contact center. They benefit from dedicated Client Relations Manager across a wide geographic coverage and branches. The structured portfolio management approach and acquisition strategy of Premier Banking have significantly contributed to the growth of the retail segment deposit and loans, surpassing 25% since its establishment.

In 2023, Premier Banking started with stronger expectations in terms of expansion and launched several innovative campaigns and new products in the market, setting the bank apart from competitors. Specifically, Premier Banking launched its Visa Platinum Credit Card, which offers a comprehensive range of privileges, including access to 1,200 business VIP Lounges worldwide and travel rewards for Premier clients.

Furthermore, the Private Banking Department served as the general sponsor for the Albinfo.ch Forum in Zürich, Switzerland, establishing a strong presence at a key industry event. Leveraging the benefits of sponsorship, the department facilitated networking opportunities, fostered relationship building, and demonstrated BKT Premier's commitment to industry leadership. The objective of participating in the forum was to present the potential of BKT Kosova to the diaspora community and encourage them to contribute more to the state of Kosovo.

In recognition of the strength and unique features of its premier banking and wealth management services, BKT Kosova received the prestigious "Euromoney Global Private Banking Award 2023" for Best for High-Net-Worth Individuals in Kosovo. This achievement represents the first award of its kind for the banking sector in Kosovo, underscoring the bank's effective strategy by differentiating its proposition for high-net-worth clients.

TREASURY

TREASURY

The Asset and Liability Management & Trading

Primary focus in 2023 was on balance sheet management, particularly in mitigating interest rate and liquidity risks amidst continued tightening of monetary policy by central banks. Consequently, excess funds were typically placed in overnight remuneration accounts and short-term money market deposits. Thanks to the efforts of the Financial Institutions Department, the Treasury engaged in robust international banking activities diversifying its funding base by borrowing from international financial institutions across different countries.

In the meantime, the duration for fixed income securities was shortened to mitigate interest rate risk. Additionally, ALMTD maintained a portion of Treasury assets in floating rate assets, enabling the bank to fully benefit from increases in Euribor. This strategic portfolio switch markedly boosted the bank's interest income compared to fixed yield securities, with the added benefit of upfront fees contributing to non-interest income.

Towards the end of the year, the bank executed its first interest rate swap (IRS) deals with a Dutch Bank as part of proactive balance sheet management, reflecting ALMTD's belief that interest rates had peaked. The Treasury used Fund Transfer Pricing as an active interest rate risk management tool to optimize net interest margin for the bank to implement an internal campaign to reward the staff with higher spreads at longer maturity on a monthly basis. This approach ensured that despite achieving highest growth in deposits, the bank managed its funding costs at low levels.

Besides interest rate risk management, implementation of necessary hedging activities in a volatile market environment helped manage carefully and minimize foreign exchange (FX) risk, helping minimize FX PnL volatility while generating good trading income from proactive structural FX position management.

Capital Markets

Treasury ALM: In 2023, the Treasury Sales and Local Market Department (TSLMD) focused extensively on client acquisition, resulting in significant achievements for the department.

The Treasury Department expanded the bank's presence in the securities market. While the portfolio of clients under custody was less than 6.9 million EUR in 2022, increased activities in 2023 pushed this number to 65 million EUR by year end, including both Kosovo Government Bonds and Eurobonds. This expansion was achieved thanks to a growing number of clients in the both corporate and individual sectors. The bank sustained its 20% annual growth rate in FX volumes in 2023, resulting in its highest volume, thanks to new client acquisitions, including licensed non-bank financial institutions. Consequently, the bank experienced significant trading in banknotes, facilitating consumption and supporting the economic growth of the country. The bank strengthened its presence in the local market through collaborations with numerous local banks, generating mutual benefit for all sides. While the total banknotes trading volume with local banks was around 20 million EUR in 2022, it surged to 130 million EUR in 2023.

Further, the bank initiated cooperation with the Slovenian Pension Fund, providing clients with additional investment opportunities. The objective is to cultivate a saving culture and enhance financial inclusion.

Treasury Banking

The Treasury Department started the publication of daily prices for Kosovo government bonds on the bank's website to provide a reference for the clients. Also, the bank took the initiative to be a price maker for Kosovo government bonds on Bloomberg. The objective was to establish the necessary infrastructure for future capital market development, facilitating international investors with reference pricing for domestic debt securities. With this development, Treasury will start the daily publication of prices and yields for each domestic debt instrument in 2024.

Due to increasing interest rates globally, cost of funding management has become increasingly crucial for maintaining the net interest margin and profitability of the bank. In response, the Treasury Department has introduced new products and adopted existing ones to proactively manage interest rate risk. Therefore, the bank has extended the maturity of term deposits by introducing new deposit products like Rrita 5-year and 7-year maturities in USD, and Rrita 7-year maturity in EUR. The bank has thus managed to extend the average maturity of deposits while keeping the cost of funding at a favorable level.

Financial Institutions

The Financial Institutions Department (FID) achieved remarkable growth throughout 2023, truly establishing the presence of BKT Kosova everywhere. Through strategic initiatives, the department significantly expanded its international bank relationships, creating a network of collaboration in treasury products, enhancing international payment systems, and increasing trade finance transactions. These successes serve as proof of the effectiveness of partnerships and relationships established and maintained by the bank.

One of the keystones of our success was the establishment of 14 new Relationship Management Agreements (RMAs) with countries worldwide. This milestone showcased the successful completion of due diligence processes. A notable achievement was the execution of the first ISDA CSA agreement with a European bank for derivatives trading, overcoming challenges related to legal opinions for Kosovo. Throughout the year, the bank also signed the Master Participation Agreement for Trade Transactions (MRPA) with two foreign financial institutions, providing access to potential opportunities in trade transactions such as LCs, import/export transactions, and trade loans.

RISK MANAGEMENT

RISK MANAGEMENT

The Risk Management function plays a key role in identifying, assessing, managing, and reporting the overall risks faced by the bank, leading to the development of sound risk strategies and policies. The robust framework of the bank's Risk Management function, coupled with its independence, ensures the execution of the bank's strategic priorities without exposing it to undue financial and non-financial risks. Implemented risk policies, processes, and their effective execution through a governance framework, technology, and an inclusive risk management system enable the adoption of a risk strategy aligned with the nature of the business, its activities, and the regulatory and external environment.

The bank recognizes that the main role of risk management is to safeguard its customers, businesses, colleagues, shareholders, and the community it serves, while ensuring a comprehensive risk management approach across the organization and all risk types. This is outlined in a well-established risk management framework, including key principles and practices that the bank employs in managing both financial and non-financial risks.

The risk management function operates independently and has a direct reporting line to the Board of Directors and its Risk Management Committee without any impediment. The role of the Risk Management Committee is to provide oversight, ensuring that senior management is entrusted with the responsibility to implement a comprehensive risk management framework aimed at identifying, assessing, and managing the bank's risks. Its responsibilities include the approval of risk policies and the assessment of risk-associated frameworks, analysis, and reporting established by the management.

The Risk Management Group is responsible for adopting a risk strategy framework aligned with the risk appetite of the bank. This framework includes implementing set of policies, procedures, and controls, as well as continuous monitoring and the promotion of risk awareness and sound operational and strategic decision-making across the organization. It supports a consistent approach to managing credit, market, liquidity, and operational risks through the implementation of organizational policies, processes, and systems. The Risk Management Group is independent from the business lines of the bank, and is not involved in revenue generation or business decision-making. This structure serves as a comprehensive second line of defense, covering all risk types generated by all business lines. Specifically, the Risk Management Group includes:

- Credit Risk Department
- Market Risk Department
- Liquidity Risk Department
- Operational Risk Department

Credit Risk

Credit risk is the potential for financial loss resulting from borrowers failing to meet their repayment obligations. It mainly arises from loans to banks, loans to customers, financial guarantees given, and counterparty risk. To proactively manage credit risk, the bank has designed various strategies and policies by defining the risk appetite and tolerance within which the bank can operate.

- The Credit Risk Strategy has been developed in accordance with the following principles that support the bank to: Create an appropriate credit risk environment for the bank;
- Operate according to a sound credit lending process;
- Ensure adequate controls on credit risk;
- Maintain a proper management, measurement, and monitoring of the loan lending process.

In particular, the key functions of the Credit Risk Department are: Capital Management, Portfolio Management and Monitoring, and Collateral Appraisal.

Capital Management

Capital management remains a critical aspect of risk mitigation efforts. By calculating and analyzing risk-weighted assets, efficient capital allocation is ensured, optimizing the capital structure to support sustainable growth while maintaining regulatory compliance.

Portfolio Management

As part of portfolio management, involvement in day-to-day operations is essential to ensure effective risk management and monitoring. Therefore, in credit risk management, department members participate in credit committees as observers, closely monitoring the handling of new credit exposures to ensure alignment with the bank's policies and strategic decisions. This function ensures that the quality of the portfolio remains within defined risk frameworks and prevents potential deterioration. Reserved losses for loan exposures are measured and assessed based on parameters such as defaults rates, loss given default, and historical macroeconomic events.

The assessment of collateral taken as mortgage in favor of the bank is also part of managing credit risk. Both movable and non-movable collaterals serving as guarantees to secure loan exposure are subject of external evaluations supplemented by internal expertise valuations. During assessment, various factors are considered, including property location, conditions, and market trends, upon which respective depreciation thresholds are applied. Properties are regularly re-evaluated on annual basis.

Portfolio Monitoring

The portfolio monitoring function provides real-time insights into the performance of the loan portfolio. Advanced analytics and monitoring tools enable the identification of emerging risks and trends in both the business and retail portfolios.

Analyzing market trends offers valuable insights into economic conditions, industry developments, and potential changes in borrower behavior. This approach allows the bank to make informed lending decisions and assess potential Significant Increase in Credit Risk (SICR) events by identifying financial difficulties of borrowers, adverse changes in the economic environment, or other factors indicating an elevated risk of default that could trigger adjustments in the impairment calculation process. Monitoring forward-looking indicators, such as changes in credit ratings, financial ratios, and market conditions aids in the early identification of SICR events.

Systemic stress testing is used to assess the resilience of the loan portfolio in adverse scenarios. This process extends beyond regular risk analysis, involving severe and hypothetical scenarios to evaluate how the portfolio would perform in challenging times. It facilitates sensitivity analysis by identifying vulnerabilities to enhance current intervention plans. This approach strengthens the bank's ability to maintain a sustainable portfolio under any economic conditions.

Market Risk

Market risk is the risk associated with potential decreases in the value of an investment due to fluctuations in market factors. It refers to risks the bank faces from fluctuations in market prices, particularly changes in interest rates, foreign exchange rates, and equity and commodity prices. The Risk Management Group, specifically the Market and Liquidity Risk Department, serves as the second line of defense in the Market Risk Management process, which is tasked with monitoring and analyzing market risk developments.

Interest Rate Risk

The bank assesses various sources of interest rate risk that may negatively affect earnings or exposure of its banking book, including: Re-pricing risk, yield curve risk, basis risk, optionality.

The bank's interest rate risk measurement system integrates interest rate risk exposures stemming from the full scope of the bank's activities, including both trading and non-trading sources. This integration ensures that management has a comprehensive view of interest rate risk across products and business lines. The efficiency of the bank's strategy for managing interest rate risk is measured through by assessing its exposure to interest rates fluctuations. This risk exposure is calculated using the Economic Value Impact – EVI methodology, which assesses the impact on the economic value of the bank, and the Gap Analysis, which calculates the impact on the income statement of the bank.

Foreign Currency Risk

The bank primarily operates in in various foreign currencies, including USD, GBP, CHF, ALL, AUD, CAD, TRY, XAU and SEK. However, the bank endeavors to keep closed positions (balanced long-short positions) for all foreign currencies. The Foreign Exchange Risk Exposure is calculated through the net open positions for each currency and for all currencies on aggregated basis.
Securities Price Risk

The bank has an established Securities Portfolio comprising the Available for Sale, Held to Maturity, or Held for Trading Securities. The Board of Directors approves liquidation and consultation stop-loss limits for market risks. Under a liquidation stop-loss, if the limit is reached, the position must be closed. In contrast, under a consultation stop-loss, management must be informed, and a positive decision should be made to continue running the position. The risk associated with investments held in AFS Portfolio is evaluated through stress tests scenarios outlined in the Market and Liquidity Risk Management Policy.

Liquidity Risk

Liquidity, which refers to the ability to fund increases in assets and meet obligations as they become due, is crucial for the sustained viability of any banking organization.

Managing liquidity risk is an integral part of the bank's business operations. Liquidity adequacy is ensured from both internal and a regulatory perspectives. In addition to regulatory limits set by the Central Bank of the Republic of Kosovo, the bank has an established internal framework with limits and steering measures.

Liquidity risk is continuously monitored, analyzed, and forecasted across various time horizons to ensure that the bank maintains sufficient cash or cash-equivalents to fulfill its obligations promptly, without incurring significantly higher costs. It is important to emphasize that regulatory ratios are monitored in accordance with specifications provided by regulations. Internal liquidity analyses and limits are monitored based on modelled assumptions from the Market and Liquidity Risk Department (MLRD).

Since the beginning of 2023, the bank has integrated within the Liquidity Framework the preparation and monitoring of two new regulatory reporting requirements, namely the Liquidity Coverage Ratio and the Net Stable Funding Ratio. These requirements are prepared and monitored with the required frequency. Regarding the LCR, the Market and Liquidity Risk Department (MLRD) has developed four distinct stress scenarios to measure the bank's liquidity under stress scenarios.

The Treasury Department is responsible for overseeing the daily liquidity position and short-term liquidity position, ensuring that obligations are met both under normal and stressed conditions throughout the day. Meanwhile, the long-term liquidity position is monitored at the bank level, with limits defined for both business as usual and stress scenarios.

Throughout 2023 the bank's liquidity position remained stable, and all liquidity indicators, including internal and regulatory measures, remained within their respective limits.

Contigency Funding Plan

The BKT has established a Contingency Funding Plan to provide a framework with a high degree of flexibility, enabling the bank to respond swiftly to various situations. The BKT regularly adjusts the CFP based on ongoing analysis of liquidity risk and the outcomes of scenarios and assumptions used in stress tests.

Operational Risk

In the dynamic landscape of the banking industry, operational risk remains a critical concern that demands continuous attention and proactive management. As we navigate the intricacies of daily operations, it is imperative to recognize and address the complex nature of operational risk to ensure the resilience and sustainability of the institution.

Operational risk encompasses the potential for losses stemming from inadequate or failed internal processes, systems, people, or external events. These risks can manifest in various forms, including human error, business interruption, technological failures, fraud, and external threats. Given the inherent complexity of daily operations, it is imperative to have in place a robust framework to identify, assess, and mitigate operational risks effectively. This category of risk is analyzed and managed based on the bank's data of historical losses and the results of risk control self-assessments.

The concept of three lines of defense has been implemented to manage operational risk, where each staff member is responsible and trained to identify operational risk events in their respective business areas. The Operational Risk Management Department provides periodical reports on risk assessments, loss events, indicators, scenarios, and measures to the Risk Management Committee.

In addition to the comprehensive operational risk management framework outlined above, the Operational Risk Management Department diligently conducts routine controls to further enhance the resilience of the institution. These controls include regular examinations of reversed transactions and cash differences to ensure the accuracy and integrity of financial transactions. Complaint handling procedures are systematically reviewed to address any issues promptly, fostering a culture of customer satisfaction and compliance. These routine controls are essential in identifying and mitigating potential issues at an early stage, thus contributing to the overall effectiveness of our operational risk management efforts.

On a quarterly basis, a thorough examination of Key Risk Indicators (KRIs) is conducted to measure the health of various operational aspects. These indicators are carefully monitored, and any breaches of predefined thresholds are promptly escalated to the Risk Management Committee. This proactive approach enables swift intervention and decision-making to mitigate potential risks before they escalate further. The collaboration between the Operational Risk Department and the Risk Management Committee ensures a holistic and timely response to emerging operational risks, contributing to the overall stability of our operations.

Moreover, the bank places great importance on Business Impact Analysis (BIA) to understand the potential consequences of operational disruptions. By identifying and prioritizing key processes and functions, efforts can be directed towards mitigating the most significant risks, minimizing potential disruptions, and ensuring the continued delivery of essential services to stakeholders.

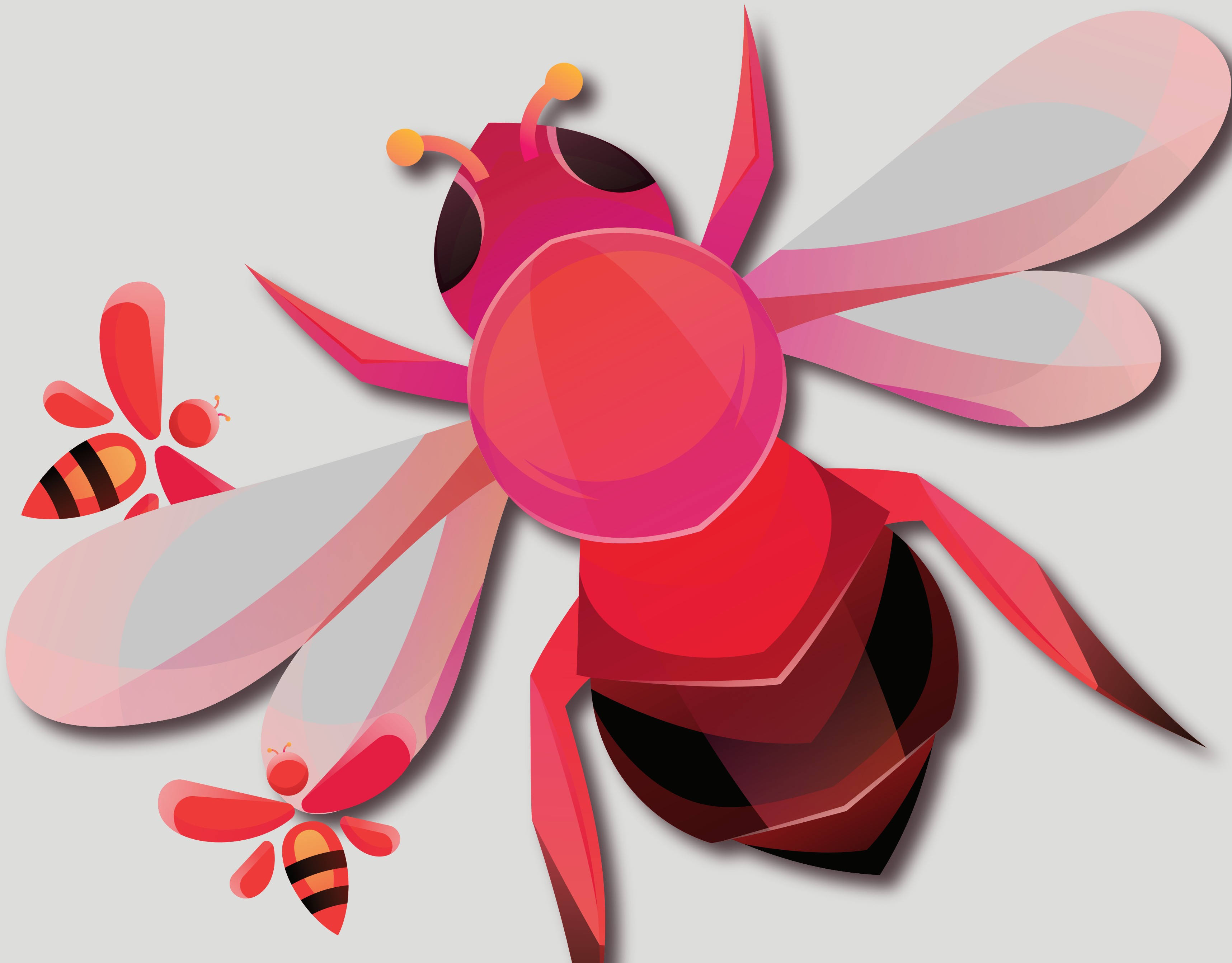
The risk management strategy incorporates Risk Control Self-Assessment (RCSA) as a vital component. RCSA involves the active participation of business line managers, who, in their role as operational risk managers, assess and evaluate risks within their respective areas. The results of RCSA provide valuable insights into the overall risk management framework, facilitating continuous improvement and refinement of the bank's operational risk mitigation strategies.

Anti Money Laundering

Anti-Money Laundering

Banka Kombëtare Tregtare Kosovë SH.A. is committed to conducting its business activities with integrity, adhering to rigorous standards of anti-money laundering (AML), countering the financing of terrorism (CFT), anti-bribery and corruption (ABC), anti-fraud, and other punishable offenses. These standards are designed to uphold the bank's integrity, transparency, and compliance with legal and regulatory requirements.

Anti-money laundering activities encompass a range of measures aimed at detecting and preventing the misuse of bank products and services for money laundering or other illegal activities. Some of key AML activities include: developing and implementing robust policies and procedures, applying customer due diligence measures that are commensurate with the level of risk, using advanced technology for customer screening and monitoring of transactions, cooperation with the local FIU and the regulatory authorities to report and address AML-related issues, providing a comprehensive training program for employees, etc. Regular internal and external audits to assess the effectiveness of the AML program and ensure ongoing compliance are an integral part of our AML compliance framework.



ENVIRONMENTAL, SOCIAL & GOVERNANCE

HOW WE BUILT THE FOUNDATION TO BETTER OUR SURROUNDINGS

ESG Activities and Sustainability Summary

Dedicated to creating lasting value in the Kosovo market, BKT Kosova's devotion to sustainability has become a core part of the bank's identity and a reflection of its commitment to a sustainable future.

In alignment with our commitment to environmental, social, and governance (ESG) principles, BKT Kosovo has made significant strides in advancing sustainability within our operations and offerings. Through the development of two green financing products, namely Eco loans and Green deposits, we aim to facilitate our clients' transition towards more sustainable and environmentally friendly business practices. Furthermore, our partnership with numerous international institutions underscores our dedication to leveraging global expertise and resources to drive sustainable development in Kosovo's banking sector.

Our leadership in digitalization within the banking industry of Kosovo exemplifies our proactive approach to innovation and efficiency, ensuring that we remain at the forefront of technological advancements while delivering enhanced services to our customers. Moreover, our recent accomplishment of finalizing the first sustainability-linked subordinated debt in Kosovo demonstrates our commitment to integrating sustainability into our financial instruments and capital structure.

At BKT Kosovo, sustainability is embedded in our organizational DNA. We have established robust environmental policies to ensure that environmental considerations are systematically incorporated into our lending activities, thereby promoting responsible and sustainable financial practices. Additionally, our corporate social responsibility (CSR) framework sets clear goals that contribute to the broader societal benefits, reflecting our dedication to creating positive impacts beyond financial returns.

Through these initiatives and commitments, BKT Kosovo reaffirms its role as a responsible corporate citizen, dedicated to driving sustainable growth and creating lasting value for our stakeholders and the communities we serve.

As a key component of our ESG initiatives, the Leadership Program has incorporated comprehensive ESG training across all sectors and management levels within the bank. This training equips our team with the necessary knowledge to understand and integrate ESG criteria into their daily operations, ensuring that actions and decisions are aligned with sustainability goals. By fostering a culture of responsibility, we aim to uphold our commitment to environmental, social, and governance principles while driving positive change within the banking industry.
These efforts reflect our understanding that true success is measured not only in financial terms but also in the positive impact we have on the world around us. In a significant stride towards actualizing ESG objectives, BKT Kosova has embarked on a transformative project guided by the partnerships, setting a new benchmark for ESG standards within the Kosovo banking sector.

Social Responsibility and Contribution

BKT Kosova is deeply committed to social sustainability, prioritizing gender equality, diversity, and inclusion. The bank has introduced remote work options for women employees on maternity leave and ensures equal opportunities across all genders, with women constituting 56% of the workforce. Efforts to support employees with disabilities are also highlighted, ensuring a diverse and inclusive working environment.

BKT Kosova places a strong emphasis on employee health, safety, and well-being, regularly conducting satisfaction surveys and implementing flexible working hours to accommodate personal commitments. Additionally, comprehensive health insurance covers employees and their families, and a range of benefits, including competitive salary schemes and supplementary pensions, are offered to enhance employee welfare.

The bank's talent strategy focuses on attracting and developing talent through career development procedures and internship programs, aiming to nurture new generations and provide career advancement opportunities.

BKT Kosova's makes significant contributions to the community through with initiatives like sponsoring the mini-marathon Vrapo Babadimër, organizing blood donation campaigns, and supporting children with autism. A notable partnership with the Kosovo Olympic Committee through a 10-year sponsorship agreement underscores BKT Kosova's commitment to the prosperity of sports and youth in Kosovo. Other community engagement activities include supporting suicide prevention services, raising awareness about breast cancer, and becoming a Premium Member of the Kosovo CSR Network, promoting sustainable business practices.

Governance Structure Aligned with Fairness, Ethics, and Community

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Green Products & Services

The Green Deposit

BKT Kosova introduced the Green Deposit, first green product in the country, with its interest income directly conditioned by ESG criteria. This groundbreaking product, the first of its kind in the financial sector, highlights the bank's commitment to environmental responsibility while providing added value to its customers. What distinguishes this product is its unique feature, allowing customers to invest their accrued interest in a diverse array of eco-friendly products.

By introducing the Green Deposit to the Kosovo market, the bank aims not only for financial growth but also to encourage customers to actively contribute to a more environmentally and sustainable future. This innovative approach positions BKT Kosova as an industry leader and emphasizes its commitment to making a meaningful impact in the community.

Robotic Process Automation (RPA)

Innovation in operational efficiency is achieved through strategic business engineering projects, notably the implementation of Robotic Process Automation (RPA) in loan origination processes. This technological advancement has revolutionized BKT Kosova's operational efficiency, significantly reducing loan processing times. This leap in productivity not only enhances customer experience but also sets a benchmark in banking efficiency.

Pega Platform

The digital transformation at BKT Kosova is further highlighted through the adoption of PEGA, a cutting-edge platform that enabled the launch of digital products such as Digital Loans, Digital Credit Cards, and Digital Overdrafts.

Pega Personal Loan Origination is the bank's latest update revolutionizing the loan application process. This platform incorporates cutting-edge technology and an enhanced user interface, aimed at delivering a more efficient and user-friendly loan processing experience. Noteworthy features include the automated calculation of the client's credit capacity and a streamlined assessment process for loan applications.This development marks a significant leap forward as it digitizes the entire loan application process. The result is a seamless and intuitive flow that not only expedites loan sales but also significantly enhances overall client satisfaction. With these advancements, the bank is committed to providing a state-of-the-art solution that sets a new standard in the realm of personal loan origination.

These initiatives are a testament to the bank's progressive governance approach, emphasizing ethical conduct, strategic partnerships, and the leverage of advanced technology to enhance service delivery and stakeholder engagement.Bank efforts towards sustainability and responsible banking are not just a commitment but a continuous quest for excellence.

Endeavors in environmental stewardship, social responsibility, and ethical governance are a testament that the path to a sustainable future is paved with deliberate actions and unwavering dedication.

PEOPLE MANAGEMENT

OUR EMPLOYEES

Employee-centric Culture

BKT Kosova is steadfast in its commitment to cultivating an outstanding workplace environment. It champions diversity and inclusivity in its workforce. BKT Kosova acknowledges and rewards performance, nurtures talent, and prioritizes the physical, emotional, and financial well-being of its employees. At the core of BKT Kosova's strategy for sustainable growth lies the cultivation of employee engagement, creating an environment conducive to growth and development. This enables employees to deliver exceptional service to clients while building rewarding careers within the bank.

Expanding and Fortifying

As of December 31, 2023, BKT Kosova boasted a workforce of 466 employees, marking a 9.0% increase, adding 39 employees compared to 2022. The gender distribution among employees comprises 56% women and 44% men.

Our focus on blending seasoned professionals with emerging talents has been paramount. BKT Kosova continued to enhance its internship programs, collaborating with public and private universities to attract the best and brightest individuals. These new talents bring diversity to our organization, making substantial contributions to the bank's transformation with fresh perspectives and innovative ideas. In 2023, the bank welcomed 42 interns, with 36% joining the BKT Kosova team.

The average age of our workforce is 34, and an impressive 89% hold a high level of education. Among them, 15% have completed a Master's level and possess internationally recognized professional certifications.

Nurturing Professional Growth and Human Capital

BKT Kosova's primary focus remains on fostering an inclusive, thriving, and rewarding work environment. In 2023, our people development initiatives concentrated on enriching professional experiences, enabling employees to customize their career paths, and cultivating a diverse talent pool within the organization.

An integral component has been identifying professional capacities and deploying them to enhance employee training and development. Alongside a robust catalog of in-house learning opportunities, several professional training programs were conducted by certified local and international trainers (43%), with the remaining 57% facilitated by senior bank employees. The BKT Kosova Leadership Program has empowered middle management with the skills and tools needed for effective team leadership, skill enhancement, results achievement, and a feedback culture focused on performance and employee well-being. Since its launch, the program has supported the career development of over 16% of managers.

In conjunction with the Leadership Program, ESG training was completed across all sectors and management levels, offering a comprehensive introduction to ESG criteria, aligning actions and decisions with sustainability goals, and fostering a culture of responsibility.

Wellness, Prosperity and Meal Allowance

BKT Kosova recognizes the importance of fostering a shared sense of purpose among its employees. Maintaining a work environment that prioritizes the health of our workforce, coupled with a transparent and sustainable approach to employee remuneration, remains crucial for the bank.

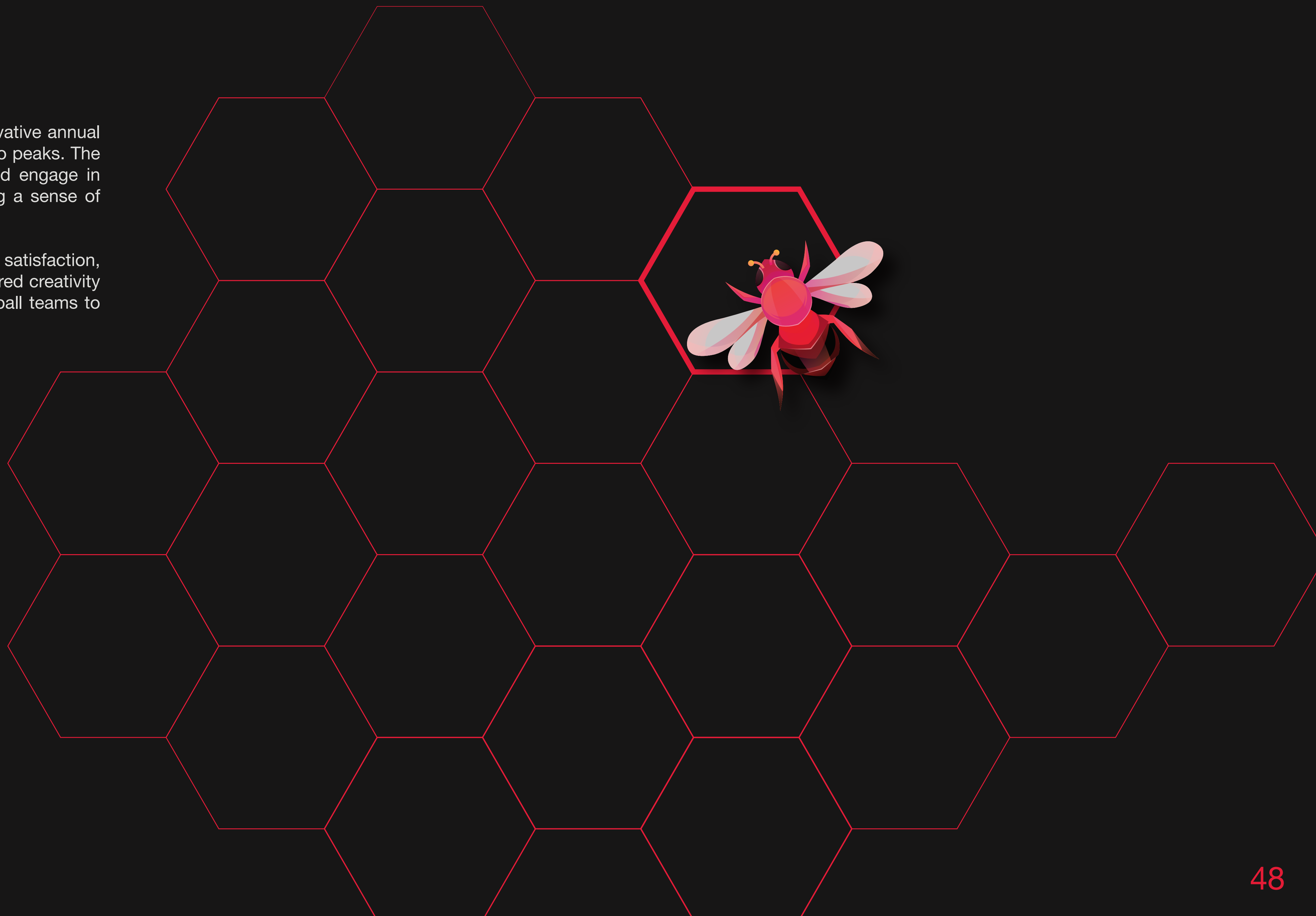
In 2023, as part of our commitment to employee well-being, BKT Kosova enhanced employee benefits by extending health insurance coverage to all employees and their families. Additionally, since June 2023, the bank has collaborated with the Slovenian-Kosova Pension Fund, offering supplementary pension coverage for employees.

Furthermore, recognizing the significance of a balanced lifestyle, BKT Kosova introduced a meal allowance to support employees in maintaining a healthy and nourishing diet.

Enriching Work-life Balance

Consistent with previous years, BKT Kosova continued its tradition of hosting innovative annual events for employees, ranging from family picnics to group climbs in various Kosovo peaks. The BKT Kosova terrace provides employees with a space to relax, enjoy coffee, and engage in activities like ping pong. "Friday Parties" have become a regular feature, fostering a sense of satisfaction, sparking creativity, and enhancing work processes.

Flexible working hours have significantly contributed to employee morale and satisfaction, attracting and retaining top talent. Informal meetings in a relaxed setting have nurtured creativity and the generation of new ideas. Furthermore, BKT organized football and basketball teams to participate in the league organized by the Federation of Workers in Kosovo.



BANKA KOMBËTARE TREGTARE Sh.a

Financial Statements as at and for the year ended December 31st, 2023 with the Independent Auditor's Report there-on

CONTENT

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INDEPENDENT AUDITOR'S REPORT

To management and Shareholders of Banka Kombëtare Tregtare Kosovë sh.a

Opinion

We have audited the financial statements of **Banka Kombëtare Tregtare Kosovë sh.a** (the Bank), which comprise the statement of financial position as at December 31, 2023, the statement of profit or loss and other 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 December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with 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 within the meaning of ethical requirements applicable in the audit of financial statements in Kosovo and have fulfilled our other responsibilities under those ethical requirements and IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank in accordance with the requirements of the Law No. 04/L-093. The Annual Report of the Bank is expected to be made available to us after the date of our audit report.
Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the audit, or appears to be materially misstated. When reading the Annual Report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the planning and performance of 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 entity'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 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 consolidated 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

March 14, 2024

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Teit Gjini
Statutory Auditor

	Notes	December 31, 2023	December 31, 2022
Assets			
Cash and balances with Central Bank	6	153,388,635	106,104,701
Placements and balances with banks	7	117,763,831	75,433,754
Financial assets at fair value through other comprehensive income	8	146,402,957	155,208,007
Financial assets at amortized cost	8	81,962,792	64,997,243
Due from BKT Albania	25	32,965	42,001
Loans and advances to banks and other syndication loans	9.1	49,010,277	53,655,814
Loans to customers, net	9.2	606,788,335	523,680,973
Property and equipment	10	15,874,290	15,484,143
Right of use assets	10.1	3,887,144	3,445,652
Intangible assets	11	729,626	98,803
Income tax receivables	27	1,550,323	-
Deferred tax asset	27	1,679,007	1,669,589
Other assets	12	11,282,852	12,502,013
Total assets		**1,190,353,035**	**1,012,322,693**
Liabilities			
Customer deposits	13	951,615,351	797,152,824
Due to banks	14	40,906,275	25,616,377
Liabilities based on Repo Transactions	14	32,238,826	52,830,360
Due to BKT Albania	14	780,781	570,339
Income tax liability	27	2,508,993	555,273
Provisions	24	426,483	398,570
Accruals and other liabilities	15	6,987,130	3,879,323
Lease liabilities	10.1	4,023,143	3,560,310
Borrowings	16	4,457,551	8,908,949
Subordinated debt		22,081,501	22,066,271
Total liabilities		**1,066,026,033**	**915,538,596**
Equity			
Share capital	17	31,000,000	31,000,000
Accumulated profit from previous years		75,673,876	56,008,996
Profit for the year/ period		23,619,704	19,664,880
Fair value reserve and Securities measured at FVOCI provision		(5,674,577)	(9,597,777)
Other reserves		(292,002)	(292,002)
Total shareholder's equity		**124,327,001**	**96,784,097**
Liabilities and shareholder's equity		**1,190,353,035**	**1,012,322,693**

The audited statement of financial position is to be read in conjunction with the notes set out in pages 7 to 82 that form part of the audited financial information.
The audited financial information was authorised for release by the Board of Directors on 13 March, 2024 and signed on its behalf by:

Suat Bakkal
CEO and Board Member

Agon Skeja
Deputy CEO, CFO

		For the year ended December 31, 2023	For the year ended December 31, 2022
Interest income calculated using the effective interest method	18	51,153,949	39,481,558
Interest expense calculated using the effective interest method	19	(13,356,519)	(7,905,218)
Net interest income		**37,797,430**	**31,576,340**
Fees and commissions, net	20	8,880,436	7,466,034
Foreign exchange revaluation gain, net		168,662	(86,598)
Gain/(Loss) from sale of Investment securities measured at FVOCI	8	782,820	2,038,642
Profit / (loss) from FX trading activities, net		312,817	(159,333)
Other (expenses) / income, net	21	1,190,374	455,059
Total non-interest income, net		**11,335,108**	**9,713,804**
Operating expenses			
Personnel expenses	22	(8,283,218)	(6,366,239)
Administrative expenses	23	(8,626,177)	(7,505,996)
Depreciation and amortization	10, 10.1, 11	(1,542,272)	(1,487,000)
Total operating expenses		**(18,451,668)**	**(15,359,235)**
Impairment losses on loans to customers	9.2	(605,296)	273,296
Impairment losses on financial assets, other than loans to customers, and provisions for off balance items	12, 24	(3,859,829)	(4,739,141)
Profit before income tax		**26,215,745**	**21,465,064**
Income tax expense	**27**	**(2,596,041)**	**(1,800,185)**
Current year income tax expense		(2,508,993)	(1,879,179)
Deferred income tax		(87,048)	78,994
Profit for the period		**23,619,704**	**19,664,880**
Revaluation of investment securities and provision of securities measured at FVOCI		3,923,200	(10,122,386)
Total of other comprehensive income for the period		**3,923,200**	**(10,122,386)**
Total comprehensive income for the period		**27,542,904**	**9,542,494**

The audited statement of comprehensive income is to be read in conjunction with the notes set out in pages 7 to 82 that form part of the audited financial information

	Share capital	Fair value reserves	Other reserves	Retained earnings	Total
Balance as at 1 January 2022	**31,000,000**	**524,609**	**(292,002)**	**56,008,996**	**87,241,603**
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	-	-	-	19,664,880	**19,664,880**
Net change in fair value of instrument at FVOCI	-	(12,824,689)		-	**(12,824,689)**
Net changes in deferred tax on FVOCI instruments	-	1,304,661	-	-	**1,304,661**
Net changes in allowance for expected credit losses of instruments at FVOCI	-	1,397,642	-	-	**1,397,642**
Total comprehensive income for the year	**-**	**(10,122,386)**	**-**	**19,664,880**	**9,542,494**
Balance at 31 December 2021/01 January 2022 as stated	**31,000,000**	**(9,597,777)**	**(292,002)**	**75,673,876**	**96,784,097**
Balance at 31 December 2021/01 January 2022-restated	**31,000,000**	**(9,597,777)**	**(292,002)**	**75,673,876**	**96,784,097**
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	-	-	-	23,619,704	**23,619,704**
Net change in fair value of instrument at FVOCI	-	(964,662)	-	-	**(964,662)**
Net changes in deferred tax on FVOCI instruments	-	96,466	-	-	**96,466**
Net changes in allowance for expected credit losses of instruments at FVOCI	-	4,791,396	-	-	**4,791,396**
Total comprehensive income for the year	**-**	**3,923,200**	**-**	**23,619,704**	**27,542,904**
Balance at 31 December 2023	**31,000,000**	**(5,674,576)**	**(292,002)**	**99,293,580**	**124,327,001**

The audited statement of changes in equity is to be read in conjunction with the notes set out in pages 7 to 82 that form part of the audited financial information.

	Notes	For the year ended as at December 31, 2023	For the year ended as at December 31, 2022
Cash flows from operating activities:			
Profit before income tax		**22,292,544**	**21,465,064**
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Interest expense	19	13,356,519	7,905,218
Interest income	18	(51,153,949)	(39,481,558)
Depreciation	10, 10.1, 11	1,542,272	1,487,000
Gain/ Loss on disposal of property, plant & equipment		-	6,698
Gain/loss on sale of investment securities		(782,820)	(2,038,642)
Gain on recovery of written off loans to customers		(166,577)	(167,112)
Write-off of loans to customers		538,552	884,966
Other non-monetary income		-	-
Impairment of loans to customers, net		605,296	(273,296)
Impairment of other financial assets, net		3,859,830	4,739,140
Impairment of other assets		-	-
Cash flows from operating profit before changes in operating assets and liabilities		**(9,908,333)**	**(5,472,522)**
(Increase)/decrease in operating assets:			
Restricted balances with Central Bank		(6,389,399)	(10,197,561)
Placement and balance with banks		(13,804,840)	(25,476,179)
Loans to banks and other syndication loans	9.1	5,000,000	(35,176,000)
Loans to customers	9.2	(83,432,326)	(106,037,212)
Due from BKT Albania		9,037	179,755
Other assets		(1,600,611)	(5,273,729)
		(100,218,139)	**(181,980,926)**
Increase/(decrease) in operating liabilities:			
Due to customers		155,330,216	132,705,907
Due to banks and syndication loans		(5,389,953)	27,995,666
Due to BKT Albania		210,442	17,340
Accruals and other liabilities		4,660,717	394,455
Impairment losses on financial assets, other than loans to customers, and provisions for off balance items		-	154,973
		154,811,422	**161,268,341**
Interest paid		(14,022,334)	(9,021,248)
Interest IFRS 16 paid		(121,835)	(123,842)
Interest received		49,249,061	39,094,363
Income taxes paid		(2,108,183)	(1,943,358)
Net cash flows from / (used in) operating activities		**77,681,660**	**1,820,808**
Cash flows used in investing activities			
Proceeds from sale of investment securities		(1,310,927)	(17,865,534)
Purchases of property, equipment and intangible assets		(1,835,744)	(596,017)
Proceeds from sale of Properties, plant & equipment		-	-
Net cash from/ (used in) investing activities		**(3,146,670)**	**(18,461,551)**
Cash flows from financing activities			
(Repayments of)/ Proceeds from due to banks		(4,427,891)	17,699,254
Change in lease principal		(706,158)	(566,087)
Net cash generated from financing activities		**(5,134,049)**	**17,133,167**
Net increase in cash and cash equivalents		**69,400,941**	**492,424**
Cash and cash equivalents at the beginning of the period	6	98,582,591	98,090,167
Cash and cash equivalents at the end of the period	**6**	**167,983,531**	**98,582,591**

The audited statement of cash flows is to be read in conjunction with the notes set out in pages 7 to 82 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 2023 was 466 (2022: 427).

Share capital

On 31 December 2023 the authorised share capital is EUR 31,000,000 (2022: 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 regarding the Bank's residual assets.

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.

(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.

(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.

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

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.

Currency	31-Dec-23	31-Dec-22
USD	1.1050	1.06660
GBP	0.86905	0.88693
CHF	0.9260	0.98470
ALL	103.88	114.23000
TRY	32.6531	19.96490

(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) 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 2022: 10%). Under Kosovo tax legislation system, tax losses can be carried forward to be offset against future taxable income for up to four years.

3. Significant accounting policies (continued)

(e) 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.

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.

3. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

(ii) De-recognition (continued)

When a loan is classified as non-performing Bank will settle it out of the balance sheet by the following criteria and terms:

a) Credit exposures that are not secured by collateral, either in pledge form or in mortgage form and are classified as non-performing exposure, shall be written off from the balance sheet within eighteen (18) months of the period when these exposures have been classified in this category

b) Credit exposures that are secured by pledged (movable) collateral and are 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;

c) Credit exposures that are secured by immovable collateral/mortgages and are classified as 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”.

d) Credit exposures that are secured with combined collateral in form of pledges and mortgages and in cases when the mortgages are securing more than 50% of the credit exposures at the moment of approval then in order to proceed with write off from the balance sheet, these exposures will be treated as per the paragraph: c of this article

(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.

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

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

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

– ***Business model assessment***

There are three business models under IFRS 9 – ‘Held to Collect (“HTC”)’, ‘Held to Collect and Sell (“HTCS”)’ and ‘Other (“Other BM”)’.

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

3. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

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

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.

(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.

3. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

(iv) Subsequent measurement of financial assets (continued)

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)

(e) 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)

(e) Financial assets and liabilities (continued)

(viii) Impairment of financial assets (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)

(e) 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.

(f) 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.

(g) 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.

(h) 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).

(i) 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)

(i) 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:

• Lease 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 2023 and 2022 is from 1 to 20 years.

Intangible assets consist of software licences.

(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;

3. Significant accounting policies (continued)

(i) Property and equipment and intangibles (continued)

(v) Leased property and equipment (continued)

Initial direct costs (continued)

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.

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.

3. Significant accounting policies (continued)

(i) Property and equipment and intangibles (continued)

(v) Leased property and equipment (continued)

b. Credit spread

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

1) Identify the international long-term Issuer Default Rating of the financial institution (“Bank”). International long-term IDR is given by the External Credit Rating Agency such as Moody’s, Fitch or Standard & Poor. The Bank will use only the official, world-wide accepted, external credit rating agencies such as Fitch, Moody’s and S&P because only these 3 agencies do the analyses world-wide, make and publish the studies on PDs, LGD’s (where credit spread will be determined as PD*LGD) etc. on the global level. These three agencies are also the only ones allowed to be used for the purpose of relying on the expert-data parameters for e.g. in EU (as per CRD/CRR regulation etc.).
2) If the financial institution (Bank) does not have such a rating and it is part of a Bank, the lower rating of the country ceiling for the country where Bank is located and the external agency’s international long-term Issuer Default Rating of the ultimate parent is used. The underlying reason for this approach is that when a bank is part of a Bank, support is more likely.
3) If neither of these steps results in a rating, country ceiling for the country in which Bank is located is identified and at least one notch is subtracted. The country ceiling is the best rating that an entity based in that country can receive, so this is used as a benchmark as we tend to work with the biggest and most robust institutions. Additionally, the downward risk adjustment is made for the sake of prudence.

   The state of Kosova does not have a credit rating.

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

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

BKT Kosova	B-

At initial application date, the credit spread of the Bank is 3.51%. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.86%.

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 2023.

3. Significant accounting policies (continued)

(j) 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. For the cases that the collateral has been re-possessed before making the write off, the remaining exposure will be written off by CRD. These cases will be part of regular reporting to Risk Management Committee and Board of Directors.

(k) 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.

(l) 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)

(m) 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.

(n) 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.

(o) 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.

(p) Employee benefits

(i) Defined contribution plans

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

3. Significant accounting policies (continued)

(p) Employee benefits (continued)

i. 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 Standards and Interpretations effective in the current period

There are no accounting announcements which have become effective from 01 January 2023 that have a significant impact on the Bank's financial statements.
Other Standards and amendments that are effective for the first time in 2023 and could be applicable to the entity are:

- IAS 1 – Presentation of Financial Statements
- IFRS 17 – Insurance Contracts
- IFRS for Small and Medium-sized Entities (IFRS for SMEs)
- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 12 – Income Taxes

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

3.2 Standards and interpretations issued but not yet adopted.

The International Board of Accounting Standards has issued a number of standards and interpretations that are effective in future accounting periods, which the company has decided not to apply in advance. The company plans to apply these standards and interpretations when they become effective.
The following standards and interpretations have been issued but are not mandatory for the current reporting period ended 31 December 2023:

- IAS 1 – Presentation of Financial Statements (Amendments regarding the classification of debt with covenants) - *Effective January 1st, 2024*
- IFRS 7 – Financial Instruments: Disclosures - *Effective January 1st, 2024*
- IFRS 16 – Leases - *Effective from January 1st, 2024*
- IAS 7– Statement of Cash Flows - *Effective from January 1st, 2024*
- IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information- *Effective from January 1st, 2024*
- IFRS S2 – Climate-related Disclosures- *Effective from January 1st, 2024*

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-23			Fair Value			
	Note	Carrying Amount	Level 1	Level 2	Level 3	Total
Placement and balances with banks	7	117,763,831	-	-	117,763,831	117,763,831
Investment securities	8	228,365,749	146,402,957	-	81,962,792	228,365,749
Due from BKT Albania	25	32,965	-	-	32,965	32,965
Loans and advances to banks and other syndication loans	9	49,010,277	-	-	49,010,277	49,010,277
Loans to customers	9	606,788,335	-	-	606,788,335	606,788,335
Total financial assets		**1,001,961,157**	**146,402,957**	**-**	**855,558,199**	**1,001,961,157**
Customer deposits	13	951,615,351	-	-	951,615,351	951,615,351
Due to banks	14	41,687,056	-	-	41,687,056	41,687,056
Liabilities based on Repo Transactions	14	32,238,826	-	-	32,238,826	32,238,826
Borrowings	16	4,457,551	-	-	4,457,551	4,457,551
Subordinated debt	16.1	22,081,501	-	-	22,081,501	22,081,501
Total financial liabilities		**1,052,080,285**	**-**	**-**	**1,052,080,285**	**1,052,080,285**

31-Dec-22			Fair Value			
	Note	Carrying Amount	Level 1	Level 2	Level 3	Total
Placement and balances with banks	7	75,433,754	-	-	75,433,754	75,433,754
Investment securities	8	220,205,250	155,208,007	-	64,997,243	220,205,250
Due from BKT Albania	25	42,001	-	-	42,001	42,001
Loans and advances to banks and other syndication loans	9	53,655,814	-	-	53,655,814	53,655,814
Loans to customers	9	523,680,973	-	-	523,680,973	523,680,973
Total financial assets		**873,017,791**	**155,208,007**	**-**	**717,809,785**	**873,017,791**
Customer deposits	13	797,152,824	-	-	797,152,824	797,152,824
Due to banks	14	26,186,716	-	-	26,186,716	26,186,716
Liabilities based on Repo Transactions	14	52,830,360	-	-	52,830,360	52,830,360
Borrowings	16	8,908,949	-	-	8,908,949	8,908,949
Subordinated debt	16.1	22,066,271	-	-	22,066,271	22,066,271
Total financial liabilities		**907,145,120**	**-**	**-**	**907,145,120**	**907,145,120**

4. Use of estimates and judgements (continued)

Going Concern

The world experienced unprecedented war in Ukraine which heightened geopolitical risks and directly impacted global financial markets. The effects were wide-range causing problems with energy security and supply problems resulting in higher energy prices, higher prices for agricultural commodities and prolonged supply chain problems. These have led to spikes in both consumer and producer inflations. Therefore, this has resulted in one of the most aggressive monetary policy tightening in history across different economies.

In such a volatile environment, the bank has shifted its focus to risk management practices by mainly concentrating on balance sheet management. Liquidity risk has been managed very proactively and efficiently to meet obligations in each currency on a timely and cost-efficient manner. That's why, bank has maintained stable level of liquidity ratios throughout the year. Foreign exchange risk has been kept at lowest level by implementing necessary hedging activities while bank achieved increasing its profit for FX trading by expanding its customer base. In regard of interest rate risk, pricing strategy has changed to extend maturity of liabilities to protect bank against potential interest rate increases. Treasury has shifted a good portion of investments to short-term floating rate products. Also, group has executed interest rate hedges through future contracts contributing to profitability. Capital risk has been managed proactively by starting a Tier 2 sub-ordinated loan process in 2021 and closing in mid-2022. This has helped bank mitigate capital risk arising from financial markets volatility.

The geopolitical situation affected also the bank, the changes in provisions for Ukraine exposures is set at below table:

Counterparty	Market Segment	Nominal Amount	Provision 2023	Provision 2022
GOVERNMENT OF UKRAINE	Sovereign	8,400,000	3,469,422	2,856,773
Total exposure		**8,400,000**	**3,469,422**	**2,856,773**

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it 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 Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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

(b) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's Loans to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). BKT Kosova has formed a Credit Committee to oversee the approval of requests for credits up to the limit of 500,000 EUR. Credit requests with amounts over EUR 500,000 up to EUR 1,000,000 are approved by only two Board Members, while credit requests with amount over EUR 1,000,000 are approved only upon decision of the Board of Directors (all members). There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

i. Maximum credit exposure

The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets. Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2023 and 31 December 2022 are as follows:

		31-Dec-23			31-Dec-22		
Financial Instruments Credit Risk	**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		153,388,635	-	153,388,635	106,104,701	-	106,104,701
Placements and Balances with the Banks		117,771,578	(7,747)	117,763,831	75,450,841	(17,087)	75,433,754
Investment securities - measured at FVOCI		146,402,957	-	146,402,957	155,208,007	-	155,208,007
Investment securities - measured at amortised cost		83,523,043	(1,560,251)	81,962,792	68,565,864	(3,568,621)	64,997,243
Loans to customers		619,061,640	(12,273,305)	606,788,335	535,816,156	(12,135,183)	523,680,973
Loans and advances to banks		49,402,482	(392,205)	49,010,277	54,162,770	(506,956)	53,655,814
Other Assets		12,680,836	(1,397,984)	11,282,852	12,727,015	(225,002)	12,502,013
Total Assets		**1,182,231,171**	**(15,631,492)**	**1,166,599,679**	**1,007,810,352**	**(16,452,849)**	**991,582,505**
Off balance sheet items							
Undrawn credit commitments		79,188,600	(426,483)	78,762,117	61,845,025	(398,570)	61,446,455
Swap foreign currency contract	29	38,777,280	-	38,777,280	39,945,717	-	39,945,717
Collaterals for loan portfolio		1,417,040,456	-	1,417,040,456	1,135,420,087	-	1,135,420,087
Securities pledged as collateral		-	-	-	-	-	-
Total off-balance sheet		**1,535,006,335**	**(426,483)**	**1,534,579,852**	**1,237,210,830**	**(398,570)**	**1,236,812,260**
Total credit risk exposure		**2,717,237,506**	**(16,057,975)**	**2,701,179,531**	**2,245,021,181**	**(16,851,419)**	**2,228,394,764**

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.

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Notes to the Financial Statements for the year ended 31 December 2023
(Amounts in EUR, unless otherwise stated)

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 199 – 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 Xtwhich represents the macroeconomic environment is introduced. The sensitivity of each rating's PD to this variable is obtained via the calibration of the ρparameter. The model takes into account the global default rate of each year and calculates $Xt$for each year, which is then regressed over with the different combinations of macro-economic variables. Using projections of the macroeconomic variables, the regression formula is used to deduce projections of Xt, and based on the one factor Merton model the PIT PDs are obtained. The second PD model considers the default rate per rating in each year, which enables the calibration of the sensitivity ρi for all ratings.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques
The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

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

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii. Expected credit loss measurement (continued)

1. Probability of Default

The probability of default has been modelled on the basis of the one factor Merton model. The approach to model the point-in-time forward looking and macroeconomic PD is divided into three different steps: - The first step is to calibrate the cumulated TTC PDs; - The second step is to include the forward-looking information and transform the cumulated TTC PDs to PIT PDs; - The final step is to describe the conversion of PIT PDs to TTC PDs after a certain horizon. Default rates are essential for the calculation of Point-in-Time Probability of Default (PD) and for the estimation of ECL. The Bank used external default rate data for each relevant sector and region. A number of macro-economic variables sourced from the IMF2, including historical data spanning 1990 – 2017 and baseline projections for 2019 – 2022, were considered in modelling of PIT PD. For non-rated accounts, PD are estimated using the nominal weighted average PD of all rated accounts within the same rating system. However, this does not guarantee that the PD for non-rated accounts in stage 2 (NRB2) is higher than for stage 1 (NRB1). To account for the higher risk of NRB2 exposures, the Bank mapped NRB2 to an equivalent risk grade with similar PIT PD as the PD for NRB1 exposure for a time horizon equal to the average residual lifetime of all unexpired accounts within the same sector.

2. Loss Given Default (LGD)

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

3. Exposure at Default (EAD)

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii. Expected credit loss measurement (continued)

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

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

31 December 2023	Loans and advances to customers			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	**501,353,960**	**27,265,139**	**7,918,383**	**536,537,481**
Transfer to Stage 1 (from 2 or 3)	5,216,085	(5,018,330)	(197,755)	-
Transfer to Stage 2 (from 1 or 3)	(8,129,870)	8,285,526	(155,656)	-
Transfer to Stage 3 (from 1 or 2)	(1,951,136)	(1,305,950)	3,257,086	-
New financial assets originated or purchased	221,132,284	1,033,973	859,788	223,026,044
De-recognition of financial assets	(51,938,136)	(1,688,611)	(399,121)	(54,025,868)
Changes due to change in credit risk that did not result in de-recognition	(78,945,790)	(4,318,435)	(1,704,711)	(84,968,936)
Write-offs	-	-	(652,343)	(652,343)
Gross Balance at 31 December 2023	**586,737,397**	**24,253,311**	**8,925,671**	**619,916,379**

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included. As of 31 December 2023 unamortized deferred fee amounts 854,742 Eur.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii. Expected credit loss measurement (continued)

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

31 December 2022	Loans and advances to customers			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	**369,500,732**	**55,316,406**	**6,520,934**	**431,338,071**
Transfer to Stage 1 (from 2 or 3)	(5,497,406)	4,839,656	657,750	-
Transfer to Stage 2 (from 1 or 3)	26,728,815	(29,739,094)	3,010,280	-
Transfer to Stage 3 (from 1 or 2)	261,188	73,535	(334,723)	-
New financial assets originated or purchased	214,527,519	6,788,611	222,840	221,538,970
De-recognition of financial assets	(55,118,126)	(7,082,805)	(915,207)	(63,116,138)
Changes due to change in credit risk that did not result in de-recognition	(49,048,164)	(2,931,171)	(359,347)	(52,338,682)
Write-offs	(597)	-	(884,143)	(884,740)
Gross Balance at 31 December 2022	**501,353,960**	**27,265,139**	**7,918,383**	**536,537,481**

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included. As of 31 December 2022 unamortized deferred fee amounts 721,325 Eur

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii. Expected credit loss measurement (continued)

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

ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST

31 December 2023	Loans to customers allowance			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	**6,984,436**	**1,607,109**	**3,543,639**	**12,135,183**
Transfer to Stage 1 (from 2 or 3)	280,827	(226,351)	(54,477)	-
Transfer to Stage 2 (from 1 or 3)	(177,205)	231,350	(54,145)	-
Transfer to Stage 3 (from 1 or 2)	(37,690)	(59,182)	96,872	-
New financial assets originated or purchased	2,623,004	108,438	381,720	3,113,161
De-recognition of financial assets	(581,673)	(71,136)	(186,831)	(839,640)
Write-offs	-	-	(463,615)	(463,615)
Changes in models/risk parameters	(2,822,580)	(188,126)	1,338,923	(1,671,783)
Foreign exchange and other changes	-	-	-	-
Allowance at 31 December 2023	**6,269,119**	**1,402,102**	**4,602,085**	**12,273,305**

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 2022	Loans to customers allowance			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	**6,224,024**	**3,462,084**	**3,519,699**	**13,205,807**
Transfer to Stage 1 (from 2 or 3)	(163,109)	154,108	9,000	-
Transfer to Stage 2 (from 1 or 3)	1,250,486	(1,445,263)	194,777	-
Transfer to Stage 3 (from 1 or 2)	119,856	12,698	(132,555)	-
New financial assets originated or purchased	3,179,539	222,785	53,916	3,456,241
De-recognition of financial assets	(400,093)	(350,826)	(453,155)	(1,204,074)
Write-offs	(9)	-	(746,286)	(746,295)
Changes in models/risk parameters	(3,226,259)	(448,479)	1,098,242	(2,576,496)
Foreign exchange and other changes	-	-	-	-
Allowance at 31 December 2022	**6,984,436**	**1,607,109**	**3,543,639**	**12,135,183**

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 2023	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	**54,162,770**	**-**	**-**	**54,162,770**	**165,050,495**	**482,953**	**2,721,16**	**168,254,61**
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	49,402,482	-	-	49,402,482	16,549,984	-	-	16,549,984
De-recognition of financial assets	(54,162,770)		-	(54,162,770	(32,864,988)	-	-	(32,864,988
Changes due to modifications that did not result in de-	-	-	-	-	(185,059)	70,430	125,328	10,699
Reclassification of instruments	-	-	-	-	-	8,278,88	-	8,278,887
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other changes	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2023	**49,402,482**	**-**	**-**	**49,402,482**	**148,550,432**	**8,832,27**	**2,846,49**	**160,229,19**

31 December 2023	Investment Securities at amortised cost				Loan Commitments and financial guarantee			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
Balance at 1 January 2023	**59,242,984**	**8,278,887**	**1,043,992**	**68,565,864**	**16,777,977**	**50,000**	**-**	**16,827,977**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	30,960,624	-	-	30,960,624	17,802,686	94,885	75,730	17,973,302
De-recognition of financial assets	(7,995,329)	-	-	(7,995,329)	(8,576,486)	-	-	(8,576,486)
Changes due to modifications that did not result in de-	209,548	-	61,965	271,514	1,651,027	50,000	-	1,701,027
Reclassification of instruments	-	(8,278,887)	-	(8,278,887)	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other changes	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2023	**82,417,827**	**-**	**1,105,958**	**83,523,043**	**27,655,204**	**194,885**	**75,730**	**27,925,820**

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii. Expected credit loss measurement (continued)

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

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

31 December 2022	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	**17,364,239**	**1,503,943**	**-**	**18,868,183**	**166,401,647**	**-**	**-**	**166,401,647**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	(2,299,922)	424,267	1,875,655	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	54,162,770	-	-	54,162,770	41,369,446	-	-	41,369,446
De-recognition of financial assets	(17,364,239)	(1,503,943)	-	(18,868,183)	(45,958,374)	-	-	(45,958,374)
Changes due to modifications that did not result in de-recognition	-	-	-	-	5,537,698	58,687	845,511	6,441,896
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other changes	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2022	**54,162,770**	**-**	**-**	**54,162,770**	**165,050,495**	**482,953**	**2,721,166**	**168,254,614**

31 December 2022	Investment Securities at amortised cost				Loan Commitments and financial guarantee			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
Balance at 1 January 2022	**49,353,662**	**-**	**-**	**49,353,662**	**25,513,410**	**492,100**	**-**	**26,005,510**
Transfer to Stage 1 (from 2 or 3)	(9,285,993)	8,297,533	988,460	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	100,000	(100,000)	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	34,958,800	-	-	34,958,800	5,938,615	-	-	5,938,615
De-recognition of financial assets	(14,609,849)	-	-	(14,609,849)	(14,678,608)	(342,100)	-	(15,020,708)
Changes due to modifications that did not result in de-recognition	(1,173,635)	(18,646)	55,532	(1,136,749)	(95,440)	-	-	(95,440)
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other changes	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2022	**59,242,984**	**8,278,887**	**1,043,992**	**68,565,864**	**16,777,977**	**50,000**	**-**	**16,827,977**

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii. Expected credit loss measurement (continued)

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

RECONCILATION OF THE ACCUMULATED IMPAIRMENT ALLOWANCE OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER

31 December 2023	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	**17,086**	**-**	**-**	**17,086**	**742,243**	**177,402**	**1,224,525**	**2,144,170**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-				-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	7,747	-	-	**7,747**	7,323	-	-	**7,323**
New financial assets originated or purchased	(17,087)	-	-	**(17,087)**	(144,554)	-	-	**(144,554)**
Derecognition of financial assets	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	14,639	612,648	1,621,969	**2,249,257**
Changes in models/risk parameters	-	-	-	-	-	2,679,371	-	**2,679,371**
Foreign exchange and other movements	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2023	**7,746**	**-**	**-**	**7,746**	**619,650**	**3,469,422**	**2,846,494**	**6,935,566**

31 December 2023	Debt Investment Securities at amortised cost				Loan Commitments and financial guarantee			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	**362,292**	**2,679,371**	**521,775**	**3 568 621**	**292,663**	**-**	**-**	**292,663**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	129,208	18,134	36,226	**183,568**
New financial assets originated or purchased	201,986	-	-	**201,986**	(142,981)	-	-	**(142,981)**
Derecognition of financial assets	(58,412)	-	-	**(58,412)**	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Changes in models/risk parameters	(56,164)	-	583,590	**527,426**	(19,823)	-	-	**(19,823)**
Reclassification of instruments	-	(2,679,371)	-	**(2,679,371)**	-	-		-
Foreign exchange and other movements	-	-	-	-	-	-	-	-
Gross Balance at 31 December 2023	**449,702**	**-**	**1,105,365**	**1,560,251**	**259,067**	**18,134**	**36,226**	**313,427**

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii. Expected credit loss measurement (continued)

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

RECONCILATION OF THE ACCUMULATED IMPAIRMENT ALLOWANCE OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER

31 December 2022	**Due from Banks**				**Investment Securities at FVOCI**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2022	**2,002**	**-**	**-**	**2,002**	**746,528**	**-**	**-**	**746,528**
Transfer to Stage 1 (from 2 or 3)	-	-	-	**-**	(11,897)	5,933	5,963	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	**-**	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	17,087	-	-	**17,087**	58,444	-	-	58,444
New financial assets originated or	-	-	-	**-**	(213,950)	-	-	(213,950)
Derecognition of financial assets	(2,002)	-	-	**(2,002)**	163,117	171,469	1,218,561	1,553,147
Write-offs	-	-	-	**-**	-	-	-	-
Changes in models/risk parameters	-	-	-	**-**	-	-	-	-
Foreign exchange and other movements								-
Gross Balance at 31 December 2022	**17,086**	**-**	**-**	**17,086**	**742,243**	**177,402**	**1,224,525**	**2,144,170**

31 December 2022	**Debt Investment Securities at amortised cost**				**Loan Commitments and financial guarantee contracts**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2022	**467,870**	**-**	**-**	**467,870**	**373,456**	**5,551**	**-**	**379,007**
Transfer to Stage 1 (from 2 or 3)	-	-	-	**-**	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	**-**	3,554	(3,554)	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	**-**	-	-	-	-
New financial assets originated or	16,122	-	-	**16,122**	102,704	-	-	102,704
Derecognition of financial assets	(238,598)	(5,099)	-	**(243,697)**	(120,704)	(1,997)	-	(122,701)
Write-offs	-	-	-	**-**	-	-	-	-
Changes in models/risk parameters	116,898	2,689,654	521,775	**3,328,326**	(66,384)	-	-	(66,384)
Foreign exchange and other movements	-	-	-	**467,870**	-			-
Gross Balance at 31 December 2022	**362,292**	**2,679,371**	**521,775**	**3 568 621**	**292,663**	**-**	**-**	**292,663**

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 2023 and 2022 by asset quality at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

		31-Dec-23	**31-Dec-22**
Stage 1	Non-Past Due	565,628,484	476,191,692
	Past due	21,108,916	25,162,268
	Total	**586,737,400**	**501,353,960**
	Allowance	**6,269,119**	**6,984,436**
	Total Carrying Amount	**580,468,282**	**494,369,524**
Stage 2	Non-Past Due	5,600,127	22,398,567
	Past due	18,653,183	4,866,572
	Total	**24,253,311**	**27,265,139**
	Allowance	1,402,102	1,607,109
	Total Carrying Amount	**22,851,209**	**25,658,030**
Stage 3	Non-Past Due	2,468,354	1,761,708
	Past due	6,457,317	6,156,675
	Total	**8,925,671**	**7,918,383**
	Allowance	4,602,085	**3,543,639**
	Total Carrying Amount	**4,323,586**	**4,374,744**
Total net amount at amortised cost		**607,643,076**	**524,402,298**
Value of collateral		**1,417,040,456**	**1,135,420,087**

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

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

The following table sets out information about the aging analyses of loans to customers in 2023 and 2022:

31 December	Loans to customers 2023				Loans to customers 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Current	559,738,220	5,227,978	292,935	565,259,134	469,955,240	20,147,289	366,072	490,468,601
1 - 30 days	20,730,050	242,985	184,928	21,157,963	24,414,284	821,038	207,832	25,443,153
31 - 90 days	-	17,380,245	968,298	18,348,543	-	4,689,703	1,006,618	5,696,322
91 - 180 days	-	-	563,034	563,034	-	-	266,141	266,141
181 - 360 days	-	-	616,373	616,373	-	-	544,508	544,508
> 361 days	-	-	1,698,019	1,698,019	-	-	1,983,572	1,983,572
Total	**580,468,270**	**22,851,209**	**4,323,586**	**607,643,064**	**494,369,524**	**25,658,030**	**4,374,744**	**524,402,298**
Value of collateral	**1,314,596,775**	**57,177,708**	**45,265,973**	**1,417,040,456**	**1,041,081,698**	**54,928,560**	**39,409,829**	**1,135,420,087**

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

	2023					2022
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Placements and Balances with banks at amortised cost						
Aa1 to Aa3	44,952,752	-	-	-	44,952,752	**13,681,251**
A1 to A3	38,826,084	-	-	-	38,826,084	**18,816,705**
Baa1 to Baa3	17,826,359	-	-	-	17,826,359	**7,764,435**
Ba1 to Ba3	9,472,504				9,472,504	-
B1 to B3	-	-	-	-	-	**5,033,697**
Unrated	6,693,879	-	-	-	6,693,879	**30,154,753**
Exposure before impairment	**117,771,578**	**-**	**-**	**-**	**117,771,578**	**75,450,841**
Loss allowance	7,747	-	-	-	7,747	17,087
Carrying amount	**117,763,831**	**-**	**-**	**-**	**117,763,831**	**75,433,754**
Investment Securities at FVOCI						
Aa1 to Aa3	35,994,610	-	-	-	35,994,610	**45,432,538**
A1 to A3	18,359,451	-	-	-	18,359,451	**9,503,771**
Baa1 to Baa3	9,915,341	-	-	-	9,915,341	**10,789,552**
Ba1 to Ba3	35,455,374	-	-	-	35,455,374	**36,886,443**
B1 to B3	44,114,290	-	-	-	44,114,290	**50,457,242**
Unrated	2,563,890	-	-	-	2,563,890	**2,138,461**
Exposure before impairment	**146,402,957**	**-**	**-**	**-**	**146,402,957**	**155,208,007**
Loss allowance	6,935,566	-	-	-	6,935,566	**2,144,170**
Carrying amount	**139,467,391**	**-**	**-**	**-**	**139,467,391**	**153,063,837**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

FINANCIAL INSTRUMENTS CREDIT RISK - OTHER THAN LOANS TO CUSTOMERS

	2023					2022
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Total
Investment Securities at Amortised Cost						
Aa1 to Aa3	-	-	-	-	-	-
A1 to A3	6,495,401	-	-	-	6,495,401	9,213,153
Baa1 to Baa3	36,635,053	-	-	-	36,635,053	22,617,913
Ba1 to Ba3	-	-	-	-	-	-
B1 to B3	36,199,127	-	-	-	36,199,127	23,287,792
Unrated	4,193,461	-	-	-	4,193,461	13,447,006
Exposure before impairment	**83,523,043**	**-**	**-**	**-**	**83,523,043**	**68,565,864**
Loss allowance	1,560,251	-	-	-	1,560,251	3,568,621
Carrying amount	**81,962,792**	**-**	**-**	**-**	**81,962,792**	**64,997,243**

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 December 2023	Cash and balances with Central Bank	Due from other banks	Investment securities	Loans to banks and syndicated loans	Other Assets	Total
Good	153,388,635	117,763,831	228,365,749	49,010,277	11,282,852	559,811,344
Acceptable	-	-	-	-	-	-
Close monitoring	-	-	-	-	-	-
Total	**153,388,635**	**117,763,831**	**228,365,749**	**49,010,277**	**11,282,852**	**559,811,344**

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 2023. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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

31 December 2023	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Large Corporate				
Strong (rating A)	4,791,302	-	-	4,791,302
Satisfactory (rating B&C)	223,542,573	16,090,089	-	239,632,662
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	883,487	883,487
Total Rated	**228,333,875**	**16,090,089**	**883,487**	**245,307,451**
Non-Rated	323,037	-	-	323,037
Total gross amount	**228,656,912**	**16,090,089**	**883,487**	**245,630,488**
Carrying amount	**225,563,165**	**15,140,842**	**548,151**	**241,252,158**
Collateral held for credit impaired assets & assets at FVPL	713,345,441	28,440,275	14,381,821	756,167,537
SME Corporate				
Strong (rating A)	3,924,227	-	-	3,924,227
Satisfactory (rating B&C)	64,802,863	5,637,733	-	70,440,596
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	2,734,339	2,734,339
Total Rated	**68,727,090**	**5,637,733**	**2,734,339**	**77,099,161**
Non-Rated	360,588	-	-	360,588
Total gross amount	**69,087,678**	**5,637,733**	**2,734,339**	**77,459,750**
Carrying amount	**68,211,757**	**5,270,559**	**1,481,681**	**74,963,996**
Collateral held for credit impaired assets & assets at FVPL	210,293,757	19,489,700	12,284,077	242,067,534

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

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

31 December 2023	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Micro Corporate				
Strong (rating A)	3,686,520	-	-	3,686,520
Satisfactory (rating B&C)	22,362,123	1,083,515	-	23,445,638
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	3,426,018	3,426,018
Total Rated	**26,048,643**	**1,083,515**	**3,426,018**	**30,558,176**
Non-Rated	3,804,796	36,701	**-**	**3,841,497**
Total gross amount	**29,853,439**	**1,120,217**	**3,426,018**	**34,399,674**
Carrying amount	**29,476,190**	**1,075,609**	**1,736,704**	**32,288,503**
Collateral held for credit impaired assets & assets at FVPL	90,089,159	5,569,427	12,459,050	108,117,636
				-
OFF BALANCE SHEET	**13,319,632**	**748**	**-**	**13,320,380**
Credit cards Loss allowance	24,278	1,345	23,681	49,305

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 2022. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts

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

31 December 2022	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Large Corporate				
Strong (rating A)	5,363,740	-	-	5,363,740
Satisfactory (rating B&C)	197,015,463	18,197,748	-	215,213,210
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	871,936	871,936
Total Rated	**202,379,203**	**18,197,748**	**871,936**	**221,448,887**
Non-Rated	**598,965**	**-**	**-**	**598,965**
Total gross amount	**202,978,168**	**18,197,748**	**871,936**	**222,047,851**
Carrying amount	**199,096,092**	**17,079,604**	**811,139**	**216,987,238**
Collateral held for credit impaired assets & assets at FVPL	556,058,056	25,678,397	11,427,980	593,164,433
SME Corporate				
Strong (rating A)	3,214,628	-	-	3,214,628
Satisfactory (rating B&C)	58,014,018	5,236,608	-	63,250,627
Watch list (higher risk) (rating D lower than C)	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	3,447,441	3,447,441
Total Rated	**61,228,646**	**5,236,608**	**3,447,441**	**69,912,696**
Non-Rated	**1,230,643**	**5,795**	**234,734**	**1,471,172**
Total gross amount	**62,459,289**	**5,242,403**	**3,682,175**	**71,383,867**
				-
Carrying amount	**61,388,706**	**4,914,133**	**1,987,304**	**68,290,140**
Collateral held for credit impaired assets & assets at FVPL	177,539,265	17,013,897	12,609,400	207,162,562

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

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

31 December 2022	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Micro Corporate				
Strong (rating A)	2,851,259	-	-	2,851,259
Satisfactory (rating B&C)	21,567,284	1,579,744	-	23,147,028
Watch list (higher risk) (rating D lower than C*)*	-	-	-	-
Default (Lower than D and over 90 days past due)	-	-	1,624,220	1,624,220
Total Rated	**24,418,543**	**1,579,744**	**1,624,220**	**27,622,507**
Non-Rated	**2,406,813**	**137,259**	**13,467**	**2,557,539**
Total gross amount	**26,825,356**	**1,717,004**	**1,637,686**	**30,180,046**
				-
Carrying amount	**26,355,464**	**1,612,151**	**943,283**	**28,910,898**
Collateral held for credit impaired assets & assets at FVPL	76,200,924	7,685,296	7,557,191	91,443,411
				-
OFF BALANCE SHEET	**14,618,570**	**304,827**	**-**	**14,923,397**
Credit cards Loss allowance	25,833	1,848	2,500	30,181

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 2023. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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

31 December 2023	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage				
Defaults	-	-	759,840	759,840
Non-Rated	83,935,671	431,286	-	84,366,957
Total gross amount	**83,935,671**	**431,286**	**759,840**	**85,126,797**
Collateral held for credit impaired assets & assets at FVPL	147,162,697	2,930,960	5,532,239	155,625,896
Consumer				
Defaults	-	-	1,028,919	1,028,919
Non-Rated	168,833,372	946,925	-	169,780,297
Total gross amount	**168,833,372**	**946,925**	**1,028,919**	**170,809,216**
Collateral held for credit impaired assets & assets at FVPL	153,705,721	747,346	608,786	155,061,852
Creditcards				
Defaults	-	-	93,068	93,068
Non-Rated	6,370,317	27,061	-	6,397,378
Total gross amount	**6,370,317**	**27,061**	**93,068**	**6,490,446**
Collateral held for credit impaired assets & assets at FVPL	-	-	-	-
OFF BALANCE SHEET	**6,037,734**	**-**	**-**	**6,037,734**
Credit cards Loss allowance	126,894	1,125	77,316	205,335

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2022.

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 2022	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage				
Defaults	-	-	742,263	742,263
Non-Rated	65,603,006	583,722	-	66,186,728
Total gross amount	**65,603,006**	**583,722**	**742,263**	**66,928,991**
Collateral held for credit impaired assets & assets at FVPL	132,827,363	3,538,663	7,154,203	143,520,199
Consumer				
Defaults	-	-	952,519	952,519
Non-Rated	138,272,931	1,491,718	-	139,764,649
Total gross amount	**138,272,931**	1,491,718	**952,519**	**140,717,168**
Collateral held for credit impaired assets & assets at FVPL	98,456,091	1,012,337	661,055	100,129,484
Credit Cards				
Defaults	-	-	31,804	31,804
Non-Rated	5,215,202	32,544	-	5,247,746
Total gross amount	**5,215,202**	**32,544**	**31,804**	**5,279,550**
Collateral held for credit impaired assets & assets at FVPL	-	-	-	-
OFF BALANCE SHEET	**10,893,869**	**3,999**	**-**	**10,897,868**
Credit cards Loss allowance	-	-	-	-

	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Total loss allowance as per December 2023	6,269,119	1,402,102	4,602,085	**12,273,305**
Total loss allowance as per December 2022	6,984,436	1,607,109	3,543,639	**12,135,183**

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 2023	Total amount of Loans	Total amount of Forborne Loans	Forborne Loans (%)
Stage 1	586,737,388	-	0.00%
Stage 2	24,253,311	3,554,668	14.66%
Stage 3	8,925,671	2,138,520	23.96%
Exposure before impairment	**619,916,370**	**5,693,188**	**0.92%**
Stage 1 Allowance	6,269,119	-	0.00%
Stage 2 Allowance	1,402,102	245,730	17.53%
Stage 3 Allowance	4,602,085	1,236,280	26.86%
Total net amount	**607,643,064**	**4,211,178**	**0.69%**
Value of collateral	1,417,040,456	27,296,360	1.93%

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

31 December 2022	Total amount of Loans	Total amount of Forborne Loans	Forborne Loans (%)
Stage 1	501,353,960	1,871,505	0.37%
Stage 2	27,265,139	3,658,562	13.42%
Stage 3	7,918,383	2,140,192	27.03%
Exposure before impairment	**536,537,481**	**7,670,259**	**1.43%**
Stage 1 Allowance	6,984,436	4,141	0.06%
Stage 2 Allowance	1,607,109	265,975	16.55%
Stage 3 Allowance	3,543,639	1,043,185	29.44%
Total net amount	**524,402,298**	**6,356,958**	**1.21%**
Value of collateral	1,135,420,087	45,482,316	4.01%

5. Financial risk management (continued)

(b) Credit Risk (continued)

iv. Credit Collateral and other credit enhancement

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

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

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

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

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

	Loans to customers		
31 December 2023	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial property	118,842,987	550,750,146	669,593,133
Financial assets	31,972,681	105,184,014	137,156,695
Other	159,872,080	450,418,547	610,290,627
Total	**310,687,749**	**1,106,352,707**	**1,417,040,456**

	Loans to customers		
31 December 2022	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial property	120,544,944	461,714,744	582,259,688
Financial assets	28,936,182	85,749,396	114,685,578
Other	94,168,556	344,306,264	438,474,820
Total	**243,649,682**	**891,770,404**	**1,135,420,086**

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

Past due but not impaired loans

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

Allowances for impairment

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

Write-off policy

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

v. Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and investment securities as at 31 December 2023 and 31 December 2022 is shown below:

	Note	Loans to customers		Loans to banks		Investment Securities	
		31-Dec-23	**31-Dec-22**	**31-Dec-23**	**31-Dec-22**	**31-Dec-23**	**31-Dec-22**
Carrying amount	8,9.1,9.2	619,916,370	523,008,396	49,382,354	53,655,813	275,111,300	236,819,736
Concentration by sector		-	-	-	0	-	0
Corporate		348,325,410	314,012,528	-	0	44,265,612	27,880,760
Government		-	-	-	0	131,740,665	138,953,551
Banks		-	-	49,010,277	53,655,813	46,563,804	47,968,145
Supranational						5,795,668	5,402,794
Retail		258,462,925	209,668,445	-	-	-	0
Total		**606,788,335**	**523,680,973**	**49,010,277**	**53,655,813**	**228,365,749**	**220,205,250**

Concentration by location	Note	Loans to customers		Loans to banks		Investment securities	
		31-Dec-23	**31-Dec-21**	**31-Dec-23**	**31-Dec-22**	**31-Dec-23**	**31-Dec-22**
Albania						6,030,956	16,139,058
Kosova		606,788,335	523,680,973			35,994,610	41,955,353
Montenegro						6,402,313	5,724,026
United Kingdom						4,834,183	2,410,946
Turkey				49,010,277	53,655,813	53,273,646	47,746,405
Egypt						6,616,483	6,792,218
Ukraine						2,203,817	5,710,253
Nigeria						2,633,088	2,419,610
Uzbekistan						8,622,996	8,262,263
Japan						1,905,511	1,658,091
Mexico						1,643,793	3,378,088
Middle East and Africa						9,950,371	9,438,303
Macedonia, The Former Yugoslav Republic Of						8,617,169	7,816,935

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Explanatory notes as of and for the period ended 31 December 2023
(amounts in EUR, unless otherwise stated)

5. Financial risk management (continued)

(b) Credit Risk (continued)

v. Concentration of credit risk

Concentration by location	Note	Loans to customers		Loans to banks		Investment securities	
		31-Dec-23	**31-Dec-21**	**31-Dec-23**	**31-Dec-22**	**31-Dec-23**	**31-Dec-22**
Senegal						3,524,005	3,285,476
Côte D'Ivoire						1,647,443	1,544,923
Togo						1,381,369	1,427,658
Morocco						4,064,513	5,158,484
Tunisia						-	971,349
Austria						3,752,735	5,193,233
Germany						-	1,870,648
France						2,509,994	4,330,248
Romania						6,201,050	6,371,275
Chile						5,790,731	5,450,317
Colombia						5,090,571	4,841,984
Indonesia						9,027,460	7,910,368
Belgium						1,494,521	1,448,858
Czech Republic						1,829,776	1,845,080
Hungary						10,551,839	1,854,259
Peru						5,015,433	4,962,214
Saudi Arabia						4,125,520	-
Spain						2,861,865	-
Sweden						1,011,909	-
United States						3,472,981	-
Greece						3,162,579	2,287,328
Netherlands						3,120,518	-
Total	8,9.1,9.2	**606,788,335**	**523,680,973**	**49,010,277**	**53,655,813**	**228,365,749**	**220,205,250**

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 2023.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2023, 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	153,388,635	-	-	-	-	-	153,388,635
Placement and balances with Banks	114,746,573	-	3,017,259	-	-	-	117,763,831
Financial instruments measured at FVOCI	828,558	4,125,520	20,686,572	97,377,817	23,384,490	-	146,402,957
Financial instruments measured at amortized cost	2,414,855	-	26,126,254	51,036,860	2,384,823	-	81,962,792
Due from BKT Albania	32,965	-	-	-	-	-	32,965
Loans and advances to banks	-	-	49,010,277	-	-	-	49,010,277
Loans and advances to customers, net	10,431,238	15,877,278	62,925,702	290,687,396	226,866,722	-	606,788,335
Other assets	6,998,260	2,099,864	5,404,693	9,365	16,603,917	-	31,116,099
Right of use assets	130	-	41,974	929,785	2,915,254	-	3,887,144
Total assets	**288,841,213**	**22,102,662**	**167,212,729**	**440,041,224**	**272,155,206**	**-**	**1,190,353,034**
Liabilities							
Customer deposits	555,486,211	36,577,797	126,287,183	233,264,161	-	-	951,615,351
Due to banks and REPO Agreements	43,049,184	20,410,476	9,685,440	-	-	-	73,145,101
Due to BKT Albania	780,781	-	-	-	-	-	780,781
Accruals and other liabilities	6,991,038	33,879	2,660,111	173,163	64,415	-	9,922,606
Lease Liability	-	-	43,548	990,806	2,988,789	-	4,023,143
Borrowings	-	-	4,457,551	-	-	-	4,457,551
Subordinated debt					22,081,501	-	22,081,501
Total liabilities	**606,307,214**	**57,022,151**	**143,133,833**	**234,428,130**	**25,134,705**	**-**	**1,066,026,033**
Net Position	**(317,466,001)**	**(34,919,489)**	**24,078,897**	**205,613,094**	**247,020,501**	**-**	**124,327,001**
Cumulative net position	**(317,466,001)**	**(352,385,490)**	**(328,306,594)**	**(122,693,500)**	**124,327,001**	**124,327,001**	**-**

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 2022, 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	106,104,701	-	-	-	-	-	106,104,701
Placement and balances with Banks	68,874,815	6,558,939	-	-	-	-	75,433,754
Financial instruments measured at FVOCI	-	250,959	1,895,154	103,023,100	50,038,793	-	155,208,007
Financial instruments measured at amortized cost	2,346,048	-	1,744,520	54,863,010	6,043,664	-	64,997,243
Due from BKT Albania	42,001	-	-	-	-	-	42,001
Loans and advances to banks	-	-	53,655,813	-	-	-	53,655,813
Loans and advances to customers, net	16,825,446	26,203,328	142,482,433	292,491,892	45,677,874	-	523,680,973
Other assets	7,583,768	2,725,474	-	2,192,771	-	-	12,502,013
Right of use assets	-	2,787	34,893	646,648	2,761,325	-	3,445,652
Total assets	**201,776,780**	**35,741,487**	**199,812,813**	**453,217,421**	**104,521,656**	**-**	**995,070,158**
Liabilities							
Customer deposits	429,336,103	22,202,210	123,272,504	222,281,926	60,081	-	797,152,824
Due to banks and REPO Agreements	52,678,897	21,725,779	4,042,062	-	-	-	78,446,737
Due to BKT Albania	570,339	-	-	-	-	-	570,339
Accruals and other liabilities	1,988,383	-	1,890,940	-	-	-	3,879,323
Lease Liability	-	2,966	35,010	684,059	2,838,274	-	3,560,310
Borrowings	-	-	-	8,908,949	-	-	8,908,949
Total liabilities	-	-	-	-	22,066,271	-	22,066,271
	484,573,722	**43,930,954**	**129,306,788**	**231,874,935**	**24,964,626**	**-**	**914,584,754**
Net Position	**(282,796,942)**	**(8,189,467)**	**70,572,296**	**221,342,486**	**79,557,030**	**-**	**80,485,405**

Cumulative net position	**(282,796,942)**	**(290,986,409)**	**(220,414,112)**	**928,374**	**80,485,405**	**80,485,405**	**-**

5. Financial risk management (continued)

(d) Market risk

i) Foreign currency risk

Foreign currency risk is the risk that the value of assets and liabilities will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Central Bank of Republic of Kosova guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions. The Treasury and FI Group manages the foreign currency positions and balances the currency spread of the Bank on an ongoing basis. The following tables present the equivalent amount of assets, liabilities and shareholder's equity by currency as at 31 December 2023 and 2022:

2023	EUR	ALL	USD	GBP	CHF	Other	Total
Assets							
Cash and balances with Central Bank	127,655,623	1,634	711,439	986,491	24,026,884	6,564	153,388,635
Placement and balances with Banks	104,772,675	-	4,284,396	196,832	8,492,772	17,157	117,763,831
Financial instruments measured at FVOCI	121,097,353	-	21,077,209	1,595,307	2,633,089	-	146,402,957
Financial instruments measured at amortized cost	63,759,316	-	17,415,713	-	787,763	-	81,962,792
Due from BKT Albania	24,274	8,096	-	92	502	-	32,965
Loans and advances to banks	49,010,277	-	-	-	-	-	49,010,277
Loans and advances to customers	606,788,329	-	6	-	-	-	606,788,335
Other assets	33,929,935	8,202	911,708	6,574	14,819	132,005	35,003,243
Total assets	**1,107,037,781**	**17,932**	**44,400,471**	**2,785,296**	**35,955,829**	**155,726**	**1,190,353,035**
Liabilities							
Customer deposits	932,945,764	450	14,310,372	2,600,602	6,124,994	90,721	956,072,902
Due to banks	61,580,926	-	8,513,439	1,450	3,049,286	-	73,145,101
Due to BKT Albania	-	-	780,731	-	-	50	780,781
Deferred tax liabilities	-	-	-	-	-	-	-
Provisions	426,483	-	-	-	-	-	426,483
Lease liabilities	2,508,993	-	-	-	-	-	2,508,993
Accruals and other liabilities	-	-	-	-	-	-	-
Total liability	**997,462,166**	**450**	**23,604,542**	**2,602,051**	**9,174,280**	**90,772**	**1,032,934,260**
Net position	109,575,616	17,483	20,795,929	183,245	26,781,549	64,954	157,418,775
Net position (GAP)	109,575,616	109,593,098	130,389,027	130,572,272	157,353,821	157,418,775	-

5. Financial risk management (continued)

(d) Market risk

i) Foreign currency risk

Foreign currency risk is the risk that the value of assets and liabilities will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Central Bank of Republic of Kosova guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions. The Treasury and FI Group manages the foreign currency positions and balances the currency spread of the Bank on an ongoing basis. The following tables present the equivalent amount of assets, liabilities and shareholder's equity by currency as at 31 December 2023 and 2022:

2022	**EUR**	**ALL**	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets							
Cash and balances with Central Bank	90,096,580	1,733	332,670	1,227,774	14,432,187	13,757	106,104,701
Placement and balances with Banks	62,810,159	-	4,816,888	675,422	7,085,939	45,346	75,433,754
Financial instruments measured at FVOCI	123,980,522	-	26,396,929	1,191,074	3,639,482	-	155,208,007
Financial instruments measured at amortized cost	45,704,637	-	18,074,382	-	1,218,224	-	64,997,243
Due from BKT Albania	-	41,984	-	-	17	-	42,001
Loans and advances to banks	53,655,814	-	-	-	-	-	53,655,814
Loans and advances to customers	523,680,952	-	8	-	12	-	523,680,973
Other assets	8,392,270	7,398	51,248	27,906	13,133	12	8,491,967
Total assets	**908,320,933**	**51,114**	**49,672,127**	**3,122,177**	**26,388,994**	**59,155**	**987,614,460**
Liabilities							
Customer deposits	782,585,447	12,460	7,485,313	3,036,522	3,849,868	183,213	797,152,824
Due to banks	2,040,031	-	15,641,337	564	7,934,446	-	25,616,377
Due to BKT Albania	123,342		438,731	8,223	-	43	570,339
Deferred tax liabilities	-	-	-	-	-	-	-
Provisions	398,570	-	-	-	-	-	398,570
Lease liabilities	1,890,940	-	-	-	-	-	1,890,940
Accruals and other liabilities	-	-	-	-	-	-	-
Total liability	**787,038,331**	**12,460**	**23,565,380**	**3,045,309**	**11,784,314**	**183,257**	**825,629,051**
Net position	121,282,602	38,654	26,106,747	76,868	14,604,679	(124,142)	161,985,409
Net position (GAP)	121,282,602	121,321,257	147,428,003	147,504,871	162,109,551	161,985,409	-

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

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

in EUR	**Change in 2023**	**Profit or loss 2023**
ALL	5%	874
USD	5%	1,039,796
GBP	1%	1,832
CHF	5%	1,339,077
Other	5%	3,248

in EUR	**Change in 2022**	**Profit or loss 2022**
ALL	5%	1,932
USD	5%	1,305,337
GBP	1%	769
CHF	5%	730,234
Other	5%	(6,207)

5. Financial risk management (continued)

(d) Market risk (continued)

ii) 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:

2023	**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	(2,517,710)	2,517,710	4,852,289	(4,852,289)

2022	**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	742,740	(742,740)	197,696	(197,696)

5. Financial risk management (continued)

(d) Market risk (continued)

ii) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2023 and 2022 are as follows:

2023	*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	94,524,346	-	-	-	-	58,864,289	153,388,635
Balances with banks	114,746,572	-	3,017,259	-	-	-	117,763,831
Financial instruments measured at FVOCI	828,558	4,125,520	20,686,572	97,377,817	23,384,490	-	146,402,957
Financial instruments measured at amortized cost	2,414,855	-	26,126,254	51,036,860	2,384,823	-	81,962,792
Due from BKT Albania	32,965	-	-	-	-	-	32,965
Loans and advances to banks	-	-	49,010,277	-	-	-	49,010,277
Loans to customers	32,037,254	65,699,418	282,271,436	212,893,959	12,734,415	1,151,852	606,788,335
Total assets (TA)	**244,584,550**	**69,824,938**	**381,111,797**	**361,308,636**	**38,503,728**	**60,016,141**	**1,155,349,791**
Liabilities							
Customer Deposits, Due to banks& Liabilities based on Repo Transactions	599,316,176	56,988,273	135,972,623	233,264,161	-	-	1,025,541,233
Borrowings	-	-	4,457,551	-	-	-	4,457,551
Subordinated debt	-	-	-	-	22,081,501	-	22,081,501
Total liabilities (TL)	**599,316,176**	**56,988,273**	**140,430,174**	**233,264,161**	22,081,501		1,052,080,285

2022	*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	18,049,255	-	-	-	-	88,055,446	106,104,701
Balances with banks	17,958,245	6,558,939	-	-	-	50,916,570	75,433,754
Financial instruments measured at FVOCI	-	250,959	1,895,154	103,023,100	50,038,793	-	155,208,007
Financial instruments measured at amortized cost	2,346,048	-	1,744,520	54,863,010	5,521,297	522,367	64,997,243
Due from BKT Albania	42,001	-	-	-	-	-	42,001
Loans and advances to banks	-	-	53,655,813	-	-	-	53,655,813
Loans to customers	13,103,135	28,631,517	217,763,517	216,023,273	45,123,437	3,036,094	523,680,973
Total assets (TA)	**51,498,684**	**35,441,415**	**275,059,005**	**373,909,383**	**100,683,527**	**142,530,478**	**979,122,493**
Liabilities							
Customer Deposits, Due to banks& Liabilities based on Repo Transactions	63,553,749	54,361,304	169,810,009	477,135,956	60,010	111,248,873	876,169,900
Borrowings	-	-	-	8,908,949	-	-	8,908,949
Subordinated debt					22,066,271		22,066,271
Total liabilities (TL)	**63,553,749**	**54,361,304**	**169,810,009**	**486,044,904**	**22,126,281**	**111,248,873**	**907,145,120**

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 2023, BKT has reported the following ratios which does not include the profit of the second half of the year.

- 2023 Tier 1 Capital Ratio 12.30% (2022: 10.84%)
- 2023 Total Capital Ratio 15.91% (2022: 14.45%)

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 2023 and 2022 are detailed as following:

	31 December 2023	31 December 2022
Cash on hand	47,244,742	33,388,128
Balances with CBK	106,143,892	72,716,573
	153,388,635	**106,104,701**

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 2023 and 2022 are presented as follows:

	31 December 2023	31 December 2022
Cash and balances with Central Bank	153,388,635	106,104,701
Statutory reserves	(58,864,289)	(52,474,890)
Balances with banks	73,459,186	44,952,779
	167,983,532	**98,582,591**

Balances with banks at 31 December 2023 and 2022 include current accounts with resident and non-resident banks.

7. Placements and balances with banks

Placements and balances with banks as at 31 December 2023 and 31 December 2022 consisted as follows:

	31 December 2023	31 December 2022
Placements	44,226,630	30,421,790
Current accounts	73,459,186	44,952,779
Accrued interest	85,762	76,272
Impairment provision	(7,747)	(17,087)
	117,763,831	**75,433,754**

The placements in banks are with original maturity up to 6 months and bear interest income from 3.50% up to 4.75% (31 December 2022: 1.50% to 4.00%, with original maturity up to 1 year).

8. Investment securities

Investment securities as at 31 December 2023 and 31 December 2022 are presented as follows:

	31 December 2023	31 December 2022
Treasury bonds and Eurobonds- measured at FVOCI	146,402,957	155,208,007
Corporate bonds- measured at amortised cost	81,962,792	64,997,243
Total	**228,365,749**	**220,205,250**

During 2023, the bank has realised gain in the amount of 951,182 EUR due to sale of investments securities measured at FVOCI (2022: 1,346,941 EUR).

a) Investment securities - measured at FVOCI.

Treasury bonds and Eurobonds as at 31 December 2023 comprise as follows:

Type	Nominal Value	Unamortized discount/ premium	Accrued Interest	Changes in fair value	Impairment	Book Value
EUR Denominated	132,408,000	(2,892,280)	2,214,931	(10,633,298)	-	121,097,353
CHF Denominated	2,699,784	29,471	8,223	(104,390)	-	2,633,088
GBP Denominated	1,553,420	11,480	38,820	(8,413)	-	1,595,307
USD Denominated	24,190,045	(418,184)	570,515	(3,265,168)	-	21,077,209
	160,851,250	**(3,269,513)**	**2,832,490**	**(14,011,270)**	**-**	**146,402,957**

Treasury bonds and Eurobonds as at 31 December 2022 comprise as follows:

Type	Nominal Value	Unamortized discount/ premium	Accrued Interest	Changes in fair value	Impairment	Book Value
EUR Denominated	136,200,000	(6,262,700)	2,072,203	(8,028,982)	-	123,980,522
CHF Denominated	3,757,490	43,715	14,169	(175,892)	-	3,639,481
GBP Denominated	1,183,859	31,737	15,754	(40,277)	-	1,191,074
USD Denominated	31,483,218	(835,449)	550,618	(4,801,457)	-	26,396,930
	172,624,566	**(7,022,696)**	**2,652,745**	**(13,046,608**	**-**	**155,208,007**

8. Investment securities (continued)

b) Investment securities - measured at amortised cost

Investment securities measured at amortized cost as at 31 December 2023 comprise as follows:

Type	Nominal Value	Unamortized Discount/ Premium	Accrued interest	Impairment	Book Value
EUR Denominated	66,730,503	(2,278,619)	(475,543)	(217,026)	63,759,316
CHF Denominated	1,997,840	(137,446)	33,600	(1,106,231)	787,763
USD Denominated	17,294,118	16,388	342,201	(236,994)	17,415,713
Total	**86,022,461**	**(2,399,676)**	**(99,742)**	**(1,560,251)**	**81,962,792**

Investment securities measured at amortized cost as at 31 December 2022 comprise as follows:

Type	Nominal Value	Unamortized Discount/ Premium	Accrued interest	Impairment	Book Value
EUR Denominated	50,764,300	(3,004,751)	697,263	(2,752,175)	45,704,637
CHF Denominated	1,878,745	(169,611)	31,597	(522,507)	1,218,223
USD Denominated	17,916,745	97,055	354,521	(293,939)	18,074,382
Total	**70,559,790**	**(3,077,307)**	**1,083,381**	**(3,568,621)**	**64,997,243**

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 2023	31 December 2022
Turkiye Vakiflar Bankasi Tao	1,000,000	4,000,000
Turk Eximbank-Export Credit Bank	7,000,000	5,000,000
Turkiye Garanti Bankasi As	3,000,000	8,000,000
Denizbank A.S.	6,000,000	8,000,000
Qnb Finansbank As	3,000,000	8,000,000
Ing Bank AS	5,000,000	4,000,000
Turk Ekonomi Bankasi	-	5,000,000
Turkiye Cumhuriyeti Ziraat Banka	4,000,000	3,000,000
Turkiye Is Bankasi AS	11,000,000	7,500,000
Yapi Ve Kredi Bankasi AS	1,000,000	1,500,000
Turkiye Sinai Kalkinma Bankasi	3,000,000	-
Akbank Tas	5,000,000	-
Total Loans to banks	**49,000,000**	**54,000,000**
Accrued interest	402,482	162,770
Less allowances for impairment on loans (note 24)	(392,205)	(506,956)
Loans and advances to banks	**49,010,277**	**53,655,813**

All loans are in EUR and bear interest rates ranging from 6.61% to 7.72%. All loans will mature within 4 - 12 months.The loans are not secured with collateral.

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 2023	31 December 2022
Loans to customers, gross	616,661,357	533,801,347
Accrued interest	3,255,024	2,736,134
Less allowances for impairment on loans	(12,273,305)	(12,135,183)
Less deferred fee income	(854,742)	(721,325)
	606,788,335	**523,680,973**

Movements in the allowance for impairment on loans to customers:

	For the year ended as at December 31, 2023	For the year ended as at December 31, 2022
At 1 January	12,135,183	13,380,343
Impairment charge for the year, net	605,296	(341,925)(
Written off loans	(467,174)	(797,328)
Adjustment for off balance impairment on loans	-	(105,907)(
At the end of the period	**12,273,305**	**12,135,183**

During the year based on decision from the Board of Directors the Bank has written off loans in total amount of EUR 538,552 (2022: EUR 884,966), out of which impaired loans in amount of EUR 467,174 (2022: EUR 797,328).

The breakdown of the loan portfolio is as follows:

	2023	2022
Retail (individuals)	42%	40%
Private Enterprises	58%	60%

All loans are in EUR and bear interest rates ranging from 0.5% to 20.23% (2022: 0.5% to 20.23%). 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 2023		31 December 2022	
	EUR	%	EUR	%
Construction and other industries	67,029,140	19%	66,441,404	21%
Wholesale Trade	98,485,909	28%	77,098,259	24%
Retail Trade	48,754,846	14%	51,940,612	16%
Manufacturing	60,215,638	17%	58,271,032	18%
Hotels and other services	20,968,024	6%	17,699,353	5%
Services	38,062,028	11%	32,621,375	10%
Agriculture	7,460,251	2%	4,885,554	2%
Other	16,338,687	5%	14,478,417	4%
Total	**357,314,523**	**100%**	**323,436,007**	**100%**

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

	31 December 2023		31 December 2022	
	EUR	%	EUR	%
Loans	251,403,927	96%	205,135,263	97%
Overdraft and credit cards	10,343,178	4%	7,244,877	3%
Total	**261,747,105**	**100%**	**212,380,140**	**100%**

10. Property and equipment

Property and equipment as at 31 December 2023 and 2022 are composed as follows:

(In EUR)	Land	Leasehold improvements	Motor vehicles	Computers and electronic equipment	Furniture and equipment	TOTAL
Cost						
At 1 January 2022	**13,875,000**	**3,200,495**	**983,089**	**6,410,308**	**1,587,195**	**26,056,087**
Additions	-	103,588	90,200	338,005	13,007	**544,799**
Disposals	-	(2,290)	(92,620)	(64,213)	-	**-**
At 31 December 2022/ 01-Jan-23	**13,875,000**	**3,301,793**	**980,669**	**6,684,100**	**1,600,202**	**26,441,763**
Additions	-	96,072	293,286	824,131	25,009	**1,238,498**
Disposals	-	-	(19,283)	(377,982)	(1,400)	**(398,665)**
At 31 December 2023	**13,875,000**	**3,397,865**	**1,254,671**	**7,130,248**	**1,623,811**	**27,281,596**
Accumulated depreciation						
At 1 January 2022	**-**	**(2,978,829)**	**(509,124)**	**(5,379,946)**	**(1,482,735)**	**(10,350,634)**
Charge for the year	-	(62,433)	(175,064)	(462,969)	(17,969)	**(718,434)**
Disposals	-	164	72,884	38,400	-	**111,447**
At 31 December 2022/ 01-Jan-23	**-**	**(3,041,098)**	**(611,303)**	**(5,804,515)**	**(1,500,704)**	**(10,957,620)**
Charge for the year	-	(62,270)	(102,180)	(620,692)	(17,256)	**(802,397)**
Disposals	-	194	713	351,092	713	**352,712**
At 31 December 2023	**-**	**(3,103,174)**	**(712,770)**	**(6,074,116)**	**(1,517,246)**	**(11,407,306)**
Net book value						
At 1 January 2022	**13,875,000**	**221,666**	**473,965**	**1,030,362**	**104,460**	**15,705,453**
At 31 December 2022	**13,875,000**	**260,695**	**369,366**	**879,585**	**99,498**	**15,484,143**
At 31 December 2023	**13,875,000**	**294,691**	**541,902**	**1,056,133**	**106,565**	**15,874,290**

As at 31 December 2023 and 31 December 2022 there are no property and equipment pledged.

10. Property and equipment (continued)

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 2022	4,168,264	4,168,264
Additions	-	-
Depreciation expense	(722,612)	(722,612)
As at 31 December 2022/1 January 2023	**3,445,652**	**3,445,652**
Additions	1,168,991	1,168,991
Depreciation expense	(727,499)	(727,499)
As at 31 December 2023	**3,887,144**	**3,887,144**

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

	31-Dec-23	**31-Dec-22**
As at 1 January 2023	**3,560,310**	**4,250,239**
Additions	1,168,991	-
Interest expense (note 19)	121,835	123,842
Payments	(827,993)	(813,772)
As at 31 December 2023	**4,023,143**	**3,560,310**

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

	For the year ended as at 31 December 2023	**For the year ended as at 31 December 2022**
Depreciation expense of right-of-use assets	727,499	722,612
Interest expense on lease liabilities (note 19)	121,835	123,842
Rent expense - short term leases payments (note 23)	89,945	102,454
Total amounts recognized in profit or loss	**939,280**	**948,908**

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

	31-Dec-23	**31-Dec-22**
Short-term lease liabilities	1,034,354	813,772
Long-term lease liabilities	2,988,789	2,746,538
Total lease liabilities	**4,023,143**	**3,560,309**

11. Intangible assets

Intangible assets as at 31 December 2023 and 2022 are composed as follows:

	Intangible assets	Total
Cost		
At 1 January 2021	445,537	445,537
Additions	51,218	51,218
Disposals	-	-
At 31 December 2022/ January 2023	**496,755**	**496,755**
Additions	597,246	597,246
Disposals	32,167	32,167
At 31 December 2022	**1,126,169**	**1,126,169**
Accumulated depreciation		
At 1 January 2020	(351,998)	(351,998)
Charge for the year	(45,954)	(45,954)
Disposals	-	-
At 31 December 2022/01 January 2023	**(397,952)**	**(397,952)**
Charge for the year	(12,376)	(12,376)
Disposals	13,786	13,786
At 31 December 2022	**(396,542)**	**(396,542)**
Net book value		
At 01 January 2023	**93,539**	**93,539**
At 31 December 2023	**98,803**	**98,803**
At 31 December 2023	**729,626**	**729,626**

As at December 31, 2023 and December 31, 2022 there are no intangible assets pledged.

12. Other assets

Other assets as at 31 December 2023 and 2022 are as follows:

	31 December 2023	31 December 2022
Cards transactions settlement	5,287,562	6,107,394
Prepaid expenses	2,068,245	1,552,188
Advances to suppliers	26,061	365,457
Collaterals repossessed by the Bank	2,043,889	2,192,771
Cash differences	200	690
Other assets	3,254,879	2,293,487
Investment in Affiliates	131,473	215,028
IRS Accrued income	888,336	-
	12,680,836	**12,727,015**
Less allowance for impairment	(1,397,984)	(225,002)
	11,282,852	**12,502,013**

Movements in impairment of other assets

	31 December 2023	31 December 2022
As of 1 January,	225,002	225,002
Additions during the year	1,172,982	-
Reverse charge	-	-
Balance as of 31 December	**1,397,984**	**225,002**

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

	31 December 2023	31 December 2022
At 1 January	2,192,771	2,330,556
Additions	132,178	40,000
Sales and disposals	(281,060)	(177,785)
At 31 December	**2,043,889**	**2,192,771**

IRS Accrued income:

Notional Value	Carrying Value (Asset) LCY	Carrying Value Liabilites LCY
EUR 20,000,000	38,543	(47,669)
USD 10,000,000	(949,266)	942,155

13. Customer deposits

Customer deposits as of 31 December 2023 and 2022 are composed as follows:

	31 December 2023	31 December 2022
Current accounts:		
Individuals	341,498,528	278,434,747
Private enterprises	149,242,041	115,977,150
State owned entities	31,343,924	22,920,696
	522,084,493	**417,332,593**
Add: Current maturity of long-term customer deposits	152,930,727	152,930,727
Total short-term customer deposits	**675,015,220**	**570,263,320**
Term Deposits:		
Individuals	310,089,436	257,411,336
Private enterprises	81,035,448	61,548,343
State owned entities	38,405,974	60,860,552
	429,530,858	**379,820,231**
Less: Current maturity of long-term customer deposits	(152,930,727)	(152,930,727)
Total long-term customer deposits	**276,600,131**	**226,889,504**
	951,615,351	**797,152,824**

Current accounts and deposits can be further analysed as follows:

	31 December 2023			31 December 2022		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Current accounts	**504,000,096**	**18,084,397**	**522,084,493**	**405,766,438**	**11,566,155**	**417,332,593**
Term deposits	**424,488,116**	**5,042,742**	**429,530,858**	**376,819,010**	**3,001,221**	**379,820,231**
One month	145,401	540,245	685,647	3,313,537	29,186	3,342,723
Three months	11,597,435	453,256	12,050,691	1,073,974	0	1,073,974
Six months	14,178,483	134,588	14,313,071	1,409,815	23,837	1,433,651
Twelve months	99,450,222	2,039,778	101,489,999	60,625,357	2,131,826	62,757,183
Over two years	299,116,575	1,874,875	300,991,450	310,396,327	816,373	311,212,700
Total deposits	**928,488,213**	**23,127,139**	**951,615,351**	**782,585,447**	**14,567,377**	**797,152,824**

14. Due to banks and financial institutions

Due to banks as at 31 December 2023 and 31 December 2022 consisted as follows:

	31 December 2023	31 December 2022
Current accounts	218,187	5,963,929
Time deposits	40,577,929	19,594,548
Accrued interest	110,158	57,900
Due to banks	**40,906,275**	**25,616,377**
Due to BKT Albania	**780,781**	**570,339**
Repo Agreements	32,175,131	52,610,861
Accrued interest	63,695	219,499
Liabilities based on Repo Transactions	**32,238,826**	**52,830,360**
Total	**73,925,882**	**79,017,076**

Kosovo Government Bonds and Securities with a total value of EUR 35,880,000 (31 December 2022: EUR 41,430,000) were used to secure Repo agreements and borrowings from banks. Due to BKT Albania represents vostro accounts.

15. Accruals and other liabilities

	31 December 2023	31 December 2022
Accounts payable	5,400,277	3,381,129
Guarantee deposits received	6,663	6,663
Other liabilities	676,021	491,531
IRS (Interest rate swap) payables	904,169	-
	6,987,130	**3,879,323**

As of 31 December 2023, 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 2023 and 31 December 2022 consisted as follows:

	31 December 2023	31 December 2022
Current maturity of long – term borrowings	2,222,222	4,444,444
Non-current part of long – term borrowings	2,222,222	4,444,444
Borrowings	**4,444,444**	**8,888,889**
Accrued interest	13,107	20,060
	4,457,551	**8,908,949**

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 was 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 was 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.

16.1 Subordinated debt

Subordinated debt consists of the loan issued by European Fund For Southeast Europe & Green for Growth Fund, the following are the balances for year 2023.

	31-Dec-23	31-Dec-22
Subordinated loan	22,000,000	22,000,000
Total	**22,000,000**	**22,000,000**
Accrued interest	81,501	66,271
	22,081,501	**22,66,271**

The subordinated loan bears an annual effective interest rate of 7.85%.

17. Share capital

At 31 December 2023 the authorized share capital is EUR 31,000,000 (2022: 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 2023 and 2022.

	31 December 2023			31 December 2022		
	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 2023 and 2022:

Movements on reserves	**Fair Value Reserves**	**ECL**	**Deferred tax on Fair Value Reserves (10%)**	**Other reserves**	**Total reserves**
Balance at 01 January 2021	(221,918)	746,527	-	(292,002)	232,607
Movements	(12,824,690)	1,397,643	1,304,661	-	(10,122,386)
Balance at 31 December 2022	(13,046,608)	2,144,170	1,304,661	(292,002)	(9,889,779)
Movements	(964,662)	4,791,396	96,466	-	3,923,201
Balance at 31 December 2023	**(14,011,270)**	**6,935,566**	**1,401,127**	**(292,002)**	**(5,966,579)**

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 2023, 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, 2023	**For the year ended as at December 31, 2022**
Loans to customers	38,157,345	29,714,489
Due from BKT Albania (Note 25)	5,154	6,418
Investment securities	11,350,389	9,535,843
Balances with banks	1,641,062	224,808
	51,153,949	**39,481,558**

19. Interest expenses calculated using the effective interest method

	For the year ended as at December 31, 2023	**For the year ended as at December 31, 2022**
Customer deposits	9,110,158	5,763,849
Due to banks	1,051,248	888,248
Interest expenses for borrowings	1,999,488	817,211
Interest expenses for leases (Note 10.1)	121,835	123,842
Other interest expense	1,073,790	312,068
	13,356,519	**7,905,218**

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, 2023	**For the year ended as at December 31, 2022**
Fee and commission income		
Lending activity	448,177	276,424
Payment services to clients	5,132,702	4,413,470
Customer accounts' maintenance	2,951,165	2,354,766
Cash transactions with clients	855,211	828,777
Total	**9,387,254**	**7,873,437**
Fee and commission expense		
Inter-bank transactions	(506,818)	(407,404)
Total	**(506,818)**	**(407,404)**
Fees and commissions, net	**8,880,436**	**7,466,034**

21. Other (expense) / income, net	**For the year ended as at December 31, 2023**	**For the year ended as at December 31, 2022**
Other income		
Gain on sale of repossessed assets[1]	476,887	184,440
Income from collection of written off loans	714,164	351,552
Other income	70,701	6,705
	1,261,752	**542,697**
Other expenses		
Write off of loans to customers, net	**(71,378)**	**(87,638)**
Other (expense) / income, net	**1,190,374**	**455,059**

[1] *Booked value of total repossessed assets sold during 2023 is EUR 427,813.*
Total income from sale of repossesd assets during 2023 is EUR 904,700 .

22. Personnel expenses

Personnel expenses are composed as follows:

	For the year ended as at December 31, 2023	For the year ended as at December 31, 2022
Salaries	6,760,896	5,237,299
Social insurance	311,552	236,693
Other employee benefits	1,210,771	892,247
	8,283,218	**6,366,239**

23. Administrative expenses

Administrative expenses are composed as follows:

	For the year ended as at December 31, 2023	For the year ended as at December 31, 2022
Lease payments (note 10.1)	89,945	102,454
Credit/debit cards expenses	2,972,838	2,558,362
Telephone, electricity and IT expenses	512,305	528,525
Other external services	1,967,707	1,705,203
Repairs and maintenance	579,146	518,522
Security and insurance expenses	419,747	456,077
Taxes other than tax on profits	979,974	784,547
Marketing expenses	504,445	543,561
Office stationery and supplies	79,963	95,527
Sundry	382,149	100,142
Representation expenses	60,615	52,053
Training	77,342	61,023
	8,626,177	**7,505,996**

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 - FVOCI	Investment securities - amortized cost	Loans and advances to banks	Placements in banks	Provision for off balance items	Total
At 01 January 2022	**746,528**	**467,870**	**126,321**	**2,002**	**553,543**	**1,896,264**
Impairment charge/ (release) for the year	1,397,642	3,100,751	380,636	15,084	(154,973)	4,739,141
At 31 December 2022/01 January 2023	**2,144,170**	**3,568,621**	**506,957**	**17,086**	**398,570**	**6,635,404**
Impairment charge/ (release) for the year	4,791,396	(2,008,370)	(114,751)	(9,340)	27,913	2,686,847
At 31 December 2023	**6,935,566**	**1,560,251**	**392,205**	**7,746**	**426,483**	**9,322,252**

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).

Balances and transactions with related parties

	31 December 2023	31 December 2022
Assets		
Placements and balances with banks:		
Aktif Yatirim Bankasi	152,860	246,065
Due from BKT Albania	32,965	42,001
Loans to customers:	-	-
KEDS / KESCO	-	-
Senior management	1,087,211	539,209
CLK LOGISTICS HOLDING NV	549,690	
Other	33,610	158,413
Total Assets	**1,856,337**	**985,687**
Liabilities		
Customer current accounts and deposits:		
KEDS / KESCO	10,493,841	17,737,164
KEDS SHA	87,089	130,317
Aktif Yatirim Bankasi	9,988,614	15,025,401
Senior management	523,928	617,090
Due to BKT Albania	747,817	444,010
REPO BKT Albania	30,677,131	43,169,861
OTHER RELATED	-	-
Other liabilities:	-	-
Aktif Yatirim Bankasi	-	-
Total Liabilities	**52,518,420**	**77,123,842**

	31 December 2023	31 December 2022
Commitments and contingencies		
Guaranties in favour of customers:		
BKT Albania	-	-
KEDS / KESCO	-	-
Senior management	40,540	8,320
Commitments in favour of customers:	-	-
KEDS / KESCO	18,283	16,437
Senior Management	85,747	52,324
Other Related	20,401	11,579

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, 2023	For the year ended as at December 31, 2022
Statement of comprehensive income		
Interest income from:	**33,479**	**19,901**
Aktif Yatirim Bankasi	-	57
KESCO JSC & KEDS SHA	-	-
BKT ALBANIA	5,127	6,418
Other Related	28,352	13,426
Interest expenses for:	**(28,022)**	**(17,075)**
Aktif Yatirim Bankasi	-	-
BKT Albania	(18,101)	(9,535)
KESCO JSC & KEDS SHA	-	-
Other Related	(9,921)	(7,540)
Fees and commissions Income:	**89,459**	**129,019**
KESCO JSC & KEDS SHA	39,612	33,006
Aktif Yatirim Bankas	7,677	34,961
Other Related	42,170	61,052
Net	**94,916**	**131,844**

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, 2023	For the year ended as at December 31, 2022
Directors	722,185	646,562
Executive officers	880,339	720,615
	1,602,524	**1,367,177**

26. Contingencies and commitments

Guarantees and letters of credit	31 December 2023	31 December 2022
Guarantees in favour of customers	27,925,820	16,827,977
Letters of credit issued to customers	-	-
	27,925,820	16,827,977
Provision (note 24)	(313,427)	(292,663)
Guarantees and letters of credit, net	**27,612,393**	**16,535,313**

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

Other	31 December 2023	31 December 2022
Undrawn credit commitments	78,762,117	61,446,455
Collaterals for loan portfolio	1,417,040,456	1,135,420,087

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 9,154,993 (2022: EUR 15,424,085); 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 2023.

Lease commitments

Lease commitments for the years ended 31 December 2023 and 2022 are composed as follows:

	31 December 2023	31 December 2022
Not later than 1 year	43,548	37,976
Later than 1 year and not later than 5 years	990,806	684,059
Later than 5 years	2,988,789	2,838,274
Total	**4,023,143**	**3,560,310**

27. Income tax

Income tax is comprised as follows:

	31 December 2023	31 December 2022
Current income tax expense	2,508,993	1,879,179
Deferred tax income	87,048	(78,994)
	2,596,041	**1,800,185**

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

	For the year ended as at December 31, 2023	For the year ended as at December 31, 2022
Profit before tax	26,215,765	21,465,064
Add/Less: non-deductible expenses	(1,207,999)	(924,319)
Non-allowable tax depreciation	249,946	722,612
CBK Impairment losses not allowed for tax purposes	1,832,218	(120,768)
Taxable profit/ (losses) for the year	**27,089,930**	**21,142,589**
Deductions on Tax Obigation	200,000	235,080
Current tax expense	**2,508,993**	**1,879,179**
Effective tax rate	**9.57%**	**8.75%**

27. Income tax (continued)

	For the year ended as at December 31, 2023	For the year ended as at December 31, 2022
Accumulated taxable profit	**27,089,930**	**21,142,589**
Tax on income	2,508,993	1,879,179
Prepayments of income tax during the year	(1,550,323)	(1,323,906)
Income tax (receivable) / payable	**958,670**	**555,273**

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, since 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, 2023	For the year ended as at December 31, 2022
Assets / (Liability) at 1 January	1,669,588	285,933
Release for the period	9,419	1,383,655
Asset/ (Liability) at the end of the year	**1,679,007**	**1,669,588**

Deferred income tax liabilities are attributable to the following items:

	31 December 2023	31 December 2022
Deferred income on fees on loans	1,024	1,024
Decelerated depreciation	(57,460)	(9,704)
Interest expenses on deposits	17,164	56,456
Allowance for loan impairment	313,884	313,884
Fair value reserve for AFS securities	1,401,127	1,304,661
IFRS 16 Deferred Incom tax	3,268	3,268
	1,679,007	**1,669,589**

Movements in Deferred income tax asset / (Liabilities) are attributable to the following items:

	31 December 2023	31 December 2022
Decelerated depreciation	(47,75)	3,102
Deferred interest expenses	(39,292)	72,625
Fair value reserve for AFS securities	96,466	1,304,661
IFRS 16 Deferred Incom tax	-	3,268
	9,419	**1,383,656**

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-23		31-Dec-22	
Currency	**Units per EUR**	**EUR per Unit**	**Units per EUR**	**EUR per Unit**
USD	1.105000000	0.904977376	1.066600000	0.937558597
GBP	0.869050000	1.150681779	0.886930000	1.127484694
CHF	0.926000000	1.079913607	0.9847000000	1.015537727
ALL	103.8800000	0.009626492	114.23000000	0.008754268

29. Swap Contracts

2023

Name	*Value Date*	*Maturity Date*	*Amount in EUR*	*Currency*
CREDIT EUROPE BANK NV	22/11/2023	24/11/2023	9,902,262	USD
CREDIT EUROPE BANK NV	19/12/2023	20/12/2023	5,115,011	CHF
CREDIT EUROPE BANK NV	20/12/2023	27/12/2023	9,932,127	USD
CREDIT EUROPE BANK NV	27/12/2023	28/12/2023	6,822,588	CHF
CREDIT EUROPE BANK NV	29/12/2023	29/12/2023	7,005,292	CHF
TOTAL			**38,777,280**	

2022

Name	*Value Date*	*Maturity Date*	*Amount in EUR*	*Currency*
AL_Banka Komb,Tregtare	13/07/2022	15/07/2022	9,637,165	USD
AL_Banka Komb,Tregtare	08/08/2022	08/08/2022	(16,613)	ALL
AL_Banka Komb,Tregtare	29/09/2022	03/10/2022	3,695,856	USD
AL_Banka Komb,Tregtare	26/10/2022	07/11/2022	7,642,228	USD
AL_Banka Komb,Tregtare	30/11/2022	05/12/2022	4,987,966	CHF
AL_Banka Komb,Tregtare	23/12/2022	27/12/2022	3,989,874	USD
AL_Banka Komb,Tregtare	28/12/2022	29/12/2022	10,009,241	CHF
TOTAL			**39,945,717**	

The income/expense

The total expense for Swap contracts for 2023 included in “Profit / (loss) from FX trading activities, net” was EUR 737,746(2022: EUR 1,142,665).

30. Subsequent event

There are no significant events, after the reporting date, which require adjustment or disclosure to these financial statements.