Ziraat Bankası

KOSOVO COUNTRY DIRECTORATE
ANNUAL REPORT FOR 2021

Prishtina, 2022

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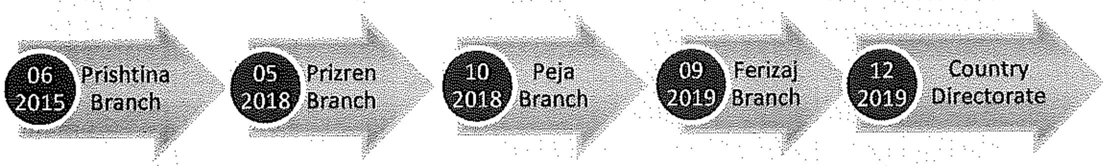
1. SCOPE OF THE REPORT

This annual report has been prepared to address the performance of T.C. Ziraat Bankasi A.S Kosovo – Branch (Bank or Directorate) for the period from 01.01.2021 to 31.12.2021. The data collected for the purpose of this report constitute benchmark criteria for the annual reports to be published by the Directorate in the future. The report is published annually and it is anticipated to be reported on annual basis in the following years as well.

2. KOSOVO COUNTRY DIRECTORATE



T.C. Ziraat Bankası A.Ş. as a leading bank in Türkiye expanded its banking activity in the market of Kosovo by opening its first branch in Prishtina, capital city of Kosovo, on 8th of June 2015. Furthermore, with the establishing of Prizren and Peja Branches in 2018, and later with Ferizaj Branch in 2019, the number of branches in the country was increased to four. The four branches are affiliated to the Kosovo Country Directorate, which was established on 12th December 2019.

Since its establishment, the Bank has aimed to achieve a sustainable impact on its clients and environment through its overall operations. Our approach is proving support to economic development through financing of the clients and projects with high impact on the overall country's economy.

3. VISION – MISSION – STRATEGIES

Our Vision

To be a bank that is universal, respected and has high market value; a bank that provides extensive, reliable service everywhere in Türkiye and the world at the same quality, and meets the needs of every segment; a bank that sees human resources as its most valuable asset; a bank that continuously makes a difference and creates value in a way that befits its deep-rooted past; a bank that promises more from a bank at every stage and serves as a model for its competitors.

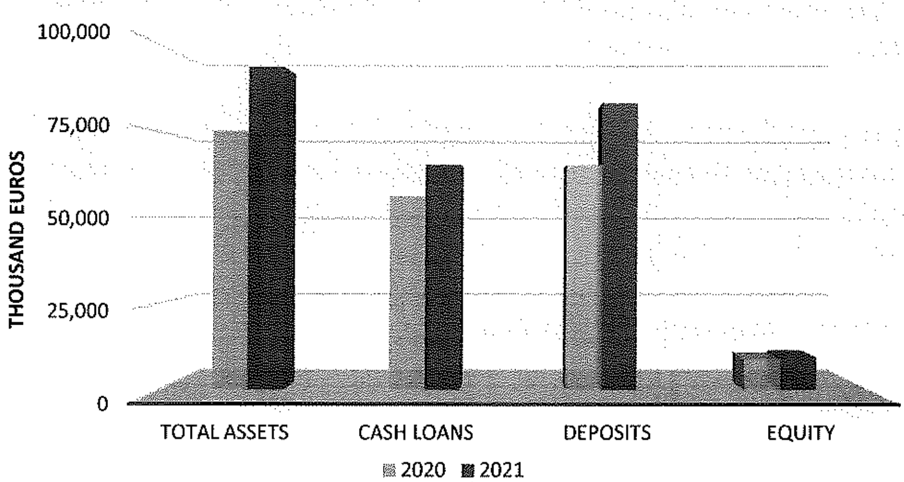
Our Mission

To be a bank that understands customer needs and expectations, thereby offering them the best solutions and value recommendations from the most appropriate channel; a bank that brings to every segment of society a wide range of products and services in the fastest, most effective way through its extensive network of branches and alternative distribution channels; a bank that operates with profitability and productivity at global standards by recognizes its ethical values and social responsibility; a bank that holds customer satisfaction to be more important than anything else.

Our Strategies

- Selective credit policy and effective use of resources,
- Providing digital solutions to customers,
- Continuously increasing employee experience and organizational efficiency by constantly improving the way of doing business and investing in the professional development of its employees,
- Maximizing customer satisfaction by producing integrated financial solutions in all countries where Ziraat Finance Group operates,
- Taking part in Kosovo's international trade with Türkiye and the world,
- Providing services to customers at any time and on every platform, within the framework of the service models of the future,
- Integrating environmental and social risk governance principles into the business model.

4. MAIN INDICATORS



(EUR)	2020	2021	%
Cash and Cash Equivalents	851,147	672,884	-20.94%
Securities	6,857,819	7,003,986	2,13%
Cash Loans	56,491,092	65,514,143	15,97%
Customer Deposits	58,483,452	69,870,193	19.47%
Other Deposits	7,012,379	13,579,108	93.64%
Equity	8,931,868	9,496,642	6.32%
Interest Incomes	3,371,066	4,230,898	25.51%
Interest Expenses	1,080,456	1,289,215	19.32%
Net Profit	992,934	564,774	-56.88%
Total Assets	75,446,294	93,851,082	24.39%

5. LETTER OF COUNTRY DIRECTOR

Last year was the year of recovery for the economy of Kosovo and considered to be a successful year for Kosovo banking sector. Regardless of the impact of the pandemic during the year 2021, Kosovo had a real GDP growth of 10.5%, which is considered a very significant economic growth. The positive developments of the economic activities reflected on gradually easing pandemic measures, governmental supportive policies, as well as the record inflow of diaspora remittances in amount of € 1.14 billion.

These positive developments in the overall economy, also reflected in our bank to have stable financial performance and our customers being satisfied with the bank supporting them. We have closely monitored our customers and identify the most appropriate financing solutions for clients, to enable them to recover from the negative impacts caused by the pandemics.

Acting upon this approach, our bank increased its loans to customers for 16% to € 65,514,143 comparing to the year 2020 with € 56,491,092 which was important to help our customers overcome their financial problems due to pandemic conditions. Our customers' deposits also increased %19.47 reaching € 69,870,193 comparing to the year 2020 with € 58,483,452.

We have also introduced a digital offer to our customers for e-banking and their possibility to open accounts online, which was further promoting our support to them. We have been also focused on our employees' health and well-being by creating conditions to work from home.

Therefore, on behalf of the Directorate, I would like to thank all our employees for their commitment and dedication which has enabled to close the financial year 2021 in a positive trend.

6. SUSTAINABILITY APPROACH

As a financial service provider, Ziraat Bank is determined to establish and maintain sustainable and proactive approach towards environmental protection and social equality.

- As a strong, leading and trusted bank, we are committed to our sustainability strategy and increase our positive impact in addressing long-term environmental and social challenges.
- Environmental and social issues and their potential risks are handled with a careful and meticulous approach in decision-making processes, management of resources and service infrastructure. Environmental and social sustainability is recognized as an important agenda item, including climate change and the transition to a low carbon economy.
- As an employer, the Bank believes in the importance of human-oriented working conditions. In the business model, importance is given to creating a learning organizational structure by providing equal opportunities and self-development opportunities to all employees. Increase of employee motivation and corporate loyalty through continuous improvement of human resources practices is one of the bank's key objective.
- The bank's goal is to maintain high levels of customer satisfaction and loyalty by continuously improving its processes and offer banking products and services to all its customers in practical, understandable and accessible formats.

7. MACRO ECONOMIC INDICATORS

The Kosovo's economy marked a significant recovery during 2021, following the severe effects of pandemic that characterized 2020. Kosovo's economy increased by 10.5% in 2021 but this increase is expected to slow down in 2022 mainly due to lower growth of domestic demand and increases in the net export deficit. Global inflationary pressures continue to interrupt the recovery. While the inflation rate for consumer prices in 2020 was 0.2%, in 2021 it was realised as 6.7%.

In 2021, Kosovo imported goods in value of 4,684,198.000 EUR while exported goods in value of 755,726,000 EUR. Although the trade balance shortfall increased to -3,928,472,000 EUR, the percentage of coverage is improved from 14.4% to 16.10%.

8. HUMAN RESOURCES

Directorate and Branches consist of 31 employees, out of which 16 work in the branches while 15 work in the Directorate. Bank personnel consists of local people with very good knowledge of English and Turkish language. On a gender basis, 17 are males and 14 are females. Based on age, 1 personnel is under 30 years old, 19 personnels are between 30 and 40 years old and 11 personnels are between 40 and 50 years old.

9. INTERNAL AUDIT

The Board of Directors of the Bank has established the internal audit function as the third line of defense of the internal control system, which is overseen by the Audit Committee of the Bank. Internal audit function provides an independent assessment of the adequacy of, and compliance with the institution policies and procedures as well as with regulatory regulations. As an independent function, internal audit reports to Audit Committee of the Bank through the related department in Head Office in Türkiye. During 2021, based on the approved audit plan, internal audit function has issued 9 audit reports of different processes which are presented to Board of Directors through the Audit Committee of the Bank.

10. COMPLIANCE

Establishing an effective compliance function and compliance program has become a necessity to protect any highly regulated organization. Our Bank is committed to preserve its integration and reputation by ensuring good understanding of strict compliance with applicable laws and regulations both local and at group level.

At its core, an effective compliance program protects an organization by detecting and preventing improper conduct and promoting adherence to the organization's legal and ethical obligations.

Compliance function in the Bank is an independent function reporting to Audit Committee of the Bank through the related department in Head Office in Türkiye. Compliance function is responsible to ensure that compliance framework in the bank is designed properly to ensure compliance risk identification and mitigation, assessment, monitoring and reporting. This function is responsible to advise and assist executive management with respect to any compliance risk, inform them on regulatory developments, implementation and the impact on banking industry. Consequently, it provides recommendation on how to improve compliance with regulatory requirements and avoid compliance risks to which the Bank may be exposed.

11. AML

Combatting financial crimes and complying with applicable national and international laws and regulations is vital to ensuring the stability of the Bank. A robust and effective internal control environment and adequate infrastructure (comprising people, policies and procedures, controls, testing, and IT systems) necessary to ensure that we conduct our business in compliance with the laws, regulations and associated supervisory expectations.

Our anti-money laundering (AML) and know-your customer (KYC) processes and controls aim at preventing misuse of our products and services to commit financial crime. The Bank continually seeks to enhance the efficacy of our internal control environment and improve our infrastructure. During 2021, AML Department has revised the rules that define customers' risk scoring and internal controls integrated within AML Module which provides a comprehensive examination and correct identification of suspicious activities, therefore enabling the bank to monitor and identify potential money laundering and terrorist financing cases in on-going basis. Among other things, the Bank is focused on reviewing clients' information in order to have accurate information about their profiles which enables the Bank to understand its clients and their financial dealings, to serve them better and manage its risks prudently.

12. RISK MANAGEMENT

Risk Management Department of the Directorate ensures that an adequate and effective risk management system is in place in order to identify, quantify, review, evaluate and measure risk in accordance with regulatory compliance and audit requirements, approved risk tolerance, risk appetite and strategic plans approved by the Bank.

Starting from January 2020, the Bank has implemented the IFRS 9 model for calculating ECL (expected credit loss).

In line with the Bank's objective to increase the credit portfolio, the Bank predicted an increase in provisions in proportion to the growth of the portfolio, whereas more conservative provisions are predicted for some sectors.

Based on actual progress, we see that the year 2021 will be closed by calculating provisions by about 2% of the total credit portfolio (loans and guarantees, banks and securities), while according to our forecasts, with the growth of the portfolio and the trend of delays until the end of 2022, we predict that the percentage of the provision in total credit portfolio will be around 2.7%.

13. FINANCIAL STATEMENTS AT 31 DECEMBER 2021 AND INDEPENDENT AUDITOR'S REPORT

TURKIYE CUMHURIYETI ZIRAAT BANKASI A.S. – KOSOVO BRANCH

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of Turkiye Cumhuriyeti Ziraat Bankasi A.S. – Kosovo Branch

Opinion

We have audited the financial statements of Turkiye Cumhuriyeti Ziraat Bankasi A.S. – Kosovo Branch ("the Bank"), which comprise the statement of financial position as at 31 December 2021, and 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 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other matter

Financial statements of the Bank for the year ended 31 December 2020 have been audited by another auditor who issued an unmodified opinion on 30 April 2021.

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

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

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

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

RSM

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

RSM Kosovo Sh.p.k.

RSM Kosovo Sh.p.k.
Prishtina, Republic of Kosovo
4 April 2022

Astrit Kelmendi
Engagement Partner

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2021

In EUR

	Note	For the year ended December 31, 2021	For the year ended December 31, 2020
Interest income	21	4,230,898	3,371,066
Interest expenses	21	(1,289,215)	(1,080,456)
Net interest income		**2,941,683**	**2,290,610**
Net impairment (loss) on loans and advances to customers	10	(854,175)	(38,848)
Net interest income after allowance for impairment loss on loans and advances to customers		**2,087,508**	**2,251,762**
Fee and commission income	22	522,161	608,827
Fee and commission expenses	22	(166,528)	(145,140)
Gains less losses from trading and foreign exchange translation		12,540	12,604
Other operating income	23	3,397	68,368
Administrative and other operating expenses	24	(1,786,931)	(1,681,987)
Profit before tax		**672,147**	**1,114,434**
Income tax expense	25	(107,373)	(124,113)
Profit for the year		**564,774**	**990,321**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Investment securities measured at FVOCI		-	2,613
Total comprehensive income for the year		**564,774**	**992,934**

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 58.

	Note	As at December 31, 2021	As at December 31, 2020
Assets			
Cash on hand and at banks	8	12,051,084	1,873,383
Balances with the Central Bank of Kosova	9	7,065,869	8,097,791
Loans to customers	10	65,514,143	56,491,092
Investments in securities	11	7,003,986	6,857,819
Property and equipment	12	966,992	627,682
Intangible assets	13	205,572	278,288
Prepayment of Income tax		27,707	-
Deferred tax asset	25	-	38,495
Other assets	15	252,113	283,608
Right of use asset	14	763,616	898,136
Total assets		**93,851,082**	**75,446,294**
Liabilities			
Due to customers	16	69,870,193	58,483,452
Due to banks and borrowers	17	4,034,370	2,459,655
Due to related parties banks	18	9,544,738	4,552,724
Other liabilities	19	118,283	112,405
Lease liabilities	14	786,856	906,191
Total liabilities		**84,354,440**	**66,514,427**
Equity			
Share capital	20	10,000,000	10,000,000
Accumulated losses		(511,617)	(1,076,391)
Revaluation reserve for investment securities measured at FVOCI		8,259	8,259
Total equity and		**9,496,642**	**8,931,868**
Total liabilities and equity		**93,851,082**	**75,446,294**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 58.

These financial statements have been approved by the Management Board on 1 April 2022 and signed on their behalf by:

Meriton Sunduri
Country Manager

Agnesa Vezgishi
Finance Coordination Manager

TURKIYE CUMHURIYETI ZIRAAT BANKASI A.S. – KOSOVO BRANCH
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2021

In EUR

	Share capital	Accumulated loss	Revaluation reserve	Total
As at January 1, 2020	10,000,000	(2,066,712)	5,646	**7,938,933**
Profit for the year	-	990,321	-	**990,321**
Other comprehensive income	-	-	2,613	**2,613**
Total comprehensive income	-	**990,321**	**2,613**	**992,934**
Balance as at December 31, 2020	**10,000,000**	**(1,076,391)**	**8,259**	**8,931,868**
Balance as at January 1, 2021	**10,000,000**	**(1,076,391)**	**8,259**	**8,931,868**
Profit for the year	-	564,774	-	564,774
Other comprehensive income	-	-	-	-
Total comprehensive income	-	**564,774**	-	**564,774**
Balance as at December 31, 2021	**10,000,000**	**(511,617)**	**8,259**	**9,496,642**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 58.

TURKIYE CUMHURIYETI ZIRAAT BANKASI A.S. – KOSOVO BRANCH
STATEMENT OF CASH FLOWS
For the year ended December 31, 2021
In EUR

	Note	For the year ended December 31, 2021	For the year ended December 31, 2020
Operating activities			
Profit before taxation		**672,147**	**1,114,434**
Adjustment for:			
Amortization and depreciation	12,13&14	482,195	482,487
Net impairment loss on loans to customers	10	854,175	38,848
Expected credit loss of other financial assets	24	9,725	-
Interest income	21	(4,230,898)	(3,371,066)
Interest expense	21	1,289,215	1,080,456
Loss before changes in operating assets and liabilities		**(923,441)**	**(654,841)**
Changes in operating assets and liabilities			
Statutory reserves – DEK	8	139,790	269,596
Statutory reserves – 10%	8	144,540	(5,187,001)
Loans to customers	10	(9,930,726)	(12,331,787)
Other assets	15	31,495	(244,330)
Due to customers	16	11,211,131	14,578,870
Due to banks	17&18	6,496,254	(4,801,973)
Other liabilities	19	(3,694)	675,950
		7,165,349	**(7,695,516)**
Income tax paid		(96,585)	-
Interest received		4,282,465	3,206,183
Interest paid		(1,000,531)	(942,542)
Net cash (used in)/ generated from operating activities		**10,350,698**	**(5,431,875)**
Investment activities			
Purchase of property and equipment and intangible assets	12,13,14	(614,268)	(949,189)
Net redemptions / (purchase) of securities	11	(144,387)	(268,694)
Net cash (used in) investing activities		**(758,655)**	**(1,217,883)**
Financing activities			
Repayment of lease liabilities	14	(161,934)	-
Net cash generated from financing activities		**(161,934)**	-
Net (decrease) / increase in cash and cash equivalents		9,430,109	(6,649,758)
Cash and cash equivalents, beginning of the year		4,644,383	11,294,141
Cash and cash equivalents, end of the year	8	**14,074,492**	**4,644,383**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 58.

1. Introduction

Turkiye Cumhuriyeti Ziraat Bankasi A.S. – Kosovo Branch ("the Bank") is a foreign branch of Turkiye cumhuriyeti ziraat bankasi a.s which operates in the Republic of Kosovo. The address of its registered Head Office is Ukshin Hoti Street, No-13,10000 Prishtina, Republic of Kosovo.

In accordance with the Central Bank of Kosovo ("CBK") regulations, the Bank obtained a license for banking activities on June 2, 2015 and commenced operations on June 7, 2015. The Bank operates as a commercial and savings bank for all categories of customers within Kosovo, through its network of 4 main branches in Prishtina, Prizren, Peja and Ferizaj. The Bank employs 31 employees as at 31 December 2021 (29 employees as at 31 December 2020).

2. Basis of preparation

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Use of judgements and estimates. In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's 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 estimates are recognised prospectively. 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 notes 4, 5 and 6.

Functional and presentation currency. These financial statements are presented in EUR, which is the Bank's functional currency, currency of the primary economic environment in which the entity operates. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

Going concern. Management continues to have a reasonable expectation that the bank has adequate resources to continue in operation for at least the next 12 months and that the going concern basis of accounting remains appropriate. The outbreak of the COVID-19 pandemic and the measures adopted by the government in Kosova to mitigate its spread have not significantly impacted the Bank. Although the Bank has accumulated losses of EUR 511,617 as at December 31, 2021, it has closed the year with a profit of EUR 564,774 and has a total positive equity of EUR 9,496,642.
However, there is still uncertainty over how the future development of the outbreak will affect the Bank's business and customer demand for its products. As at the date of authorization of the financial statements, the Bank has sufficient liquidity and going concern basis is appropriate.

The bank has reasonable expectations that it can continue to fund itself and maintain required capital ratios.

3. Significant accounting policies

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

a) Interest

Effective interest rate
Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

3. Significant accounting policies (continued)

a) Interest (continued)

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest..

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a nominal basis, even if the credit risk of the asset improves.

b) Fees and commissions

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Other fee and commission income and expenses consist of fees and commissions from (for): credit cards, account service fees, international payments, domestic payments, Central Bank fees, SMS banking, guarantees and letters of credit and other fees and commissions. Other fee and commissions 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.

3. Significant accounting policies (continued)

c) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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 the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Foreign currency differences arising on translation are generally recognised in profit or loss.

d) Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period.

The income tax charge comprises current tax and deferred income tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

(i) Current tax

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

(ii) Deferred tax

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

(iii) Uncertain tax positions

The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

3. Significant accounting policies (continued)

e) Financial instruments (continued)

(i) Recognition and initial measurement
The Bank initially recognizes d and advances, deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL.
In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise

Business model assessment
The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3. Significant accounting policies (continued)

e) Financial instruments (continued)

(ii) Classification (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Contractually linked instruments

The Bank has some investments in securitizations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;

3. Significant accounting policies (continued)

e) Financial instruments (continued)

Contractually linked instruments (continued)

- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

(iii) Derecognition

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (iv)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) -

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-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 sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, 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 if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if 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 instruments (continued)

(iii) Derecognition (continued)

Financial liabilities
The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities
The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3. Significant accounting policies (continued)

e) Financial instruments (continued)

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them 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 under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Significant accounting policies (continued)

e) Financial instruments (continued)

(vii) Impairment
The Bank recognizes loss allowances for ECL on the following credit exposures that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition and which are not POCIs

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive) and with different PDs for 12 month and for lifetime expected credit losses;
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

3. Significant accounting policies (continued)

e) Financial instruments (continued)

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in derecognition of the existing asset, then the fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3. Significant accounting policies (continued)

e) Financial instruments (continued)

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortized cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI:* no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'.

3. Significant accounting policies (continued)

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 with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost.

g) Loans and advances

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortized cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL (see J(ii)); these are measured at fair value with changes recognized immediately in profit or loss; and
- finance lease receivables

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 or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Bank's financial statements.

h) Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt securities measured at FVOCI

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

i) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items of property and equipment.

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

The carrying values of property and equipment are reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property and equipment is the greater of fair value less costs to sell and value in use. In assessing the 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 assets.

3. Significant accounting policies (continued)

i) Property and equipment (continued)

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in profit or loss.

Land and assets under construction are not depreciated. Depreciation of assets is charged on a straight-line basis at prescribed rates to allocate the cost of property and equipment over their estimated useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as presented below

	Useful life 2021	Useful life 2020
Buildings	-	-
Leasehold Improvement	Shorter of lease term or useful life	Shorter of lease term or useful life
Computers and related equipment	5 years	5 years
Motor vehicles	5 years	5 years
Furniture, fixtures and equipment	5 years	5 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other income or other operating expenses (as appropriate) in profit or loss.

j) Intangible assets

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

k) Leases

The Bank has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 January 2020

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

3. Significant accounting policies (continued)

k) Leases (continued)

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. Significant accounting policies (continued)

k) Due from other banks

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

l) Deposits and Due to related parties' banks

Deposits and due to related parties' banks are the Bank's main sources of debt 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 (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits and due to related parties banks are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

n) Employee benefits

The Bank pays only contributions to the publicly administered pension plan on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. The Bank calculated and provided provision for staff leave untaken by the end of the reporting period.

o) Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

3. Significant accounting policies (continued)

p) Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

Share premium represents the excess of contribution received over the nominal value of shares issued.

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the reporting date are disclosed as events after the end of the reporting period.

n. Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation for the current year for cash flow purposes.

4. Adoption of new and revised International Financial Reporting Standards

a) Adoption of new and revised standards
i) Standards and Interpretations effective in the current period

The Bank has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period. The adoption of these standards and interpretation had no significant impact in Banks financial statements.

The following new standards and amendments became effective as at 1 January 2021:
- COVID-19-related rent concessions beyond 30 June 2021 (Amendments to IFRS 16)
- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

ii) Standards and interpretations in issue not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

- IFRS 17 "Insurance Contracts" including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9,
- IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Deferred Tax related to Assets and Liabilities from a Single Transaction

The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

5. Critical accounting judgments and key sources of estimation uncertainty

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the subsequent years is set out below:

(i) Impairment charge for credit losses

The Bank reviews its loan portfolios to assess impairment on a monthly basis on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Based on management's assessment, the COVID 19 pandemic has not significantly impacted the carrying amount of the bank's loans and advances as at December 31, 2021 and the Loan loss provision recorded as at December 31, 2021 is appropriate.

6. Financial risk management

The Bank's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out primarily by the Risk Monitoring Function and Credit Risk Department that work under the risk management policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as, credit risk, foreign exchange risk, interest rate risk and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is pervasive to the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring placements and debt securities into the Bank's asset portfolio.

There is also credit risk in off-balance sheet financial instruments, such as letters of credit, guarantees and credit commitments. The credit risk management and control for loans and advances are centralized in the credit risk management department, while the interbank risk for placements and debt securities are concentrated in the Treasury Unit and Risk Monitoring Function. All departments responsible for credit risk management and control, report to the Management Board and to the Board of Directors, regularly.

(i) Analysis of credit quality

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Bank against those assets.

The table represents a worst case scenario of credit risk exposure of the Bank at December 31, 2021 and 2020, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

(All amounts expressed in EUR, unless otherwise stated)

6. Financial risk management (continued)

(a) Credit risk (continued)

i) Analysis of credit quality (continued)

	Loans to customers		Investments in securities		Balances with banks and with CBK	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Maximum exposure to credit risk						
Carrying amount	65,514,143	56,491,092	7,003,986	6,864,982	18,444,070	9,133,708
Amount committed/guaranteed	3,616,795	2,618,322	-	-	-	-
	69,130,938	**59,109,414**	**7,003,986**	**6,864,982**	**18,444,070**	**9,133,708**
At amortized cost						
Stage 1	63,054,498	53,028,106	7,011,300	6,864,982	18,471,745	9,133,708
Stage 2	3,408,287	3,773,996	-	-	-	-
Stage 3	416,482	199,939	-	-	-	-
Total	**66,879,267**	**57,002,041**	**7,011,300**	**6,864,982**	**18,471,745**	**9,133,708**
Allowance for impairment (individual and collective)	1,365,124	510,949	7,315	7,162	27,675	13,681
Net carrying amount	**65,514,143**	**56,491,092**	**7,003,986**	**6,857,820**	**18,444,070**	**9,120,027**
Off balance: maximum exposure						
Financial guarantees: Stage 1	3,616,795	2,618,322	-	-	-	-
Total committed/guaranteed	**3,616,795**	**2,618,322**	-	-	-	-
Provisions recognized as liabilities	18,048	8,476	-	-	-	-
Total exposure	**3,598,747**	**2,609,846**	-	-	-	-

6. Financial risk management (continued)

(a) Credit risk (continued)

i) Analysis of credit quality (continued)

Cash and balances with banks

Cash and current account with banks are neither past due nor impaired and are not collateralised. The credit quality of cash and balances with central banks is provided below. Kosovo Central Bank and Kosovo Government are not provided with a rating by recognised rating agencies.

At December 31

	2021	2020
AA+ to AA-	-	-
A+ to A-	-	-
BB+ to B-	11,135,702	729,050
BBB+ to B-	-	-
Not Rated	-	-
Local Banks	7,336,043	8,404,658
	18,471,745	**9,133,708**

(All amounts expressed in EUR, unless otherwise stated)

6. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Loans and advances to customers

	2021			2020		
Loans and advances to customers	**Individuals**	**Corporate**	**Total Loans**	**Individuals**	**Corporate**	**Total Loans**
Total gross amount	2,292,905	64,586,362	**66,879,267**	1,495,935	55,506,106	**57,002,041**
Allowance for impairment (individual and collective)	(79,915)	(1,285,209)	**(1,365,124)**	(78,102)	(432,847)	**(510,949)**
Net carrying amount	**2,212,990**	**63,301,153**	65,514,143	**1,417,833**	**55,073,259**	56,491,092
At amortized cost						
Stage 1	2,214,004	60,840,494	**63,054,498**	1,431,090	51,597,016	**53,028,106**
Stage 2	13,823	3,394,464	**3,408,287**	10,146	3,763,850	**3,773,996**
Stage 3	65,078	351,404	**416,482**	54,699	145,240	**199,939**
Total Gross	**2,292,905**	**64,586,362**	66,879,267	**1,495,935**	**55,506,106**	57,002,041
Less: allowance for individually impaired loans	-	-	-	-	-	-
Less: allowance for collectively impaired loans	(79,915)	(1,285,209)	**(1,365,124)**	(78,102)	(432,847)	**(510,949)**
Total Allowance for impairment	**(79,915)**	**(1,285,209)**	(1,365,124)	**(78,102)**	**(432,847)**	**(510,949)**
Loans with renegotiated terms						
Carrying amount	-	-	-	-	-	-
Allowance for impairment	-	-	-	-	-	-
Net carrying amount	**2,212,990**	**63,301,153**	65,514,143	**1,417,833**	**55,073,259**	56,491,092

6. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Impairment and provisioning

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances demand it. Impairment allowances on individually assessed exposures are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant exposures. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account. The collective assessment of the impairment of a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar credit risk characteristics. The quantitative default rates calculated in this manner were subjected to a qualitative analysis (migration analysis).

The bank uses expected loss impairment model which requires recognition of expected credit losses in a timely manner to ensure that the amount of expected credit losses recognised at each reporting date reflects the changes in the credit risk of the financial instruments. The model is forward-looking and it replaces the incurred loss model for recognition of credit losses, by recognising credit losses not necessarily triggered by a potential loss event.

Specifically, the model addresses the IFRS 9 requirements on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current and forecasted information.

This model outlines three stages based on changes in the exposure's credit risk since the date of initial recognition.

Stage 1 includes exposures that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date, including those that transfer back from Stage II due to decrease in credit risk. For these exposures, one-year expected credit losses are recognised in the profit or loss and a loss allowance is established. One-year expected losses refer to the expected credit losses that result from default events possible within 12 months after the reporting date.

Stage 2 includes exposures that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date). For these assets, lifetime expected losses are recognised. Lifetime expected losses are the expected credit losses that result from all possible default events over the expected life - maturity of a loan.

Stage 3 includes exposures that have objective evidence of impairment at the reporting date. For these assets, lifetime expected losses are recognised and interest revenue is calculated on the amortized cost.

Write-off policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when it is determined that the loans/securities are uncollectible. This determination is reached 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. The smaller the outstanding amount, the higher the number of days in arrears and the greater the uncertainties surrounding recoveries (such as an unpredictable legal environment) are, the smaller will be the chances of recovery by the Bank.

6. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Lending commitments and financial guarantees

The maximum exposure from financial guarantees represents the maximum amount that the Bank would pay if the guarantee is called on, which may be significantly greater than the amount recognized as a liability. The maximum credit exposure for lending commitments is the full amount of the commitment (see Note 26).

(ii) ***Risk limit control and mitigation policies***

The Bank manages limits and controls the concentrations of credit risk wherever they are identified in particular to individual counterparties and groups, and to affiliates.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, if necessary. Limits on the level of credit risk by product, region and industry sector are approved by the Board of Directors.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other controls and mitigation measures are outlined below.

Collateral held and other credit enhancements, and their financial effect

The Bank employs a range of policies and practices to mitigate credit risk, the most common of which is the security for fund advances. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, equipment and inventory; and
- Charges over cash and cash equivalents (cash collateral).

Loans to corporate entities and individuals are generally secured; private individual overdrafts and credit cards issued to individuals are mainly unsecured.

In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noted for the relevant individual loans and advances.

The financial effect of collateral is presented by disclosing collateral values separately for:

- those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets"); and
- those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

(All amounts expressed in EUR, unless otherwise stated)

6. Financial risk management (continued)
(a) Credit risk (continued)
(ii) Risk limit control and mitigation policies (continued)

Collateral held and other credit enhancements, and their financial effect (continued)

	2021		2020	
	Loans and advances to customers	**FV of collateral**	**Loans and advances to customers**	**FV of collateral**
Mortgages	23,141,576	144,067,153	39,765,739	137,692,595
Cash collateral	705,052	1,572,101	2,458,254	921,508
Pledge	23,097,846	96,628,709	8,963,130	34,249,845
Mixed (mortgages and pledge)	11,517,717	118,452,345	5,303,969	147,044,549
Not collateralised	7,051,952	-	-	-
Total	**65,514,143**	**360,720,308**	**56,491,092**	**319,908,497**

The fair value of the collateral is evaluated by the Bank on an individual basis. The assessed values are generally determined with reference to the market. Expected income from collateral liquidation is also taken into account in calculation of individual impairment provisioning.

(iii) Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

Geographical sectors

The following table breaks down the Bank's main credit exposure at their gross amount, as categorised by geographical region as at December 31, 2021 and 2020. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

(All amounts expressed in EUR, unless otherwise stated)

6. Financial risk management (continued)

(a) Credit risk (continued)

(iii) Concentration of credit risk (continued)

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

	Loans to customers		Investments in securities		Balances with banks and CBK	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Concentration by sector						
Government	-	-	7,003,986	6,857,819	-	-
Banks	-	-	-	-	18,444,070	9,120,027
Agriculture	485,350	547,205	-	-	-	-
Construction	7,478,519	5,471,038	-	-	-	-
Education and social work	761,312	646,784	-	-	-	-
Electricity and related	10,256,881	12,098,861	-	-	-	-
Individuals	2,212,990	1,417,833	-	-	-	-
Manufacturing	14,086,560	8,951,818	-	-	-	-
Services	7,302,257	6,969,572	-	-	-	-
Trading	22,930,274	20,387,981	-	-	-	-
Total	**65,514,143**	**56,491,092**	**7,003,986**	**6,857,819**	**18,444,070**	**9,120,027**
Concentration by location						
Republic of Turkey	-	-	-	-	11,070,042	470,570
EU countries	-	-	-	-	48,958	257,367
Republic of Kosovo	65,514,143	56,491,092	7,003,986	6,857,819	7,325,070	8,392,090
Total	**65,514,143**	**56,491,092**	**7,003,986**	**6,857,819**	**18,444,070**	**9,120,027**

During year ended 31 December 2021 there was no issuance of "CBK Guideline on loan restructuring due to COVID 19" the guidelines issued during 2020 ended on 30 September 2020.

31 December 2020

In accordance with "CBK Guideline on loan restructuring due to COVID 19" issued on 16th of March 2020 the Bank deferred loan instalment payments for up to 3 months for all customers who made a request (COVID 19-first phase). As of 31 December 2020, the outstanding balances of loans which were deferred in first phase (for 3 months) amount to EUR 6,443,657.

In addition, CBK issued a Guideline on loan restructuring due to COVID 19 on 8th of June 2020, based on which the Organization restructured the loans for all customers who made a request allowing maturity extension up to 12 months (COVID 19 – second phase). As of 31 December 2020, the outstanding balances of loans which were restructured in the second phase (for up to 12 months) amount to EUR 8,961,106.

(b) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(All amounts expressed in EUR, unless otherwise stated)

6. Financial risk management (continued)

(b) Market risk (continued)

(i) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank does not aim to profit from speculative transactions. The Bank tries to keep its open foreign currency position close to zero at all times. Open currency position limits and risk taking capacity for the Bank are set by their respective policies, which are approved by the Board of Directors, and reviewed by the Risk Monitoring Function. In addition regulatory limits are at all times adhered to by the Bank.

Treasury unit assesses foreign exchange rate developments with reference to all material currency positions. Major changes in the structure of assets and liabilities denominated in foreign currency and their impact are reviewed before trades are executed by the bank's treasury front office department.

Treasury unit also observes the financial market and informs the Risk Monitoring Function regularly and in case of significant developments that may influence the currency risk situation of the bank.

Even though the bank aims to keep its currency position as close as possible to zero, there may be occasions where the bank is still affected by unpredicted volatility of exchange rates. Therefore, the Risk Monitoring Function performs stress tests and reports the effects in P&L of the bank on monthly basis.

Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies were as follows (in EUR):

Currency	2021 EUR	2020 EUR
1 USD	0.88	0.81
1 CHF	0.97	0.93
1 GBP	1.19	1.11
1 TRY	0.07	0.11

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of December 31, 2021 and 2020 as translated into EUR.

(All amounts expressed in EUR, unless otherwise stated)

6. Financial risk management (continued)

(b) Market risk (continued)

(i) Foreign currency risk (continued)

December 31, 2021	**EUR**	**USD**	**CHF**	**GBP**	**TRY**	**Total**
Cash on hand and at banks	11,821,432	169,858	55,428	4,364	2	12,051,084
Balances with CBK	7,065,869	-	-	-	-	7,065,869
Loans to customers	65,514,143	-	-	-	-	65,514,143
Investments in securities	7,003,986	-	-	-	-	7,003,986
Other assets	252,113	-	-	-	-	252,113
	91,657,543	**169,858**	**55,428**	**4,364**	**2**	**91,887,195**
Liabilities						
Due to customers	69,652,163	214,557	3,473	-	-	69,870,193
Due to banks	4,034,370	-	-	-	-	4,034,370
Due to related parties' banks	9,544,738	-	-	-	-	9,544,738
Other liabilities	118,283	-	-	-	-	118,283
Lease liabilities	786,856	-	-	-	-	786,856
	84,136,410	**214,557**	**3,473**	**-**	**-**	**84,354,440**
Net foreign currency position	**7,521,133**	**(44,699)**	**51,955**	**4,364**	**2**	**7,532,755**

December 31, 2020	**EUR**	**USD**	**CHF**	**GBP**	**TRY**	**Total**
Cash on hand and at banks	1,774,587	41,624	52,930	4,079	163	1,873,383
Balances with CBK	8,097,791	-	-	-	-	8,097,791
Loans to customers	56,491,092	-	-	-	-	56,491,092
Investments in securities	6,857,819	-	-	-	-	6,857,819
Other assets	283,608	-	-	-	-	283,608
	73,504,897	**41,624**	**52,930**	**4,079**	**163**	**73,603,693**
Liabilities						
Due to customers	58,416,632	63,477	3,343	-	-	58,483,452
Due to banks	2,459,655	-	-	-	-	2,459,655
Due to related parties banks	4,552,724	-	-	-	-	4,552,724
Other liabilities	112,405	-	-	-c	-	112,405
	65,541,416	**63,477**	**3,343**	**-**	**-**	**65,608,236**
Net foreign currency position	**7,963,481**	**(21,853)**	**49,587**	**4,079**	**163**	**7,995,457**

The table below summarises the sensitivity analysis for foreign currency risk and the effect on the profit or loss and net equity of the Bank net of tax:

			Effect on profit or loss and net equity	
	Increase 2021	**Increase 2020**	**December 31, 2021**	**December 31, 2020**
USD	10%	10%	(4,470)	2
Other	10%	10%	5,632	42

6. Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations of market interest rates on its financial position and cash flows. The Bank does not aim to earn profits through excessive maturity transformation, or other forms of speculations in the interest rate market. Instead, the Bank seeks to ensure that the structure of assets and liabilities is balanced across all maturities.

The following table provides an analysis of the Bank's interest rate risk exposure on non–trading financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual repricing or maturity dates.

(All amounts expressed in EUR, unless otherwise stated)

6. Financial risk management (continued)
(b) Market risk (continued)

(ii) Interest rate risk (continued)

The tables below summarize the Bank's exposure to interest rate risks. Included in the tables are the Bank's monetary assets and liabilities with both fixed and non-fixed interest rates.

December 31, 2021	1 - 30 days	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash on hand and at banks	-	-	-	-	-	-	12,051,084	**12,051,084**
Balances with CBK	7,065,869	-	-	-	-	-	-	**7,065,869**
Loans to customers - fixed rate	247,531	64,335	219,028	21,469,886	26,487,445	17,025,918	-	**65,514,143**
Investments in securities - fixed rate	-	251,429	1,140,865	249,931	5,361,761	-	-	**7,003,986**
Other assets	-	-	-	-	-	-	252,113	**252,113**
Total	**7,313,400**	**315,764**	**1,359,893**	**21,719,817**	**31,849,206**	**17,025,918**	**12,303,197**	**91,887,195**
Liabilities								
Due to Customers – fixed rate	1,000,358		158,051	24,446,849	24,011,333	125,331	20,128,271	**69,870,193**
Due to Banks	-	-	-	3,731,811	302,559	-	-	**4,034,370**
Due to related parties banks – fixed rate	4,509,738	-	-	5,035,000	-	-	-	**9,544,738**
Other liabilities	-	-	-	-	-	-	118,283	**118,283**
Lease liabilities	-	-	-	119,481	407,338	260,037	-	**786,856**
Total	**5,510,096**	**-**	**158,051**	**33,333,141**	**24,721,230**	**385,368**	**20,246,554**	**84,354,440**
Gap	**1,803,304**	**315,764**	**1,201,842**	**(11,613,324)**		**16,640,550**	**(7,943,357)**	**7,532,755**
Cumulative gap	**1,803,304**	**2,119,068**	**3,320,910**	**(8,292,414)**	**(1,164,438)**	**15,476,112**	**7,532,755**	**-**

(All amounts expressed in EUR, unless otherwise stated)

6. Financial risk management (continued)
(b) Market risk (continued)
(ii) Interest rate risk (continued)

December 31, 2020	1 - 30 days	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash on hand and at banks	-	-	-	-	-	-	1,873,383	**1,873,383**
Balances with CBK	7,958,000	-	-	-	-	-	139,791	**8,097,791**
Loans to customers - fixed rate	-	-	-	-	6,857,819	-	-	**6,857,819**
Investments in securities - fixed rate	-	9,888	166,135	15,848,297	20,136,042	20,330,730	-	**56,491,092**
Other assets	-	-	-	-	-	-	283,608	**283,608**
Total	**7,958,000**	**9,888**	**166,135**	**15,848,297**	**26,993,861**	**20,330,730**	**2,296,782**	**73,603,693**
Liabilities								
Due to Customers – fixed rate	1,000,419	-	975,130	27,246,962	14,129,695	125,432	15,005,814	**58,483,452**
Due to Banks	-	-	20,120	2,051,445	388,090	-	-	**2,459,655**
Due to related parties banks – fixed rate	4,552,724	-	-	-	-	-	-	**4,552,724**
Other liabilities	-	-	-	-	-	-	112,405	**112,405**
Total	**5,553,143**	**-**	**995,250**	**29,298,407**	**14,517,785**	**125,432**	**15,118,219**	**65,608,236**
Gap	**2,404,857**	**9,888**	**(829,115)**	**(13,450,110)**	**12,476,076**	**20,205,298**	**(12,821,437)**	**7,995,457**
Cumulative gap	**2,404,857**	**2,414,745**	**1,585,630**	**(11,864,480)**	**611,596**	**20,816,894**	**7,995,457**	**-**

(All amounts expressed in EUR, unless otherwise stated)

6. Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

	USD		*EUR*		*CHF*	
Assets	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Cash on hand and at banks			-	-		-
Balances with CBK			-	-		-
Loans to customers			6.10%	6.11%		-
Investment securities			1.47%	1.64%		-
Liabilities						
Customer deposits			2.22%	1.59%		-
Due to related parties banks			1.68%	1.11%		-

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios include a 1% parallel fall or rise in all yield curves.

6. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. The Bank must therefore maintain at all times sufficient liquid funds available to meet its obligations, even in view of potential extraordinary circumstances. Liquidity risk is also the risk that additional funding can no longer be obtained, or can only be obtained at increased market interest rates. It can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. To mitigate liquidity risk, the Bank diversifies funding sources and manages the assets with liquidity caution, maintaining a balance of cash and cash equivalents sufficiently enough to meet immediate liability calls.

The table below presents the liquidity analysis of undiscounted remaining contractual maturities at the reporting date grouped by expected maturities of the financial assets and liabilities. The amounts disclosed in the first part of the table are contractual discounted cash flows, whereas the Bank manages the inherent liquidity risk on an expected basis, based on expected undiscounted cash inflows and outflows reported on the second part.

The Bank aims to keep the expected cumulative maturity gap positive at all times. Should the expected cumulative maturity gap be negative not positive the Bank considers the liquidity as a "watch liquidity position".

The figures reported on the reporting tool below do not match with the statement of financial position figures, which is due to the fact that apart from on-balance positions the Bank has taken into consideration the off-balance sheet positions as well. All financial assets and liabilities are reported based on the timing when liabilities (including contingent liabilities from Bank's guarantees and letters of credit and other credit related commitments) become due and assets can be used as repayment source (including the off balance sheet items like unused irrevocable and unconditional credit commitments which the Bank can use as liquidity source at any time without a prior approval).

(All amounts expressed in EUR, unless otherwise stated)

6. Financial risk management (continued)
(c) Liquidity risk (continued)

December 31, 2021	1 - 30 days	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Undetermined maturity	Total
Assets								
Cash on hand and at banks	12,051,084	-	-	-	-	-	-	12,051,084
Balances with CBK	7,065,869	-	-	-	-	-	-	7,065,869
Loans to customers	247,531	64,335	-	21,688,914	26,487,445	17,025,918	-	65,514,143
Investments in securities	-	251,429	1,140,865	249,931	5,361,761	-	-	7,003,986
Other assets	252,113	-	-	-	-	-	-	252,113
Total	**19,616,597**	**315,764**	**1,140,865**	**21,938,846**	**31,849,205**	**17,025,918**	-	**91,887,195**
Liabilities								
Due to customers	21,128,628	-	24,604,900	24,011,333	125,332	-	-	69,870,193
Due to banks	-	-	-	3,731,811	302,559	-	-	4,034,370
Due to related parties banks	4,509,738	-	-	5,035,000	-	-	-	9,544,738
Other liabilities	58,301	41,935	-	18,047	-	-	-	118,283
Lease liabilities	-	-	-	119,481	407,338	260,037	-	786,856
Total	**25,696,667**	**41,935**	**24,604,900**	**32,915,672**	**835,229**	**260,037**	-	**84,354,440**
Liquidity gap	**(6,080,070)**	**273,829**	**(23,464,035)**	**(10,976,827)**	**31,013,977**	**16,765,881**	-	**7,532,755**
Cumulative gap	**(6,080,070)**	**(5,806,241)**	**(29,270,276)**	**(40,247,103)**	**(9,233,126)**	**7,532,755**	7,532,755	-

(All amounts expressed in EUR, unless otherwise stated)

6. **Financial risk management (continued)**
(c) **Liquidity risk (continued)**

December 31, 2020	1 - 30 days	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Undetermined maturity	Total
Assets								
Cash on hand and at banks	1,873,383	-	-	-	-	-	-	1,873,383
Balances with CBK	8,097,791	-	-	-	-	-	-	8,097,791
Loans to customers	-	9,888	166,135	15,848,297	20,136,042	20,330,730	-	56,491,092
Investments in securities	-	-	-	-	6,857,819	-	-	6,857,819
Other assets	283,608	-	-	-	-	-	-	283,608
Total	**10,254,782**	**9,888**	**166,135**	**15,848,297**	**26,993,861**	**20,330,730**	**-**	**73,603,693**
Liabilities								
Due to customers	16,006,233	-	26,493,166	15,858,621	125,432	-	-	58,483,452
Due to banks	-	-	-	2,071,566	388,089	-	-	2,459,655
Due to related parties banks	4,552,724	-	-	-	-	-	-	4,552,724
Other liabilities	49,216	54,713	-	8,476	-	-	-	112,405
Total	**20,608,173**	**54,713**	**26,493,166**	**17,938,663**	**513,521**	**-**	**-**	**65,608,236**
Liquidity gap	**(10,353,391)**	**(44,825)**	**(26,327,031)**	**(2,090,366)**	**26,480,340**	**20,330,730**	**-**	**7,995,457**
Cumulative gap	**(10,353,391)**	**(10,398,216)**	**(36,725,247)**	**(38,815,613)**	**(12,335,273)**	**7,995,457**	**7,995,457**	**-**

6. Financial risk management (continued)

(c) Liquidity risk (continued)

For liquidity purposes the Bank classifies demand and saving deposits as due on demand and maturing within one month. As a result, the contractual liquidity gap of up to twelve months is increased. However, the possibility that large amounts of customer deposits will leave the Bank is very unlikely. Therefore the Bank does not consider having the liquidity gap in short term. It rather focuses on expected maturity gap which represents a more likely scenario. The Bank is maintaining a portfolio of highly marketable financial assets (available for sale financial assets) that can easily be liquidated as protection against any unforeseen interruption to cash flow. The management of the Bank is monitoring liquidity ratios against internal and regulatory requirements on a daily, weekly and monthly basis. As a result, Management believes that the Bank has no short term liquidity gap. During 2021, the Bank applied liquidity stress testing on a quarterly basis for all operating currencies and discussed it regularly in the Bank's Financial and Market Risk Management Committee and ALCO. The stress test is performed applying four different scenarios as per Liquidity Risk Management policy, starting from less to more conservative scenarios. In case the Management Board and Risk Monitoring Function see any concerns under these scenarios, the Bank takes the necessary measures to minimise any risk.

(d) Capital management risk

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance.

The equity structure of the Bank comprises share capital, reserves and retained earnings.

Regulatory capital
The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity. The Bank's overall strategy remains unchanged from previous year. In accordance with the regulations of the Central Bank of Republic of Kosovo, the Bank should maintain a capital equivalency deposit of not less than EUR 7,000,000. The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The Bank has met the regulatory requirements as at 31 December 2021 and 2020.

6. Financial risk management (continued)

(e) Capital management risk

Gearing ratio

The Bank's risk management committee reviews the capital structure on a continuously basis. As part of this review, the committee considers the cost of capital and the risk associated with each class of capital. Based on the CBK regulations, the minimum leverage ratio is 7%.

The leverage ratio at the year ended was as follows:

	2021	2020

Total Assets	93,851,082	75,446,294
Total Equity	9,496,642	8,931,868
Leverage ratio	**10.12%**	**11.84%**

(f) Risk bearing capacity

In addition to regulatory capital ratios, the Bank assesses its capital adequacy by using the concept of risk bearing capacity to reflect the specific risk profile of the Bank, i.e. comparing the potential losses arising from its operation with the Bank's capacity to bear such losses. The following concepts were used to calculate potential losses in the different risk categories:

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates and their statistical distribution is calculated. The historical loss rates in different arrears categories (at a 95% confidence level) are applied to the loan portfolio to calculate potential loan losses.
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation (after adjustment).
- Market risks: Whereas historical currency fluctuations are statistically analysed and highest variances (99% confidence level) are applied to current currency positions, interest rate risk is calculated by determining the economic value impact of a standard interest rate shock for EUR/USD (2 percentage points, Basel interest rate shock) and higher (historical) shock levels for other currencies.
- Operational risk: The Basel II Standard approach is used to calculate the respective value.

7. Fair values of financial instruments

The 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 other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(All amounts expressed in EUR, unless otherwise stated)

10. Loans and advances to customers (continued)

	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased credit-impaired	Total
	EUR	EUR	EUR	EUR	EUR
Amount of the provision as at 1 January 2021	**244,519**	**102,245**	**164,185**	-	**510,949**
Movements with impact in P&L					
Transfers:	-	-	-	-	-
Transfer from Stage 1 to Stage 2	(311,895)	311,895	-	-	-
Transfer from Stage 1 to Stage 3	(117,689)	-	117,689	-	-
Transfer from Stage 2 to Stage 1	25,755	(25,755)	-	-	-
Transfer from Stage 2 to Stage 3	-	78,069	78,069	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	11,359	(11,359)	-	-
New financial assets originated or purchased	790,342	171,609	-	-	961,951
Changes in Risk Parameters (PD/LGD/EAD)	13,439	(102,245)	7,907	-	(107,776)
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net provision value for the period	**373,075**	**288,794**	**192,306**	-	**854,175**
Amount of the provision as at 31 December 2021	**617,594**	**391,039**	**356,491**	-	**1,365,124**

The following tables set out the changes in gross carrying amount and allowances loans at amortised cost for the year ended 31 December 2020:

	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased credit-impaired	Total
	EUR	EUR	EUR	EUR	EUR
Gross carrying amount as at 1 January 2020	**42,517,270**	**1,898,528**	**85,801**	-	**44,501,599**
Transfers:					
Transfer from Stage 1 to Stage 2	(3,201,801)	3,201,801	-	-	-
Transfer from Stage 1 to Stage 3	(45,518)	-	45,518	-	-
Transfer from Stage 2 to Stage 1	1,640,297	(1,640,297)	-	-	-
Transfer from Stage 2 to Stage 3	-	(21,365)	21,365	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	(13,756,833)	(1,895,529)	47,255	-	(15,605,107)
New financial assets originated or purchased	25,874,691	2,230,858	-	-	28,105,549
Modification of contractual cash flows	-	-	-	-	-
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-

Gross carrying amount as at 31 December 2020	**53,028,106**	**3,773,996**	**199,939**	**-**	**57,002,041**

10. Loans and advances to customers (continued)

	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased credit-impaired	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Amount of the provision as at 1 January 2020	**287,828**	**148,266**	**36,007**	**-**	**472,101**
Movements with impact in P&L					
Transfers:	-	-	-	-	-
Transfer from Stage 1 to Stage 2	(77,604)	77,604	-	-	-
Transfer from Stage 1 to Stage 3	(40,156)	-	40,156	-	-
Transfer from Stage 2 to Stage 1	6,570	(6,570)	-	-	-
Transfer from Stage 2 to Stage 3	-	(17,224)	17,224	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial assets originated or purchased	220,835	48,436	-	-	269,271
Changes in Risk Parameters (PD/LGD/EAD)	(152,954)	(148,267)	70,798	-	(230,423)
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net provision value for the period	**(43,309)**	**(46,021)**	**128,178**	**-**	**38,848**
Amount of the provision as at 31 December 2020	**244,519**	**102,245**	**164,185**	**-**	**510,949**

The movements in the impairment allowances for loan losses at December 31, 2021 were as follows:

	2021	2020
Allowance for impairment at January 1	510,949	472,101
Loans written off	-	-
Recoveries of loans previously written off	-	-
Charge for the year	854,175	38,848
Allowance for impairment at December 31	**1,365,124**	**510,949**

7. Fair values of financial instruments (continued)

a) Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining 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.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management judgement is required to select the most appropriate point in the range.

(All amounts expressed in EUR, unless otherwise stated)

7. **Fair values of financial instruments (continued)**

b) Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position. Fair value of investment securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Investment Securities measured at FVOCI	Carrying amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
December 31, 2021	7,003,986	-	7,003,986	-
December 31, 2020	6,857,819	-	6,857,819	-

c. Financial instruments not measured at fair value for which fair value is disclosed

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

	Carrying value		Fair value	
			Level 2	Level 2
Assets	**2021**	**2020**	**2021**	**2020**
Cash on hand and at banks	12,051,084	1,873,383	12,051,084	1,873,383
Balance with CBK	7,065,869	8,097,791	7,065,869	8,097,791
Loans to customers	65,514,143	56,491,092	65,514,143	56,491,092
Investments in securities	7,003,986	6,857,819	7,003,986	6,857,819
Liabilities				
Due to customers	69,870,193	58,483,452	69,870,193	58,483,452
Due to banks	4,034,370	2,459,655	4,034,370	2,459,655
Due to related parties banks	9,544,738	4,552,724	9,544,738	4,552,724

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available then, fair value is estimated using fair value own model, such as discounted cash flow technique. Input into the valuation technique includes expected lifetime credit losses, interest rates and prepayment rates. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. For retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

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

The fair value of borrowings and Due to related parties banks is based on discounted contractual cash flows, taking into consideration market interest rates, which would have been payable by the Bank in need of replacing the old sources with the new ones of equal remaining maturity.

(All amounts expressed in EUR, unless otherwise stated)

8. Cash on hand and at banks

	As at December 31, 2021	As at December 31, 2020
Cash on hand	672,884	851,147
Current accounts with banks	18,471,745	9,133,708
Impairment allowance	(27,675)	(13,681)
	19,116,954	**9,971,174**

Cash and cash equivalents comprise the following:

	As at December 31, 2021	As at December 31, 2020
Cash on hand and at banks	12,051,084	1,873,383
Balances with the CBK (Note 9)	7,065,869	7,958,000
Statutory reserves – DEK	-	139,791
Statutory reserves – 10%	(5,042,461)	(5,187,001)
	14,074,492	**4,784,173**

In accordance with the CBK requirements relating to the deposits reserve for liquidity purposes, the Bank should maintain a minimum of 10% of customer deposits with maturities up to one year, as statutory reserves. The statutory reserves represent highly liquid instruments, including cash on hand, accounts at the CBK or at other banks in Kosovo, and the amounts held at the CBK should not be less than half of the total statutory reserves. The assets with which the Bank may satisfy its liquidity requirement are deposits in EUR with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base.

Movement in impairment for the years ended December 31, 2021 and 2020, charged to profit and loss is as following:

	2021	2020
Opening balances	13,681	16,727
Charge/(release) to profit and loss	13,994	(3,046)
Closing balance	**27,675**	**13,681**

9. Balances with the Central Bank of Kosovo

	As at December 31, 2021	As at December 31, 2020
Statutory reserves with the CBK	5,042,461	5,187,001
Current account with CBK	2,033,993	2,922,918
Impairment allowance	(10,585)	(12,128)
	7,065,869	**8,097,791**

10. Loans and advances to customers

	As at December 31, 2021	As at December 31, 2020
Loans	45,317,603	45,180,272
Overdraft facilities	21,396,601	11,657,218
	66,714,204	**56,837,490**
Accrued interest	308,539	362,039
Deferred disbursement fees	143,476	197,488
	66,879,267	**57,002,041**
Allowance for impairment		
Stage 1	(617,594)	(244,519)
Stage 2	(391,039)	(102,245)
Stage 3	(356,491)	(164,185)
	(1,365,124)	**(510,949)**
Loans to customers	**65,514,143**	**56,491,092**

The following tables set out the changes in gross carrying amount and allowances loans at amortised cost for the year ended 31 December 2021:

	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased credit-impaired	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Gross carrying amount as at 1 January 2021	**53,028,106**	**3,773,996**	**199,939**		**57,002,041**
Transfers:					
Transfer from Stage 1 to Stage 2	(2,510,764)	2,510,764	-	-	-
Transfer from Stage 1 to Stage 3	(165,169)	-	165,169	-	-
Transfer from Stage 2 to Stage 1	3,217,095	(3,217,095)	-	-	-
Transfer from Stage 2 to Stage 3	-	(88,162)	88,162	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	21,432	(21,432)	-	-
Financial assets derecognised during the period other than write-offs	(28,671,017)	(468,739)	(15,357)	-	(29,155,113)
New financial assets originated or purchased	38,156,247	876,092	-	-	39,032,339
Modification of contractual cash flows	-	-	-	-	-
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Gross carrying amount as at 31 December 2021	**63,054,498**	**3,408,287**	**416,482**	-	**66,879,267**

(All amounts expressed in EUR, unless otherwise stated)

10. Loans and advances to customers (continued)

	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased credit-impaired	Total
	EUR	EUR	EUR	EUR	EUR
Amount of the provision as at 1 January 2021	**244,519**	**102,245**	**164,185**	-	**510,949**
Movements with impact in P&L					
Transfers:	-	-	-	-	-
Transfer from Stage 1 to Stage 2	(311,895)	311,895	-	-	-
Transfer from Stage 1 to Stage 3	(117,689)	-	117,689	-	-
Transfer from Stage 2 to Stage 1	25,755	(25,755)	-	-	-
Transfer from Stage 2 to Stage 3	-	- 78,069	78,069	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	11,359	(11,359)	-	-
New financial assets originated or purchased	790,342	171,609	-	-	961,951
Changes in Risk Parameters (PD/LGD/EAD)	13,439	(102,245)	7,907	-	(107,776)
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net provision value for the period	**373,075**	**288,794**	**192,306**	-	**854,175**
Amount of the provision as at 31 December 2021	**617,594**	**391,039**	**356,491**	-	**1,365,124**

The following tables set out the changes in gross carrying amount and allowances loans at amortised cost for the year ended 31 December 2020:

	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased credit-impaired	Total
	EUR	EUR	EUR	EUR	EUR
Gross carrying amount as at 1 January 2020	**42,517,270**	**1,898,528**	**85,801**	-	**44,501,599**
Transfers:					
Transfer from Stage 1 to Stage 2	(3,201,801)	3,201,801	-	-	-
Transfer from Stage 1 to Stage 3	(45,518)	-	45,518	-	-
Transfer from Stage 2 to Stage 1	1,640,297	(1,640,297)	-	-	-
Transfer from Stage 2 to Stage 3	-	(21,365)	21,365	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	(13,756,833)	(1,895,529)	47,255	-	(15,605,107)
New financial assets originated or purchased	25,874,691	2,230,858	-	-	28,105,549
Modification of contractual cash flows	-	-	-	-	-
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-

Gross carrying amount as at 31 December 2020	**53,028,106**	**3,773,996**	**199,939**	**-**	**57,002,041**

10. Loans and advances to customers (continued)

	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased credit-impaired	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Amount of the provision as at 1 January 2020	**287,828**	**148,266**	**36,007**	**-**	**472,101**
Movements with impact in P&L					
Transfers:	-	-	-	-	-
Transfer from Stage 1 to Stage 2	(77,604)	77,604	-	-	-
Transfer from Stage 1 to Stage 3	(40,156)	-	40,156	-	-
Transfer from Stage 2 to Stage 1	6,570	(6,570)	-	-	-
Transfer from Stage 2 to Stage 3	-	(17,224)	17,224	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial assets originated or purchased	220,835	48,436	-	-	269,271
Changes in Risk Parameters (PD/LGD/EAD)	(152,954)	(148,267)	70,798	-	(230,423)
Changes in Models	-	-	-	-	-
Modification of contractual cash flows	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Write-offs	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net provision value for the period	**(43,309)**	**(46,021)**	**128,178**	**-**	**38,848**
Amount of the provision as at 31 December 2020	**244,519**	**102,245**	**164,185**	**-**	**510,949**

The movements in the impairment allowances for loan losses at December 31, 2021 were as follows:

	2021	**2020**
Allowance for impairment at January 1	510,949	472,101
Loans written off	-	-
Recoveries of loans previously written off	-	-
Charge for the year	854,175	38,848
Allowance for impairment at December 31	**1,365,124**	**510,949**

(All amounts expressed in EUR, unless otherwise stated)

11. Investment securities measured at FVOCI

	As at December 31, 2021	As at December 31, 2020
Government Bonds	6,985,800	6,841,413
Accrued Interest	25,501	23,568
Impairment allowance	(7,315)	(7,162)
Total	**7,003,986**	**6,857,819**

Movement in impairment for the years ended December 31, 2021 and 2020, charged to profit and loss is as following:

	2021	2020
Opening balances	7,162	6,729
Charge to profit and loss	153	433
Closing balance	**7,315**	**7,162**

The following table provides for the movement of investment securities during 2021 and 2020:

	FVOCI investments - Nominal
At 01 January 2021	**6,860,000**
Additions	1,340,000
Matured	(1,200,000)
Unrealized gain/(loss)	-
At 31 December 2021	**7,000,000**
At 01 January 2020	**6,590,000**
Additions	3,170,000
Matured	(2,900,000)
Unrealized gain/(loss)	-
At 31 December 2020	**6,860,000**

(All amounts expressed in EUR, unless otherwise stated)

12. Property and equipment

Fixed Assets - Tangible	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Motor vehicles	Total
Cost						
At 1 January 2020	-	680,637	226,121	670,892	87,470	1,665,120
Additions	-	-	4,340	-	48,990	53,330
Disposals	-	-	-	-	(32,500)	(32,500)
At 31 December 2020	-	680,637	230,461	670,892	103,960	1,685,950
Additions	-	337,171	264,456	12,641	-	614,268
Disposals	-	-	-	-	-	-
At 31 December 2021	-	1,017,808	494,917	683,533	103,960	2,300,218
Accumulated depreciation						
At 1 January 2020	-	299,549	90,347	399,944	40,369	830,209
Charge for the year	-	110,741	39,532	92,468	17,818	260,559
Disposals	-	-	-	-	(32,500)	(32,500)
At 31 December 2020	-	410,290	129,879	492,412	25,687	1,058,268
Charge for the year	-	119,362	70,708	64,096	20,792	274,958
Disposals	-	-	-	-	-	-
At 31 December 2021	-	529,652	200,587	556,508	46,479	1,333,226
Carrying amount						
At 31 December 2020	-	270,347	100,582	178,480	78,273	627,682
At 31 December 2021	-	488,156	294,330	127,025	57,481	966,992

(All amounts expressed in EUR, unless otherwise stated)

13. Intangible assets

Fixed Assets – Intangible	Software	Licenses	Total
At 1 January 2020	**1,080,100**	**55,549**	**1,135,649**
Additions	108,084	33,524	**141,608**
Disposals	-	-	-
At 31 December 2020	**1,188,184**	**89,073**	**1,277,257**
Additions			
Disposals	-	-	-
At 31 December 2021	-	-	-
	1,188,184	**89,073**	**1,277,257**
Accumulated amortization			
At 1 January 2020	**814,849**	**38,068**	**852,917**
Charge for the year	134,772	11,280	**146,052**
At 31 December 2020	**949,621**	**49,348**	**998,969**
Charge for the year	63,315	9,401	**72,717**
At 31 December 2021	**1,012,936**	**58,749**	**1,071,685**
Carrying amount			
At 31 December 2020	**238,563**	**39,725**	**278,288**
At 31 December 2021	**175,248**	**30,324**	**205,572**

14. Right of Use Assets & Lease liability

Right of Use Asset

At January 1, 2020	332,508
Additions	754,251
Disposals	-
At December 31, 2020	**1,086,759**
Additions	-
Disposals	-
At 31 December 2021	**1,086,759**
Accumulated depreciation	
At January 1, 2020	112,747
Charge for the year	75,876
Disposals	-
At December 31, 2020	**188,623**
Charge for the year	134,520
Disposals	-
At December 31, 2021	**323,143**
Net book value as at December 31, 2020	**898,136**
Net book value as at December 31, 2021	**763,616**

(All amounts expressed in EUR, unless otherwise stated)

Lease Liability as at January 1, 2020	224,106
Additions	754,251
- Less lease payments	(84,759)
+ Interest on Lease Liabilities	12,593
Lease liability as at December 31, 2020	**906,191**
Lease Liability as at January 1, 2021	906,191
Additions	-
- Less lease payments	(161,934)
+ Interest on Lease Liabilities	42,599
Lease liability as at December 31, 2021	**786,856**

Maturity of lease liability at December 31, 2020	
Not later than one year	119,334
Later than one year and not later than five years.	446,025
Later than five years	340,832
Total	**906,191**

Maturity of lease liability at December 31, 2021	
Not later than one year	119,481
Later than one year and not later than five years.	407,338
Later than five years	260,037
Total	**786,856**

Amounts recognized in profit and loss	**2021**	**2020**
Depreciation expense on right-of-use-assets	134,520	75,876
Interest expense on lease liabilities	42,599	12,593
Expense relating to short-term leases	17,848	74,748
Total	**194,967**	**163,217**

The Bank leases several assets which consist of premises. The average lease term is 5 years.

Total cash flow amount for leases amount to EUR 161,934 (2020: EUR 84,759). All lease payments are fixed.

All lease obligations are denominated in currency units.

(All amounts expressed in EUR, unless otherwise stated)

15. Other assets

	As at December 31, 2021	As at December 31, 2020
Prepayments	106,571	151,444
Other	145,542	132,164
Total	**252,113**	**283,608**

16. Due to customers

	As at December 31, 2021	As at December 31, 2020
Time Deposits	49,021,901	42,933,228
Current accounts	18,403,040	13,308,721
Savings accounts	1,725,230	1,697,091
Accrued interest	720,022	544,412
Total	**69,870,193**	**58,483,452**

Current accounts are non-interest bearing.
The average effective interest rates for time deposits during 2021 and 2020 were as follows:

Year	1 month	6 months	1 year	18 months	2 -5 years
2021	0.90%	0.75%	2.16%	2.25%	2.40%
2020	0.90%	0.73%	2.14%	2.34%	2.34%

17. Due to banks and borrowers

	As at December 31, 2021	As at December 31, 2020
Time Deposits	3,700,000	2,000,000
Borrowings from EXIM bank	300,281	454,027
Accrued interest	34,089	5,628
Total	**4,034,370**	**2,459,655**

18. Due to related parties banks

	As at December 31, 2021	As at December 31, 2020
Money market	9,500,000	4,550,000
Accrued Interest	44,738	2,724
Total	**9,544,738**	**4,552,724**

Due to related parties banks represents time deposits of other related banks/branches, part of the Ziraat Group. These time deposits bear an average annual interest rate of 1.68% and have maturity during 2021.

(All amounts expressed in EUR, unless otherwise stated)

19. Other liabilities

	As at December 31, 2021	As at December 31, 2020
Accrued expenses	41,935	54,713
Other liabilities	58,300	49,216
Provision for losses from guarantees	18,048	8,476
Total	**118,283**	**112,405**

The movement in the provision for losses from guarantees issued by the Bank is as follows:

	2021	2020
Provisions as at January 1	8,476	20,731
Charge/(release) for the year	9,572	(12,255)
Provisions as at December 31	**18,048**	**8,476**

20. Shareholder's equity and reserves

The shareholding structure of the Bank is as follows:

	As at December 31, 2021		As at December 31, 2020	
	%	Amount	%	Amount
T.C.ZIRAAT BANKASI A.S	100	10,000,000	100	10,000,000
	100	**10,000,000**	**100**	**10,000,000**

In accordance with Law no. 04/L-093 on "Banks, Microfinance Institutions and Non-Bank Financial Institutions", the minimum paid-in capital for domestic banks operating in Kosovo is EUR 7 million.

21. Net interest income

	Year ended December 31, 2021	Year ended December 31, 2020
Interest income using effective interest rate method		
Loans to customers	4,119,657	3,079,629
Deposits and balances with banks	-	190,430
Investments in securities	111,241	101,007
Total interest income	**4,230,898**	**3,371,066**
Interest expense using effective interest rate method		
Due to customers	(1,045,213)	(706,213)
Due to banks	(36,332)	(297,650)
Due to related parties banks	(165,071)	(76,593)
Due to Leases	(42,599)	-
Total Interest expense	**(1,289,215)**	**(1,080,456)**
Net interest income	**2,941,683**	**2,290,610**

(All amounts expressed in EUR, unless otherwise stated)

22. Net fee and commission income

	Year ended December 31, 2021	Year ended December 31, 2020
Banking services	522,161	608,827
Fee and commission income	**522,161**	**608,827**
Banking services	(66,102)	(45,140)
License and other regulatory fees	(100,426)	(100,000)
Fee and commission expenses	**(166,528)**	**(145,140)**
Net fee and commission income	**355,633**	**463,687**

23. Other operating income

	Year ended December 31, 2021	Year ended December 31, 2020
Capital gains	-	1,690
Release of provisions for guarantees	-	12,255
Other income	3,397	54,423
Total	**3,397**	**68,368**

24. Administrative and other operating expenses

	Year ended December 31, 2021	Year ended December 31, 2020
Personnel (see below)	555,664	519,189
Security	58,794	48,149
Depreciation	409,478	336,435
Rent	17,848	74,748
Advertising and marketing	3,720	3,780
Repair and maintenance	43,238	30,811
Deposit insurance fees	16,812	9,899
Utilities and fuel	40,913	34,078
Professional charges and legal fees	40,903	40,682
IT services	382,913	340,768
Communication	39,565	38,724
Amortization	72,717	146,052
Office materials	39,741	19,543
Travel	1,030	323
Other	39,876	38,807
Change in provision for cash at banks (see note 8)	13,994	-
Change in provision for securities (see note 11)	153	-
Change in provision for guarantees (see note 19)	9,572	-
Total	**1,786,931**	**1,681,987**

	Year ended December 31, 2021	Year ended December 31, 2020
Wages and salaries	459,067	432,260
Pension contributions	52,725	49,515
Other compensations	43,872	37,414
Total	**555,664**	**519,189**

(All amounts expressed in EUR, unless otherwise stated)

25. Income tax

Income tax in Kosovo is assessed at the rate of 10% (2020: 10%) of taxable income.

	Year ended December 31, 2021	Year ended December 31, 2020
Current tax charge	(68,879)	-
Deferred tax release	(38,494)	(124,113)
Total	**(107,373)**	**(124,113)**

The following represents a reconciliation of the accounting result to the income tax:

	Year ended December 31, 2021	Year ended December 31, 2020
Profit / (loss) before income tax	**672,147**	**1,114,434**
Tax at the rate of 10%		
Adjusted for:		
Non-deductible expenses for rent	15,186	-
Non-deductible expenses/(income) other	5,225	(6,685)
Additional tax deductible interest expenses	297,856	226,615
Exempt Income – Investment Securities	(111,241)	(101,007)
LLP and guaranties provision	194,554	7,769
Profit for the year	**1,073,727**	**1,241,126**
Income tax expense for the year	**107,373**	**124,113**

Deferred tax asset risen as a result of carried forward losses was fully recovered for the year ended 31 December 2021 as a result of profits realised.

Deferred tax	**2021**	**2020**
Opening deferred tax	38,494	162,607
Charge for the year	(38,494)	(124,113)
Closing deferred tax	-	**38,494**

(All amounts expressed in EUR, unless otherwise stated)

26. Commitments and contingencies

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted to customers. Based on management's estimate, no material losses related to guarantees outstanding at December 31, 2021 will be incurred.

Guarantees	Year ended December 31, 2021	Year ended December 31, 2020
Secured by cash deposits		-
Secured by other collateral	3,616,795	2,618,322
	3,616,795	**2,618,322**
Credit Commitments		
Approved but not disbursed loans	1,891,772	1,072,089
Unused portion of credit lines	23,112,629	11,469,165
Unused credit card facilities	**25,004,401**	**12,541,254**

Other collaterals pledged for guarantees, include mainly pledge and real estate properties.

Commitments represent the undrawn balances of loans, overdraft and card limits granted to the customers.

Litigations

As at December 31, 2021, there are no legal proceedings against the Bank.

27. 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.

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

In the course of conducting its banking business, the Bank entered into various business transactions with related parties and the balances with the shareholders and affiliated individuals and entities at December 31, 2021 and 2020 are as follows:

	Board of Directors		Key management		Major shareholders and other parties related to them		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Balances with banks	-	-	-	-	11,123,813	585,106	11,123,813	585,106
Loans to customers	-	-	-	-	-	-	-	-
Loans to customers, gross	-	-	16,086	9,241	-	-	16,086	9,241
Allowance for impairment	-	-	66	65	-	-	66	65
Loans to customers, net	-	-	**16,152**	**9,306**	**11,123,813**	**585,106**	**11,139,965**	**594,412**
Cash collateral	-	-		-		-		-
Net exposure	-	-	**16,152**	**9,306**	**11,123,813**	**585,106**	**11,139,965**	**594,412**
Guarantees	-	-	-	-	-	-	-	-
Cash collateral	-	-	-	-	-	-	-	-
Net exposure	-	-	**16,152**	**9,306**	**11,123,813**	**585,106**	**11,139,964**	**594,411**
Due to customers	-	-	89,368	63,178	-	-	89,368	63,178
Due to related parties banks	-	-	-	-	9,544,738	4,552,724	9,544,738	4,552,724
	-	-	**89,368**	**63,178**	**9,544,738**	**4,552,724**	**9,634,106**	**4,615,902**

No collateral is left for these loans as of December 31, 2021 and 2020.

27. Related party transactions (continued)

Transactions with related parties during 2021 and 2020 are as follows:

	Board of Directors		Key management		Major shareholders and other parties related to them		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Interest income	-	-	367	1,392	-	-	367	1,392
Fee and commission income	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-
Total	**-**	**-**	**367**	**1,392**	**-**	**-**	**367**	**1,392**

Total remuneration to the Bank's key management is as follows:

	2021	2020
Short-term employee benefits for Board of Directors		-
Short-term employee benefits for key management	36,531	36,472
	36,531	**36,472**

28. Events after the end of the reporting period

There were no events after the reporting date that would require adjustments, or additional disclosures in these financial statements.