ANNUAL REPORT

2022

TEB

BNP PARIBAS JOINT VENTURE

Expanding Your World

Engaging with our clients to build a better and more sustainable future!

We offer sound and innovative financial solutions to individuals, professionals, clients and businesses while striving to maintain close relations with our clients and staff.

OUR VALUES

Honest, trustworthy and transparent

Product Leadership, pioneering and innovative

Client-oriented with operational Excellence and strong focus on high quality and ethics

Respectful of society, human rights and the environment

Client Focus, People and Sustainability

CONTENTS

1.

ABOUT TEB SHA

1.1. Corporate Profile

Innovation, growth and sustainability!

*During these 15 years of operating in Kosovo **TEB SH.A. (TEB)** has become one of the main contenders of the banking sector with a reputation for excellence. Guided by our purpose: **"The bank for a changing world"**, we help our clients, their families, and their communities achieve success through a broad range of products and services.*

Regardless of latest global changes our capability to support our clients and employees is made possible by being a member of the TEB Group, which was formed through a joint venture between one of the world's strongest financial institutions, BNP Paribas, and one of the most reputable banks in Turkey, the Turk Ekonomi Bankasi. As a member of these two strong international financial groups, TEB benefits from the Group's experience, solidity, and reach.

One of our four main pillars is Corporate Social Responsibility (CSR) that contributes to our economic mission. Therefore, to better improve our excellence, innovation, and responsibility in our services to our clients, we engage in different projects.

Our focus defines who we are and what we strive for; how we work together and what we achieve together.

Quality Services with Digital transformation

Always with the client at the center, our bank focuses on providing quality service. We value our clients, so we have designed special products and services for them, to satisfy their needs, as entrepreneurs, senior citizens, employees, and students. TEB's purpose is be a place where clients feel welcomed and comfortable when considering their financial choices.

TEB continues to digitally transform its services by developing products tailored to client's expectations. In line with rapid advances in technology, we systematically improve our innovative multi-channel banking network (such as Internet and Mobile Banking, Call Center, SMS Services, ATMs, POS), thus allowing clients to utilize the most suitable distribution channel for their banking transactions conveniently, quickly and reliably.

Commitment to the community...

Corporate social responsibility (CSR) is one of the main pillars that contributes to our economic mission. CSR is a legacy continued by our founding banks. Therefore, to better improve our excellence, innovation, and responsibility in our services to our clients, we engage in different projects which aim to improve areas such as culture and sports for Kosovo. We have continued to work with various local and international Chambers of Commerce and developed initiatives that cater to our social responsibility as a corporation. *We also engage in different supporting projects which aim to improve areas such as culture and sports for Kosovo. TEB is a proud sponsor of football and basketball National team of Kosovo, of Kosovo Paralympic Committee, also in 2022 we were the main sponsor of the most important cultural event ever organized in Kosova, Manifesta 14.*

People-Oriented...

Our staff is at the core of TEB's success staff, whose hard work and persistence have been a representation of the institution's foundation. The dedicated employees of TEB have brought to the bank a proactive approach which is conveyed to our clients. Our goal is to help people and businesses build their future, reach their ambitions and help manage their financial risks.

1.2. Vision, Mission, and Strategy

VISION

Our vison is to be the best client experience bank in Kosovo.

MISSION

To constantly create and increase value for our clients, shareholders, employees, and society.

STRATEGY

Superior and efficient banking experience for all our clients in line with our vision and mission, is our strategy to provide and to offer an excellent client experience by putting the client at the center. We achieve this by offering innovative and practical products and services to achieve continuous and sustainable growth. TEB's offering is always rooted in our commitment to be a responsible bank. This commitment is embedded in all our values and is reflected in our business, through the way we develop products and services and how we deliver on our goals and promises.

1.3. Core Values

At TEB we constantly strive to make our corporate actions positive and sustainable in all respects – whether it is in terms of our responsibility towards the environment, our resources, our employees, or our society as a whole.

CLIENT ORIENTATION

Our strong client orientation means that we are doing everything possible to meet their needs. We focus on creating quality service, while putting the client at the center. Products and services are specially designed for the clients, to satisfy their needs, as entrepreneurs, businesses, employees, students, or senior citizens. Our purpose is to be a place where clients feel welcomed and comfortable when managing their finances.

DIGITAL TRANSFORMATION

We continue to improve by enhancing the quality of our products and services in line with rapid advances in technology and client expectations. We systematically improve our innovative multi-channel banking network (such as Internet and Mobile Banking, Call Centre services, SMS Services, ATMs, and POS), to allow our clients to utilize the most suitable, reliable and convenient channel for their banking transactions.

PEOPLE-ORIENTED

At the core of our success as a bank is our staff, whose hard work and persistence have been a representation of the Bank's foundation. The dedicated employees of EB bring a proactive approach which is conveyed to our clients. We consider our staff extremely valuable and continually invest in them, because they are the ones that enable TEB to be one of the leading banks in Kosovo.

1.3. Core Values

HUMAN-CENTERED APPROACH

Our success is based on our utter and complete commitment to our clients and staff. We always place the needs of our clients as well as our staff at the heart of everything we do. Client needs and expectations are what drives and motivates us. A proactive approach to client needs allows us to create and deliver value, as we serve with innovative, above-expectation, customized and trend-setting products and services.

INTEGRITY

We count on our culture of responsibility and integrity to ever better serve the interest of our clients. We have embraced the highest standards of integrity in everything we say and do. We are committed to creating added value for our clients, shareholders, and employees by always doing more than just what is necessary. We communicate openly and honestly; we invite and appreciate challenging views aimed at generating better ideas and reaching more appropriate and balanced decisions.

INNOVATION & TECHNOLOGY

We value the enthusiasm and intellectual curiosity of our staff, as they continuously seek to create products that will facilitate our clients' success and provide suitable solutions for their needs. Innovation is crucial to the bank's success as it gives us a competitive edge in penetrating markets faster.

OPERATIONAL EFFICIENCY

We build processes and products that are user-friendly, easy to access, and designed to add value. We strive to ensure that offered services are priced in a manner that fairly equates to their actual cost.

1.4. Shareholder Structure

TEB Bank's share capital is €24,000,000 based on 2,400,000 issued shares, each with a par value of €10.

The number of shares refers to ordinary shares

Shareholder as of December 31.2014	Share Ownership Paid in Capital (C)	Share
TEB HOLDING A.S*	24.000.000	100%

*. The Bank is controlled by TEB Holding A.S. which is a company incorporated in Turkey (the "Parent Company") and owns 100% of the shares of the Bank. The shareholders of TEB Holding A.S. are the BNP Paribas and the Çolakoğlu Group, each of them owning 50% of the shares. BNP Paribas is the ultimate controlling party of the Parent Company and the Bank.

2.

MESSAGES FROM MANAGEMENT

Ayşe Aşardağ
Chairwoman

Orçun Özdemir
Managing Director

2.1. Chairwoman's Message

Dear Shareholders,

I am pleased to present to you our annual report for the year ended December 31, 2022.We are proud to report that 2022 has been another successful year for our bank and the financial sector in Kosovo.
The Kosovo economy continues to defy expectations with regards to growth. Despite inflationary pressures, the GDP grew by 2.7%, driven by exports and private consumption which continues to show resilience.
Our Bank has continued to experience strong growth without compromising on its prudent risk management, which is a testimonial of our commitment to providing our customers with a high level of service and the innovative financial products that they need. We are proud to have contributed to the growth of the country's economy, by supporting businesses, creating job opportunities, and generating revenue for the public, where the gross loan portfolio grew by 13.8%, the deposits grew by 1.5%, and the bank achieved a Return on Equity of 25.1%.
Our success in attracting talented and young employees and the emphasis placed by the management of the Bank on the wellbeing of our employees and enhancement of internal communication with the goal of further strengthening our teamwork and operational efficiency enabled us to maintain our competitive edge in a dynamic market. Our Bank remains one of the best places for young professionals to begin their career and grow professionally.
As part of a large international group, we have benefitted from opportunities for innovation, resource sharing and knowledge transfer. This has given us a strong market presence and the ability to leverage best practices and technological advancements.
The journey that our Bank has heavily embarked upon a few years ago on digitalization begun to show encouraging results, where every new feature that the bank introduces in the market has adoption rates beyond our most optimistic expectations. We shall continue to improve in digitalizing our processes, as we have seen that our clients welcome and easily accept new ways of doing banking.
We remain committed to environmental and social sustainability and have integrated these principles into our business policies. We continue to explore opportunities to invest in initiatives aimed at improving the quality of life of our diversified customer groups and the environmental protection.
In conclusion, I would like to express my gratitude, on behalf of the Board, to our dedicated management team and employees who have made our success possible and to our customers for their continuous trust in our bank and in the services we provide. I would also like to thank our shareholders for their commitment to our Bank and the country of Kosovo.
As we look towards the future, we remain focused on our mission to provide the best financial services to our customers and to contribute to the development of Kosovo's economy and society.

Ayse Asardag
Chairperson

2.2. Message from the CEO

Year 2022 was a very interesting year for our Bank and the Kosovo banking sector. It was a record year in terms of growth and profit for the whole financial sector. Due to the robust shareholder structure, our Bank grew and performed impressively as well. While we continued the increased business demand from the recovery of the pandemic, there were various macroeconomic forces such as the political consequences of the war in Ukraine, and the inflation in Europe and the US that forced us to adapt. At the same time, we continued our work on digitalisation, because we believe that working remotely through electronic means is the future of banking.
We never thought that we could ever have a war, in the traditional sense, in the European continent in the 21st century. The war in Ukraine which began early last year caused a global shock in virtually all economic sectors. This shift in global politics just highlighted to us that although the world is globalised the relationships between countries and individuals are very fragile. That is one of the most important aspects of the business of our bank: to build long-lasting relationships based on trust with our employees and clients.
That is why we have put such a strong emphasis on the digitalisation of our products and services. Our clients are very welcoming to new technologies and new ways of working. Their continuous demand and success pushes us to improve our systems in line with the legal framework. Our aim is to be able to acquire more clients and provide products and services to them without them ever having the need to visit any of our branches. When we meet clients, we want to spend our time with them discussing their plans and strengthening our relationship with them, and not deal with bureaucracy. With the new legal framework that was published by the government of Kosovo at the end of last year, providing documents to the bank for regulatory purposes and signing agreements can be done electronically at the client leisure. We expect mobile banking will become the norm in the near future for both our retail and our business clients, and we will be able to provide all of our services electronically.
Naturally, this increased digitalization translates into higher operational efficiency for the bank, whereby compliance will become easier, processes will become increasingly automated, and we will make use of our time to acquire new clients and strengthen the bonds with the existing ones.
As it is shown with this annual report, the Bank performed wonderfully last year, and all of our functions continued to develop their respective activities and evolve their way of working. On behalf of our executive management I want to thank our Shareholders and Board of Directors for their guidance, and all of our team members for their loyalty and effort they put in last year. We shall continue our dedication towards our clients so that they can have the best banking experience in Kosovo.

Orçun Özdemir
Managing Director

3.

TEB SHA IN 2022

3.1. Figures

	2022	2021	Increase/ (Decrease)	Percentage
Balance Sheet Indicators (000 EUR)				
Total Assets	760,448	752,140	8,308	1.1%
Total Loans (Gross)	544,496	478,356	66,140	13.8%
Deposits	651,408	641,570	9,838	1.5%
Shareholders' Equity	94,412	98,958	(4,546)	(4.6%)
Gross Loans / Total Assets	71.6%	63.6%	8.0pp	-
NPL / Total Loans	1.15%	1.34%	(0.2pp)	-
NPL Coverage Ratio	75.2%	68.4%	6.8pp	-
Income Statement Indicators				
Net Interest Income	35,243	30,814	4,429	14.4%
Net Non-Interest Income	9,462	8,750	712	8.1%
Net Banking Income	44,705	39,564	5,141	13.0%
Net Profit for the Year	20,986	17,791	3,195	18.0%
Cost / Income Ratio	48.5%	48.6%	-	-
Jaw effect	0.22%	10.5%	-	-
Profitability Ratios				
Return on Equity ("ROE")	25.1%	22.2%	2.8pp	-
Return on Assets ("ROA")	2.8%	2.4%	0.4pp	-
Net Interest / Average Interest Earning Assets	5.6%	5.3%	0.4pp	-
Solvency & Liquidity Ratios				
Capital Adequacy Ratio ("CAR")	14.0%	16.9%	(2.9pp)	-
Liquid Assets / Total Assets	28.5%	34.8%	(6.3pp)	-
Risk Weighted Assets ("RWA")	533,965	489,103	44,862	9.2%
Other Indicators				
Branches	29	29	-	-
Employees	611	584	27	4.6%

3.2. Key Financial Indicators

3.2.1. Financial Position of the Bank

TOTAL ASSETS:
EUR **760.4**
MILLION

The Bank's assets amounted to EUR 760.4 million at 31 December 2022 (31 December 2021: EUR 752.1). Consistent with previous years the structure of assets is dominated by gross loans (71.6% of total assets). The gross loan portfolio grew by 13.8% or EUR 66 million amounting to EUR 544.4 million (compared to EUR 478.3 million as at 31 December 2021). This growth was aligned with the record performance of the Kosovar banking sector in 2022, and thus having a major contribution to the country's economy.

NPL DROPPED TO
1.15%
IN 2021

The credit quality of the outstanding loans continued to improve as the NPL ratio dropped to 1.15% (2021: 1.34%), representing the lowest NPL ratio among the established players in the banking sector in Kosovo. At the same time the Bank maintained a high NPL coverage ratio of 75.2% in 2022. Both ratios are indicators of our prudent risk management practices and good corporate governance.

TOTAL DEPOSIT:
EUR **651.4**
MILLION

In the liabilities side, the Bank's client deposits amounted to EUR 651.4 million at 31 December 2022, representing an increase of 1.5% compared to EUR 641.6 million at 31 December 2021. The Bank's Loan-to-Deposit ratio at year end at around 82% and accumulated net profit ensures that there is stable funding base for credit growth.

3.2.2 Financial Performance of the Bank

Net interest income rose by 14.4% amounting to EUR 35.2 million (compared to EUR 30.8 million in 2021), resulting primarily from the increase in interest income by 13.2% or EUR 4.1 million and the decrease in interest expenses by 35% or EUR 0.27 million. Net interest generated from interest earning assets is 5.6%, up by 0.4 pp compared to 2021, reflecting slightly higher margins despite the growing competition.

Similarly, net non-interest income (fees and commissions) amounted to EUR 9.4 million at 31 December 2022, up 8.1% from 31 December 2021 (EUR 8.7 million), consisting primarily from the increase in fees from cards, accounts, money transfers, e-banking, etc. The growth in non-interest income was driven by growth in overall economic activity including the increase in the number of clients.

The Bank managed to keep its cost-to-income ratio at 48.5% in 2022, decreasing slightly compared to 2021 (48.6%), thus showing the Bank's continuing efforts to run its processes efficiently. The Bank also recorded positive jaw effect of 0.22% in 2022, as a result of the growth in net banking income by 13% which is slightly higher than the 12.8% increase in operating expenses.

In 2022 net profit increased by 18% to EUR 20.9 million (2021: EUR 17.7 million). This resulted in ROE of 25.1 % representing an increase by 2.8pp compared to 2021, while ROA at 2.8% in 2022 is 0.4pp higher compared to 2021.

3.2.3. Solvency and Liquidity ratios

The Bank's Capital Adequacy Ratio at 14% for the year ended 31 December 2022 remains above the Central Bank of Kosovo (CBK) minimum requirement of 12%, properly covering the increase of 9.2% or EUR 44.8 million in Risk Weighted Assets.

Liquid assets / short term liabilities ratio of the Bank in 2022 is 28.5%, a decrease by 6.3pp compared to 34.8% in 2021, remaining comfortably above the 25% regulatory ratio.

3.2.4. Other indicators

The Bank has a solid geographical coverage by having 29 branches as of December 2022, while the number of full time employees reached 611 (2021: 584).

[1] The jaw effect measures the difference between the growth in net banking income and the growth in operating expenses over a given period.

4. BUSINESS UNITS

4.1. Retail Banking

The past year has been one of significant growth and success, as we have continued to deliver high-quality financial products and services to meet the evolving needs of our clients.

Throughout the year, positive developments and achievements dominated headlines, with our commitment to provide innovative solutions, exceptional client service and responsible banking practices at the forefront of our success. The Retail Banking division achieved notable milestones, including the expansion on digital offers, innovation and investment in technology, and growth in the loan and deposit portfolios.

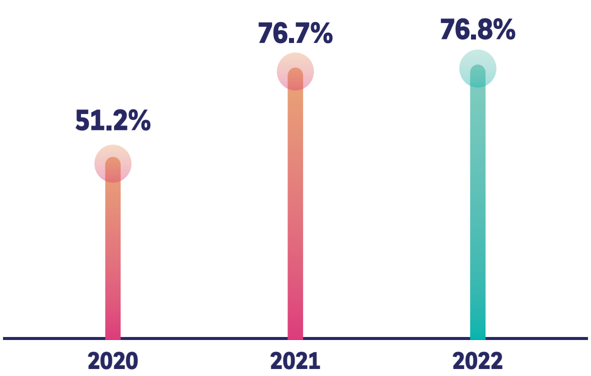
Retail banking has performed exceptionally well, achieving strong financial results, oriented in client experience, always aiming to understand the entire client journey in our bank.

2022 RETAIL BANKING KEY FIGURES

In 2022, Retail Banking experienced growth in various areas of financial performance, driven by strategic initiatives and committed to maintain a stable and sustainable business model.

CLIENT BASE

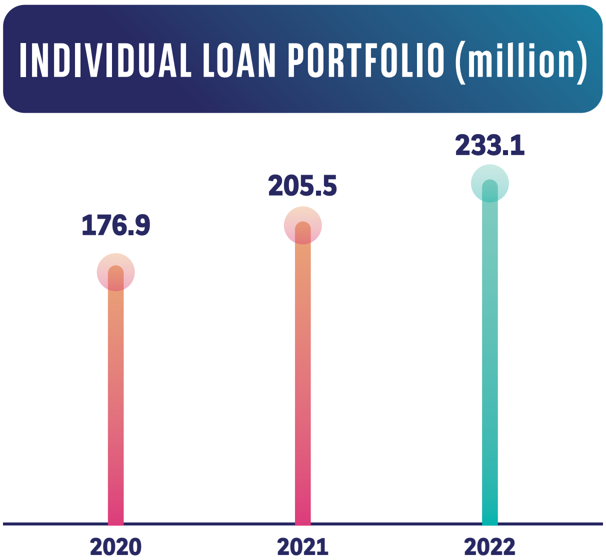
ACTIVE CLIENT BASE DEVELOPMENT



The client acquisition targets progressed in accordance with the strategic assumptions. In 2022, the client base of Retail Banking grew by **11.50%** with **42,000** new clients, bringing our total client base to **287,000**. In terms of active clients, **77%** of our client base are active clients who continuously use the products of our bank.

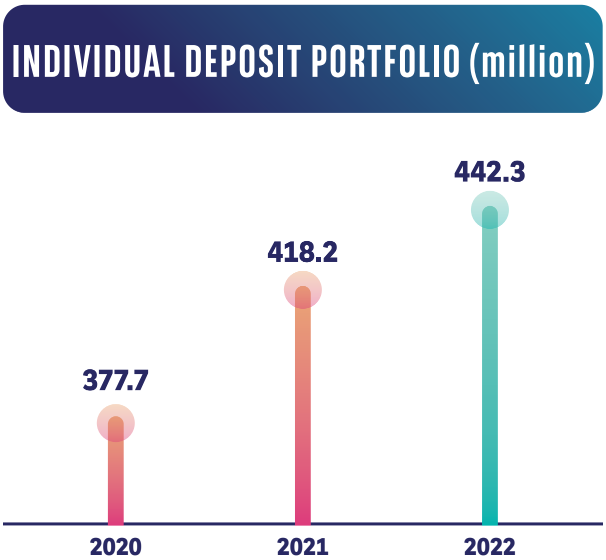
Among others, Retail Banking developed the base of salary receivers, where we increased the number of salary receivers by **5,700** , a net growth of **9%** of the existing base, and increasing the market share in salary clients from **16.30%** to **18.20%.**

LOAN GROWTH



The Retail Loan portfolio experienced immense growth in 2022, with a year-over-year development of **14%**. As a result, TEB achieved an increase of **27.6** million and our market share has been maintained at **16.5%.** The total outstanding loan portfolio is **233 million EUR**. This growth was driven by a combination of factors, including an increased demand, competitive and attractive promotions, as well as a successful implementation of lending policies of the bank. The market developed in response to recent economic dynamics and inflation which impacted the disposable income of individuals. We successfully navigated these challenges, resulting in a thriving year for Retail Banking in individual loans.

DEPOSITS GROWTH

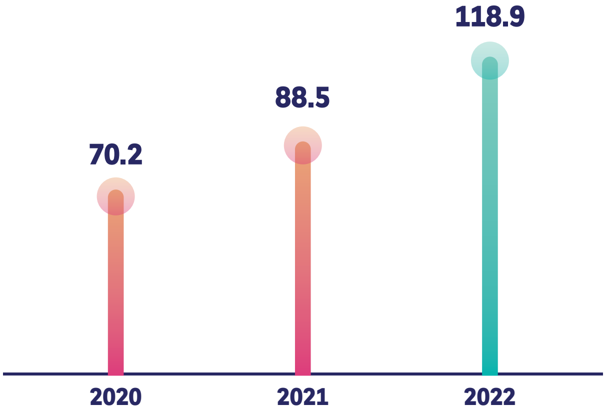


In 2022 Retail Banking achieved significant success by managing a sustainable deposit growth. Our deposit portfolio increased by **7% [24.1 million EUR]** compared to the previous year, reaching a total of **442 million EUR** deposit balance portfolio, which reflects our strong commitment to provide convenient and secure banking services.

Effective strategies and focus on individual deposits were the key ingredients for increasing the retail deposit balance aiming to maintain our presence in market [13% **market share**] and further expand the client base.

MOBILE BANKING - TEB MOBILE

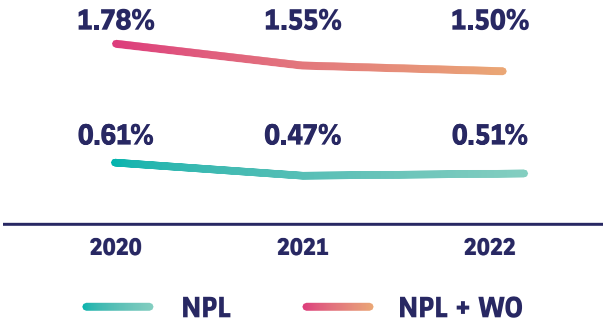
USAGE DEVELOPMENT (thousands)



The Retail Banking sector has undergone a transformation in the recent years, and with the advent of mobile technology is playing a significant role in this change. The trends toward mobile banking has been on the rise and our bank has been at the forefront of this development. Over the past year, the number of clients using TEB Mobile has increased to **119,000,** with a growth ratio of **35%** compared to the previous year. There were **75,500** active TEB Mobile users (activation ratio of 63.5%), making **1.2 Million** transactions. This has been a result of our efforts to make mobile banking more accessible and user friendly, equipped with advanced technology and real time services.

QUALITY OF LOAN PORTFOLIO - NON PERFORMING LOANS

NPL MANAGEMENT (ratios)



2022 highlighted our continued commitment and focus to maintain a high quality loan portfolio. One of the key priorities for Retail Banking was to effectively manage non-performing loans which resulted as one of the lowest ratios in the market.

Despite the success in loan growth, we achieved to maintain the quality of our individual loan portfolio, where the ratio of non-performing loans was **0.51%**. By a good risk diversification in combination with good sales practices we aim to maintain this trend in the future as well. This approach has allowed us to maintain a healthy loan portfolio and support the financial stability of our clients.

STRATEGIC PRIORITIES

FINANCIAL HEATH FOR OUR CLIENTS

We enable our clients make the right financial decisions by providing them with a range of products and services designed to help them achieve their financial goals. By putting our clients at the centre of all our activities, our focus will be on providing solutions and recommendations tailored to their needs, with the aim of providing an excellent client experience. We strive to establish long-term relationships with our clients by being their reliable partner for their financial health.

SUSTAINABILITY

We will continue to positively influence our clients, the sector and playing an important role in economic environment and support raising awareness to direct efficiently the flow of savings and investment of our clients. Focusing on investment programs that achieve effective results in priority issues and observing the principles of impact-oriented investment will remain our main objective, thus creating positive social change alongside financial returns. The relaunch of the product "Green Loan" will remain our priority for this year, aiming to which is meant for sustainable, environmentally friendly purposes, such as reducing CO2 emissions, or purposes contributing to the green transition in society such as developing new environmentally friendly technology.partner for their financial health.

OPTIMIZATION OF INTERNAL PROCESSES AND OPERATIONAL FUNCTIONS

Revising and redesigning internal processes is another crucial process which aims to increase effectiveness and efficiency in all services provided to individual clients via branches and digital channels.

By continuously improving our business model with process automation, ease of operation and enrichment of other services, providing end-to-end digital solutions we continue to improve the experience of our clients in our digital platforms.

THE BEST AND MOST ENGAGED TEAM

Another objective will be investing in the development, satisfaction and well-being of our team members in order to create a team that adapts to the strategies of the bank, has team spirit, acts with a common mind, has social responsibility, and is result-oriented. Adopting a performance-based structure, equal opportunity and diversity, internal promotion-oriented, fair and transparent management policy that will strive to make decisions and take actions in a way that is open for all to be seen will remain one of our main tasks.

CONTINUE TO BE ONE OF THE LEADERS IN INDIVIDUAL BANKING

Increase market penetration by providing value added and unique banking offers to clients, to further increase our market share in the individual client base, retail credit products, and maintain sound credit quality. In general, retail banking sales strategies will be supported by enhanced data mining and analytics tools to originate new sales leads to existing and new clients.

Since digitalization is becoming the norm for retail credit processes, and the client experience is continually evolving (same as technology), new channels for loan generation such as WEB, ATM, SMS & Merchant Loan will be developed and upgraded along with an automated approval process. Individual loan applications will be submitted with a few swipes on a mobile phone, and time to cash can be as short as a few minutes.

CLIENT EXPERIENCE

A specific strategy on client experience will massively boost Retail Banking goals. Improving the client experience will be also one of our main objectives of 2023. Through this objective we aim to increase our client base, to help retain clients and encourage them to refer our bank to others:

1. We will focus on creating an exceptional client experience by providing an easy and convenient digital platform, personalized services and a seamless integration of various banking services.

2. We will focus on providing excellent client care to ensure client satisfaction by providing quick and efficient client service and making banking accessible 24/7 and easy for clients.

3. Aiming to ensure client satisfaction by providing customized solutions to meet their financial need, we will conduct regular surveys to understand client preferences and requirements.

In 2023 we are committed to place a strong emphasis on client experience, with the aim of delivering the highest level of financial services and creating a positive, memorable experience for all of our clients.

DIGITALIZATION STRATEGY

During 2023, Retail Banking will be focused to increase Digital Sales through our Digital Channels by continuing to digitalize our products and services and ensuring that our clients will have access to the latest technology and services. By following our Digitalization strategy, during the first half of the year we will be able to offer below services through our digital channels (TebMobile & WEB):

1. Digital KYC;
2. Digital lending: Loans, CC, and OVD;
3. Expand the range of services in digital platforms
4. Optimize internal processes to increase efficiency and adopt to digital banking;

Another part of the strategy is to increase the visibility of digital channels by making sure that our digital channels are easy to find and easy accessible for our clients. This will increase the traffic to our digital channels. Additionally, we will continue to use marketing channels to promote our products and services and direct clients to our digital channels.
In 2023, our focus will also be to equip our active clients with TebMobile, especially those with credit products, which will impact the achievement of the objective of active clients with TebMobile.

We will also continue to invest in our client service and support teams by creating a dedicated team that will deal with all digital applications from all the Digital Channels (TebMobile, Website, E-Banking, E-mail: Info or Client Care, Call Center).

4.2. Card & POS Business

With a very well driven, dedicated, hardworking team, and with the continuous support of the Card and ADC Operations Division, Card & POS Business have achieved remarkable results!
For more than a decade, we have been the market leader in the number of Credit Cards, Credit Card Turnover, the Number of POS Terminals, POS Turnover, e-commerce Merchant Number and e-commerce Turnover.

To achieve such results in the market, we need to be creative, efficient and aggressive in all areas. More than 150 internal and external Card and POS campaigns were organized. New projects have been introduced to the market such as mobileCash (Card-less Cash), TEB-Mobile and our official web-page was upgraded, to give our customers even better experience.

As our cards are based on a loyalty program, more than 500,000 € worth of Bonus were awarded to our Credit and Debit users in 2022 alone.

As we enter in 2023, we've set our bar even higher, with 11 new projects to be launched during 2023, we tend to go digital all the way!

DEBIT CARDS

The latest innovation is a vertical version of debit cards called Starcash. Vertical debit cards, along with other technological innovations, are a growing trend in recent years across the globe. With features like contactless and 0.25% bonus on each payment on TEB POS devices, our debit cards have emerged as being the most preferred card in our country. Starcash has an impact on increasing the number of debit cards as well as turnover. Our total debit card number had an increase of 3.5 % compare to 2021.

CREDIT CARDS - STARCARD

Starcard is the product that has truly revolutionized consumer spending in Kosova. In 2022, Starcards reached the highest level for the last five years in volume turnover. By analyzing our clients' needs, we are continually taking actions to bring the best of the card business to the market! We continue to have the most established portfolio of credit cards in our market, by offering different variety types of credit cards such as Starcard, Premium Starcard, Shecard, Business Credit Card, Agro and Women Entrepreneur card.

To support our card portfolio during 2022, special promotions and campaigns have been organized such as offering extra instalments for every transaction with instalments with Starcard, credit card activation campaigns, special campaigns with merchants with offerings ranging up to 20% Bonus after each purchase, and extra bonus amounts for online purchases at merchants. We have more than 40 Premium Merchants that are carefully selected from each sector. Moreover, Credit Card Limit increase campaigns have been organized during 2022, which had an impact in the overall 2022 Credit Card Turnover, with 10% in total.

E-COMMERCE

Currently, we're the only Payment Gateway acquire that provide payments with instalments (with our Credit Card) in the Kosova market. Some of the biggest merchants in our market trust our payment gateway, making us the market leader in e-commerce acquiring volume as well. We have signed agreements with almost all merchants who offer online sales. In 2022, we have generated 135% year on year growth in volume turnover.

PRIORITIES OF 2023 FOR CARD AND POS BUSINESS

As the market leaders in card issuing and acquiring industry, we tend to introduce new features and upgrade our services with the latest trends. Year 2023 will be no different as we will introduce some new products to our portfolio.

mobileCash – this service is a new feature that is currently being offered in the TebMobile application, where clients will have the possibility to withdraw cash from TEB ATMs without a bank card.

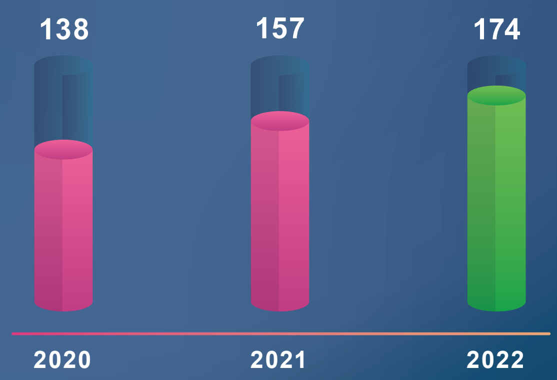
Introduction of new Premium Card – targeting upper premium customers. the new product apart from local privileges, will offer global benefits as well.

Soft POS - The soft POS will allow merchants to accept payments from android smart phones without the need for additional hardware, such as POS terminals. Payments can be accepted in android devices and what will make this solution standout in the market will be the 'pin on glass' and contactless payments.

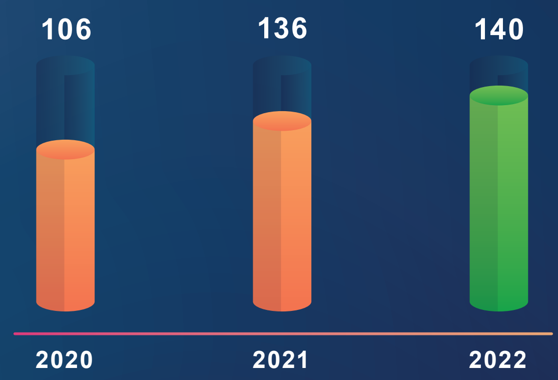
4.3. SME BANKING

The SME Banking Department has performed impressively during 2022. The outstanding loan portfolio has increased by 11% or EUR 18 million. In addition to the business development, despite the financial difficulties resulting from the pandemic recovery and new geopolitical developments, the bank has managed to improve the portfolio quality in 2022 by decreasing the NPL to 2.18%. In parallel, the deposit portfolio has reached a level of EUR 140 million showing a progressive positive development.

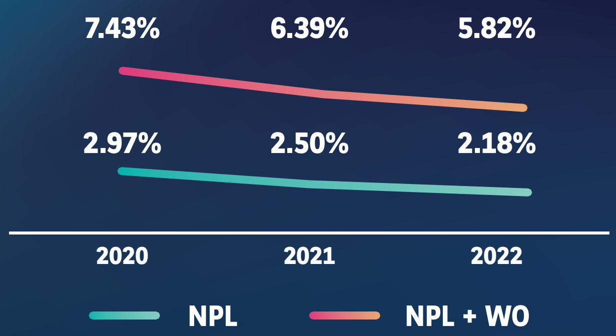
LOAN OUTSTANDING PORTFOLIO



DEPOSIT OUTSTANDING PORTFOLIO



NPL

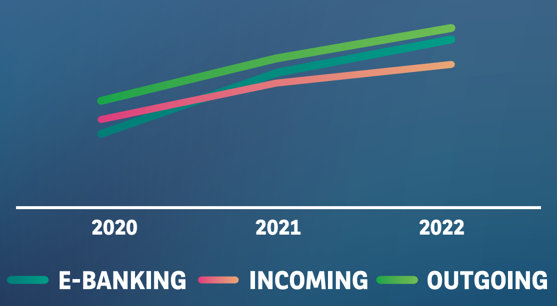


During this year, the SME Department further reorganized its internal processes in order to improve our relationships with our clients. This, not only brought us closer to our branches and allowed us to offer more hand-on support to our staff, but it also enabled us to better understand the needs of our clients and be more responsive to them.

Following the recovery period from the pandemic, the SME Banking Department has continued to offer its products and services, playing an important role in supporting clients and economic development of the country. Through partnerships with guarantee funds such as the Kosovo Credit Guarantee Fund, the International Finance Corporation, and the governmental Economic Recovery Package, the SME Banking Department filled the needs for finance and access to finance for its existing and new clients.

The SME Banking Department has continued to support sectors that have been affected by the pandemic, particularly domestic production, agriculture, services and trade. Additionally, more focus has been put on supporting women-owned businesses through the Woman Entrepreneurship Program in 2022.

TRANSFERS



The transition to digital banking has reached its highest possible level (no it hasn't), confirming the benefits it offers to our clients. Advancements in security features and tailored solutions have proven to be crucial in achieving this success. Additionally, the day-to-day support of our staff to our clients has helped facilitate the transition to digital banking and enhance their engagement.
TEB Business Mobile app usage has increased in 2022. As the features and improvements in TEB Business Mobile and e-banking applications have upgraded the security and user friendliness, 94.5% of total transactions have been performed through the mobile app.

E-BANKING

TEB MOBILE

Our objectives for the upcoming year are higher than ever before. Through the continuation of our internal processes, we aim to offer even more flexible, efficient and better services that meet the evolving needs and requirements of our clients. Our goal is to design better finance solutions that support our clients jointly with business and market developments.

4.4. Commercial and Corporate Banking

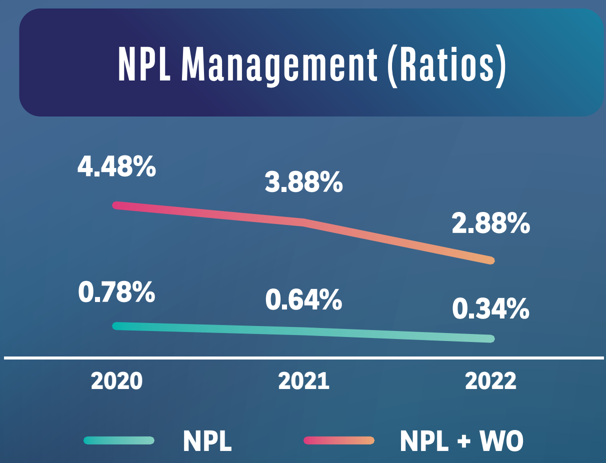
The Commercial and Corporate department at TEB has developed a tailored approach toward its client's needs. Our approach has enabled us to foster productive relations with all our corporate clients, as well as strengthen our market position in the Commercial and Corporate segment. Although the segment is intricate, our strategy focuses on offering customized solutions and advanced cash-management services that provide additional value to both the clients and the Bank.

Being associated with an international banking Group has eased the process of onboarding a significant number of multinational foreign companies that operate in Kosovo. Our diverse client portfolio continues to grow steadily while covering several industries. Special attention was given to projects in the production and export sectors as they are considered with a high potential for corporate growth as well as beneficial to the overall economy.

Our Corporate and Commercial Banking business continued to grow the loan portfolio and the bank continued supporting all of our corporate clients. Client lending volume increased by 20% to EUR 16 million net increase comparing last year.

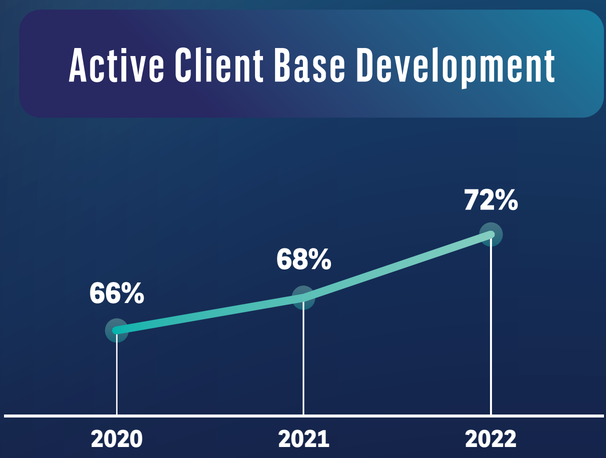
The overall volume of deposits decreased by EUR 18 million (21%) due to the fluctuation of Interest Rates on the market but still keeping healthy liquidity within our bank.

NON-PERFORMING LOANS:



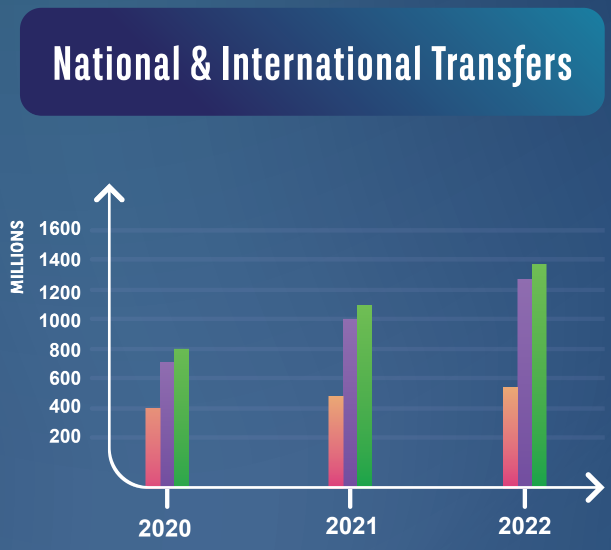
The Corporate and Commercial Banking business continued to maintain the commitment and focus to a high quality portfolio. Despite the success in loan growth, we achieved to maintain the quality of our portfolio, with an NPL ratio of 0.34%. Client lending volume increased by 20% to EUR 16 million net increase compared to last year (this part should not be in the NPL section), (this part is redundant)

ACTIVE CLIENTS:



The client acquisition targets progressed in accordance with the strategic plans. In the Corporate and Commercial Department, the client base has been increased by 4% comparing last year.

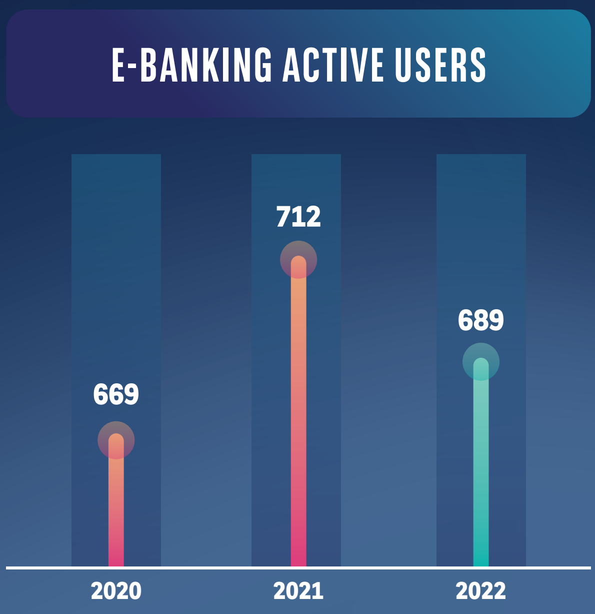
TRANSFERS:



Our digital engagement with clients showed remarkable results and it continued to improve. At the end of 2022, 94% of our clients are active on our digital channels such as Business E-Banking and TEB Business Mobile. During the same period, the overall outgoing money transfers of the Corporate and Commercial segment grew by 22%, of which 94% were done through one of our digital channels.

The national outgoing money transfers for corporate clients in 2022 grew by 25% in amount of 195 million new transfers and 7 % in total number of transactions. The international outgoing money transfers grew by 16% in total amount of 54 million and 2% in total number of transactions. We provide easy, fast and reliable service for making international payments all around the world. Through our extensive network with our foreign correspondent banks, all international payments are processed through the SWIFT system. All our international outgoing payments are STP - Straight Through Processing. The STP payments are done completely through automated process and without any manual intervention. The rapid and safe process of international payments is very important for all our clients, since they prevent fraud risks.

As a member of the SWIFT GPI (Global Payments Innovation), joined in December 2020, we can send and receive the funds quickly and securely anywhere in the world with full transparency. This new standard in global payments (the SWIFT GPI) allows the monitoring and tracking of all cross border payments from end to end in real time. The Tracker database gives end-to-end visibility on the status of a payment transaction from when it is sent and until it is confirmed. This enables all GPI banks to track cross payment instructions at all times including their own payment activity.



The online e-banking service provides the most advanced security systems and gives access to secure, convenient and time-saving banking services 24/7. Our clients can make all type of transfers electronically, including utility and other regular debits (such as energy, water and telephone). Also, the Tax Administration of Kosovo (TAK) payments can be processed through the e-banking platform. Additionally, national payments including the high value payments are processed in real time through RTGS – Real Time Gross Settlement System. RTGS enables fast and real time payments for the beneficiaries in the commercial banks within our country.

The Direct Debiting System (DDS), is a unique product in the Kosovo market that is designed to support B2B commercial cooperation. Its core function is to improve our business clients' financial liquidity by offering complete management control of their receivables and payables. The system requires only an authorization form (signed by the client) and the related transaction will be performed automatically. The DDS authorization allows the automatic debit (withdrawal) of funds directly from clients' bank accounts to make various monthly payments to different public and private companies.

4.5. Treasury & ALM (Asset and Liability Management)

ALM-Treasury plays a pivotal role in bringing together the different activities of the bank. Appropriate liquidity and balance sheet management is a key factor in ensuring to reach the interest income targets and maintain a healthy liquidity profile.

In TEB, the ALM-Treasury function is strong and comprehensive, as it is necessary to carry out prudent asset and liability management. This strength is essential for providing sustainable and secure financial services to clients. We must be confident that our funding is solid, and all our indicators are in line with the risk management requirements.

The experience, theoretical and technical know-how, and custom-tailored solutions are the primary strengths that carry TEB's ALM-Treasury to success. The advanced technological infrastructure and databases are the other important factors that result in the successful performance of the department.

The principal objective of the ALM-Treasury is to manage interest-rate risk in the banking book and liquidity risk and foreign exchange risk; its overall objective is to make prudent investments that increase the value of capital, match assets & liabilities and ensure the healthy functionality of the bank under stress conditions. Simply stated, the purpose of such an approach is to reduce risk and increase returns.

This is being done by effective short term cash flow and long-term liquidity management, guiding the business lines, by creating investment and funding strategies based on prevailing market conditions, interest rate and volume trends of the balance sheet items and internal and external risk parameters.

ALM-Treasury has a forward looking processes involving simultaneous asset and liability management to measure, monitor and control the impact of changing interest rates on the bank's earnings, asset value, liquidity, and capital requirements.

ALM-Treasury has very strong risk awareness in conducting its business that is in line with the prudent approach of the Bank and the Group. For the day-to-day management of liquidity and risk related to our asset-liability structure, the Bank's Board has delegated responsibility to the management to discuss recent market developments and take decisions in accordance with set principles of risk reduction and mitigation.

ALM-Treasury enjoys the strong support of its both French and Turkish parent companies and exclusive access to national and international capital and money markets in controlling its risks and performing its duties.

ALCO

To manage liquidity risk, internal liquidity steering, interest rate in the banking book and structural foreign exchange risk, the management of the bank has established the Asset and Liability Committee (ALCo) as a permanent decision making committee. The ALCo is comprised of members of the senior management of the Bank and convenes monthly to review external and internal developments, local risks and decides on policies and strategies that have to be validated and implemented.

5.

INFORMATION TECHNOLOGY

5.0. INFORMATION TECHNOLOGY

SECURITY RELIABILITY INNOVATION

With the normalization of daily life issues while exiting pandemic situations, the demands for IT projects highly increased during 2022. Considering our IT Strategy primary is improving security, reliability and innovation, our efforts have resulted in an impressive uptime of 99.5%, a testament to the reliability and stability of the systems.

IT CAPACITY

In addition to enhancing the Bank's IT capacity, the team has also taken significant steps to improve the availability on their Disaster Recovery Systems. This has helped to minimize the impact of any potential outages, ensuring that clients can continue to access critical services without interruption.

Overall, the IT department's focus on security, reliability, and scalability has greatly benefited both clients and the organization as a whole. Their proactive approach to addressing potential issues and implementing innovative solutions has set a high standard for IT operations.
In newly demanded projects, our IT Team finalized many important projects and added many new products to its business portfolio.

IT INFRASTRUCTURE

IT Infrastructure has been strengthened. Our data storage capacity was expanded to support the next five years by purchasing two new disk storage units in accordance with our Group standards.

The NAC (Network Access Control) Project, covering the Head Office, Branches and ATM locations, was completed. This enables the bank to prevent the inclusion of any computer in the Bank's network, without the Bank's knowledge.

All of the old computers with low performance used by the Head Office and branch personnel were renewed with newer faster versions and with much better monitors.

There were too many new integrations and developments in the system that brought us to a more stable and digitalized environment based on the market's demands. These changes were greatly appreciated by the Bank's clients.

Closer and more efficient working processes were initiated with IT Teams of the Group. We also obtained very positive results in the NIST Security standards audit conducted by the Group.
In this context, we have completed all the necessary research for our new Disaster Recovery Centre (DRC) location. With our new DRC environment, our goal is to increase active-active data centre usage and IT continuity to 100%.

Moreover, in 2022, we included our "Paperless Banking" target in our targets. In this way, by reducing the use of paper used in branch operations, we will both improve our branch operational processes and increase our contribution to the environment with the Green IT vision.

6. HUMAN RESOURCES

6.0. HUMAN RESOURCES

At the Bank, we understand that creating a culture of support and inclusivity is crucial for our team's success. It fosters a sense of belonging and enables our colleagues to perform at their best. We believe in continuous feedback, personal and professional development and aligning our work with our values and mindset.

Our team has demonstrated remarkable resilience and determination to overcome complex challenges despite the rapidly evolving markets, and a world that is changing faster than ever before, especially over the past year, as they have gone above and beyond to support our clients. We are proud that our strategy, brand, and values resonate strongly with our people, and we will continue to invest in their career development and training to help them grow as professionals.

We believe that employee engagement should be a two-way conversation, with equal emphasis on listening to our people and keeping them informed. We value our colleagues' perspectives and always consider them when making decisions.

Our people are key to our success, and we aim to maintain a positive employee experience and foster good relationships with our employees and managers. We know that high levels of enthusiasm, energy, and motivation are essential for achieving greater job performance, creativity, productivity, and innovation.

We are committed to creating a supportive and inclusive culture, investing in our employees' development, and engaging with them in a meaningful way to achieve success together.

CAREER DEVELOPMENT

The Bank recognizes the importance of attracting and retaining talented employees in order to achieve its business objectives. To do so, it aims to create a workplace experience that meets individual employees' aspirations while also prioritizing collective skill development. To achieve this, the Bank plans to understand collective employee values and incorporate them into the workplace by fostering positive work culture. Additionally, it plans to identify the skills necessary for the Bank's success and provide employees with training and development opportunities, such us on-the-job training or external programs. By focusing on this initiative, the Bank will create an attractive workplace that retains top talent and equips employees with the skills needed to contribute to the Bank's long term success. During 2022, the HR department organized various type of trainings: On-boarding for new hires, refreshment training for internal staff, leadership training for all managerial levels, future leadership training for potential future managers, and specialized external training in different topics as per the needs of the departments.

At year-end 2022, the full TEB team had 611 employees. A total of 128 banking and financial services professionals were recruited during the year, from which 65 interns were given the chance to take the challenges and become part of our bank, while 250 employees were promoted. In line with the objectives and the transparent communication principle of TEB, vacancies were published to all employees throughout the bank, including interns, which gave them equal opportunity to apply and grow within.

THE VOICE OF EMPLOYEES

Throughout the year, we have conducted various surveys and focus groups that provided us with more in-depth understanding of our employees' opinions, empowering them to actively contribute to their personal well-being and that of their colleagues, and the improvement of the workplace. The insight gained from these initiatives will form the foundation of our 2023 agenda.

SOCIAL ACTIVITIES

We do care for our employees' happiness and their motivation. Besides working in synergy we care that they have social activities to enhance their relations and think about how to rearrange their working environment to be more friendly. Social activities are a crucial form of showing employee appreciation and building a sound support system.

WHAT'S NEXT?

For 2023 the focus for the HR department will be on:

- CAREER DEVELOPMENT
- TALENT MANAGEMENT
- PERFORMANCE MANAGEMENT
- EMPLOYEE WELL-BEING
- TALENT RECRUITING

The HR department remains focused in honing in on the relationships built with employees and will continue to boost employee satisfaction, which in turn will directly contribute to achieving the Bank's overall objectives.

7.

MANAGEMENT / CORPORATE GOVERNANCE

7.1. Board of Directors

TEB Sh. A. Board of Directors

Chairwoman: Ayşe Aşardağ

Vice-Chairman: Alp Yılmaz

Member: Luc Delvaux

Member: Nilsen Altintaş

Member: Esra Peri Aydoğan

Member: Birol Deper

Member: Osman Durmuş

Member: Ayse Meral Çimenbiçer

Member: Nimet Elif Kocaayan

Managing Director and Member: Orçun Özdemir

GOVERNANCE

TEB SH.A. has a Board of Directors currently comprising ten members with extensive banking experience. The Board carries out its duties and responsibilities according to the requirements set out in the Bank's charter and pursuant to all relevant legislation and requirements imposed by the Central Bank of Kosovo (CBK) and regulators. The Board meets at least quarterly.

THE ROLE OF THE BOARD OF DIRECTORS

The Board's primary task is to supervise the financial and business activities of the Bank. It is responsible for defining the Bank's organizational and administrative structure, its business policy including operational and administrative units, their sub-units and functions, supervisory positions and reporting relationships. Moreover, the Board is tasked with the supervision of senior management activities. The Board of Directors determines and establishes the Bank's banking structure and exposure levels, reviews and approves necessary adjustments and measures. Furthermore, the Board is responsible for adopting the report of senior management on business operations based on the semi-annual balance sheet, profit and loss statement, annual balance sheet and internal and external audit reports. Decisions taken by the Board require a majority vote from members who are either present or voting by proxy.

7.2. Committees

Committees of the TEB Sh. A. Board

In line with TEB SH.A.'s Charter, regulations and the Bank's requirements, our Board of Directors has established an Audit Committee, a Risk Committee, a Corporate Governance Committee, a Remuneration Committee, an Upper Credit Committee, and an IT and Data Management Committee, all consisting of Board members with relevant experience and external experts. The Board can also establish ad hoc committees and determine their composition and tasks, where relevant and appropriate. The Committees do not make decisions in lieu of the Board of Directors, but act as advisors to them.

Audit Committee

Committee Chair:	Luc Delvaux
Members:	Ayşe Aşardağ
	Birol Deper
Independent Member:	Bashkim Uka

Duties and Responsibilities:

The Audit Committee serves as an independent and objective committee to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing financial reporting and other financial information of the Bank, systems of internal control regarding finance, accounting, and financial reporting processes.

The Audit Committee meets at least quarterly.

Upper Credit Committee

Committee Chair:	Osman Durmuş
Committee Vice Chair:	Haluk Kırcalı
Members:	Alp Yılmaz
	Ayşe Aşardağ
	Oya Gökçen

Duties and Responsibilities:

This committee is authorized to take credit decisions on amounts starting from €1,000,000 up to €7 million based on the rating of the requester.

7.2. Committees

Corporate Governance Committee

Committee Chair:	Luc Delvaux
Members:	Ayşe Aşardağ
	Esra Peri Aydoğan
	Orçun Özdemir

Duties and Responsibilities:

The Corporate Governance Committee assists the Board of Directors in fulfilling its oversight responsibilities by reviewing:

- The general organizational structure of the Bank;
- The key governance documents of the Bank, especially the Charter of the Bank, the documents regulating the operations of the General Assembly of Shareholders, the Board of Directors, the Committees of the Board of Directors, the Executive Committee and the various Management Committees;
- The scope, duties, ways of functioning of the various Committees of the Board of Directors, with due care for clear division of responsibilities among them;
- The way relations with shareholders can be structurally organized and monitored;
- The overview of issues related to Corporate Social Responsibility.

The Corporate Governance Committee meets at least quarterly.

Risk Committee

Committee Chair:	Nimet Elif Kocaayan
Committee Vice Chair:	Osman Durmuş
Members:	Alp Yılmaz
	Ayşe Aşardağ
	Luc Delvaux

The objective of the Risk Committee is to oversee the risk profile, approve and monitor the risk management framework of the Bank within the context of the risk reward strategy determined by the Board of Directors. As such, the Risk Committee is responsible for monitoring all risk-related components and functions derived from credit, market, liquidity, and operational risks.
The Risk Committee meets on a monthly basis.

7.2. Committees

IT and Data Governance Committee

Committee Chair:	Fatma Gulden Yuncuoğlu
Members:	Ayşe Aşardağ
	Luc Delvaux
	Alp Yılmaz
	Orçun Özdemir

Duties and Responsibilities:

The Committee serves as an independent and objective committee to analyse, monitor, prepare and suggest any matter related to the Bank IT and Data Governance issues, to the Board of Directors.

The IT and Data Governance Committee meets at least quarterly.

Remuneration Committee

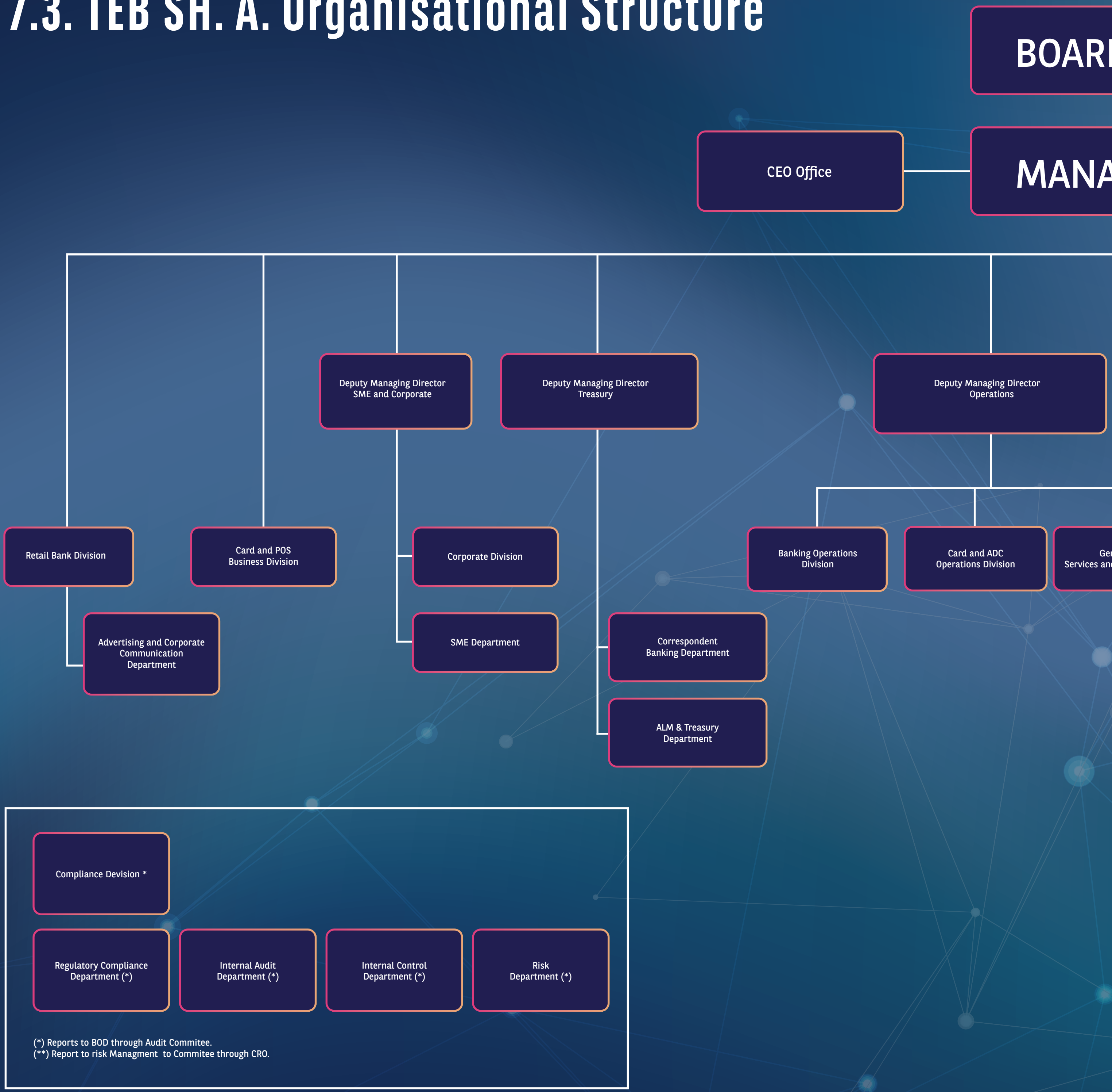
Committee Chair:	Ayşe Aşardağ
Members:	Luc Delvaux
	Alp Yılmaz
	Nilsen Altıntaş
	Orçun Özdemir

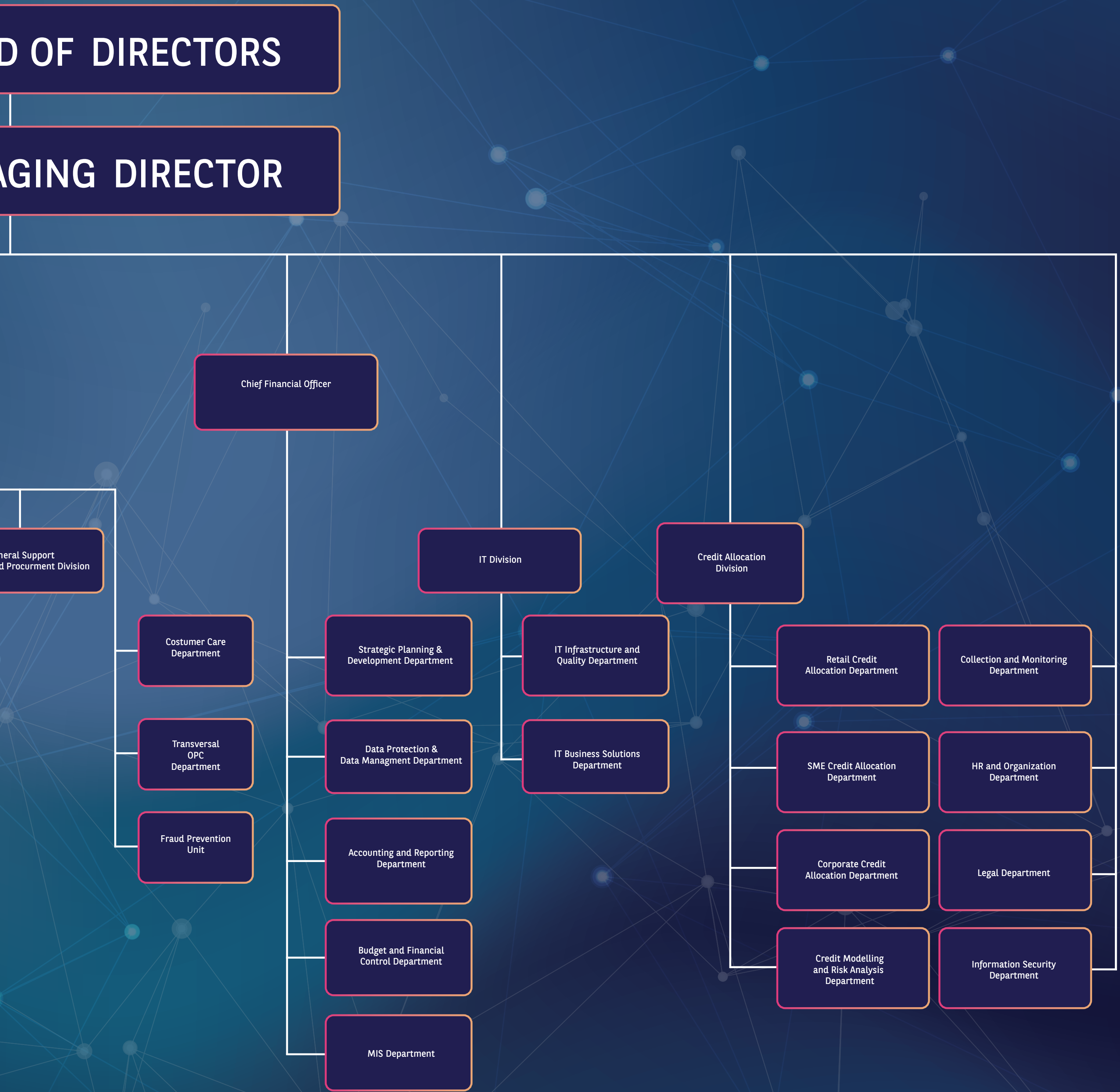
Duties and Responsibilities:

The Remuneration Committee is responsible for the determination, monitoring, and supervision of the remuneration implementations on behalf of the of Directors.

The Remuneration Committee meets at least twice in a year.

7.3. TEB SH. A. Organisational Structure




D OF DIRECTORS
AGING DIRECTOR
Chief Financial Officer
neral Support
d Procurment Division
Costumer Care Department
Transversal OPC Department
Fraud Prevention Unit
Strategic Planning & Development Department
Data Protection & Data Managment Department
Accounting and Reporting Department
Budget and Financial Control Department
MIS Department
IT Division
IT Infrastructure and Quality Department
IT Business Solutions Department
Credit Allocation Division
Retail Credit Allocation Department
SME Credit Allocation Department
Corporate Credit Allocation Department
Credit Modelling and Risk Analysis Department
Collection and Monitoring Department
HR and Organization Department
Legal Department
Information Security Department

7.4. Risk Management

As a nature of banking business, the Bank is exposed to credit, market, liquidity, and operational risks which are identified and monitored in line with the Group and international standards. The Bank measures and monitors risk in a prudent and conservative manner. Therisk management function's purpose is to serve as the second level control, and it is organized within the framework of respective regulation.

The process of risk management is composed of risk identification, analysis, measurement, and risk monitoring, through establishing sound policies and procedures which are practical and understood at all levels of the bank. Our risk management works in cooperation with the senior management to ensure that the risk level of the Bank is in accordance with Group policies and in line with the bank's risk appetite. The Risk Department is managed by Chief Risk Officer and maintains its independence in its daily functions as they report directly to the Board of Directors through the Risk Committee (RC).

7.4.1. Credit Risk

Credit risk is the most common risk that the bank is exposed to, considering the local market structure and overall conditions. TEB is exposed to credit risk through its lending, trade finance, and treasury activities, nevertheless, credit risk may arise in other circumstances as well. Credit risk management is conducted through regular analysis of the debtors' credit worthiness, all credit exposures are reviewed at least on an annual basis, while large exposures are monitored on regular basis. The monitoring function who has the mandate to observe and monitor large corporate exposures monthly within Watch List Doubtful Committee, in case of any observed credit deterioration. The monitoring process considers but is not limited to cash flow and sales performance, credit covenants, payment behaviour, profitability, liquidity, solvency, and debt ratio.

The Board of Directors through its power delegation credit authority has the final authority in the allocation of loan facilities and approval of credit policies. This power is delegated to the Upper Credit Committee and the Chief Executive Officer with certain conditions and limits. The exercise of these delegated powers is regularly monitored and reported by internal control, risk management, and internal audit, as part of second and third line of defence respectively. On the other hand, Risk Management department reports to the Risk Committee monthly about loan development on the portfolio level, including the KRI summary, regulatory and Board of Directors limits, loan delinquency, exposure by segment and industry, the NPL trend, collection activities, etc.

Credit stress testing is another important component in understanding possible events or changes in the market that could impact the Bank's balance sheet by simulating different default scenarios on the existing bank portfolio. Moreover, the Bank implements IFRS 9 principles for the assessment and calculation of expected credit loss and calculation of impairment for its financial assets.

7.4.2. Market Risk

Market risk involves possible losses that a bank may incur as a result of the exposure of its balance sheet and off-balance sheet accounts to interest-rate risk, or exchange-rate risk, resulting from fluctuations in the financial markets. TEB ALMT-Treasury oversees operational management of the market risk and optimizes the returns within the set risk appetite limits, while the Risk Management Department monitors the market-risk exposure as the second level of control in order to ensure to maintain the Bank's conservative risk profile.

7.4.3. Interest-Rate Risk

As part of market risk, the interest-rate risk arises from the risk that an asset would lose in value due to the change in interest rates. Interest-rate risk is determined by measuring the rate of sensitivity of assets, liabilities and off-balance sheet items providing 100/200 basis point +/- shock simulations over Net Banking Income on a monthly basis. IRR is monitored closely through gap and duration analyses. Possible negative effects of interest-rate fluctuations on financial position and cash flow are minimized by means of prompt decisions.

7.4.4. Exchange-Rate Risk

Exchange-rate risk is defined as a possible loss that a bank may incur with all of its currency assets and liabilities in the event of changes in exchange rates. Position limits determined by the Board of Directors are monitored on a daily basis as are possible changes in the Bank's monetary positions that may occur as a result of routine foreign currency transactions.

7.4.5. Liquidity Risk

Liquidity risk is defined as the risk that the Bank cannot maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so at materially disadvantageous terms. The liquidity risk is managed by Treasury-ALM within the defined policies and procedures. Liquidity risk is monitored with several ratios and GAP analysis. The limits are set and the extraordinary conditions together with their own limits are defined to make proper liquidity management. The Bank's policy is to have an asset structure that is sufficiently liquid to meet all kinds of liabilities as they fall due. The Board of Directors regularly review and determines liquidity ratios and the relevant standards for maintaining high liquidity at all times. TEB has in place an effective system for the timely reporting of the liquidity position to the Board of Directors, senior management and all related departments. Moreover, liquidity stress tests are another important tool to measure bank liquidity at different business assumptions and reported monthly to the Risk Committee.

7.4.6. Capital Adequacy

The Bank's aim is to ensure it owns sufficient capital to cover the risks involved in its lending business activities. TEB SH.A. being in line with the regulation requirements, has implemented an internally driven capital assessment process based on its own approach and methodologies. This process assesses whether TEB SH.A. holds sufficient capital to face all the risks it bears given its strategy and Risk Appetite. It considers all the drivers (internal and external) that could influence TEB SH.A. solvency (e.g. internal risk assessment, regulatory constraints related to capital such as regulatory ratio, leverage ratio or business environment constraints through stress tests). The Risk Management department monitors and reports capital adequacy ratios to senior management and to the Board of Directors through the Risk Committee.

7.4.7. Operational Risk and Business Continuity

The Operational Risk function is responsible for monitoring operational risk events as defined by the Basel Committee on Banking Supervision (BCBS). TEB SHA has a system appropriate to the nature, extent and complexity of the Bank's business in order to effectively identify key risk indicators and assess, monitor and control operational risk events. The Bank implement methods to assist other departments in identifying, monitoring, controlling, and mitigating operational incidents. The Operational risk function provides operational risk training for all staff, especially those who are responsible for reporting incidents and assessing all processes in terms of operational risk and identifying risky processes.

Business continuity consists entirely of plans that ensure the continuity of the Bank's critical business functions in case of any business interruption incident arises from internal or external factors. The operational risk function is constantly engaged in defining, measuring, and reporting risk to the Chief Risk Officer. The results of operational risk and business continuity activities are reviewed, assessed and reported on monthly basis to the Risk Committee and on a quarterly basis to Board of Directors.

We have integrated our operational risk related tasks to the BNP Paribas Group risk management. Our operational risk function has direct access to the Group's system for reporting and managing Operational Risk Management related issues, which are named Historical Incidents and RCSA (Risk Control Self-Assessment). Risk Control Self-Assessment (RCSA) is applied to identify and to evaluate operational risks and associated controls. It adds value by increasing an operating unit's involvement in designing and maintaining control and risk systems, identifying risk exposures, and determining corrective action. The aim of RCSA is to integrate risk management practices and culture into the way that the staff carry out their jobs, and business units achieve their objectives.

7.5. Audit, Control, Compliance, and Legal

7.5.1. Internal Audit

The Internal Audit function is one of the key components in the Bank's governance structure. The Bank's Internal Audit function is independent and as such reports directly to the Board of Directors through the Audit Committee.

The Internal Audit is an assurance function, whose mission is to provide, as a result of objective examination of evidence, an independent, and objective assurance that the governance, the risk management and the control of the Bank are properly and effectively setup and managed. It is the Internal Audit Department's responsibility to provide assessment on the adequacy and effectiveness of the TEB Sh.A Kosovo's processes, in order to control the Bank's activities and manage the risks being raised from the processes.

Audit activities are carried out by the Internal Audit Department according to the audit plan, which is prepared at least on an annual basis using a risk-based methodology, which includes the overview of a multi-year past and future audit plan to make sure that all units of the Bank are audited within the audit cycle. The annual plan is validated by the Audit Committee and approved by the Board of Directors.

The work of the Internal Audit Department is performed in compliance with the applicable laws, regulations, group audit practices in place, and in compliance with the International Standards for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors, which is the governing body for the internal audit profession worldwide.

7.5.2. Compliance

The main tasks of the compliance function are to identify and manage compliance risks in order to protect clients and employees against breaches of legal provisions and requirements. Other tasks of the Compliance function are to keep senior management up to date with new regulatory requirements and to advise the departments on implementing new provisions and requirements.

Compliance controls as well as other internal control processes that are aimed at ensuring the proper conduct of our businesses and services as well at preventing market abuse, insider dealing and conduct breaches, are from time to time subject to regulatory reviews and inquiries in certain jurisdictions.

Anti-money laundering and Know your client processes and controls aimed at preventing misuse of our products and services to commit financial crime, continue it to be subject of regulatory reviews, investigations and enforcement actions in several jurisdictions.

Combatting financial crime and complying with applicable laws and regulations are vital to ensure the stability of banks, such as TEB SH.A. and the integrity of the international financial system. To ensure Compliance with all laws and regulations, policies and processes are continuously evaluated and reviewed across the Group. Compliance training is mandatory for all new employees and includes awareness building as well as an introduction to the prevention of compliance risks, including corruption as well.

We expect our employees to act honestly, responsibly, fairly and professionally, to serve the best interests of clients and to respect the integrity of the markets. Our code of conduct, comprising our values, ethical business conduct and requirements, forms the basis for how our employees should behave with colleagues and our clients, business partners, shareholders and the authorities. TEB's code of conduct includes ethical business provisions that are aimed at managing conflict of interest, preventing market abuse, fighting terrorism and other economic crimes including money laundering.

In the year 2022 we had significant progress in different compliance areas which strengthen further our competitive advantages, trainings, KYC, AML, Sanctions & Embargoes.

Our Compliance Division is independent from all other functions of the bank. The Head of Compliance Division reports directly to the Managing Director in regular basis and periodically to the Board of Directors (through Audit Committee).

Compliance main achievements for 2022-year in our Bank are:

• The AML Compliance set-up has been significantly reinforced, specifically on cash controls as well as alert management;
• Contributed to simplification of 'Know Your Client' (KYC) process
• Projects about efficiency in compliance domain continued and will be the top priority for upcoming years (with focus on digital banking alternatives);
• Training of AML Compliance team members continued (100% certified in the area of Financial Security).
• Automatizing and enhancing the systems for screening, filtering, monitoring and adverse information,
• Implementing ongoing and upcoming projects in order to reinforce our IT infrastructure to prevent money laundering and terrorism financing,
• Strengthening the AML risk culture within the bank by the AML Automated Detection Tools.
• Adherence to Kosovo Local Sanction List with timely response.

Looking ahead we can see significant opportunities for growth up in our banking group. The goals and objectives for year 2023 are, but not limited to:
• Re-enforcing current AML automated detection solutions in order to be in coherence with new trends in AML/CFT/ABC and International financial sanctions and embargoes.
• Increasing the efficiency in compliance domain as top priority of the Bank, using technology to easing the processes without compromising from the robust set-up.

We are committed to adhering to strict laws, regulations and guidelines to combat money laundering, finance of terrorism, to prevent violation of international financial sanctions. Furthermore, the bank documented policies and procedures consistent with applicable ABC regulations and requirements to prevent, detect and report bribery and corruption. We scrutinize our clients and their transactions to prevent our name and our products and services from being misused for such purposes and this can be seen by implementing of advanced tools related to AML/CFT and International financial sanctions.

7.5.3. Regulatory Compliance

The Regulatory Compliance Department's main responsibility, in line with the banks strategy of being a compliant bank, is to identify, assess and monitor the Regulatory Compliance risks faced by the bank. The department reports directly to the Audit Committee /Board of Directors, to inform them about these risks and follow up corrective measures when needed. Furthermore, the department advises Senior Management regrading compliance topics through opinions, review of operating framework and in the process design. The Regulatory Compliance Department operates on a pro-active basis assessing the Regulatory Compliance risks associated with bank's business activities, including the development of new products.

The main focus is on Central Bank of Kosovo and BNPP's regulatory requirements, and therefore a Regulatory Watch process has been very active during 2022 and monitored all the changes in regulatory framework and created actions plans for the stakeholders.

Other domains with equivalent importance are Protecting Interest of the Clients, Professional Ethics, Market Integrity and the continues advocating to all the employees on respecting the Code of Conduct.

Regulatory Compliance Department works closely with BNPP Group in order to implement the highest compliance, ethical and integrity standards, while always protecting the interest of clients.

7.5.4. Internal Control

The Internal Control Department aims to strengthen, support and maintain internal controls and improve control culture at every level of TEB SH.A. At TEB, the Internal Control and Operational Risk functions are structured separately. The Internal Control Department is an independent body reporting directly to the Board of Directors through the Audit Committee on a quarterly basis. It is positioned as an integral part of the second-level of defence and executes its duties accordingly.

Controls are designed to:

- Verify proper adherence to internal rules and procedures and the consistency and compliance of internal rules with legal regulations,
- Contribute to safeguarding assets,
- Assess the adequacy, effectiveness and efficiency of daily operations, and
- Contribute to the identification and assessment of risks related to the organization's current and proposed future business activities, including new products.

The main focus of the Internal Control Department will be Branch controls and regular controls originating from the Group. In addition, control activities on first-level of defence controls will be another area of focus to support and improve the effectiveness and quality of first-level controls.

7.5.5. Transversal OPC

Transversal OPC Department aims to rebalance the levels of controls by strengthening, supporting and maintaining internal controls system, and improving the control culture by monitoring the 1st Level of Defense under the Business lines (in process flow controls on ex-ante and ex-post transaction).

T-OPC Department is an independent body (no operational responsibilities) reporting directly to the Deputy Managing Director (responsible for operations), to the Group and ICC (Internal Control Committee) on a regular basis. The T-OPC Department operates and/or coordinates the banks Operational and Permanent Control framework related to all operational risks including fraud, third party, conduct, compliance, regulatory and others risks types in collaboration with other specialized independent control functions and in compliance with internal policies, procedures and guidelines issued by bank as well as with external regulatory and supervisory requirements.

T-OPC Department's achievements:

- Implementing the New Groups Generic Control Plans,
- Completing the responsibilities under Conduct Referent role,
- Contributing to the Risk Control and Self-Assessment process for ALMT Treasure,
- Assessing the adequacy, effectiveness, and efficiency operations by permanently monitoring defined controls,
- Being involved in the Exceptional Transaction and New Product (TAC / NAC) valida tion process,
- Control execution through Risk 360 Tool.

7.5.6. Legal

LEGAL as an integrated function of the Group oversees all the legal risks of the Bank, by ensuring consistency in its policies and agreements and by providing legal advice to all the banks functions. There are a few functions that have been established by the Group to ensure the uniform and collaborative approach of LEGAL (i.e. the Regulatory Watch process (which takes place on a local, regional and global level), the Standardised Contract Management process, legal dispute management). The function is distinctly independent, and it does its own first and second level controls, its own risk assessment, and has its own budget.

In 2022, there were many positive developments, where the Legal Department significantly contributed towards improving the processes of the bank. The increased digitalisation process of the Bank has required continuous legal input to translate the improved client experience into clear and enforceable agreements with the client. LEGAL also contributed to the increase of efficiency of bank's processes by analysing the necessity and removing bureaucratic requirements. One aspect of the function's work that has seen measurable success is the management of legal disputes (not including credit collection cases), where LEGAL liaises with the other Bank functions to ensure that any potential dispute is resolved with the party without necessarily requiring going to court. The number of court cases has continued to decrease and the plan is to resolve the old remaining cases while to continue resolving potential disputes at the earliest stages.

For the year 2023, LEGAL plans to standardise and automate all of the most used agreements, so that the increased efficiency can be directed towards more demanding tasks such as electronic identification and electronic signatures.

8.

AUDITORS REPORT

TEB SH.A.

Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

as at and for the year ended 31 December 2022

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Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of TEB SH.A.

Opinion

We have audited the financial statements of **TEB Sh.A. (**the "Bank"), which comprise the statement of financial position as at December 31, 2022, and the statement profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2022, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank in accordance with the requirements of the Law No. 04/L-093. The Annual Report of the Bank is expected to be made available to us after the date of our audit report. Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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.

Deloitte Kosova sh.p.k.
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Unique Identification No.: 810468373
March 23, 2023

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810468373
10000 Prishtinë, Kosovë

Engagement Partner
Arta Limani

TEB SH.A.
Statement of financial position

(All amounts are expressed in thousand EUR, unless otherwise stated)

	Note	31 December 2022	31 December 2021
ASSETS			
Cash and balances with banks	6	114,788	150,147
Loans and advances to banks	7	49,561	72,267
Investments in debt securities	8	41,833	45,414
Loans and advances to customers	9	535,048	468,948
Investment properties	10	1,920	1,661
Other financial assets	11	6,168	3,977
Other assets	12	1,473	1,431
Premises and equipment	13	3,832	2,975
Right-of-use-assets	14	3,338	2,474
Intangible assets	15	2,460	2,846
Deferred income tax asset	29	27	-
TOTAL ASSETS		**760,448**	**752,140**
LIABILITIES			
Due to customers	16	651,408	641,570
Other liabilities	20	621	414
Lease liabilities	14	3,388	2,537
Borrowings	17	-	1,722
Other financial liabilities	18	9,316	5,233
Provisions for liabilities and charges	19	814	1,023
Corporate income tax liability		489	681
Deferred income tax liability	29	-	2
TOTAL LIABILITIES		**666,036**	**653,182**
SHAREHOLDER'S EQUITY			
Share capital	21	24,000	24,000
Retained earnings		70,933	74,947
Other reserves		(521)	11
TOTAL SHAREHOLDER'S EQUITY		**94,412**	**98,958**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**760,448**	**752,140**

These financial statements have been approved by the Executive Management of the Bank on 23 March 2023 and signed on their behalf by:

Mr. Orçun Ozdemir
Managing Director

Mr. Rezak Fetai
Chief Financial Officer

The notes on pages 5 to 62 are an integral part of these financial statements.

(All amounts are expressed in thousand EUR, unless otherwise stated)

	Note	2022	2021
Interest income	22	35,748	31,591
Interest expense	23	(505)	(777)
Net margin on interest and similar income		**35,243**	**30,814**
Net impairment (loss)/release on loans and advances to customers	9	(159)	(397)
Net margin on interest and similar income after allowance for expected credit losses		**35,084**	**30,417**
Fee and commission income	24	17,418	14,737
Fee and commission expense	25	(7,288)	(5,355)
Gains less losses from foreign currencies revaluation		483	327
Gains less losses on revaluation of investment properties		259	12
Net (impairment)/release for credit related commitments		98	(29)
Other operating incomes		646	832
Other operating expenses		(1,787)	(1,553)
Other impairments and provisions	26	(84)	(248)
Personnel costs	27	(9,025)	(8,055)
Depreciation and amortisation	13,14,15	(5,199)	(4,428)
Administrative expenses	28	(7,474)	(6,758)
PROFIT BEFORE TAX		**23,131**	**19,899**
Income tax expense	29	(2,145)	(2,108)
PROFIT FOR THE YEAR		**20,986**	**17,791**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Debt securities at fair value through other comprehensive income: Gains less losses arising during the year, net of taxes	29	(532)	(403)
Other comprehensive income / (loss) for the year		**(532)**	**(403)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**20,454**	**17,388**

The notes on pages 5 to 62 are an integral part of these financial statements.

(All amounts are expressed in thousand EUR, unless otherwise stated)

	Share capital	**Retained earnings**	**Other reserves**	**Total**
Balance at 1 January 2021	**24,000**	**61,156**	**414**	**85,570**
Profit for the year	-	17,791	-	17,791
Other comprehensive income	-	-	(403)	(403)
Total comprehensive income	**-**	**17,791**	**(403)**	**17,388**
Dividend payment	-	(4,000)	-	(4,000)
Balance at 31 December 2021	**24,000**	**74,947**	**11**	**98,958**
Balance at 1 January 2022	**24,000**	**74,947**	**11**	**98,958**
Profit for the year	-	20,986	-	20,986
Other comprehensive income	-	-	(532)	(532)
Total comprehensive income	**-**	**20,986**	**(532)**	**20,454**
Dividend payment	-	(25,000)	-	(25,000)
Balance at 31 December 2022	**24,000**	**70,933**	**(521)**	**94,412**

The notes on pages 5 to 62 are an integral part of these financial statements.

(All amounts are expressed in thousand EUR, unless otherwise stated)

	Notes	2022	2021
Cash flows from operating activities			
Profit before tax		**23,131**	**19,899**
Adjustments for:			
Depreciation of property, plant and equipment	13	1,683	1,717
Depreciation of right-of-use-assets	14	1,085	1,051
Amortization of intangible assets	15	2,431	1,660
(Gains)/loss on disposal of premises and equipment		(18)	(17)
Gain from sale of repossessed assets		(365)	(538)
Gain from fair value of investment property		(259)	(12)
Gains on investments in debt securities		(4)	(17)
Loans expected credit losses	9	1,417	1,860
Expected credit losses of other financial assets	26	(183)	2
Miscellaneous provisions	26	242	888
Impairment/(release) for credit related commitments		(98)	29
Interest income	22	(35,748)	(31,591)
Interest expense	23	505	777
		(6,181)	**(4,292)**
Net decrease/(increase) in:			
Balances with CBK		(6,943)	(5,965)
Loans and advances to customers		(67,501)	(55,622)
Other financial assets		(2,764)	(1,383)
Other assets		(307)	(58)
Net increase/(decrease) in:			
Due to customers		10,226	80,311
Other financial liabilities		4,083	724
Provision for liabilities and charges		(209)	(508)
Other liabilities		(36)	(34)
		(63,451)	**17,465**
Interest received		35,728	30,745
Interest paid		(902)	(938)
Income taxes paid		(2,336)	(1,275)
Net cash from operating activities		**(37,142)**	**41,705**
Cash flows from investing activities			
Acquisition of debt securities at fair value through other comprehensive income		(4,967)	(28,393)
Proceeds from disposal of investments in debt securities		9,157	8,665
Proceeds from disposal of premises and equipment		20	17
Gain from sale of repossessed asset		365	538
Gains on investments in debt securities		4	17
Acquisition of premises and equipment	13	(2,540)	(1,166)
Acquisition of intangible assets	15	(2,048)	(2,175)
Net cash used in investing activities		**(9)**	**(22,497)**
Cash flow from financing activities			
Dividend payment		(25,000)	(4,000)
Repayment of borrowings		(1,715)	(3,429)
Repayment of principal of lease liabilities		(1,323)	(1,259)
Net cash used in financing activities		**(28,038)**	**(8,688)**
Net increase in cash and cash equivalents		**(65,189)**	**10,520**
Cash and cash equivalents at 1 January		167,133	156,613
Cash and cash equivalents at 31 December	6	**101,944**	**167,133**

The notes on pages 5 to 62 are an integral part of these financial statements.

1. Introduction

TEB SH.A. ("the Bank") was incorporated in the Republic of Kosovo on 19 December 2007 when it was granted a licence by the Central Bank of Kosovo ("CBK") for banking activities. The Bank commenced its operations in January 2008.

The Bank is controlled by TEB Holding AS which is a company incorporated in Turkey (the "Parent Company") and owns 100% of the shares of the Bank. The shareholders of TEB Holding AS are BNP Paribas and Çolakoĝlu Group, each of them owning 50% of the shares. BNP Paribas is the ultimate controlling party of the Parent Company and the Bank.

Registered address and places of business: The registered head office of the Bank is located in Preoc n.n. 7KM main road Prishtina - Ferizaj, Gracanica 10500, Republic of Kosovo.

Principal activity: The Bank operates as a fully-fledged bank in accordance with Law No.04/L-093 on Banks, Microfinance Institutions and non-bank financial institutions and provides services to all categories of customers in the Republic of Kosovo through its network of 29 (2021: 29) branches located in Prishtina, Gjakova, Peja, Prizren, Ferizaj, Mitrovica and Gjilan.

At 31 December 2022, the Board of Directors of the Bank is comprised of:

- Ayşe Aşardağ (Chair)
- Luc Delvaux (Vice Chair)
- Alp Yilmaz (Vice Chair)
- Nimet Elif Kocaayan (Member)
- Osman Durmus (Member)
- Nilsen Altintaş (Member)
- Birol Deper (Member)
- Esra Peri Aydoğan (Member)
- Fatma Gülden Yüncüoğlu (Member)
- Orçun Ozdemir (Member & Managing Director)

2. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"), under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of investment properties and financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). 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.

Functional and presentation currency

These financial statements are presented in EUR, which is the Bank's functional currency. Functional currency is the primary currency of the economic environment in which the Bank operates, being the Republic of Kosovo.

2. Summary of significant accounting policies (continued)

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
CBK	Central Bank of Kosova
TEB Group	TEB Holding AS
Group	BNP Paribas
BoD	Board of Directors
EBRD	European Bank for Reconstruction and Development
RMC	Risk Management Committee
IFRS	International Financial Reporting Standard
EIR	Effective interest rate
IR	Interest Rate
IRR	Interest Rate Risk
FX, Forex	Foreign Currency Exchange
RSA	Rate-sensitive assets
RSL	Rate-sensitive liabilities
ROU asset	Right of use asset
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
AC	Amortised Cost
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
PD	Probability of Default
DR	Default Rates
EAD	Exposure at Default
DpD	Days past Due
ECL	Expected Credit Loss
LECL	Lifetime Expected Credit Loss
LGD	Loss Given Default
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest
CCF	Credit Conversion Factor
PEA	Private Enforcement Agents
CFO	Chief Financial Officer
CRO	Chief Risk Officer
ALM	Asset-liability management
ALCo	Asset-liability committees
WDLC	Watch List- Doubtful Committee

Financial instruments - key measurement terms

Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. 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.

2. Summary of significant accounting policies (continued)

Financial instruments - key measurement terms (continued)

The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have not occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any expected credit loss allowance. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method.

Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate). The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

- For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.
- For financial assets for which there is an incurred credit loss (credit impaired assets in stage 3), the effective interest rate applies to the amortized cost of the instrument and not to its gross carrying amount.
- For financial liabilities the effective interest rate is the rate that discounts future estimated payments to the amortized cost of the financial liability.

The calculation of the effective interest rate includes transaction costs, fees and points paid or received that are an integral part of the effective interest rate.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the expected life of the instrument.

2. Summary of significant accounting policies (continued)

Financial instruments – initial recognition

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price the Bank accounts for that instrument at that date as follows:

a) A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.
b) In all other cases, the fair value measurement is adjusted to defer the difference. After initial recognition, the Bank recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories

The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 3 for critical judgements applied by the Bank in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent SPPI. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 3 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

2. Summary of significant accounting policies (continued)

Financial assets – reclassification

Financial assets are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Bank did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – expected credit loss allowance.

The Bank assesses the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a SICR since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL").

Refer to ***Significant increase in credit risk "SICR"*** paragraph for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit-impaired assets and definition of default is explained under ***Financial assets impairment*** paragraph. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Financial assets – write-off

Financial assets are written-off, in whole or in part according to delinquency and collateral coverage as regulated with local regulation. On the other hand, when the Bank has exhausted all recovery efforts and has concluded that there is no reasonable expectation of recovery, it may decide to write off an asset before local requirements due date.

Financial assets – de-recognition

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

2. Summary of significant accounting policies (continued)

Financial assets – modification

The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset significant change in interest rate, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties. If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank assesses whether the modification of the terms are substantial or not. If the modified asset is not substantially different from the original asset and the modification does not result in de-recognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – de-recognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying amounts is attributed to a capital transaction with owners.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all vault cash, interbank placements and unrestricted deposits with the CBK, with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

2. Summary of significant accounting policies (continued)

Cash and cash equivalents (continued)

Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the CBK

Mandatory cash balances with the CBK are carried at AC and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day-to-day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks (loans and advances to banks)

Amounts due from other banks are recorded when the Bank 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 AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Investments in debt securities

Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss.

An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Loans and advances to customers

Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

2. Summary of significant accounting policies (continued)

Repossessed collateral

Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in Repossessed assets within other assets. The Bank subsequently measures repossessed collateral at the lower between cost (amount initially recognised) and fair value less costs to sell. Repossessed collateral is written off in case they are not resold by the Bank within 5 years from repossession. Movable property is not recognised as an asset when repossessed. Any loss arising from the above re-measurement is recorded in profit or loss and can be reversed in the future. Gains or losses from the sale of these assets are recognized in the profit or loss.

Financial guarantees

Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected credit loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Credit related commitments

The Bank issues financial guarantees and commitments to provide loans. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans 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; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Investment property

Investment property is property held by the Bank to earn rental income or for capital appreciation, or both and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period.

Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs.

2. Summary of significant accounting policies (continued)

Investment property (continued)

The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Any resulting increase in the carrying amount of the property is recognized in profit or loss unless it relates to a transfer from owner-occupied property to investment property in which case the increase is recognised in other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognized in other comprehensive income, if any, with any remaining decrease charged to profit or loss for the year. In the absence of current prices in an active market, the Bank considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
(c) discounted cash flow projections based on reliable estimates of future cash flows by external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The fair value of the Bank's investment property is determined based on the report of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, where required. Historical cost includes expenditure that it 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.

Each year, the Bank assesses whether there are indications that assets may be impaired. If any such indication exists, the recoverable amounts are estimated. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the profit or loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining the operating result for the period.

Land and construction in progress are not depreciated. Depreciation on other items of property and equipment is recognised in profit or loss using the straight-line method to allocate their cost over their estimated useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as presented below:

Category of assets	**Depreciation rates used**
Leasehold improvements	Shorter of useful life and the term of the underlying lease
Furniture, fixtures and equipment	3-5 years
Computers and related equipment	3-5 years
Motor vehicles	5 years

2. Summary of significant accounting policies (continued)

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 and subsequently at cost less accumulated amortisation and any accumulated impairment loss. 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 and licenses, which are amortised using the straight-line method over their estimated useful life of up to five years. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Right-of-use assets
The Bank leases various offices for its branches, ATMs and headquarters. Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives.

Impairment of non-financial assets
An impairment loss is recognised whenever the carrying value of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. The value in use of an asset is the present value of estimated future cash flows expected from the continuing use of an asset and from its disposal.

Due to other banks and customer accounts

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Other borrowed funds. Other borrowed funds include loans taken from EBRD. Funds borrowed are carried at Amortised Cost.

Taxation
Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in Equity or in Other Comprehensive Income.

Income tax
Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

2. Summary of significant accounting policies (continued)

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity.

Tax exposures

In determining the amount of current and deferred tax, the Bank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events.

New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. Provisions are recorded when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a charge occurs, as identified by the legislation that triggers the obligation to pay the charge. If a charge is paid before the obligating event, it is recognised as a prepayment.

Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Bank uses the incremental borrowing rates calculated by Treasury Department.

The Bank is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

2. Summary of significant accounting policies (continued)

Lease liabilities (continued)

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Employee benefits

The Bank pays contributions to the publicly administered pension plan (Kosovo Pension Savings Trust) on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

Dividends are recorded in equity in the period in which they are declared by the Bank’s shareholders and approved by the CBK in accordance with CBK regulation in force. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note.

Interest income and expense

Interest income and expense are recorded for all financial instruments measured at AC, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the Bank 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. The Bank does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price less directly attributable transaction costs). As a result, the effective interest rate is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

2. Summary of significant accounting policies (continued)

Fees and commissions

Fee and commission incomes and expenses are recognised as following:

Fees received that are an integral part of the effective interest rate of a financial instrument (origination fees such as fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents, etc.) are amortized according to the effective interest rate method over the effective life of the contracts.

Fees for which the performance obligation is satisfied at a point in time – these fees are recognised as revenue or expense when the performance obligation is satisfied (usually when the service is executed). Such fees and commission include fees from (for): international payments, domestic payments, SMS banking, credit card fees (merchant commissions, fees from customers of other banks that use Bank's POS and ATM terminals, VISA and Master fees, etc.), account servicing fees (cash withdrawal fee, cash deposit fee, pin reset, closing account fees), fees from money transfers, etc.

Fees for which the performance obligation is satisfied over time – these fees are recognised as revenue or expense when performance obligation is satisfied over time (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). Such fees include credit card and account maintenance fees, fees for guarantees and letter of credits, etc.

Foreign currency translation

The functional currency of the Bank is Euro, the currency of the primary economic environment in the Republic of Kosovo.

Monetary assets and liabilities in other currencies are translated into the functional currency at the official exchange rate of CBK at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of CBK, are recognised in profit or loss for the year (as foreign exchange translation gains fewer losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

3. Critical accounting estimates and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Expected Credit Loss (ECL) measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 33. The following components have a major impact on credit loss allowance: definition of default, criteria for SICR, PD, EAD and LGD, as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

The current applied ECL methodology does not integrate any forward-looking information for measurement of ECL, primarily due to weak correlation between the default rates and macroeconomic indicators. Given the apparent lack of meaningful correlation between the default rates and available macroeconomic indicators for Kosovo, the Management does not believe there is any significant identified and measurable impact of forward-looking information in the Expected Credit Losses amount as of 31 December 2022 and 2021. Nevertheless, the Bank analyses forward looking assumptions, in annual basis, and in case there is any strong correlation of key macroeconomic variables with ECL level, it will integrate those variables on its forward looking model accordingly. Further, the Bank started a new IFRS 9 project at 2021 which is planned to be completed within March 2023. The project includes a new methodology of ECL calculation in which the forward looking approach based on macroeconomic indicators is included.

On the other hand, for end of December 2022 the Bank applied additional ECL in amount of EUR 1.1 mil. (2021: 673 thousand) as an add- on factor for the customers and sectors that might have been effected negatively due to COVID 19, for Construction and Construction Trade Material sectors, and also for the individually assessed cases by WLDC. Based on management's assessment, the Expected Credit Loss recorded after the add – on factor is appropriate.

ECL parameters LGD and PD were updated of the same current methodology and the results were better due to the sound portfolio performance. The estimated release after updating parameters based on August 2022 results was EUR 1.5 mil. The updated LGD as of 2022 segment based are: SME 40.02%, Corporate 20.80%, Retail 49.01%, Agro 48.63% and Credit Card 27.09%.

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts). For such assets, the Bank applies twelve-month maturity and ECL is applied. Based on the Bank's internal procedures, such products are assessed on a yearly basis following a sound credit risk assessment and legally such limits are revocable and Bank can cancel the undrawn commitment at any time.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, besides minimum of 30 DpD which is used as backstop criteria, the Bank uses other qualitative forward looking criteria defined by the Bank to determine what should be considered as a significant increase in credit risk and thus compare the relative lifetime between the default risk at each observation date with the lifetime default at the origination date. If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

3. Critical accounting estimates and judgments in applying accounting policies (continued)

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

The Bank identified securities as a liquidity portfolio and classified them as held to collect and sell.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months' interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument.

The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation), are not relevant for assessing whether cash flows are SPPI.

3. Critical accounting estimates and judgments in applying accounting policies (continued)

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Introduction of an equity feature;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Transfers to and valuation of investment properties. Investment property is stated at its fair value based on reports prepared by an independent, professionally qualified and licensed appraiser at the end of the reporting period.

The principal assumptions made and the impact on the aggregate valuations of reasonably possible changes in these assumptions, with all other variables held constant, are as follows:

- The fair value of the investment property as of 31 December 2022 was determined by using the Sales Comparison Method and Residual Method. The fair value for the year ended 31 December 2021 was determined based on the combination of Sales Comparison Method and Development Method.
- A haircut of 20% was applied to reach to the comparison immediate value.

Impairment of PPE and Right of use Asset: The Bank has assessed the impact of COVID 19 pandemic in the impairment of its non-financial assets. Based on the impairment analyses, the pandemic has not significantly impacted the carrying amount of the Company's property, plant and equipment, right of use assets and intangible assets. No impairment indicators have been noted that are triggered from the COVID 19 pandemic.

Determining lease term - Extension and termination options. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Extension and termination options are included in a number of property leases. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor.

Most extension options in offices and equipment leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

3. Critical accounting estimates and judgments in applying accounting policies (continued)

The lease term is reassessed if an option is exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

4. Standards and interpretations effective in the current period

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **Amendments to IFRS 16 "Leases"** - Covid-19-Related Rent Concessions beyond 30 June 2021 (effective for annual periods beginning on or after 1 April 2021),
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **Annual Improvements to IFRS Standards 2018–2020 (May 2020)**
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),

The adoption of these amendments to the existing standards and interpretations has not led to any material changes in the Bank's financial statements.

5. Standards and interpretations not effective in the current period

At the date of authorization of these financial statements the following standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- **IFRS 17 "Insurance Contracts"** - effective for annual periods beginning on or after 1 January 2023
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1"Presentation of financial statements"** - Classification of liabilities as current or non-current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 4 "Insurance Contracts"** - Extension of the Temporary Exemption from Applying IFRS 9 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 and IFRS Practice Statement 2**- Disclosure of accounting policies (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 12 "Income taxes"** - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),

5. Standards and interpretations not effective in the current period (continued)

- **Amendments to IAS 8** - Definition of accounting estimates (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IFRS 17 "Insurance Contracts"** - Initial Application of IFRS 17 and IFRS 9 — Comparative Information (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IFRS 16 "Leases"** - Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024),

- **Amendments to IAS 1 "Presentation of financial statements"** - Non-current Liabilities with Covenants (effective for annual periods beginning on or after 1 January 2024),

The Bank has elected not to adopt these standards, amendments to existing standards and new interpretations in advance of their effective dates. The Management anticipates that the adoption of these standards amendments to existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

(All amounts are expressed in EUR thousand, unless otherwise stated)

6. Cash and balances with banks

	2022	2021
Cash on hand	**37,590**	**32,526**
Cash at banks		
- Current accounts with banks	10,487	32,485
- Current account with Central Bank of Kosova ("CBK")	4,258	29,647
- Statutory reserve account with CBK	62,469	55,526
	77,214	**117,658**
Cash and balances with banks before credit loss allowance	**114,804**	**150,184**
Expected credit loss allowance	(16)	(37)
Total cash balances with banks	**114,788**	**150,147**

As at 31 December 2022 the Bank has recognized EUR 16 thousand (2021: 37 thousand) as credit loss allowance for cash, current accounts with banks and balances with Central Bank, according to bank's credit loss policy which has estimated a probability of default of 0.05% and loss given default of 45%.

In accordance with the CBK requirements, the Bank maintains a minimum of 10% of customer deposits with maturities up to one year as statutory reserves. The statutory reserve may be held in the form of 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. As of 31 December 2022 and 2021 statutory reserve is comprised of cash held at CBK.

Cash and cash equivalents in the statement of cash flows as at 31 December 2022 and 31 December 2021 comprise:

	2022	2021
Cash on hand and current accounts with banks	48,078	65,010
Unrestricted balance with the CBK	4,258	29,647
Loans and advances to banks (note 7)	49,608	72,476
Total	**101,944**	**167,133**
Credit loss allowance	(49)	(233)
Total	**101,895**	**166,900**

Credit quality. The following table presents the credit grade assigned by Moody's, Fitch and Standard and Poor's credit rating agencies. All balances with 7 counterparts (2021: 7) are performing in Stage 1.

Ratings	**2022**	**2021**
A+	8,895	273
A3	1,548	16,159
B3	38	-
B2	-	22
BBB+	-	16,027
Not Rated	6	4
CBK balances – not rated	66,727	85,173
Total cash and balances with Central Bank (excluding cash on hand)	**77,214**	**117,658**
Expected credit loss allowance	(16)	(37)
Total cash on hand and at banks (carrying amount)	**77,198**	**117,621**

(All amounts are expressed in EUR thousand, unless otherwise stated)

7. Loans and advances to banks

	2022	2021
Loans and advances to banks	49,608	72,476
Expected credit loss allowance	(47)	(209)
Total loans and advances to banks	**49,561**	**72,267**

Loans and advances to banks at 31 December 2022 and 31 December 2021 that have original maturities of less than 3 months and are included in cash equivalents.

The annual interest rates on time deposits with banks at the end of reporting period were as follows:

- EUR: 2022 – max I/R 2.00%, min I/R -0.60% EUR: 2021 – max I/R 0.80%, min I/R -0.75%
- USD: 2022 – max I/R 4.75%, min I/R 0.01% USD: 2021 – max I/R 0.45%, min I/R 0.04%

Credit quality. Credit rating is assigned by Moody's, Fitch and Standard and Poor's credit rating agencies. For the purpose of ECL measurement, loans and advances to banks are performing in Stage 1. The carrying amount of due from other banks balances at 31 December 2022 below also represents the Bank's maximum exposure to credit risk on these assets:

	31 December 2022	31 December 2021
A2	13,002	-
Aa3	15,909	16,962
B2	-	35,623
B3	3,000	-
Unrated	17,697	19,891
Gross carrying amount	**49,608**	**72,476**
Expected credit loss allowance	(47)	(209)
Carrying amount	**49,561**	**72,267**

The changes in the credit loss allowance and gross carrying amount due from other banks between the beginning and the end of the annual period.

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Loans and advances to banks								
At 1 January 2022	(209)	-	-	**(209)**	**72,476**	**-**	**-**	**72,476**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(47)			**(47)**	49,608	-	-	**49,608**
Derecognized during the period	209	-	-	**209**	(72,476)	-	-	**(72,476)**
Total movements with impact on credit loss allowance charge for the period	**162**	**-**	**-**	**162**	**(22,868)**	**-**	**-**	**(22,868)**
At 31 December 2022	**(47)**	**-**	**-**	**(47)**	**49,608**	**-**	**-**	**49,608**

(All amounts are expressed in EUR thousand, unless otherwise stated)

7. Loans and advances to banks (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Loans and advances to banks								
At 1 January 2021	**(268)**	**-**	**-**	**(268)**	**74,950**	**-**	**-**	**74,950**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	(209)	-	-	**(209)**	72,476	-	-	**72,476**
Derecognized during the period	268	-	-	**268**	(74,950)	-	-	**(74,950)**
Total movements with impact on credit loss allowance charge for the period	**59**	**-**	**-**	**59**	**(2,474)**	**-**	**-**	**(2,474)**
At 31 December 2021	**(209)**	**-**	**-**	**(209)**	**72,476**	**-**	**-**	**72,476**

8. Investments in debt securities at fair value through other comprehensive income

	31 December 2022	31 December 2021
Kosovo Government Bonds	31,471	34,760
Turkish Government Bonds	10,362	10,654
Total	**41,833**	**45,414**

The yields for Kosovo Government Bonds and Turkish Government Bonds at the end of reporting period were as follows:

- Kosovo Gov. Bonds: 2022 – max yield 3.18%, min yield 1.6% 2021 – max yield 2.60%, min yield 1.10%
- Turkish Gov. Bonds: 2022 – max yield 3.38%, min yield 2.19% 2021 – max yield 3.38%, min yield 2.19%

Although the Government of the Republic of Kosovo is not rated, public debt currently is at levels below 25% of GDP and the projected growth in the medium term is expected to remain below 25% of GDP and deficit within -2% of the GDP as mandated by the International Monetary Fund fiscal rule. These are the key factors for assessing the instruments issued by the Government as stable.

Investment in debt securities at 31 December 2022 and 2021 are all measured at fair value through other comprehensive income.

The movement during the year in debt securities at fair value through other comprehensive income is presented as follows:

	2022	2021
Opening balance	45,414	25,928
Additions	4,967	28,393
Matured investments	(8,057)	(7,211)
Sold investments	(1,100)	(1,454)
Charge of accrued interest	69	351
Investment securities available for sale - fair value	562	(498)
Exchange rate effect	98	-
Premium amortization	(120)	(95)
Closing balance	**41,833**	**45,414**

(All amounts are expressed in EUR thousand, unless otherwise stated)

8. Investments in debt securities at fair value through other comprehensive income (continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2022. Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel minimum PD of 0.05% and LGD of 45% for Kosovo Government Bonds, and 1% PD and LGD 45% for Turkish Government Bonds.

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Kosovo Government Bonds				
Not rated	**32,148**	**-**	**-**	**32,148**
Total AC gross carrying amount	32,148	-	-	32,148
Less credit loss allowance	(7)	-	-	(7)
Less fair value adjustment from AC to FVOCI	(670)	-	-	(670)
Net Kosovo Government Bonds	**31,471**	**-**	**-**	**31,471**
Turkish Government Bonds				
2022: B3 (2021: BB-)	**10,681**	**-**	**-**	**10,681**
Total AC gross carrying amount	10,681	-	-	10,681
Less credit loss allowance	(49)	-	-	(49)
Less fair value adjustment from AC to FV	(270)	-	-	(270)
Net Turkish Government Bonds	**10,362**	**-**	**-**	**10,362**
Total Carrying value (fair value)	**41,833**	**-**	**-**	**41,833**

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2021. Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel minimum PD of 0.05% and LGD of 45% for Kosovo Government Bonds, and 1% PD and LGD 45% for Turkish Government Bonds.

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Kosovo Government Bonds				
Not rated	**35,145**	**-**	**-**	**35,145**
Total AC gross carrying amount	35,145	-	-	35,145
Less credit loss allowance	(8)	-	-	(8)
Less fair value adjustment from AC to FVOCI	87	-	-	87
Net Kosovo Government Bonds	**35,224**	**-**	**-**	**35,224**
Turkish Government Bonds				
BB-	**10,703**	**-**	**-**	**10,703**
Total AC gross carrying amount	10,703	-	-	10,703
Less credit loss allowance	(49)	-	-	(49)
Less fair value adjustment from AC to FV	(464)	-	-	(464)
Net Turkish Government Bonds	**10,190**	**-**	**-**	**10,190**
Total Carrying value (fair value)	**45,414**	**-**	**-**	**45,414**

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers

	31 December 2022	31 December 2021
Gross carrying amount of loans and advances to customers at AC	544,496	478,356
Credit loss allowance	(9,448)	(9,408)
Total carrying amount of loans and advances to customers at AC	**535,048**	**468,948**

Portfolio of loans and advances to customers meet the SPPI criteria for measurement at AC. As a result, loans and advances are classified and measured at AC. The gross carrying amount presented in the statement of financial position best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers. Gross carrying amount and credit loss allowance of loans and advances to customers at AC by categories at 31 December 2022 and 31 December 2021 are summarised below:

	31 December 2022			31 December 2021		
	Gross carrying amount	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Loans to individuals	**285,394**	**(3,245)**	**282,149**	**254,752**	**(3,512)**	**251,240**
Standard lending	248,399	(2,340)	246,059	222,706	(2,553)	220,153
Overdrafts	2,214	(89)	2,125	2,126	(84)	2,042
Credit Cards	34,781	(816)	33,965	29,920	(875)	29,045
Loans to legal entities	**259,102**	**(6,203)**	**252,899**	**223,604**	**(5,896)**	**217,708**
Standard lending	211,932	(5,323)	206,609	187,295	(5,351)	181,944
Overdrafts	43,429	(748)	42,681	32,831	(428)	32,403
Credit Cards	3,741	(132)	3,609	3,478	(117)	3,361
Total loans and advances to customers at AC	**544,496**	**(9,448)**	**535,048**	**478,356**	**(9,408)**	**468,948**

The movement in the release of credit loss allowance is as follows:

	2022			2021		
	Individuals	**Legal Entities**	**Total**	**Individuals**	**Legal Entities**	**Total**
Balance at 1 January	3,512	5,896	9,408	3,379	5,285	8,664
(Release)/loss for the year	442	975	1,417	880	980	1,860
Loans written-off	(708)	(669)	(1,377)	(747)	(369)	(1,116)
Balance at 31 December	**3,246**	**6,202**	**9,448**	**3,512**	**5,896**	**9,408**

The credit loss recognized in profit or loss is as follows:

	2022			2021		
	Individuals	**Legal Entities**	**Total**	**Individuals**	**Legal Entities**	**Total**
Release/(charge) during the year	(442)	(975)	(1,417)	(880)	(980)	(1,860)
Recoveries from written off loans	697	561	1,258	796	667	1,463
	255	**(414)**	**(159)**	**(84)**	**(313)**	**(397)**

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers (continued)

At 31 December 2022, the ten largest borrowers represent 4.41% (2021: 4.51%) of the total loans. Loans and advances to customers include accrued interest of EUR 2,706 thousand (2021: EUR 2,689 thousand) and deferred disbursement fee of EUR 1,568 thousand (2021: EUR 1,446 thousand).

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting and comparative periods.

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Standard lending								
At 1 January 2022	**3,118**	**1,159**	**3,627**	**7,904**	**396,834**	**7,784**	**5,383**	**410,001**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(91)	721	-	630	(4,999)	3,566	-	(1,433)
Transfer from Stage 1 to Stage 3	(30)	-	487	457	(1,180)	-	860	(320)
Transfer from Stage 2 to Stage 1	27	(229)	-	(202)	1,833	(2,570)	-	(737)
Transfer from Stage 2 to Stage 3	-	(177)	468	291	-	(781)	633	(148)
Transfer from Stage 3 to Stage 1	0	-	(10)	(10)	5	-	(17)	(12)
Transfer from Stage 3 to Stage 2	-	88	(191)	(103)	-	226	(296)	(70)
(Release-Repayment)/Increase from the same Stage	(1,223)	(95)	293	(1,025)	(85,005)	(620)	(487)	(86,112)
Fully repaid during the year	(556)	(350)	(218)	(1,124)	(83,130)	(2,126)	(547)	(85,803)
New originated	922	538	261	1,721	222,301	3,116	424	225,841
Total movements with impact on credit loss allowance charge for the period	**2,167**	**1,655**	**4,717**	**8,539**	**446,659**	**8,595**	**5,953**	**461,207**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(876)	(876)	-	-	(876)	(876)
At 31 December 2022	**2,167**	**1,655**	**3,841**	**7,663**	**446,659**	**8,595**	**5,077**	**460,331**

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Standard lending								
At 1 January 2021	**2,799**	**584**	**3,724**	**7,107**	**348,899**	**5,511**	**5,609**	**360,019**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(271)	740	-	469	(4,525)	3,825	-	(700)
Transfer from Stage 1 to Stage 3	(69)	-	737	668	(1,451)	-	1,142	(309)
Transfer from Stage 2 to Stage 3	45	(115)	-	(70)	1,588	(2,229)	-	(641)
Transfer from Stage 3 to Stage 2	-	(247)	451	204		(834)	687	(147)
Transfer from Stage 2 to Stage 1	1	-	(26)	(25)	27	-	(60)	(33)
Transfer from Stage 3 to Stage 1	-	14	(46)	(32)	-	49	(86)	(37)
(Release-Repayment)/Increase from the same Stage	(211)	(11)	(129)	(351)	(71,961)	(376)	(657)	(72,994)
Fully repaid during the year	(545)	(49)	(574)	(1,168)	(79,433)	(1,045)	(1,017)	(81,495)
New originated	1,369	243	286	1,898	203,690	2,883	561	207,134
Total movements with impact on credit loss allowance charge for the period	**3,118**	**1,159**	**4,423**	**8,700**	**396,834**	**7,784**	**6,179**	**410,797**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(796)	(796)	-	-	(796)	(796)
At 31 December 2021	**3,118**	**1,159**	**3,627**	**7,904**	**396,834**	**7,784**	**5,383**	**410,001**

Releases and/or repayments from the same stage, in the above disclosed tables, represent the amount of repayments during the year, for the loans that were active as of 1 January 2022 and 2021 and are still active loans as of 31 December 2022 and 2021, and whose Stage has remained unchanged during 2022 and 2021.

Loans fully repaid during the year, represent the loans that were active as of 1 January 2022 and 2021, but were fully repaid during the year and are not anymore active as of 31 December 2022 and 2021.

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Overdrafts								
At 1 January 2022	**220**	**71**	**221**	**512**	**34,001**	**663**	**293**	**34,957**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(7)	321	-	314	(873)	978	-	105
Transfer from Stage 1 to Stage 3	(2)	-	129	127	(227)	-	206	(21)
Transfer from Stage 2 to Stage 1	3	(14)	-	(11)	278	(265)	-	13
Transfer from Stage 2 to Stage 2	-	(15)	106	91	-	(123)	111	(12)
Transfer from Stage 3 to Stage 1	0	-	-	0	1	-	-	1
Transfer from Stage 3 to Stage 2	-	0	(0)	(0)	-	1	(0)	1
(Release - Repayment)/Increase from the same Stage	(57)	1	(3)	(59)	5,724	2	(10)	5,716
Fully repaid during the year	(28)	(41)	(29)	(98)	(4,411)	(236)	(57)	(4,704)
New originated	39	12	8	59	9,590	83	12	9,685
Total movements with impact on credit loss allowance charge for the period	**168**	**335**	**432**	**935**	**44,083**	**1,103**	**555**	**45,741**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(98)	(98)	-	-	(98)	(98)
At 31 December 2022	**168**	**335**	**334**	**837**	**44,083**	**1,103**	**457**	**45,643**

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Overdrafts								
At 1 January 2021	**250**	**66**	**233**	**549**	**30,270**	**1,026**	**357**	**31,653**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(18)	57	-	39	(339)	385	-	46
Transfer from Stage 1 to Stage 3	(1)	-	67	66	(87)	-	108	21
Transfer from Stage 2 to Stage 3	4	(13)	-	(9)	548	(543)	-	5
Transfer from Stage 3 to Stage 2	-	(9)	35	26	-	(54)	42	(12)
Transfer from Stage 2 to Stage 1	-	-	(4)	(4)	10	-	(10)	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-	-	-	-
(Release - Repayment)/Increase from the same Stage	1	1	(7)	(5)	3,642	1	(29)	3,614
Fully repaid during the year	(57)	(44)	(49)	(150)	(6,509)	(387)	(142)	(7,038)
New originated	41	13	19	73	6,466	235	40	6,741
Total movements with impact on credit loss allowance charge for the period	**220**	**71**	**294**	**585**	**34,001**	**663**	**366**	**35,030**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(73)	(73)	-	-	(73)	(73)
At 31 December 2021	**220**	**71**	**221**	**512**	**34,001**	**663**	**293**	**34,957**

Releases and/or repayments from the same stage, in the above disclosed table, represent the amount of repayments during the year, for the overdrafts that were active as of 1 January 2022 and 2021 and are still active overdrafts as of 31 December 2022 and 2021, and whose Stage has remained unchanged during 2022 and 2021.

Overdrafts fully repaid during the year, represent the overdrafts that were active as of 1 January 2022 and 2021, but were fully repaid during the year and are not anymore active as of 31 December 2022 and 2021.

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers (continued)

	Expected credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit Cards								
At 1 January 2022	**346**	**100**	**546**	**992**	**31,141**	**1,506**	**751**	**33,398**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(11)	64	-	53	(780)	927	-	147
Transfer from Stage 1 to Stage 3	(5)	-	232	227	(328)	-	334	6
Transfer from Stage 2 to Stage 1	6	(28)	-	(22)	516	(540)	-	(24)
Transfer from Stage 2 to Stage 3	-	(23)	144	121	-	(244)	206	(38)
Transfer from Stage 3 to Stage 1	0	-	(45)	(45)	15	-	(65)	(50)
Transfer from Stage 3 to Stage 2	-	1	(25)	(24)	-	9	(36)	(27)
(Release)/Increase from the same Stage	(60)	6	(3)	(57)	3,391	(28)	(41)	3,322
Fully repaid during the year	(37)	(17)	31	(23)	(3,342)	(232)	(96)	(3,670)
New originated	37	25	66	128	5,282	487	91	5,860
Total movements with impact on credit loss allowance charge for the period	**276**	**128**	**946**	**1,350**	**35,895**	**1,885**	**1,144**	**38,924**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(402)	(402)	-	-	(402)	(402)
At 31 December 2022	**276**	**128**	**544**	**948**	**35,895**	**1,885**	**742**	**38,522**

	Expected credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit Cards								
At 1 January 2021	**323**	**264**	**421**	**1,008**	**29,383**	**1,749**	**554**	**31,686**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Transfer from Stage 1 to Stage 2	(10)	54	-	44	(696)	704	-	8
Transfer from Stage 1 to Stage 3	(4)		172	168	(251)	-	245	(6)
Transfer from Stage 2 to Stage 3	9	(51)	-	(42)	579	(652)	-	(73)
Transfer from Stage 3 to Stage 2	-	(121)	212	91	-	(337)	302	(35)
Transfer from Stage 2 to Stage 1	-	-	(27)	(27)	13	-	(39)	(26)
Transfer from Stage 3 to Stage 1	-	-	(26)	(26)	-	4	(36)	(32)
(Release)/Increase from the same Stage	14	(12)	(10)	(8)	822	(20)	(34)	768
Fully repaid during the year	(54)	(53)	(15)	(122)	(4,889)	(340)	(85)	(5,314)
New originated	68	19	66	153	6,180	398	91	6,669
Total movements with impact on credit loss allowance charge for the period	**346**	**100**	**793**	**1,239**	**31,141**	**1,506**	**998**	**33,645**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(247)	(247)	-	-	(247)	(247)
At 31 December 2021	**346**	**100**	**546**	**992**	**31,141**	**1,506**	**751**	**33,398**

Releases and/or repayments from the same stage, in the above disclosed table, represent the amount of repayments during the year, for the credit cards that were active as of 1 January 2022 and 2021 and are still active credit cards as of 31 December 2022 and 2021, and whose Stage has remained unchanged during 2022 and 2021.

Credit cards fully repaid during the year, represent the credit cards that were active as of 1 January 2022 and 2021, but were fully repaid during the year and are not anymore active as of 31 December 2022 and 2021.

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2022 and 31 December 2021 is as follows:

	2022			2021		
	Individuals	**Entities**	**Total**	**Individuals**	**Entities**	**Total**
Stage 1 and Stage 2						
0 days past due	280,655	250,475	**531,130**	250,841	216,459	**467,300**
1 to 30 days past due	1,538	1,070	**2,608**	1,099	742	**1,841**
31 to 90 days past due	735	334	**1,069**	622	450	**1,072**
Total Stage 1 and Stage 2 impaired loans	**282,928**	**251,879**	**534,807**	**252,562**	**217,651**	**470,213**
Stage 1 and Stage 2 Individually impaired loans						
0 days past due	179	2,651	**2,830**	38	1,116	**1,154**
1 to 30 days past due	-	150	**150**	-	189	**189**
31 to 90 days past due	2	431	**433**	25	348	**373**
Total Stage 1 and Stage 2 impaired loans	181	3,232	**3,413**	**63**	**1,653**	**1,716**
Stage 3 collectively impaired loans						
0 days past due	60	28	**88**	55	104	**159**
1 to 30 days past due	33	1	**34**	18	13	**31**
31 to 90 days past due	24	44	**68**	31	32	**63**
over 90 days past due	1,913	732	**2,645**	1,855	765	**2,620**
Total Stage 3 Collectively impaired loans	**2,030**	**805**	**2,835**	**1,959**	**914**	**2,873**
Stage 3 Individually impaired loans						
0 days past due	80	433	**513**	72	446	**518**
1 to 30 days past due	14	309	**323**	17	627	**644**
31 to 90 days past due	1	162	**163**	36	530	**566**
over 90 days past	160	2,282	**2,442**	43	1,783	**1,826**
Total Stage 3 Individually impaired loans	**255**	**3,186**	**3,441**	**168**	**3,386**	**3,554**
Total loans	**285,394**	**259,102**	**544,496**	**254,752**	**223,604**	**478,356**
Expected credit losses	(3,245)	(6,203)	**(9,448)**	(3,512)	(5,896)	**(9,408)**
Net loans	**282,149**	**252,899**	**535,048**	**251,240**	**217,708**	**468,948**

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. A decision to restructure is subject to the following:

- the restructuring increases the probability that the borrower will be able to repay the exposure;
- the new payment plan is in line with the actual and expected future payment capacity of the borrower;
- the borrower offers additional collateral, if possible and appropriate.

Loans with renegotiated terms	**2022**	**2021**
Stage 1	527	328
Stage 2	1,181	1,212
Stage 3	1,444	1,935
Total gross amount	**3,152**	**3,475**
Individual impairment	(938)	(1,094)
Collective impairment	(566)	(456)
Net loans with renegotiated terms	**1,648**	**1,925**

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers (continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2022		31 December 2021	
	Net loans	**%**	**Net loans**	**%**
Individuals	282,149	52.7%	251,240	53.6%
Electricity, gas, water	1,162	0.2%	1,225	0.3%
Industry	49,478	9.2%	38,383	8.2%
Agriculture	9,045	1.7%	8,880	1.9%
Services and other	18,962	3.5%	16,260	3.5%
Hotels and restaurants	12,252	2.3%	10,830	2.3%
Transport and communication	8,425	1.6%	8,070	1.7%
Construction	19,300	3.6%	18,565	4.0%
Trading	134,275	25.1%	115,495	24.6%
Net loans to customers	**535,048**	**100.0%**	**468,948**	**100%**

Types of collateral

The Bank's policies regarding obtaining collateral have changed on May 2022, with the approval of the new Credit Risk Management policy. Collateral requirement in principle has been decreased from 150% down to 100% for consumer and business loans as well.

The fair value of collateral disclosed below is determined by the Bank's internal and external local certified appraisals and aims to represent the market value realisable by the legal owners of the assets. Due to local circumstances in Kosovo where the market is not active, the Bank seeks to adopt a prudent approach in determining the value of such collaterals. The Bank aims to use collaterals that could be converted into liquid assets within a reasonably short period of time.

	2022			2021		
	Individuals	**Corporate**	**Total**	**Individuals**	**Corporate**	**Total**
Mortgages	55,625	337,508	**393,133**	49,191	287,820	**337,011**
Cash collateral	2,580	3,974	**6,554**	1,837	3,848	**5,685**
Merchandise and equipment pledged	93,444	495,542	**588,986**	122,785	483,896	**606,681**
Cars pledged	17,068	53,958	**71,026**	16,173	47,709	**63,882**
Total	**168,716**	**890,982**	**1,059,699**	**189,986**	**823,273**	**1,013,259**

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2022:

	Over-collateralised assets		Under-collateralised Assets	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of col-lateral**
Loans to individuals	67,726	165,578	217,668	3,139
Loans to legal entities	236,351	860,499	22,751	30,483

(All amounts are expressed in EUR thousand, unless otherwise stated)

9. Loans and advances to customers (continued)

The effect of collateral at 31 December 2021:

	Over-collateralised assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to individuals	79,909	187,208	174,843	2,778
Loans to legal entities	206,210	817,086	17,394	6,187

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2022 and 2021:

	31 December 2022	31 December 2021
Loans to corporate customers	**8,076**	**5,902**
Loans	6,704	4,901
Overdraft	1,230	961
Credit Card	142	40
Loans to individuals	**1,046**	**191**
Loans	945	187
Overdraft	26	1
Credit Card	75	3
Total	**9,122**	**6,093**

10. Investment properties

	31 December 2022	31 December 2021
Investment properties at fair value at 1 January	**1,661**	**1,649**
Increase in fair value from valuation	259	12
Investment properties at fair value at 31 December	**1,920**	**1,661**

Investment property of the Bank includes a construction land transferred from owner occupied property to investment property held for capital appreciation. Land was acquired in 2013, for purpose of utilizing it for building the new Bank headquarter. On 20 May 2019, the Bank's Executive Committee took a decision to abandon the plan for the headquarters complex in favour of the current long-term lease solution. Such decision resulted in the transfer of the asset to investment property. The Bank choose to measure the investment property at fair value.

Fair value measurement

Measurement of the investment property is classified in level 3 of the fair value hierarchy as inputs and assumptions used in arriving at the fair value are unobservable. In the absence of an active market, the fair value of the investment property as of 31 December 2022 was determined by using the Sales Comparison Method and Residual Method, and for the year ended 31 December 2021 based on the combination of Sales Comparison Method and Development Method.

(All amounts are expressed in EUR thousand, unless otherwise stated)

10. Investment properties (continued)

Valuation techniques	Description of valuation technique
Comparison method	Direct Comparison Method is based on comparison of prices for similar properties in the same market with a distance of less than 500m. Comparable sale prices were adjusted, where appropriate, by taking into account indexes for regulatory plans, location of property and access and infrastructure. The average price per m2 based on the comparison of bids with similar conditions, was adjusted with the offer factor minus -10%/20%.
Development method	Development method takes into consideration all developments and construction costs to achieve the highest and best use and into determining the final value of the Investment Property.
Residual method	The Residual Method of Valuation is used to determine the value of the property through the potential available after a scenario of construction of a building and its capitalization. The residual method calculates the market value as: Residual value = Completed Development Value – Development Costs – Developer's Profit

A haircut of 20% was applied to reach to the immediate sale value.

An increase/decrease in the immediate sale value by +/-10% would result in an increase/decrease of fair value by EUR 192 thousand (2021: 166 thousand).

The fair value of the Bank's investment property at initial recognition and subsequently as of 31 December 2022 and 2021 has been determined on the basis of valuations carried out at those dates by independent, professionally qualified appraisers who have recent experience in valuing similar properties in Kosovo and are not connected with the Bank.

11. Other financial assets

	2022	2021
Account maintenance and credit card fees receivable	2,019	2,161
Receivables from financial institutions	4,939	2,609
Other financial assets	198	143
Total other financial assets (gross amount)	**7,156**	**4,913**
Impairment allowance	(988)	(936)
Total other financial assets (carrying amount)	**6,168**	**3,977**

Receivables from financial institutions are related to withdrawals or payments performed with cards of other banks in the Bank's POSs or ATMs. The Bank assessed a provisions for other financial assets that are due for more than 3 months (see note 19). As of 31 January 2023, EUR 5,084 thousand of total other financial assets booked at 31 December 2022 are collected.

(All amounts are expressed in EUR thousand, unless otherwise stated)

12. Other assets

	2022	2021
Repossessed assets	342	608
Prepaid expenses	1,094	777
Other	37	46
Total other assets	**1,473**	**1,431**

Movements in the repossessed assets during the year are shown below:

	2022	2021
At 1 January	**608**	**608**
Additions	16	246
Write down to NRV	(282)	(246)
At 31 December	**342**	**608**

13. Premises and equipment

	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Motor vehicles	Total
Cost					
As at 1 January 2021	**5,057**	**2,095**	**10,123**	**1,043**	**18,318**
Additions	136	285	635	110	1,166
Disposals	-	(29)	(130)	(120)	(279)
Reclassification	9	(21)	12	-	-
As at 31 December 2021	**5,202**	**2,330**	**10,640**	**1,033**	**19,205**
Additions	145	271	2,023	101	**2,540**
Disposals	-	(456)	(558)	(91)	**(1,105)**
As at 31 December 2022	**5,347**	**2,145**	**12,105**	**1,043**	**20,640**
Accumulated depreciation					
As at 1 January 2021	**4,206**	**1,895**	**7,840**	**849**	**14,790**
Charge for the year	**389**	**159**	**1,113**	**56**	**1,717**
Disposals	-	(27)	(130)	(120)	(277)
As at 31 December 2021	**4,595**	**2,027**	**8,823**	**785**	**16,230**
Charge for the year	340	164	1,098	81	**1,683**
Disposals	-	(455)	(559)	(91)	**(1,105)**
As at 31 December 2022	**4,935**	**1,736**	**9,362**	**775**	**16,808**
Carrying amount					
As at 31 December 2021	**607**	**303**	**1,817**	**248**	**2,975**
As at 31 December 2022	**412**	**409**	**2,743**	**268**	**3,832**

(All amounts are expressed in EUR thousand, unless otherwise stated)

14. Right of use assets and lease liabilities

The Bank leases various office buildings and space for its ATMs. Rental contracts are typically made for fixed periods of 6 months to 5 years, but may have options to extend the lease for the same period of time set forth in the lease agreement.

The right of use assets by class of underlying items is analysed as follows:

	Office buildings	ATM space	Total
Carrying amount at 1 January 2021	**3,284**	**104**	**3,388**
Additions	427	266	693
Disposals	(505)	(10)	(515)
Depreciation charge	(924)	(127)	(1,051)
Other	(54)	13	(41)
Carrying amount at 31 December 2021	**2,228**	**246**	**2,474**
Additions	2,118	209	2,327
Disposals	(353)	(25)	(378)
Depreciation charge	(973)	(112)	(1,085)
Carrying amount at 31 December 2022	**3,020**	**318**	**3,338**

Lease liability analysed as per maturity is as follows:

Maturity analysis	**2022**	**2021**
Year 1	1,110	989
Year 2	924	683
Year 3	608	484
Year 4	453	274
Year 5	293	85
Onwards	-	22
Total	**3,388**	**2,537**
Analysed as:		
Current	1,110	989
Non-current	2,278	1,548
Total	**3,388**	**2,537**

Amounts recognized in profit and loss	**2022**	**2021**
Depreciation expense on right-of-use-assets	1,085	1,051
Interest expense on lease liabilities	67	81
Expense relating to short-term leases	27	25
Tax and other expenses related to tax	252	238
Total	**1,431**	**1,395**

Total cash flow amount for leases amount to 1,323 thousand (2021: 1,259 thousand). All lease payments are fixed.

As of 31 December 2022 the Bank is committed for EUR 5.7 thousand (2021: 1.9 thousand) for short term leases.

(All amounts are expressed in EUR thousand, unless otherwise stated)

15. Intangible assets

	Software
Cost	
As at 1 January 2021	**14,023**
Additions	2,175
Disposals	(10)
As at 31 December 2021	**16,188**
Additions	2,048
Disposals	(616)
As at 31 December 2022	**17,620**
Accumulated amortization	
As at 1 January 2021	**11,692**
Charge for the year	1,660
Disposals	(10)
As at 31 December 2021	**13,342**
Charge for the year	2,431
Disposals	(613)
As at 31 December 2022	**15,160**
Carrying amount	
As at 31 December 2021	**2,846**
As at 31 December 2022	**2,460**

All intangible assets are acquired assets and are amortized during their useful life.

16. Due to customers

	31 December 2022	31 December 2021
Demand Deposits		
Individuals	453,613	414,596
Legal entities	163,038	176,657
	616,651	**591,253**
Term Deposits		
Individuals	34,367	43,237
Legal entities	390	7,080
	34,757	**50,317**
Total due to customers	**651,408**	**641,570**

As at 31 December 2022, customer accounts include accrued interest of EUR 193 thousand (2021: EUR 581 thousand).

Term deposits and current accounts by legal status as a portion of the total balance are as follows:

	2022	2021
Individuals	75%	71%
Legal entities	25%	29%
	100%	**100%**

(All amounts are expressed in EUR thousand, unless otherwise stated)

17. Borrowings

	31 December 2022	31 December 2021
Borrowings		
Loan	-	1,715
Deferred front-end fees	-	(3)
Interest accrued	-	10
Total borrowings	-	**1,722**

	2022	2021
Carrying amount at 1 January	1,722	5,145
Repayment of borrowings	(1,715)	(3,429)
Change in deferred front-end fees	3	26
Change in interest accrued	(10)	(20)
Total borrowings	**-**	**1,722**

In 2016 the Bank entered into a borrowing agreement with EBRD in amount of EUR 5,000 thousand to support women-led SMEs. The agreement matured on May 2022.

In 2018 the Bank entered into a borrowing agreement with EBRD in amount of EUR 5,000 thousand divided into two tranches, Tranche A EUR 3,000 thousand and Tranche B EUR 2,000 thousand. Tranche A was disbursed on February 2018 and Tranche B was disbursed on December 2020. The purpose of these borrowings were to finance loans for Energy Efficiency. Both tranches matured on January 2022.

18. Other financial liabilities

	31 December 2022	31 December 2021
Transfers of customers' funds in transit	5,653	2,420
Due to suppliers	1,429	887
Credit cards bonuses payable	718	686
Staff bonuses	851	678
Other payables to customers for credit cards	255	225
SMS banking-mobile	315	238
Other financial liabilities	95	99
Total other financial liabilities	**9,316**	**5,233**

Credit card bonuses payable represent liabilities to customers for transactions realised with credit cards within the TEB POS network, namely for each purchase made through TEB merchants network the customers are entitled to bonuses (star points) which can be used for further purchases from customers at any merchant where TEB POS is installed.

19. Provisions for liabilities and other charges

	31 December 2022	31 December 2021
Provisions for:		
Unused commitments	334	408
Legal cases	91	244
Guarantees	9	33
Unused holidays	34	32
Other	346	306
Total provisions for liabilities and other charges	**814**	**1,023**

(All amounts are expressed in EUR thousand, unless otherwise stated)

20. Other liabilities

	31 December 2022	31 December 2021
Withholding tax	28	30
Social security	71	63
Personnel income tax	47	40
VAT and other taxes	87	88
Other	388	193
Total other liabilities	**621**	**414**

21. Share capital

The authorised and paid up share capital of the Bank as at 31 December 2022 and 2021 comprises 2,400 thousand ordinary shares with a nominal value of EUR 10 each.

Shareholder	As at 31 December 2022		As at 31 December 2021	
	Percentage ownership	Amount	Percentage ownership	Amount
TEB Holding A.S.	100%	24,000	100%	24,000
Total	**100%**	**24,000**	**100%**	**24,000**

The shares are ordinary in nature and have no preferences or restrictions attached thereto. All shares are fully paid. Holders of ordinary shares are entitled to cast one vote for each ordinary share they hold. All TEB SH.A. shares belong to a single shareholder i.e. TEB Holding A.S.

22. Interest income

	2022	2021
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	34,534	30,855
Investments in debt securities at FVOCI	904	667
Due from other banks at AC	310	69
Total interest income	**35,748**	**31,591**

23. Interest expense

	2022	2021
Term deposits	331	384
Savings accounts	94	217
Borrowed funds	13	95
Interest expense on lease liabilities	67	81
Total interest expense	**505**	**777**

Interest rates for term deposits vary based on the maturity of the deposits. The annual interest rates on time deposits with clients at the end of reporting period were as follows:

- 2022 – max I/R 2.8 %, min I/R 0.0% • 2021 – max I/R 2.8%, min I/R 0.0%

(All amounts are expressed in EUR thousand, unless otherwise stated)

24. Fee and commission income

	2022	2021
Credit cards	10,403	8,666
Account service fees (net of provisions)	3,781	3,172
International payments	2,044	1,814
SMS Banking	339	303
Domestic payments	129	145
Guarantees and letters of credit	142	155
Other fees	580	482
Total fee and commission income	**17,418**	**14,737**

Maintenance fees for credit cards and accounts, and fees for guarantees and letter of credits are recognized as income when performance obligations are performed over time (accrued over time as services are rendered). Based on the contractual terms the Bank has the right to payment for performance completed at each month end for account maintenance fees and at year end for Credit Card maintenance fees.
Regarding commissions for guarantees and letter of credits, clients can choose to pay the commission at the end of month, end of quarter or to pay in advance. Advance payments are recorded as unearned incomes and recorded as income on accrual bases by reference to completion of the service.

For the year ended 31 December 2022, fees and commission incomes from individuals represent approximately 44% and fees and commission incomes from businesses represent approximately 56% of total fee and commission incomes.

25. Fee and commission expenses

	2022	2021
Credit cards	5,503	3,356
Central bank fees	527	487
International payments	504	513
Domestic payments	365	357
Other fees	388	633
Guarantees and letters of credit	1	9
Total fee and commission expense	**7,288**	**5,355**

26. Other impairments and provisions

	2022	2021
Other Impairment and Provision (charges)/releases:		
Cash and cash equivalents	21	(7)
Loans and advances to other Banks	162	60
Investment securities	-	(51)
Legal cases and litigations	143	2
Other receivables and assets	-	27
Credit Card commissions	(40)	7
Unused annual leave	(1)	2
Impairment for repossessed property	(283)	(246)
Other financial assets (note 11)	(43)	(24)
Other provisions	(43)	(18)
Total other impairments and provisions	**(84)**	**(248)**

(All amounts are expressed in EUR thousand, unless otherwise stated)

27. Personnel costs

	2022	2021
Salaries and wages	7,133	6,591
Bonuses	1,095	884
Mandatory pension contributions	383	350
Health insurance	200	156
Staff training	206	62
Other costs	8	12
Total personnel costs	**9,025**	**8,055**

28. Administrative and other operating expenses

	2022	2021
Other expenses	1,032	1,008
Marketing and sponsorship	918	469
Telecommunication	805	815
Software maintenance fee	763	775
Security and insurance	628	564
Repair and maintenance	605	568
Travel	497	273
Representation	470	283
Consultancy and professional fees	413	557
Utilities	310	264
Office supplies	307	497
Business taxes and licenses	208	200
Service expenses, credit cards	182	194
Legal, collateral execution, and audit fees	161	121
Cleaning expenses	148	145
Operating lease expenses for premises	27	25
Total administrative and other operating expenses	**7,474**	**6,758**

As an exception allowed by IFRS 16 requirements, the Bank accounts for short-term leases and leases of low value assets by recognizing the lease payments as an operating expense on a straight line basis.

(All amounts are expressed in EUR thousand, unless otherwise stated)

29. Income taxes

a) Components of income tax expense

	2022	2021
Current tax expense	2,144	2,105
Deferred tax expense/(credit)	1	3
Total income taxes	**2,145**	**2,108**

b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

Detailed below is the calculation of the effective tax rate and a reconciliation of the current income tax expense:

	2022	2021
Profit before taxation	**23,131**	**19,899**
Theoretical tax charge at statutory rate of 10%	2,313	1,990
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	135	206
- Sponsorships	25	-
- Non-taxable income	(58)	(42)
- Corporate income tax adjustment	(271)	(46)
Income tax expense for the year	**2,144**	**2,108**

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the reporting date. The tax rate on corporate income is 10% (2021: 10%).

c) Movement in deferred tax balances

Differences between the IFRS financial statements and the Kosovo taxation regulations give rise to temporary differences between the carrying amount of loans and advances to customers for IFRS reporting purposes and for tax purposes. The tax effect of these temporary differences is calculated at the enacted rate of 10% (2021:10%).

The tax effect of the movements in the temporary differences in 2022 is detailed below.

	1-Jan-2022	Charged/ (credited) to profit or loss	Charged / (credited) directly to other comprehensive income	31-Dec-2022
Tax effect of deductible/(taxable) temporary differences				
Lease liabilities	278	61	-	339
Fair valuation of Investment properties	(46)	(26)	-	(72)
Right-of-use assets	(272)	(62)	-	(334)
Fair valuation of investments in debt securities	38	-	56	94
Net deferred tax asset/(liability)	**(2)**	**(27)**	**56**	**27**
Recognised deferred tax asset	**45**	**-**	**56**	**101**
Recognised deferred tax liability	**(47)**	**(27)**	**-**	**(74)**
Net deferred tax asset/(liability)	**(2)**	**(27)**	**56**	**27**

The tax effect of the movements in the temporary differences in 2021 is detailed below.

(All amounts are expressed in EUR thousand, unless otherwise stated)

29. Income taxes (continued)

	1-Jan-2021	Charged/ (credited) to profit or loss	Charged / (credited) directly to other comprehensive income	31-Dec-2021
Tax effect of deductible/(taxable) temporary differences				
Lease liabilities	347	(69)	-	278
Fair valuation of Investment properties	(45)	(1)	-	(46)
Right-of-use assets	(339)	67	-	(272)
Fair valuation of investments in debt securities	(7)	-	45	38
Net deferred tax asset/(liability)	**(44)**	**(3)**	**45**	**(2)**
Recognised deferred tax asset	**-**	**-**	**45**	**45**
Recognised deferred tax liability	**(44)**	**(3)**	**-**	**(47)**
Net deferred tax asset/(liability)	**(44)**	**(3)**	**45**	**(2)**

30. Related party disclosures

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Bank is controlled by TEB Holding A.S incorporated in Turkey (Immediate Parent), which owns 100 % of the ordinary shares as at 31 December 2022 and 2021 (see Note 1). The following table summarizes the related party transactions and balances at 31 December 2022 and the related expenses for the year then ended. Loans and advances to banks with related parties are all current nostro accounts that have no interest rate. Loans and advances to customers and Due to customers are at arms lengths loans and deposits to related parties. Commission expenses comprise of international correspondence commission and fees and operating expenses are consultancy expenses with related parties. Intangible assets are charges from the Group for the developments in the Bank's system that met the definition of intangible assets. Guarantees at year end comprise of guarantees issued by the Bank with the confirmation of the group banks. All transactions are conducted at arm's length.

At 31 December 2022, the outstanding balances with related parties were as follows:

	Ultimate parent company	Immediate parent company	Entities under common control	Key management personnel
Loans and advances to banks	86	-	368	-
Loans and advances to customers	-	-	-	250
Intangible assets	-	-	598	-
Due to customers	-	-	-	447
Other financial liabilities	145	17	254	-

30. Related party disclosures (continued)

The income and expense items with related parties for 2022 were as follows:

	Ultimate parent company	Immediate parent company	Entities under common control
Interest income	-	-	1
Commission expenses	1	-	159
Operating expenses	-	225	-

At 31 December 2022, other rights and obligations with related parties were as follows:

	Ultimate parent company	Immediate parent company	Entities under common control	Key management personnel
Guarantees issued at the year end	871	-	3,915	116

At 31 December 2021, the outstanding balances with related parties were as follows:

	Ultimate parent company	Immediate parent company	Entities under common control	Key management personnel
Loans and advances to banks	6	-	293	-
Loans and advances to customers	-	-	-	58
Intangible assets	-	-	625	-
Due to customers	-	-	-	295
Other financial liabilities	130	36	15	-

The income and expense items with related parties for 2021 were as follows:

In thousand EUR	Ultimate parent company	Immediate parent company	Entities under common control
Interest income	-	-	-
Commission expenses	13	-	111
Operating expenses	-	378	-

At 31 December 2021, other rights and obligations with related parties were as follows:

	Ultimate parent company	Immediate parent company	Entities under common control	Key management personnel
Guarantees issued at the year end	753	-	3,865	120

(All amounts are expressed in EUR thousand, unless otherwise stated)

30. Related party disclosures (continued)

Key management compensation is presented below:

	2022	2021
Salaries	353	363
Bonus	144	139
Pension Contribution	40	15
Total key management compensation	**537**	**517**

31. Commitments and contingencies

Guarantees and letters of credit

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The aggregate outstanding amounts of guarantees and letters of credit issued by the Bank are as follows:

	2022	2021
Financial guarantee	9,458	7,943
Letters of credit	1,875	1,945
Other guarantees	45	89
Total	**11,378**	**9,977**
Unused commitments for revolving facilities	102,132	90,899
Total credit related commitments	**113,510**	**100,876**
ECL for guarantees	(9)	(33)
ECL for revolving facilities	(334)	(408)
Total credit related commitments, net of ECL	**113,167**	**100,435**

(All amounts are expressed in EUR thousand, unless otherwise stated)

31. Commitments and contingencies (continued)

Guarantees and letters of credit (continued)

Commitments by credit quality based on credit risk grades at 31 December 2022 is as follows.

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Financial guarantee	9,458	-	-	9,458
Letters of credit	1,875	-	-	1,875
Other guarantees	45	-	-	45
Total Guarantees and Letter of Credits	**11,378**	**-**	**-**	**11,378**
Loans commitments not yet disbursed	100,406	1,726	-	102,132
Total credit related commitments	**111,784**	**1,726**	**-**	**113,510**
Less: Provision for guarantees and Letter of Credits	(9)	-	-	(9)
Less: Provision for loan commitments	(267)	(67)	-	(334)
Total commitments	**111,508**	**1,659**	**-**	**113,167**

Commitments by credit quality based on credit risk grades at 31 December 2021 is as follows.

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Financial guarantee	7,943	-	-	7,943
Letters of credit	1,945	-	-	1,945
Other guarantees	89	-	-	89
Total Guarantees and Letter of Credits	**9,977**	**-**	**-**	**9,977**
Loans commitments not yet disbursed	89,198	1,697	4	90,899
Total credit related commitments	**99,175**	**1,697**	**4**	**100,876**
Less: Provision for guarantees and Letter of Credits	(33)	-	-	(33)
Less: Provision for loan commitments	(367)	(40)	(1)	(408)
Total commitments	**98,775**	**1,657**	**3**	**100,435**

The Bank calculates ECL and LECL provision for guarantees and letter of credits following the same stepls as for on-balance sheet exposures, differing only with respect to EAD calculation. Refer to Credit Risk disclosure in note 33.

Legal cases

In the normal course of the business, the Bank is presented with legal claims. The Bank's management is of the opinion that the possibility of an outflow of economic benefits in relation to legal claims outstanding as at 31 December 2022 and 2021 is remote, except for the provisions charged as shown in note 19 – Provisions for liabilities and Charges.

(All amounts are expressed in EUR thousand, unless otherwise stated)

32. Management of capital

The Bank's objectives when managing capital are:

- to comply with the capital requirements set by the Central Bank of Kosovo (CBK);
- to safeguard the Bank's ability to continue as a going concern and continue to provide returns for the shareholder; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are regularly monitored by the Bank's management, employing techniques based on the guidelines of the CBK. The required information is provided to the CBK on a monthly basis.

The assets are classified using a hierarchy of five risk weights, reflecting an estimate of credit, market and other risks associated with each asset and off-balance sheet exposure.

The CBK Regulation on Capital Adequacy of Banks and Regulation, requires banks to hold a minimum regulatory capital of EUR 7,000 thousand, to maintain a minimum ratio of Tier I capital to risk-weighted assets of 9%, a minimum total regulatory capital to risk-weighted assets of 12%, and a minimum leverage ratio of 3%.

As of 31 December 2022 and 2021 the Bank is in compliance with all regulatory ratios: Tier I capital as of 31 December 2022 is 13.14% (2021: 15.92%), total regulatory capital is 14.02% (2021: 16.94%), and leverage ratio is 8.97% (2021: 10.09%).

The Bank was in compliance with regulatory requirements as at the reporting dates, at 31 December 2022 and 2021.

Minimum Risk-Based Capital Ratios

The capital levels, risk weighted assets and capital adequacy ratios as per CBK regulations at 31 December 2022 and 2021, are as follows:

	2022	**2021**
Tier 1 capital		
Share capital	24,000	24,000
Retained earnings as per Central Bank of Kosovo reporting	52,506	59,612
Accumulated other comprehensive income (and other reserves)	(3,081)	(2,446)
Less: Intangible assets	(2,460)	(2,846)
Credits to Bank's related parties	(813)	(473)
Total qualifying Tier 1 capital	**70,152**	**77,847**
Provisions for loan losses *(limited to 1.25% of RWA)*	4,722	5,011
Total qualifying Tier 2 capital	**4,722**	**5,011**
Total regulatory capital	**74,874**	**82,858**
Risk-weighted assets:		
On balance sheet	469,658	420,615
Off balance sheet	11,576	9,824
Risk assets for operational risk	45,892	44,879
Market risk	6,839	13,785
Total risk-weighted assets	**533,965**	**489,103**
Tier I capital to risk-weighted assets ratio	13.14%	15.92%
Total regulatory capital to risk-weighted assets ratio	14.02%	16.94%
Total leverage ratio (regulatory reporting)	8.97%	10.09%

In accordance with CBK regulation on Credit Risk, starting from 1 January 2020 "IFRS 9 – Financial Instruments" is applicable also for financial statements prepared in accordance with financial reporting provisions of Law No.04/L-093 on Banks, Micro-finance Institutions and Non-Bank Financial Institutions.

(All amounts are expressed in EUR thousand, unless otherwise stated)

32. Management of capital (continued)

Accumulated other comprehensive income (and other reserves) as of 31 December 2022 and 2021 is comprised of the following:

	2022	2021
First time impact of IFRS 9 and IFRS 16 application	(2,560)	(2,457)
Fair value of investment property (recognized through OCI)	325	351
Fair value of investment securities (recognized through OCI)	(846)	(340)
Accumulated other comprehensive income (and other reserves)	**(3,081)**	**(2,446)**

33. Financial risk management

The risk management function within the Bank is carried out with respect to financial risks and operational risks. Financial risk comprises credit risk, market risk (including currency risk, interest rate risk and other price risks), and liquidity risk. The primary function of risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits set by the regulatory body and by the Bank's Board of Directors. The operational and legal risk management functions are intended to ensure the proper functioning of internal control functions and policies and procedures in order to minimise operational and legal risks.

Market risk

The activities of the Bank are to some extent exposed to possible losses as a result of the exposure of its financial instruments to interest-rate risk, or exchange-rate risk resulting from fluctuations in the financial markets. The majority of transactions of the Bank are in local currency and majority and exposure to foreign exchange risk is limited.

Foreign currency risk

The Policy on Management of the currency risk of TEB SH.A. defines the methods of currency risk management within the Bank. The Bank manages foreign currency risk through managing the currency structure of its assets and liabilities. Foreign exchange rate risk is managed and governed according to the policies of the TEB Group. TEB SH.A. continuously monitors exchange rate movements and foreign currency markets, and determines its currency positions on a daily basis.

Any exception to the policy is subject to approval by the Board of Directors of TEB SH.A.. The Bank does not maintain open currency position for speculative purposes. Nevertheless, foreign exchange derivatives may be used for hedging purposes to close certain positions, in which case they are closely monitored at both local and group levels. The Bank undertakes transactions in EUR and in foreign currencies.

The Bank has not entered into forward exchange derivatives and does not have any embedded derivative at 31 December 2022 and 2021.

As the currency in which the Bank presents its financial statements is Euro, the Bank's financial statements are effected by movements in the exchange rates between the Euro and other currencies.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the functional currency of the Bank.

Foreign currency sensitivity analysis

The Bank is mainly exposed to US Dollar (USD) and Swiss Franc (CHF). The following table details the Bank's sensitivity to the respective increase and decrease in the value of Euro against the foreign currencies. The percentage used is the sensitivity rate analysis represents management's assessment of the reasonably possible change in foreign exchange rates.

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

Foreign currency risk (continued)

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a respective change in foreign currency rates. The Bank has applied a 10% increase or decrease to the current currency exchange rates. A positive number below indicates an increase in profit and other equity where the EUR strengthens with respective percentages against the relevant currency.

		2022		2021
	+10% Euro	**-10% Euro**	**+10% Euro**	**-10% Euro**
Assets:				
Impact on cash and due from banks	(1,462)	1,787	(2,859)	3,494
Liabilities:				
Impact on due to banks and customers	1,460	(1,784)	2,849	(3,482)
Net impact on profit or loss and equity	**(2)**	**3**	**(10)**	**12**

The following table summarises the Bank's currency position as at 31 December 2022:

	EURO	USD	CHF	Other	Total
Financial assets					
Cash and current accounts with banks	106,137	1,451	5,746	1,454	**114,788**
Loans and advances to banks	36,641	12,920	-	-	**49,561**
Net Loans and advances to customers	535,048	-	-	-	**535,048**
Loans to individuals	285,394	-	-	-	**285,394**
Loans to legal entities	259,102	-	-	-	**259,102**
Impaired Loans	(9,448)	-	-	-	**(9,448)**
Investments in debt securities	40,153	1,680	-	-	**41,833**
Other financial assets	6,168	-	-	-	**6,168**
Total assets	**724,147**	**16,051**	**5,746**	**1,454**	**747,398**
Financial liabilities					
Due to customers	628,184	16,026	5,745	1,453	**651,408**
Borrowings	-	-	-	-	**-**
Lease liabilities	3,388	-	-	-	**3,388**
Other financial liabilities	9,314	-	2	-	**9,316**
Total liabilities	**640,886**	**16,026**	**5,747**	**1,453**	**664,112**
Net currency position at 31 December 2022	**83,261**	**25**	**(1)**	**1**	**83,286**

The following table summarises the Bank's currency position as at 31 December 2021:

	EURO	USD	CHF	Other	Total
Financial assets					
Cash and current accounts with banks	139,373	1,700	7,449	1,625	**150,147**
Loans and advances to banks	53,276	18,991	-	-	**72,267**
Net Loans and advances to customers	468,948	-	-	-	**468,948**
Loans to individuals	*254,752*	-	-	-	**254,752**
Loans to legal entities	*223,604*	-	-	-	**223,604**
Impaired Loans	*(9,408)*	-	-	-	**(9,408)**
Investments in debt securities	34,760	10,654	-	-	**45,414**
Other financial assets	3,965	7	4	1	**3,977**
Total assets	**700,322**	**31,352**	**7,453**	**1,626**	**740,753**
Financial liabilities					
Due to customers	610,267	22,310	7,397	1,596	**641,570**
Borrowings	1,722	-	-	-	**1,722**
Lease liabilities	2,537	-	-	-	**2,537**
Other financial liabilities	5,218	13	2	0	**5,233**
Total liabilities	**619,744**	**22,323**	**7,399**	**1,596**	**651,062**
Net currency position at 31 December 2021	**80,578**	**9,029**	**54**	**30**	**89,691**

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

Foreign currency risk (continued)

Based on the Bank's policies, the individual open currency positions should not be greater than 5% of Tier 1 capital and the aggregate exposures in all currencies not greater than 10% of Tier 1 capital at any specific point of time, while as per CBK requirements, the open currency position for any single currency should not be more than 15% of Tier 1 capital and the aggregate exposure not more than 30% of Tier 1 capital.

As at 31 December 2022 and 31 December 2021 the Bank has complied with these ratios.

The exchange rates applied for the principal currencies against the Euro were as follows:

	31 December 2022	31 December 2021
United States Dollar (USD)	1.0666	1.1326
Swiss Franc (CHF)	0.9847	1.0331
British Pound (GBP)	0.8869	0.8403

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets (re-pricing risk). The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The interest rate risk the bank is exposed is derived from its financial assets and liabilities that are sensitive to IR. The IRR may arise in increase in liabilities interest rate and as a result can trigger higher funding costs, while on the asset side, if IR decreases, it can affect bank profitability. On both scenarios, duration gap analysis is crucial to identify the sensitivity of IR. Duration gap analysis is a simple IRR methodology that provides an easy way to identify repricing gaps for monitoring interest rate risk arising from maturity discrepancy on the balance sheet. Gap analysis helps to identify maturity and repricing mismatches between assets, liabilities and off-balance sheet instruments. Gap schedules segregate RSAs, RSLs, and off-balance sheet instruments according to their repricing characteristics. For liquidity purposes, maturity date is used, whereas for interest rate gaps, repricing date is important.

Moreover, the risk management department monitors exposure to interest rate risk using the interest rate gap analysis methodology, which is based on internal assumptions with the indicative limits set for different maturities.

The purpose of the policy, which is approved by BoD, is to manage the exposure to interest rate risk and limit the potential losses, as a result of the modification of levels of interest rates in the market and the effect of such changes on the business results and the market value of the Bank's capital.

IRR policies are approved by BoD and reviewed on regular basis, while the senior management is responsible for ensuring that BoD approved policies and procedures are appropriately executed. Such risk management policy approved by the BoD, define the method of identification, measurement, monitoring and controlling the risk in the event of interest rate modification.

All instruments and positions which are sensitive to interest rate risk are classified in the banking book. Positions are observed pursuant to these segments:

- Interest rate sensitive positions in Euros.
- Interest rate sensitive positions in other currencies (aggregate base and as per each currency).

Management believes that the Bank is not exposed to interest rate risk on its financial instruments.

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

IR Sensitivity analysis

Interest rate risk management is supplemented by monitoring the sensitivity of the Bank's net banking income and equity, to various floating interest rate scenarios. The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. The analysis assumes a parallel increase of interest rates by 100 basis points (±1%) on the level of net banking income for a one to three year period.

Results presented below represent the changes in profit or loss and equity, which would occur if interest rates will increase or decrease by 100 basis points within one and three years. Change in the estimated one-year net banking income should be +/- 8% of the planned net banking income while change in the estimated two-year net interest income should be +/- 5% of the budgeted net banking income.

The analysis of the sensitivity of profit or loss and equity to changes in interest rates is as follows:

Sensitivity of the profit or loss	**2022**	**2021**
Increase in basis points +100 bps parallel shift	420	683
Decrease in basis points -100 bps parallel shift	(420)	(352)

Financial assets and liabilities based on the earlier between interest rate repricing date and maturity are presented below:

31 December 2022	**Less than 1 month**	**1–3 months**	**3-12 months**	**1–5 years**	**More than 5 years**	**Total**
Financial assets						
Cash and current accounts with banks	114,788	-	-	-	-	**114,788**
Loans and advances to banks	48,563	998	-	-	-	**49,561**
Loans to customers	42,807	9,534	52,706	292,000	138,001	**535,048**
Investment in debt securities	-	1,925	10,638	29,270	-	**41,833**
Other financial assets	5,537	89	363	135	44	**6,168**
Total financial assets	**211,695**	**12,546**	**63,707**	**321,405**	**138,045**	**747,398**
Financial liabilities						
Due to customers	617,825	2,934	12,253	14,325	4,071	**651,408**
Lease liabilities	-	311	799	2,278	-	**3,388**
Other financial liabilities	7,105	800	542	716	153	**9,316**
Total financial liabilities	**624,930**	**4,045**	**13,594**	**17,319**	**4,224**	**664,112**
Interest sensitivity gap	**(413,235)**	**8,501**	**50,113**	**304,086**	**133,821**	**83,286**

31 December 2021	**Less than 1 month**	**1–3 months**	**3-12 months**	**1–5 years**	**More than 5 years**	**Total**
Financial assets						
Cash and current accounts with banks	150,147	-	-	-	-	**150,147**
Loans and advances to banks	56,456	15,811	-	-	-	**72,267**
Loans to customers	38,612	4,905	45,902	270,286	109,243	**468,948**
Investment in debt securities	-	-	5,271	40,143	-	**45,414**
Other financial assets	3,345	86	511	-	35	**3,977**
Total financial assets	**248,560**	**20,802**	**51,684**	**310,429**	**109,278**	**740,753**
Financial liabilities						
Due to customers	593,372	5,229	21,010	18,335	3,624	**641,570**
Borrowings	1,004	-	718	-	-	**1,722**
Lease liabilities	-	266	723	1,525	23	**2,537**
Other financial liabilities	3,022	738	280	1,193	-	**5,233**
Total financial liabilities	**597,398**	**6,233**	**22,731**	**21,053**	**3,647**	**651,062**
Interest sensitivity gap	**(348,838)**	**14,569**	**28,953**	**289,376**	**105,631**	**89,691**

33. Financial risk management (continued)

Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to debtors is conducted through regular analysis of the debtors' credit worthiness. Exposure to credit risk is also managed in part by obtaining collateral and guarantees as other credit enhancement factors. Credit risk policies and procedures are reviewed and updated on a yearly basis in order to be in line with CBK regulations and Group standards.

The Bank's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets at the reporting date. In addition, the Bank is exposed to off-balance sheet credit risk through commitments and financial guarantees issued.

All credit exposures are reviewed at least on an annual basis, while large exposures are monitored on regular basis by the Monitoring Department who have the mandate to observe and monitor large corporate exposures on a monthly basis, and to report to the Credit Committee or Watch List Doubtful Committee in case of any observed credit deterioration. The monitoring process considers but is not limited to cash flow and sales performance, credit covenants, payment behaviour, profitability, liquidity, solvency and debt ratio.

Concentrations of credit risk (including off balance sheet exposures) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would lead to inability to meet contractual obligations affected by changes in economic or other conditions.

For subsequent measurement and impairment of assets, the Bank assesses whether objective evidence of impairment exists. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The Bank has the Provisioning Committee which consists of the Managing Director of the Bank, CRO, CFO. The main responsibility of the Committee is to evaluate the overall loan impairment process in accordance with the bank's internal policies and procedures, CBK requirements, IFRS, and group standards. Moreover, the committee is responsible for validating the relevant provisions for legal litigations against the bank and the provisions related to operational risk incidents. The Committee has the authority to conduct or authorize reviews into any matters within its scope of responsibility covering Loan Expected Losses and other provisioning expenses.

The Bank has established a more efficient monitoring structure aiming to manage the exposures at the early stages of loan delinquency. In addition, the effectiveness of the local Private Enforcement Agents (PEA) and outsourcing of debt collection companies, led to increased recovery of non-performing loans.

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

Credit risk (continued)

Credit Risk Grading system

For measuring credit risk and grading financial instruments the Bank applies two approaches.

An Internal Rating-based risk system (IRB) or risk grades estimated by external international rating agencies for grading counterparty risk for Financial Institution and Sovereign risk, which are mapped on an internally defined group master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corresponding internal ratings	Corresponding ratings of external international rating agencies (MOODY's)	Corresponding 1Y ECL PD interval
Excellent/ Very Good	[1+ / 2-]	Aaa to A3	0.01% - 0.04%
Good/ Above Average	[3+ / 4-]	Baa1-Baa2	0.06-0.21%
Average-Below Average	[5+ / 6-]	Baa3 – Ba2	0.26% - 1.46%
Poor - Weak	[7+ / 8-]	Ba3 – B2	2.11% - 8.06%
Speculative – Substandard	[9+ /10-]	B3 – C	9.53% - 21.81%
Default	[11/12]	D	100%

Besides Group master scale grading which is applied for counterparty risk, for loans and advances to legal customers, the bank uses internal application grading tool calibrated to country risk which is based on quantitative (75%) and qualitative (25%) input and the customers rating is generated.

Such rating is not mapped to any external rating agencies, while it is only used for internal credit decision. Moreover, for individual exposures, the banks uses application and behaviour-scoring tool in order to score the individual portfolio which is based on several risk parameters.

Expected Credit Loss (ECL) measurement. ECL is an estimate of the present value of future cash shortfalls. ECL measurement is based on four components used by the Bank: PD, EAD, LGD and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor of 45.45%. CCF is a coefficient that shows the probability of conversion of the commitment amounts to an on-balance sheet exposure within a defined period. PD is an estimate of the likelihood of default to occur over a given time period.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the EIR for the financial instrument or a proxy thereof.

Expected credit losses are modelled over financial assets lifetime period. The lifetime period is equal to the remaining contractual period to maturity of the asset adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, for credit cards and overdraft, the lifetime exposure is measured over a period of 12 months.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

33. Financial risk management (continued)

Credit risk (continued)

The ECLs that are estimated by management for the purposes of these financial statements are through-the-cycle estimates and the estimates do not consider forward looking information due to weak correlation of key macroeconomic variables and the impact on credit risk.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the borrower is insolvent and is experiencing financial difficulties;
- the borrower is deceased;
- the borrower has on-going legal issues;
- market outlook for a specific industry or the bank was forced to restructure the debt;
- any other factors that can trigger a default event.

The default definition stated above is applied to all types of financial assets of the Bank. An asset is considered to exit the default status if:

- Regular repayments have to be made over a period of 6 months with DpD <30 days for a single repayment (instalment)
- The borrower does not have any past due exposures >90 days
- The financial situation of the borrower has improved to the extent that full repayments are likely to be made based on banks monitoring department evaluation criteria's

A financial asset or a group of financial assets is impaired based on ECL and LECL as a result of one or more events that occurred after the initial recognition of the financial asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that carries no significant credit on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a SICR since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis until the contractual maturity. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. At the end of each observation period, the financial assets are classified as below:

- STAGE 1 - Delinquency 0 – 30 days - with no significant increase in credit risk
- STAGE 2 - Delinquency 31 - 90 days - with significant increase in credit risk and
- STAGE 3 - the defaulted exposures

Impairment of loans and advances to customers is based upon a review of several qualitative and quantitative factors attended to the credit, contain the weaknesses that are inherent in a credit, or of whether there is a probability that a portion of the loan amount will not be paid.

33. Financial risk management (continued)

Credit risk (continued)

The main criteria that the Bank observes to determine that there is objective evidence of an impairment loss include:

- Default or delinquency in interest or principal payments;
- Default in repayment of interest or principal in other financial institutions ("FI"), subject of certain thresholds;
- Liquidity difficulties of the borrower
- Breach of contract covenants or conditions;
- The borrower considers bankruptcy or a financial reorganisation;
- Deterioration of economic and market conditions.
- Downgrade of internal credit rating and scoring
- Forbearance measure is extended to the borrower

Collective assessment is established based on a credit risk model that considers the historical 5 year PD Rate and LGD. The PD factor results from default events possible within the next 12 months and is calculated for four different delinquency buckets separately. The LGD (recovery rate) is observed for a 36 period. The input data in the model is updated on yearly basis for five separate segments (Retail, SME, Corporate, Agro and Credit Card exposures). At the end, the values are discounted with EIR for each facility, while for overdrafts and credit card a special discount rate factor is calculated. At the end by using the equation of (EAD x PD x LGD x DF) the final ECL amounts are derived.

Recovery rates are calculated based on 36 months' observation for Stage 1 and 2 facilities, while for Stage 3 credit facilities with exposure < 20,000 EUR. Moreover, for credit facilities with remaining maturity less than 1 year or credit facilities with no maturities, the 12-month default rate and Expected Credit Loss are calculated.

For stage 3 exposures >20,000 EUR, Collection Department will estimate a cash inflow for each case individually and for each facility based on collateral liquidation expectation or any other source of cash inflow. Collection forecast are based on prudent and realistic estimates and should be based on the following credit enhancement factors: collateral market value and its liquidity, historical cash flow, third party guarantor/co-debtor capacity, time duration for the liquidation/repossession of the assets and legal country environment as external factor. Cash inflow estimate can cover a period of five years that will be discounted with an EIR or proxy EIR for each facility.

Restructured loans (Forborne Exposures) will be at stage 2 if the exposure was considered to be performing at the date when the measure was originated, otherwise it will remain at Stage 3.
For non-performing forborne exposures under stage 3, 24 months exit criteria to Stage 2 transfer plus additional 12 months as probation period for Stage 1 transfer will be observed. In total 36 months monitoring will be applied to transfer in Stage 1. For performing forborne exposures under Stage 2, 24 months exit criteria to Stage 1 transfer will be observed. In both instances, the payment behaviour for a single instalment should be less than 30 days in delay for the entire monitoring period, and regular payments have been made at least during the half of the probation period, otherwise the probation period will restart from zero and previous staging will be kept.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss in impairment charge for credit losses.

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

Credit risk (continued)

Impairment of financial assets classified as hold to collect and sell

Regarding financial assets measured at FVOCI, for Kosovo Government Bonds the Bank will use min PD of 0.05% which is Basel IRB approach and 1% PD for Turkish Government Bonds based on BNPP Master scale. On the other hand, for sovereign risk exposure including government bonds and central bank balances, the Bank will apply 45% LGD as defined under Basel IRB, and 45% for Turkish Government Bonds.

Maximum exposure to credit risk:

As at 31 December 2022	Gross maximum exposure	Expected credit losses	Net maximum exposure
Cash and current accounts with banks	77,214	(16)	77,198
Loans and advances to banks	49,608	(47)	49,561
Loans to individuals	**285,394**	**(3,245)**	**282,149**
Loans to customers	248,399	(2,340)	246,059
Overdrafts	2,214	(89)	2,125
Credit cards	34,781	(816)	33,965
Loans to legal entities	**259,102**	**(6,203)**	**252,899**
Loans to legal entities	211,932	(5,323)	206,609
Overdrafts	43,429	(748)	42,681
Credit Cards	3,741	(132)	3,609
Total loans and advances to customers	**544,496**	**(9,448)**	**535,048**
Investments in debt securities	41,834	(56)	41,778
Letters of credit	1,875	(1)	1,874
Letters of guarantees	9,458	(8)	9,450
Other guarantees and indemnities	45	(0)	45
Loan commitments	102,132	(334)	101,798
Contingent liabilities	**113,510**	**(343)**	**113,167**

As at 31 December 2021	Gross maximum exposure	Expected credit losses	Net maximum exposure
Cash and current accounts with banks	117,658	(37)	117,621
Loans and advances to banks	72,476	(209)	72,267
Loans to individuals	**254,752**	**(3,512)**	**251,240**
Loans to customers	222,706	(2,553)	220,153
Overdrafts	2,126	(84)	2,042
Credit cards	29,920	(875)	29,045
Loans to legal entities	**223,604**	**(5,896)**	**217,708**
Loans to legal entities	187,295	(5,351)	181,944
Overdrafts	32,831	(428)	32,403
Credit Cards	3,478	(117)	3,361
Total loans and advances to customers	**478,356**	**(9,408)**	**468,948**
Investments in debt securities	45,414	(57)	45,357
Letters of credit	1,945	(4)	1,941
Letters of guarantees	7,943	(28)	7,915
Other guarantees and indemnities	89	(1)	88
Loan commitments	90,899	(408)	90,491
Contingent liabilities	**100,876**	**(441)**	**100,435**

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

Credit risk (continued)

Concentration by geography

The following presents the Bank's main credit exposures by geographical region as at 31 December 2022 and 2021. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

Total Financial Assets	OECD countries	Kosovo	Other	Total 2022	OECD countries	Kosovo	Other	Total 2021
Cash and balances with the CBK	10,487	104,301	-	**114,788**	32,467	117,680	**-**	**150,147**
Loans and advances to banks	28,909	17,653	2,999	**49,561**	63,280	-	8,987	**72,267**
Loans and advances to customers	-	535,048	-	**535,048**	-	468,948	**-**	**468,948**
Investments in debt securities	10,632	31,201	-	**41,833**	10,654	34,760	**-**	**45,414**
Other financial assets	-	6,168	-	**6,168**	-	3,977	**-**	**3,977**
Total financial assets	**50,028**	**694,371**	**2,999**	**747,398**	**106,401**	**625,365**	**8,987**	**740,753**
Financial liabilities								
Due to customers	-	651,408	-	**651,408**	-	641,570	-	**641,570**
Borrowings	-	-	-	**-**	-	1,722	-	**1,722**
Lease liabilities	-	3,388	-	**3,388**	-	2,537	-	**2,537**
Other financial liabilities	-	9,316	-	**9,316**	-	5,233	-	**5,233**
Total financial liabilities	**-**	**664,112**	**-**	**664,112**	**-**	**651,062**	**-**	**651,062**

Write-offs

Write-offs are defined as the accounting reduction of a debt, which does not mean waiving the legal claim against the debtors and, hence, the debt may be revived. Proposals for (full or partial) write-offs on the debts may be submitted to the competent committee on the condition that certain procedures have been carried out.

Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations. The Bank monitors its liquidity on a daily, monthly and quarterly basis in order to manage its obligations as and when they fall due.

The following reports are used by the Bank for liquidity management purposes:

- Cash flow report and the liquidity ratios provided by the CBK regulation (>25% and >20%): daily basis
- ALCo Liquidity Coverage Ratio and Liquidity GAP reports: monthly basis
- ALCo and Board level reporting: quarterly basis.

The Liquidity GAP reports are prepared by the ALM-Treasury by using behavioural and modelled cash flows and limits approved by the BoD. Moreover, the Bank also uses the CBK Liquidity GAP reports. Funding limits of EUR 35 million are available from TEB A.S. to cover the Bank's liquidity needs.

Funds are raised using a broad range of instruments including deposits, borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities.

(All amounts are expressed in EUR thousand, unless otherwise stated)

33. Financial risk management (continued)

Liquidity risk (continued)

The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required for meeting business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy. The Management is monitoring liquidity ratios against internal and regulatory requirements on a daily basis. As a result, Management believes that the Bank has no short-term liquidity gap. The amount disclosed in tables below is contractual undiscounted cash flows:

31 December 2022	Carrying amount	Gross inflow/ outflow	Less than 1 month	1–3 months	3 -12 months	1–5 years	More than 5 years
Financial assets							
Cash and current accounts with banks	114,788	114,788	114,788	-	-	-	-
Loans and advances to banks	49,561	49,561	48,563	998	-	-	-
Loans to customers	535,048	602,813	61,795	37,024	153,788	299,413	50,793
Investment in debt securities	41,833	43,684	-	515	9,830	33,339	-
Other financial assets	6,168	6,168	5,537	89	363	136	44
Total financial assets	**747,398**	**817,014**	**230,683**	**38,626**	**163,981**	**332,888**	**50,837**
Financial liabilities							
Due to customers	651,408	651,552	617,780	2,954	15,376	15,443	-
Lease liabilities	3,388	3,388	-	311	799	2,278	-
Other financial liabilities	9,316	9,316	7,105	800	575	737	99
Total financial liabilities	**664,112**	**664,256**	**624,885**	**4,065**	**16,750**	**18,458**	**99**
Unused loan commitments and guarantees	113,167	113,510	113,510	-	-	-	-
Total financial liabilities and commitments	**777,279**	**777,766**	**738,395**	**4,065**	**16,750**	**18,458**	**99**
Positive/(negative) gap	**(29,881)**	**39,248**	**(507,712)**	**34,561**	**147,231**	**314,430**	**50,738**

31 December 2021	Carrying amount	Gross inflow/ outflow	Less than 1 month	1–3 months	3 -12 months	1–5 years	More than 5 years
Financial assets							
Cash and current accounts with banks	150,147	150,147	150,147	-	-	-	-
Loans and advances to banks	72,267	72,267	56,456	15,811	-	-	-
Loans to customers	468,948	530,333	55,842	29,819	136,626	265,223	42,824
Investment in debt securities	45,414	47,704		1,664	8,987	37,053	
Other financial assets	3,977	3,977	3,345	86	511	-	35
Total financial assets	**740,753**	**804,428**	**265,790**	**47,380**	**146,124**	**302,276**	**42,859**
Financial liabilities							
Due to customers	641,570	641,861	593,341	5,241	23,769	19,510	-
Borrowings	1,722	1,732	1,009	-	724	-	-
Lease liabilities	2,537	2,537	92	175	723	1,525	23
Other financial liabilities	5,233	5,233	3,023	738	280	1,193	-
Total financial liabilities	**651,062**	**651,363**	**597,465**	**6,154**	**25,496**	**22,228**	**23**
Unused loan commitments and guarantees	100,435	100,876	100,876	-	-	-	-
Total financial liabilities and commitments	**751,497**	**752,239**	**698,341**	**6,154**	**25,496**	**22,228**	**23**
Positive/(negative) gap	**(10,744)**	**52,189**	**(432,551)**	**41,226**	**120,628**	**280,048**	**42,836**

For liquidity purposes, the Bank classifies demand and savings 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 unlikely. Therefore, the Bank does not consider hving any liquidity gap in the short term.

(All amounts are expressed in EUR thousand, unless otherwise stated)

34. Fair value disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Financial instruments not measured at fair value but 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.

	2022			Fair Value	2021			Fair Value
Financial assets	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**
Cash and current accounts with banks	**114,788**	114,788	-	-	**150,147**	150,147	-	-
Loans and advances to banks	**49,561**	-	49,561	-	**72,267**	-	72,267	-
Loans and advances to customers	**535,048**	-	-	540,530	**468,948**	-	-	473,448
Loans to individuals	*282,149*	-	-	*283,683*	*251,240*	-	-	*253,132*
Loans to legal entities	*252,899*	-	-	*256,848*	*217,708*	-	-	*220,316*
Other financial assets	**6,168**	-	-	6,168	**3,977**	-	-	3,977
Financial liabilities								
Due to customers	**651,408**	-	-	651,717	**641,570**	-	-	642,042
Borrowings	**-**	-	-	-	**1,722**	-	-	1,722
Lease liabilities	**3,388**	-	-	3,388	**2,537**	-	-	2,537
Other financial liabilities	**9,316**	-	-	9,316	**5,233**	-	-	5,233

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

Loans and advances to banks, and other financial assets and liabilities, include inter-bank placements and items in the course of collection. As such balances are short term, their fair value is considered to approximate their carrying amount.

The fair value of deposits and borrowings 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.

There were no purchases or sales in level 3 financial assets and the change in the carrying value of the balance is a results of the change in the fair value.

(All amounts are expressed in EUR thousand, unless otherwise stated)

34. Fair value disclosures (continued)

Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

The following table analyses assets 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 recognised in the statement of financial position.

Investments in debt securities are interest-bearing assets. Because no active market exists for Kosovo Government Bonds, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity and they are classified as Level 2. The fair value of Euro Bonds has been determined using quoted market prices and are classified as level 1.

Investment property is land held for capital appreciation. In the absence of an active market, the fair value of the investment property has been estimated using a discounted cash flow model based on the current market rates for similar properties in the same market using a discount rate that reflects the current market assessment of the uncertainty in the amount and timing of cash flow.

	2022 Fair Value	Level 1	Level 2	Level 3	2021 Fair Value	Level 1	Level 2	Level 3
Assets at fair value								
Non-derivative financial assets								
Investment in debt securities	41,833	10,632	31,201	-	45,414	10,654	34,760	-
Investment property								
Investment property	1,920	-	-	1,920	1,661	-	-	1,661
Total	**43,753**	**10,632**	**31,201**	**1,920**	**47,075**	**10,654**	**34,760**	**1,661**

(All amounts are expressed in EUR thousand, unless otherwise stated)

35. Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently.

As at 31 December 2022	FVTPL (mandatory)	FVTPL (desig-nated)	Debt instruments at FVOCI	Equity instruments at FVOCI	AC	Total
Financial Assets						
Cash and current accounts with banks	-	-	-	-	77,198	77,198
Loans and advances to banks	-	-	-	-	49,561	49,561
Other financial assets	-	-	-	-	6,168	6,168
Total loans and advances to customers	**-**	**-**	**-**	**-**	**535,048**	**535,048**
Loans to individuals	**-**	**-**	**-**	**-**	**282,149**	**282,149**
Loans to customers	-	-	-	-	246,059	246,059
Overdrafts	-	-	-	-	2,125	2,125
Credit cards	-	-	-	-	33,965	33,965
Loans to legal entities	**-**	**-**	**-**	**-**	**252,899**	**252,899**
Loans to legal entities	-	-	-	-	206,609	206,609
Overdrafts	-	-	-	-	42,681	42,681
Credit Cards	-	-	-	-	3,609	3,609
Investment in debt securities	**-**	**-**	**41,833**	**-**	**-**	**41,833**
Kosovo Government Bonds	-	-	31,471	-	-	31,471
Turkish Government Bonds	-	-	10,362	-	-	10,362
Total Financial Assets	**-**	**-**	**41,833**	**-**	**667,975**	**709,808**
Financial Liabilities						
Due to customers	**-**	**-**	**-**	**-**	**651,408**	**651,408**
Demand deposits	-	-	-	-	616,651	616,651
Term deposits	-	-	-	-	34,757	34,757
Borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	3,388	3,388
Other financial liabilities	-	-	-	-	9,316	9,316
Total Financial Liabilities	**-**	**-**	**-**	**-**	**664,112**	**664,112**

(All amounts are expressed in EUR thousand, unless otherwise stated)

35. Presentation of Financial Instruments by Measurement Category (continued)

	FVTPL (mandatory)	FVTPL (designated)	Debt instruments at FVOCI	Equity instruments at FVOCI	AC	Total
Financial Assets						
Cash and current accounts with banks	-	-	-	-	117,621	117,621
Loans and advances to banks	-	-	-	-	72,267	72,267
Other financial assets	-	-	-	-	3,977	3,977
Total loans and advances to customers	-	-	-	-	**468,948**	**468,948**
Loans to individuals	-	-	-	-	**251,240**	**251,240**
Loans to customers	-	-	-	-	220,153	220,153
Overdrafts	-	-	-	-	2,042	2,042
Credit cards	-	-	-	-	29,045	29,045
Loans to legal entities	-	-	-	-	**217,708**	**217,708**
Loans to legal entities	-	-	-	-	181,944	181,944
Overdrafts	-	-	-	-	32,403	32,403
Credit Cards	-	-	-	-	3,361	3,361
Investment in debt securities	**-**	**-**	**45,414**	**-**	**-**	**45,414**
Kosovo Government Bonds	-	-	34,760	-	-	34,760
Turkish Government Bonds	-	-	10,654	-	-	10,654
Total Financial Assets	**-**	**-**	**45,414**	**-**	**662,813**	**708,227**
Financial Liabilities						
Due to customers	-	-	-	-	**641,570**	**641,570**
Demand deposits	-	-	-	-	591,253	591,253
Term deposits	-	-	-	-	50,317	50,317
Borrowings	-	-	-	-	1,722	1,722
Lease liabilities	-	-	-	-	2,537	2,537
Other financial liabilities	-	-	-	-	5,233	5,233
Total Financial Liabilities	-	-	-	-	**651,062**	**651,062**

36. Events after the end of the reporting period

There are no events after the reporting date that would require either adjustments or additional disclosures in the financial statements.