ProCredit Bank
Kosovo

ANNUAL REPORT AS OF 31 DECEMBER 2021

Our Mission

We strive to be the leading SME bank in our market following sustainable and impact-oriented banking practices.

In doing so, we want to generate long-term sustainable returns and create positive impact in the economy and society we work in.

Financial year in brief

STRENGTHENED MARKET POSITION

- Strong Portfolio Growth of 10.3%
- Successful continuation of our SME clients even in challenging market environment
- Effective Direct Banking enables strong deposit growth of 2.77%
- Solid capitalization, with a total regulatory capital ratio of 15.84% and a leverage ratio of 8.64%

GOOD FINANCIAL PERFORMANCE ABOVE GUIDANCE

- Return on equity of 17.0% due to increased interest income, improved cost-income ratio and low cost of risk
- Stable development of interest margin 2.9%
- Return on equity of 17.0% exceeds our guidance for 2021 of 12.7%.

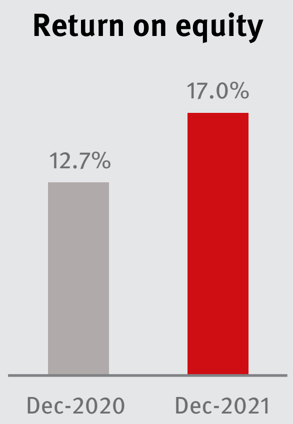
STRONG FOCUS ON SUSTAINABILITY

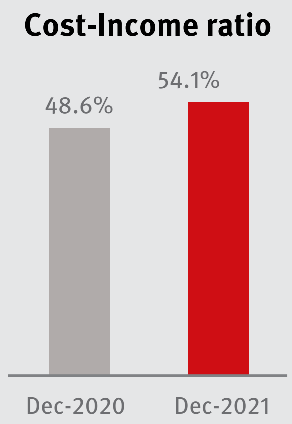
- Green loan portfolio grows by 17.1%: Focus on investments in energy efficiency and renewable energies
- Share of green loan portfolio in total portfolio at 16.9%
- Good Portfolio quality due to close client's relationships: share of defaulted loans further reduced to 2.3%

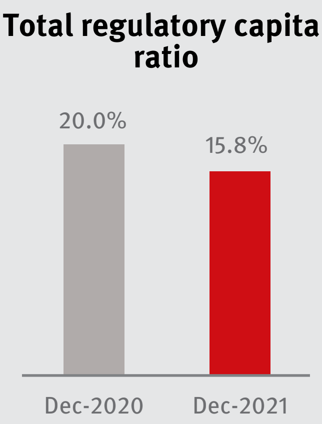
GUIDANCE FOR 2022 AND MEDIUM-TERM OUTLOOK

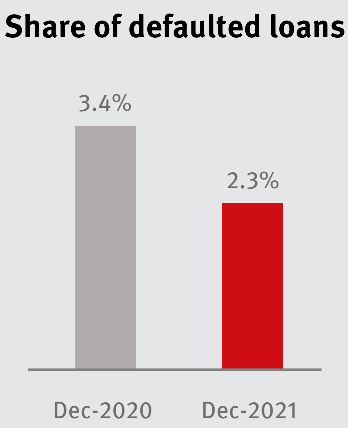
- Continued loan portfolio growth in 2022 approx. 5.2% and further expansion of the green loan portfolio
- Medium-term outlook confirmed: Loan portfolio growth approx. 5.2%, cost- income ratio ‹47%, Return on Equity approx. 17%.

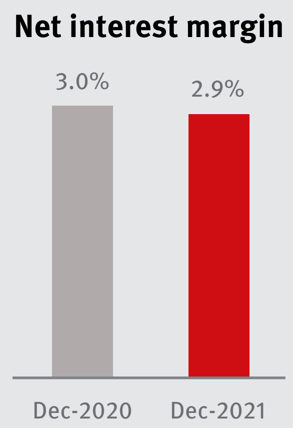
Key financial figures

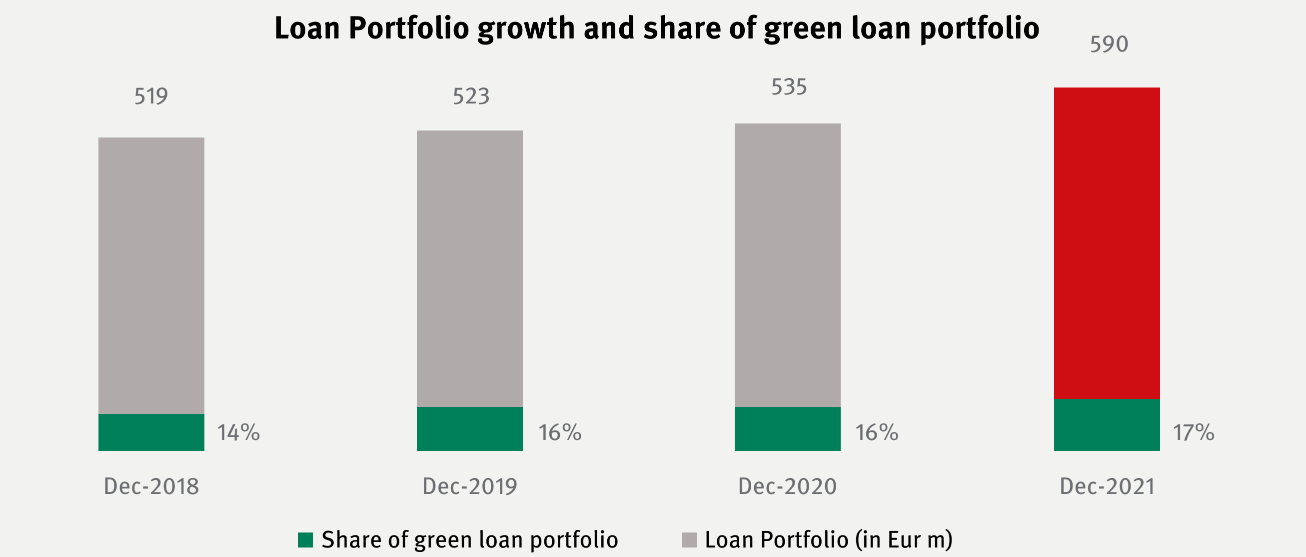












E-charging station in front of the ProCredit Branch

For detailed information about our approach to sustainability, our impact and contribution to the Sustainable Development Goals, please refer to the ProCredit Group Impact Report.

Content

Who We Are Today

Since its establishment over two decades ago, ProCredit Bank has aimed to achieve a sustainable impact on its clients, society and the environment through its operations. Over the years, our approach to and definition of "economic development" have changed from providing support through financing to taking a structured and proactive approach to sustainable development.

ProCredit Bank is committed to being a responsible bank with a moral compass, guided by growth-oriented principles. The prevailing opinion in the banking market is that the ultimate purpose of each company should be to maximise the value of its shares, thus meaning increased profit and higher share prices. To us, profit maximisation is not our primary goal.
Although ProCredit Bank is a commercial bank, we believe that capital should be used to improve the living situation of many and not to enrich a selected few.
Being loyal to these ideals means abstaining from activities that may generate profit but are harmful from a social or environmental perspective. Thus, the bank has ceased providing financing to producers of single-use plastics, going beyond the recommendations of the European Union and "best practices" in the financial services industry.

ProCredit Bank takes the same approach to both its clients and its staff: in order to solve complex problems under difficult circumstances, we work together as partners with a sense of joint responsibility and mutual respect. The bank's unique approach would not be possible without a strong foundation, which rests on a company culture that is shaped every day through thoughts and actions. ProCredit Bank's identity is defined by the collective identities of the individuals working for us. The bank believes that companies are defined by their people and not by their mission statements. This is the foundation of our community, our res publica, which emphasises a common feeling of ownership and responsibility for everything the bank stands for.

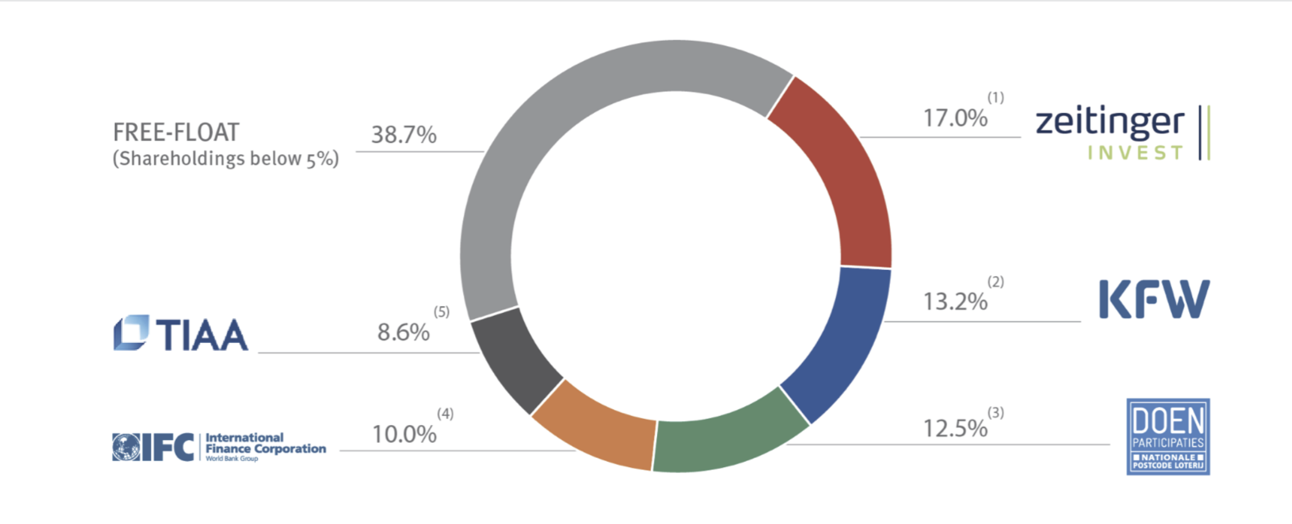
MANAGEMENT

Bejtë Cakaj
Management Board Member

Eriola Bibolli
Chief Executive Officer

Visar Pacarada
Management Board Member

ProCredit Bank Kosova is owned by ProCredit Holding AG & Co KGaA, the parent company of the development-oriented ProCredit group, comprising commercial banks for SMEs with an operational focus in southeastern and eastern Europe.



Shareholder structure

According to voting rights notifications, as of year-end approximately 55% of the shares in ProCredit Holding were held by the core shareholders: Zeitnger Invest GmbH, Kreditanstalt fur Wiederaufbau (KFW), DEON Participaties BV, and the International Finance Corporation (part of the World Bank Group). ProCredit Staff Invest Beteiligungs GmbH is also a core shareholder, with close to 3% of the shares.

The Teachers Insurance and Annuity Association of America holds between 5% and 10% of the shares. The free float, defined as holdings below the threshold of 5% of voting rights, was around 39% on 31 December 2020 according to voting rights notifications. This includes investments of more than 3% in ProCredit Holding AG&Co. KgaA by FMO (Netherlands Development Finance Company), BIO (Belgain Investment Company for Developing Countries), Omidyar-Tufts Microfinance Found, MultiConcept Fund Management, the European Bank for Reconstruction and Development and MainFirst.

FitchRatings
BB

ProCredit is the only bank in Kosovo rated by the international rating agency Fitch Ratings.

Supervised by
BaFin

We work in accordance with the best international banking practices and the regulatory standards in Germany, a banking system proven to be the most stable in Europe. At a consolidated level, ProCredit Banks are under supervision of BaFin - The German Federal Financial Supervisory Authority.

Digital Approach

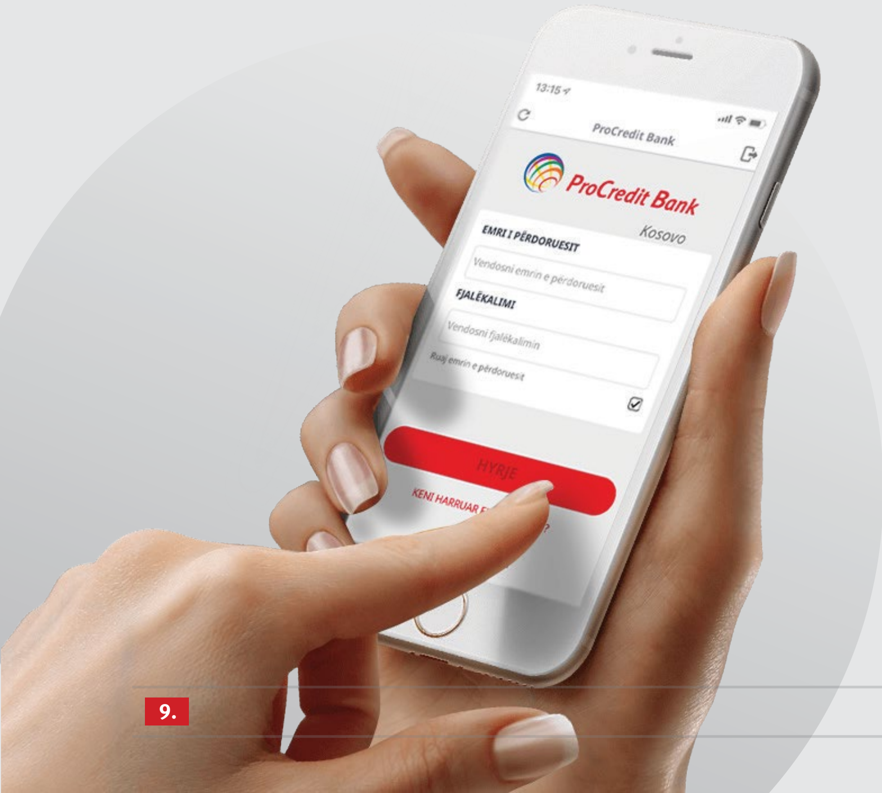
When conducting banking operations, development, technology and digitalisation are becoming more of a priority. This holds true for ProCredit Bank as well; automation and digitalisation not only improve our client experience, but also creates a competitive advantage for the bank.

ProCredit Bank uses advanced technology to provide services to its clients. In Kosovo and other countries in which ProCredit Bank operates, we are pioneers of innovation in the financial industry. Our level of digitalisation in banking has enabled us to continue implementing our business activities without significant restrictions during the pandemic.

ProCredit is the first bank in Kosovo that has succeeded in digitalising almost all non-financial transactions, such as the client identification process and the signing of contracts using qualified digital signatures, so that clients no longer have to visit our branches to carry out such transactions. Apart from these advancements, in 2021, the bank expanded the functions of its e-Banking platform by adding new services, such as applications for services and the management of their data. Furthermore, the situation owing to the pandemic resulted in a considerable increase in card usage for payment transactions.

As an outcome of the implementation of the Direct Banking strategy, our clients no longer have the need to spend their time visiting the bank to carry out simple transactions.
Instead, our client advisers spent this time having in-depth discussions with our clients, hearing their stories, understanding their plans and financial capacity to invest; get to know the people behind these stories and understand how we can better adapt our services to their needs so that we succeed together.

Ultimately, the goal of ProCredit Bank is to continue providing financial and non-financial services via various digital channels, to give clients a full banking experience while on the other hand, continue to provide expertise for different financing needs through our client advisers.



Green Approach

Environmental protection is often overshadowed by the pressing issues of everyday life, which makes the market in Kosovo less conducive to green finance. As a result, throughout the years, but especially in 2021, ProCredit Bank Kosovo has been doing more than merely designing and issuing green loans – we have devoted resources to holding awareness-raising campaigns and providing regular training sessions for our own staff, thus enabling them to improve the environmental performance of the companies we work with. The growth of the bank's green loan portfolio is testimony to its intensive efforts in this regard. By December 2021, we had achieved a 17% share of green loans in our total loan portfolio. Comprehensive training for staff is provided not only at the bank level, but also at the group level at the ProCredit Management Academy and the Banker Academy in Fürth, Germany.

Minimising negative environmental impact, along with proactively promoting sustainability in business, is an integral part of ProCredit Bank's strategy – not only in relation to its loan operations or when providing financial services to its clients, but also when carrying out daily activities.

Offering green financial services also means taking a look at the credibility of ProCredit Bank itself, especially where its performance with regard to the environment is concerned. Green finance at ProCredit encompasses the three pillars of the bank's Environmental Management System (EMS), which was introduced groupwide in 2011:

Internal environmental management

Our approach is based on processes and procedures that help us systematically reduce our direct environmental footprint.

Greening the banks' infrastructure and communicating about environmental issues raises awareness in our institutions and leads to improved resource consumption.

Management of environmental and social risk in lending

We recognise our responsibility for our clients' environmental and social (E&S) impact.

In order to mitigate E&S risks and assess the potential E&S impact of investments financed, a thorough E&S assessment is an integral part of our credit risk analysis.

Green finance

We aim to have a positive environmental impact by promoting green investments in our countries of operation.

We support clients who want to improve their business processes in an environmentally sound manner by investing in energy efficiency, renewable energy or environmental protection.

Internal Environmental Management – encompasses internal measures to minimise the environmental impact of ProCredit Bank by continuously monitoring our environmental performance when it comes to the consumption of natural resources, the transition to sustainable use of resources, renewable energy, and the renovation of business premises to achieve more efficient use of resources.

Management of environmental and social risk in lending – encompasses not only internal measures but also mechanisms to assess the environmental and social impact of ProCredit clients. In this regard, our Exclusion List, which can be found on the bank's website, specifies the business activities that we refuse to support. However, given the long-lasting negative impact of single-use plastics on the environment, during 2021, we developed a special lending strategy towards plastic producers

In this regards, through the strategy we have addressed all single use plastic products according to products use and lifetime, size, source , design of the product and decomposition.

Therefore we have classified producers into three categories:

- **Blacklist**
  All types of plastic have been banned by the EU from 3 July 2021 pursuant to EU Directive 2019/904 (mostly replaceable single-use plastic).
  No more financing of these companies, unless the client has a convincing business plan to phase out the black-listed product within a short period.

- **Greylist**
  All other types of single-use items that present high environmental impact if not disposed of properly, especially packaging, bottles, foils and also micro plastics.
  New clients: No financing
  Existing clients: Clients are required to follow and continuously improve sustainable practices, i.e. reduce waste by substituting single-use plastic with biodegradable products, or by adopting recycling methods and taking responsibility for collecting their products after use.

- **Whitelist**
  Plastic products with a long lifetime for which no alternatives exist or alternatives with a higher environmental impact.
  Our bank will continue to finance these clients, but will still discuss with them options for sustainable plastic production and support them in any steps towards sustainability they decide to take.

Green Finance – Over the last decade, ProCredit's green loan portfolio has reached a total of EUR 100m, which is an increase of 19% compared to 2020 and which makes up 17% of the total loan portfolio.

ProCredit Bank's green lending approach has been continuously refined over the years and currently reflects our best practices, based on 15 years of experience in green lending to SMEs in Kosovo. Considering the energy mix in Kosovo, especially with regard to the production of electricity, 95% of which is generated using lignite as a primary energy source, ProCredit Bank has been extremely active in financing photovoltaic systems. Over 11.5 MW of the capacities installed in Kosovo received financing from ProCredit Bank.

Green finance at ProCredit Bank is divided into three distinct categories:

Energy Efficiency
investments that reduce energy use at least by 20%

Renewable Energy
investments in distributed or utility-scale RE generation systems

Other Environmentally Friendly Investments
investments in areas such as waste management or organic agriculture

ProCredit Bank contributes to several SDGs directly and indirectly. Given the pandemic situation it is only fair to compare the results of 2021 with those of 2019, as during 2020 most of our staff worked remotely, thus significantly reducing our environmental indicators.

With regard to the three pillars of Green Finance, a summary of our SDG contributions and related material topics during 2021 is provided below.

SDG and related material topic(s)	Associated target	Selection of relevant business actions/indicators which contribute to meeting the target
7 AFFORDABLE AND CLEAN ENERGY	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix 7.3 By 2030, double the global rate of improvement in energy efficiency	"… Monitoring and reporting on the amount of energy produced, purchased, and consumed, according to source. Supporting new business models to deliver sustainable and renewable energy." - Energy consumption within the organisation (5% of electricity from renewable energy sources) - Installed renewable energy capacity at our own premises (HO) (20 kWp) - RE projects in loan portfolio (11.5 MW installed capacity)
8 DECENT WORK AND ECONOMIC GROWTH	8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10- year framework of programmes on sustainable consumption and production, with developed countries taking the lead	"…Innovating and/or investing energy efficiency in buildings, road safety equipment, autonomous vehicles, smart metering, water and sanitation infrastructure, timber buildings and additive manufacturing, GHG reduction …" - We promote investments in energy and resource efficiency, renewable energies and environmental protection - We have invested in greening our head office building in accordance with the EDGE green building standard scheme
	8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms	"…Responsibly influencing consumer and consumption patterns and promoting sustainable consumption and lifestyles through, for instance, product development and marketing. Applying sustainability aspects to suppliers, not only to reduce the cost of supply but also to simultaneously implement efficiency measures and reduce the environmental footprint in the supply chain. Improving the efficiency of use energy, water,(raw) materials and other resources…" - Annual selection of green topics with marketing activities in order to address clients, employees, and the general public across all ProCredit countries - Printing paper use reduced by 61.5%, water use reduced by 38% compared to 2019 - Development of sustainable procurement guidelines, including definition of what a sustainable supplier is

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.3 Increase the access of small-scale industrial and other enterprises in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets	"... Implementing circular business models such as using renewable, bio-based or fully recyclable inputs, recovering resources, extending product lifecycle. Tracking and reporting waste generated by type, treatment and disposal destination..." - 100% use of either certified or recycled paper - Development of a groupwide strategy and Exclusion List to reduce the production and use of plastic
	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities	"...In this context, working with the public sector and local organisations to build up networks ensuring financial inclusion and equal access for SMEs, smallholders, and business led by the vulnerable. Providing innovative financing mechanisms like green bonds and impact investing to foster a sustainable domestic economy..." - Promotion of the EBRD's SME Competitiveness Facility and Green Economy Financing Facility (GEFF) - Financing investments by business and private clients in photovoltaic systems
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	12.2 By 2030, achieve sustainable management and efficient use of natural resources	"... Reducing energy consumption in own operations e.g. through energy efficient technologies, obtaining sustainability certifications for buildings, creating new business models to deliver energy efficiency technologies..." - Total energy intensity (5,962 kWh/employee) - Total energy consumption reduced by 25% between 2019 and 2021 - EE promoted through green loan products (EUR 87.5m in EE loans), pushing industry standards forward with a minimum 20% energy savings for eligibility
	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse	"...Understanding sustainable management and resource efficiency in all operations, products and services. Establishing and maintaining proactive environmental management systems. Establishing measurable objectives and/or targets for improving environmental performance and resource utilisation. Regularly tracking and reporting energy, water, and materials consumed and treated in business operations and improving efficiency by reusing/recycling..." - Promotion of green finance products - Regular certification of environmental management systems in the bank in accordance with EMAS (German entities) or ISO 14001

Business Approach

Business Clients

ProCredit Bank focuses on serving small and medium enterprises, as we are convinced that these enterprises create the largest number of jobs and make an essential contribution to the economies in which they operate. ProCredit Bank's approach to managing relations with business clients and the professionalism of the bank's business advisers enables us to understand our clients' needs and support them and their businesses with appropriate and responsible financial services.

In line with the group's strategy, ProCredit Bank strives to be a Hausbank for its clients, i.e. the bank not only finances loans and provides other financial services for business clients, but also offers a broad range of modern financial services that small and medium enterprises need to expand. These services include an advanced electronic platform for e-banking, through which business clients can carry out national and international transfers in a fast and secure way, at low cost; pay salaries and execute mass payments; pay bills; make customs payments; and manage their loans and credit lines. Our clients can also make card payments and efficient transactions at POS terminals; utilise our trade financing services; and carry out numerous banking activities at our 24/7 Zones. These spaces enable businesses to withdraw money 24 hours a day, 7 days a week, deposit daily earnings at cash-in ATMs, and deposit larger cash amounts in special receptacles.

Our banking services help businesses expand and operate more efficiently, which increases sustainability. The bank aims to enter into long-term partnerships with small and medium enterprises and follow up on their progress. These elements, combined with the specialised experience of our business advisers, are the foundation of our model for helping businesses to be successful.

Kujtim Gjevori BI (SCAMPA)
Producer of sustainable plastic bags

Due to the ongoing struggle with the pandemic, 2021 was a challenging year for small and medium-sized businesses. ProCredit Bank continued to finance businesses and support them during this difficult time not only through financing but also by providing sound advice on how to better manage the challenging new environment.
The bank placed special emphasis on encouraging and promoting investment loans for all small and medium enterprises, especially those involved in production, thereby achieving the highest market share for the production sector.

The business financing portfolio increased by over EUR 37 million in 2021, with the total volume of credit exposures dedicated to businesses amounting to nearly EUR 457 million by the end of the year.

As a bank that conducts responsible banking operations, ProCredit Bank makes every effort to act in compliance with environmental standards. The bank continued to support its clients who invested through “green loans,” a term that characterises all financial services geared towards investments in energy-saving measures, renewable energy sources, and other environmentally friendly measures. In 2021, the bank continued to pursue its goal of motivating more business clients to make such investments, with special emphasis on saving electricity through investing in solar panels, upgrading production equipment, and taking measures that reduce water or air pollution. The portfolio of green loans for business clients represents 31% of the total of business loan portfolio.

ProCredit Bank also offers savings accounts to its business clients, enabling them to transfer surplus liquidity from their businesses to accounts with interest that are flexible to use. The volume of business client deposits this year exceeded EUR 201 million, amounting to an annual increase of over EUR 34 million.
Our Business Client Advisers are the key to implementing our strategy of developing long-term professional relationships with our business clients. They are the primary channel not only for providing banking services to our business clients, but also for delivering professional advice and meeting with small and medium clients to assess their needs. The bank continuously invests in the training and professional development of its Business Client Advisers.

Apart from supporting the short-term and mid-term investments of our business clients, in 2022 the bank will continue to promote long-term investments, in particular green investments with special emphasis on energy saving, and to provide targeted support to production businesses. Likewise, the bank will continue to support businesses in channelling their sales through POS terminals, the online payment platform, and e-commerce. ProCredit Bank will remain a Hausbank for small and medium business clients and continue to establish long-term collaboration with these clients.

Private Clients

For more than 20 years, we have been the bank of choice for individuals and households willing to save or invest in improving their living conditions. This is due to our tailor-made approach, prudent financing, and top-notch banking technology that is available to them 24/7.

In terms of accessibility of services, the pandemic situation found us ready to serve clients even from a distance, further enforcing our belief that digital banking is the future and the best way for us to move forward. The use of our online platforms by private individuals increased in 2021 due to numerous new features and improvements in the speed and safety of our platforms. Apart from fully implementing our digitalisation process, in July the bank pioneered the introduction of online account opening. The process is done fully online by following instructions in our mobile app and is finalised with a video call between the client and a Client Adviser.

In August the bank signed an agreement with the Green Economy Financing Facility to support the energy efficiency projects of our private clients by providing a rebate of up to 20% on loans disbursed for investments such as energy-efficient doors, windows, wall or roof insulation, biomass stoves/boilers, lighting, solar water heating, efficient boilers, photovoltaic systems, etc.

In cooperation with construction companies that are well known for their high-quality work in the construction market, the bank has signed agreements, that make it possible for families with a solid financial background but without a mortgage to support their investment plan and we have facilitated the financing process.

ProCredit Bank acknowledges the importance of our small initiatives and their enormous impact on Kosovar households; therefore, we are always working towards improving customer experience through our digital channels and tailor-made approach to private clients.

Socially Responsible Approach

For ProCredit Bank, long-term sustainable economic development is our reason for existing – our raison d'être – and we therefore dedicate our business activities to the accomplishment of this goal. Sometimes, this means sacrificing easy profit in favour of a prudent approach to supporting our clients' long-term investments and goals. From the outside, this might seem tedious, but to us, it is exciting and fulfilling, as through our financial activities the bank ensures the economic wellbeing of households and SMEs.

ProCredit Bank pays close attention to the social aspects of the economy and operates in accordance with values and principles. It is therefore a vital part of the economic development of Kosovo and of its social transformation towards becoming a country of European values and standards. For many years, the bank has sponsored many cultural and sports events, such as the Dokufest film festival in Prizren and the Prishtina Half Marathon. In addition, the bank has supported associations such as Down Syndrome Kosova and the Association of the Blind of Kosovo, institutions like the Bear Sanctuary Prishtina, and numerous clean-up and tree-planting initiatives.

ProCredit Bank analyses the environmental impact of its operations and adapts its objectives accordingly, thus setting an example on how to do business sustainably. To ProCredit Bank, green finance does not merely mean maximising green products or achieving CO_2 neutrality by purchasing green bonds: we live our principles at the institutional level. For example, the bank has minimised the use of paper in its operations and has equipped its transportation fleet with environmentally friendly vehicles. Over the years, the bank has planted over 1,000 trees and has greened 128k m^2. The bank is also about to complete installation of 30 charging stations for electric vehicles throughout the territory of Kosovo, which can be used free of charge for the first two years by all citizens who own electric vehicles. In line with this measure, the bank launched the mobile application ProCredit Charging Stations, which informs users of the locations of these charging stations in Kosovo and in all other countries where the ProCredit group operates. To date there are 300 charging stations.

Planting of **452 trees** in Prishtina

Risk Management

Credit Risk Management

ProCredit Bank defines credit risk as losses to be incurred if a party to a transaction cannot fulfil its contractual obligations, either in full or on time. The bank distinguishes between client credit risk and counterparty risk within the context of overall credit risk (including issuer risk). Our most significant risk is credit risk, and consumer credit exposures account for the majority of that risk. ProCredit Bank's core business is to give financial support to small and medium-sized business clients as well as to private individuals that value savings and choose long-term investments. The bank has recently begun to focus on Very Small enterprises, which could include family companies and agricultural producers.

The objectives of credit risk management are to achieve high loan portfolio quality, minimise risk concentrations within the loan portfolio and ensure appropriate coverage of credit risks with loan loss provisions. The bank's framework for managing customer credit risk is presented in the relevant policies and standards, which are based on ProCredit group policies and outline the bank's essential principles for managing credit risk. Taken together, these strategies illustrate the ProCredit banks' successful lending operations in developing and transitioning economies. Furthermore, these documents are fully compliant with Kosovo's laws and regulations. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

The bank uses several approaches to limit credit risk during the credit risk management process, which includes a thorough examination of our clients' debt capacity. These include taking steps to avoid over-indebtedness, reviewing loan exposures on a regular basis, and actively managing problematic credit exposures. Furthermore, the use of well-designed and well-documented processes, the four-eyes approach, long-term relationships and regular communication with clients, as well as investment in well-trained and highly motivated staff, all help mitigate credit risk.

In addition, portfolio analysis is one of the bank's most essential competencies. Due to the highly dynamic macroeconomic environment in which we operate, this is applicable to both the bank and the entire group. The bank uses a loan portfolio monitoring system to comply with International Financial Reporting Standard 9 (IFRS 9) by identifying and managing potential problems early on. Nevertheless, the bank's decision-making is also based on several macroeconomic analyses with an emphasis on market analysis and economic sectors.

Another factor that contributes to credit risk being well managed is that ProCredit Bank's loan portfolio is broadly diversified, and any potential concentration of credit risk is extensively assessed for its influence on the bank's ability to absorb it. Diversification entails a wide range of economic sectors and client groups, including medium, small, and very small firms, as well as private clients and institutions. ProCredit Bank also aims to provide clients with straightforward, easy-to-understand products, resulting in a high level of transparency for both sides.

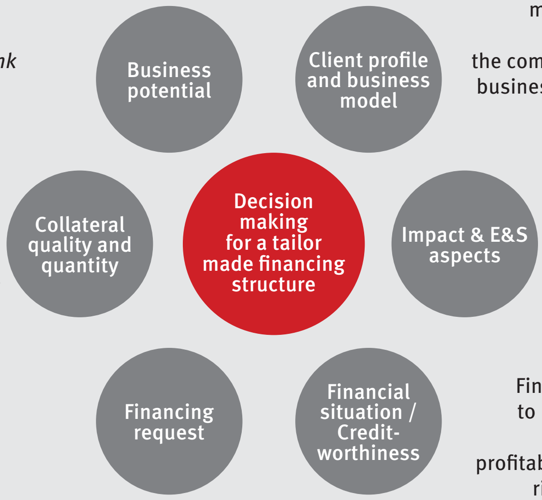
We use a variety of credit risk management techniques when dealing with different client categories and loan exposures, such as task segregation for small and medium loan exposures, application of standardised and tested loan procedures in private client lending, identification of credit decision criteria, application of different collateral requirements based on loan amounts, and documentation of the client's credit history. Furthermore, the evaluation of collateral is carried out by licensed third-party firms, reducing the risk associated with collateral valuation.

Because the vast majority of the bank's loans are repayable in monthly instalments, a borrower's failure to meet contractual obligations is viewed as an early warning of potential default, prompting a swift response by the bank. The monitoring mechanism, which employs early warning indicators, enables the bank to act quickly in the event of a probable default.

Our 360-degree approach to client and exposure assessment

Client's overall needs apart from current request, and potential future business with the client as part of the *Hausbank* concept and long-term client relationship

Ownership structure, management capabilities and experience, organisation of the company (e.g. succession plan), business model, market trends and developments



Degree of collateral coverage, based on available collateral and in accordance with the collateral requirements

Client's approach to environmental, social, health, safety impact of business operations

Rationale, scope, size "fit" to the overall business approach, quality of the plan/projections, capacity to manage

Financial strength and capacity to meet financial obligations in terms of levels of liquidity, profitability and solvency, potential risks to the financial strength and how those risks are managed

The most significant new factor influencing credit risk during the 2020-2021 fiscal years, credit risk management was a major focus. Our broad market knowledge and ProCredit Bank's diligent customer selection have both contributed to prudent credit risk management. In the wake of the COVID-19 outbreak, ProCredit Bank took several steps to prevent loan portfolio quality from deteriorating. The first step was to be in constant contact with all business and private clients in order to get first-hand input on the potential impact on their operations and finances. This made monitoring and risk analysis easier, with a focus on individuals who would be the most affected by the pandemic situation. The bank was able to grant repayment relief to debtors who were experiencing financial difficulties as a result of the pandemic, thanks to instructions provided by the Central Bank of Kosovo on loan restructuring in response to COVID-19. These restructuring efforts were a useful tool during the pandemic's peak of uncertainty, and they were used again in 2021.

In parallel with these measures, ProCredit Bank intensified the annual monitoring of its customers by updating the risk analyses for all business customers. In this process, consideration was given to the impact of the pandemic on the economic sectors and the individual impact on the liquidity and payment capacity of companies. As a result of this intensified loan portfolio monitoring, risk classification downgrades were made where needed and restructuring measures were taken to prevent possible defaults.

Despite the pandemic crisis, the major indicators of loan portfolio performance remained consistently high in 2021, demonstrating the excellent quality of the portfolio. At the conclusion of the year, the share of non-performing loans stood at 2.3%. The default loan portfolio was covered by loan loss provisions at a rate of 140 percent, which is regarded as satisfactory.

Credit risk will continue to be a priority in 2022, both on a portfolio and individual basis. We can foresee prospective challenges or finance requests during the course of our clients' business activities since we keep a close eye on them.

Counterparty Risk Management

In order to manage liquidity risk and other operational activities, ProCredit Bank keeps a portion of its assets as liquid investments with external counterparties, including issuers of securities. In this case, the bank is exposed to the risk that these parties may not be able to meet their obligations towards the bank.

We actively manage this risk by applying the measures in our policies on counterparty risk management, liquidity management, treasury, investments, etc. These policies and other bank procedures detail the careful selection processes applied when choosing counterparties. These documents also determine the limits of exposures with counterparties as well as the types of transactions allowed, the methods of controlling and monitoring, processing rules, etc.

ProCredit Bank has a relatively low risk tolerance and does not engage in speculative trading activities. Our counterparties are mainly institutions with a high credit rating, a good reputation and a high level of financial sustainability. In principle, no exposure or agreement may be made without determining a limit in advance. These are determined by means of a thorough analysis by the bank and are reviewed on an annual basis. The bank's policies and procedures are in accordance with the regulations of the Central Bank of the Republic of Kosovo.

Since the outbreak of the COVID-19 pandemic, the bank has monitored the credit quality of our counterparties even closer by following the actions of ratings agencies, news coverage and analysis reports. As the bank did not have investments in counterparties affected by the pandemic, counterparty and issuer risk remained stable also in 2021.

Liquidity and Funding Risk Management

Liquidity risk is the risk that the bank will not be able to meet its current and future obligations in full or in a timely manner. Funding risk is the risk that additional financing can only be obtained at very high interest rates or not at all.

ProCredit Bank manages these risks through its policies and procedures in accordance with regulatory authority requirements. In addition, controlling and reducing liquidity risk is supported by our business model. On the one hand, the loan portfolio is characterised by a large number of short- and medium-term exposures. Most of these loans are disbursed as annuity loans and are of high quality. From the perspective of liquidity risk, this leads to diversified and predictable inflows. On the other hand, deposits from clients are our main source of funding, so the use of financial market instruments is low.

As part of liquidity management, the bank has defined and continuously monitors its liquidity indicators. We also regularly conduct liquidity stress tests based on defined scenarios that help the bank analyse its liquidity positions in the event of potential internal or external shocks. The bank considers funding risk to be low, due to the diversity of client deposits and the fact that the bank continues to have access to financing from various international sources.

At the beginning of the pandemic, a working group was established immediately to monitor the impact of COVID-19 on the bank's liquidity position and to take appropriate actions in a timely manner. In 2021, bank continued to monitor and assess on a daily basis the liquidity risk, taking into consideration liquidity risk indicators, regulatory measures and market trends.

Foreign Currency Risk Management

Foreign currency risk implies the risk of negative effects on the financial results and capital adequacy of an institution caused by changes in the exchange rate. ProCredit Bank manages this type of risk in accordance with the Foreign Currency Risk Management Policy, which is compliant with CBK regulations. Currency positions are managed on a daily basis and foreign exchange rates are monitored continuously.

As we hold no speculative open currency positions, ProCredit Bank has a low level of exposure to currency risk. Furthermore, the limits set for these risks were never exceeded in 2021.

Interest Rate Risk Management

Interest rate risk arises from structural differences between the repricing maturities of assets and liabilities. This can expose the bank to the risk of potential increases in funding costs, while the return on assets might remain the same, or decrease, thus not reflecting the reduction of financing costs for a longer period, resulting in a decrease of the margin. The bank has a relevant policy in place for this type of risk. We continuously analyse the maturity gap between assets and liabilities (based on the re-definition of prices). In addition, the bank carries out stress tests by simulating interest rate fluctuations in order to measure the influence on economic value and interest income. The results of these analyses are regularly reported to the Financial Risk and Market Management Committee, as well as to the Board of Directors.

Capital Adequacy

The bank's capital adequacy is calculated on a regular basis and reported to Management via the Financial and Market Risk Management Committee, along with forecasts. This ensures future compliance with regulatory requirements on capital adequacy. Management of capital adequacy is undertaken based on the bank's policies and in accordance with the pertinent Central Bank regulations.

Operational and Fraud Risk Management

Operational risk, in accordance with the Basel Committee on Banking Supervision, is defined by the bank as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes, in particular, fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. The bank implements a set of principles for operational risk and fraud risk management throughout the institution via specific policies whose principles are in compliance with regulatory requirements.

The main tools used by the bank to manage operational risks are the Risk Event Database (RED), annual risk assessments, key risk indicators (KRI) and the analysis of all new services and processes using the New Risk Approval (NRA) process. The bank uses operational and fraud risk assessments to identify, assess and monitor operational risks at all levels. In accordance with Basel II, the bank continuously assesses operational risks that could arise from its services, processes and systems. Additionally, the bank's internal control system includes deficiency mitigation procedures, including necessary corrective and preventive actions. To keep information technology risks to a minimum, the bank implements procedures to safeguard its IT structure, ensure business continuity, and strengthen information security. Furthermore, the bank provides training on the Code of Conduct, as this binding document emphasises the importance of staff integrity and promotes a culture of transparency and risk awareness. The principles of operational risk, fraud and information security are addressed during regular staff and risk awareness training on all levels.

A working group is established in order to manage and monitor the impact of the COVID-19 pandemic in the bank's daily operations and to ensure the continuity of the business operations with adequate staffing. The bank's digital approach to all routine banking operations has enabled a very quick implementation of home-office models, aiming to protect the health and safety of customers and employees. The bank also has continued to focus on regular monitoring of information security.

Our Staff

Our employees are our most valuable asset. We can proudly say that our way of working with people is special. We believe in meritocracy, discussions and knowledge. We believe that people should take care of their societies and make active contributions instead of being mere passive observers. On the other hand, we do not believe in bonuses. We do not believe in "one-man shows" that have full control in all the happenings in their companies. This is not who we are. This is our story:

- All our new employees go through international 6-month Onboarding programme training which upgrades their knowledge about banking, accounting, but also about society in which they live, critical thinking, presentation skills, environment.
- We provide multiple English language courses each year for our staff, may it be online or in our academies in Germany or North Macedonia. In 2021 solely this opportunity was given to 23 employees. Up to this point and after hundreds of courses provided, we can proudly say that all our employees speak English at least on B1 level.
- All our senior and middle managers had completed or are currently attending three-year courses at Management Academy in Furth, Germany. This opportunity is provided, along with one-year Banker Academy for our high-potential specialists, carefully selected each year. At this point, 29% of our staff have graduated from or are currently participating in one of the ProCredit academies.
- Nearly 200 hours of training per employee were provided to our staff in 2021.
- 430,000 EUR was invested in staff training in 2021.

ProCredit Bank relies on the professionalism and best-quality services provided to clients by our employees. Therefore, we firmly insist on transparency in communication with clients, but also in communication among our staff. Every one of our employees, from the first moment they join ProCredit, knows what to expect and what lies ahead of them in terms of their professional careers. We achieve this by following several strict self-imposed principles:

Clear salary structure

We pay no bonuses. Instead, we offer a proper all-inclusive salary according to a transparent ProCredit groupwide salary structure that combines intensive training, internal promotion, and most importantly, a long-term view for our staff. In this way, colleagues do not see each other as rivals, but more as members of the same team. Additionally, this ensures that our employees are not driven by profit.

Code of Conduct

All banks in the ProCredit group have an identical Code of Conduct, available to our staff only in English, as we want to make sure that the understanding of its underlying principles does not get lost in translation. It is not just a formality or a simple questionnaire to be signed by our staff each year: the Code of Conduct represents our moral compass, challenging us to think outside of the box and to question the morality of our everyday actions.

Holistic staff assessment

ProCredit Bank employees are encouraged to share their thoughts, ideas, impressions, and concerns. Therefore, in addition to the open-door policies of our managers, an additional staff assessment system has been in place for a decade now. It combines bi-annual feedback talks with direct supervisors and annual staff conversations with senior managers. Feedback talks offer dialogues with employees on department-specific topics as well as their performance and prospects. Staff conversations with a senior manager give a broader institutional view. The aim of both the feedback talks and the staff conversations is to review an individual's performance in both qualitative and quantitative terms, and to provide a chance for every employee to discuss their progress, expectations, and further path of development.

With all the above-mentioned systems in place, in 2022 ProCredit Bank will focus on stepping up recruitment activities. We will open our doors to all interested newcomers, regardless of their educational background, to people who are ready to join us and who meet our strict recruitment criteria, mostly as Business Client Advisers, Private Client Advisers, and Credit Risk Analysts. We have always been a bank that gives a chance to youth who want to stay in Kosovo and help their society, to learn, to improve themselves and to achieve their maximum professional growth. This will never change. This is what ProCredit is all about.

Independent Auditor's Report and Financial Statements

PROCREDIT BANK SH.A.
KOSOVA

Independent Auditor's Report and Financial Statements

For the year ended 31 December 2021

CONTECT

Tel: +381 38 600 031
Fax: +381 38 600 032
www.bdokosovo.com

BDO Kosova L.L.C.
Rr. Ukshin Hoti C4/3, Hy. A, Kati II
10000 Prishtina Kosova

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of ProCredit Bank Sh.a

Opinion

We have audited the financial statements of ProCredit Bank Sh.a (the "Bank"), which comprise the statement of financial position as at December 31, 2021, 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, 2021, 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, 2021, and its financial performance and its cash flows for the year the ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other information in the Annual Report

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.

BDO Kosova L.L.C.
Amir Dërmala
Engagement Partner
April 15,2022
Str. Ukshin Hoti, C 4/3, Entr.A, Floor II
Pristina, Kosovo

BDO
BDO Kosova L.L.C
audit, accounting and financial advisory
Prishtina,Kosova

PROCREDIT BANK SH.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2021
In EUR thousand

	Note	2021	2020
Interest income (effective interest method)	7	28,431	27,866
Other interest income	7	1,067	145
Interest expenses	7	(3,177)	(2,349)
Net interest income		**26,321**	**25,662**
Fee and commission income	8	13,414	12,235
Fee and commission expenses	8	(6,613)	(5,078)
Net fee and commission income		**6,801**	**7,157**
Result from foreign exchange transactions		877	780
Net other operating result	9	(1,290)	(923)
Operating Income		**32,709**	**32,676**
Personnel expenses	10	(5,340)	(4,890)
Administrative expenses	11	(12,362)	(10,982)
Loss allowance	12	4,427	(2,671)
Profit before tax		**19,434**	**14,133**
Income tax expense	13	(1,988)	(883)
Profit for the year		**17,446**	**13,250**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain/(loss) on investments in debt instruments measured at FVOCI	13	31	(67)
Total comprehensive income for the year		**17,477**	**13,183**

Previous year presentation and figures have been adapted to the current disclosure structure (see note 1)

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 58.

PROCREDIT BANK SH.A.
STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2021
In EUR thousand

	Note	31 December 2021	31 December 2020
Assets			
Cash and balances with Central Banks	14	222,670	263,076
Loans and advances to banks	15	23,623	39,916
Loans and advances to customers	16	571,334	514,254
Investment securities measured at FVOCI	17	70,998	64,955
Intangible assets	18	39	51
Property, plant and equipment	19	11,551	13,240
Current tax assets	13	592	1,527
Deferred tax asset	13	104	183
Other assets	20	3,921	2,790
Total assets		**904,833**	**899,992**
Liabilities			
Liabilities to banks	21	1,122	608
Liabilities to customers	22	770,568	749,798
Other liabilities	23	6,086	5,931
Borrowings	24	25,905	24,981
Subordinated debt	24	7,538	7,537
Total liabilities		**811,218**	**788,855**
Equity			
Share capital	25	61,346	61,346
Share premium	25	4,204	4,204
Contingency reserve	25	511	511
Revaluation reserve for investment securities -FVOCI	25	105	74
Retained earnings		27,448	45,002
Total equity		**93,615**	**111,137**
Total liabilities and equity		**904,833**	**899,992**

Previous year presentation and figures have been adapted to the current disclosure structure (see note 1)

These financial statements have been approved by the Management Board on April 15, 2022 and signed on their behalf by:

Eriola Bibolli
Chief Executive Officer

Esad Haxhani
Head of Finance Department

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 58.

PROCREDIT BANK SH.A.
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021
In EUR thousand

	Share capital	Share premium	Contingency reserve	Retained earnings	Fair value reserve	Total
As at 1 January 2020	**61,346**	**4,204**	**511**	**31,753**	**141**	**97,955**
Profit for the year	-	-	-	13,250	-	13,250
Other comprehensive income	-	-	-	-	(67)	(67)
Total comprehensive income	**-**	**-**	**-**	**13,250**	**(67)**	**13,183**
Distributed dividends	-	-	-	-	-	-
Balance at 31 December 2020	**61,346**	**4,204**	**511**	**45,002**	**74**	**111,137**
Total comprehensive income						
Profit for the year	-	-	-	17,446	-	17,446
Other comprehensive income	-	-	-	-	31	31
Total comprehensive income				**17,446**	**31**	**17,477**
Distributed dividends	-	-	-	(35,000)	-	**(35,000)**
Balance at 31 December 2021	**61,346**	**4,204**	**511**	**27,448**	**105**	**93,615**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 58.

PROCREDIT BANK SH.A.
STATEMENT OF CASH FLOWS
For the year ended 31 December 2021
In EUR thousand

	Note	2021	2020
Cash flows from operating activities			
Profit before tax		**19,433**	**14,133**
Adjustments for:			
Depreciation	19	1,805	1,400
Amortization	18	12	13
Impairment of fixed assets	19	-	176
Gains on disposal of property and equipment		(86)	(90)
Loss allowance	12	(4,427)	2,671
Interest income	7	(29,499)	(28,011)
Interest expense	7	3,177	2,349
Cash flows used in operating activities before changes in operating assets		**(9,585)**	**(7,359)**
Net (increase)/decrease in:			
Due from other banks		3,469	9,325
Loans and advances to customers		(53,070)	(11,120)
Other assets		(1,139)	800
Balances with the Central Bank		(8,871)	(5,340)
Net increase/(decrease) in:			
Liabilities to other banks		513	(107)
Liabilities to customers		21,396	76,492
Other liabilities		14	(651)
		(47,273)	**62,040**
Interest received		30,638	27,427
Interest paid		(3,816)	(2,122)
Income tax paid		(1,242)	(1,526)
Net cash generated/(used in) operating activities		**(21,694)**	**85,819**
Cash flows from investing activities			
Acquisition of investment securities through FVOCI		(45,866)	(53,863)
Proceeds from disposal of investment securities FVOCI		39,607	75,762
Acquisition of premises and equipment	19	(565)	(4,596)
Proceeds from disposal of premises and equipment		535	245
Acquisition of intangible assets	18	-	(45)
Net cash (used in)/from investing activities		**(6,289)**	**17,503**
Cash flow from financing activities			
Proceeds from long term borrowings		881	5,000
Dividends paid		(35,000)	-
Net cash used in financing activities		**(34,119)**	**5,000**
Net decrease in cash and cash equivalents		**(62,102)**	**108,322**
Cash and cash equivalents at the beginning of the year		**251,882**	**143,560**
Cash and cash equivalents at the end of the year	14	**189,780**	**251,882**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 58.

1. Introduction

ProCredit Bank sh.a. Kosovo ("the Bank") was incorporated in the Republic of Kosovo on 9 December 1999 as a joint stock company. The Bank began its operations on 12 January 2000. The Bank is a fully owned subsidiary of the ProCredit Holding AG& Co. KGaA (ProCredit Holding).

Principal activity

The Bank was licensed to operate as a bank in all banking fields in Kosovo according to the rules of the Central Bank of Kosovo (former Central Banking Authority of Kosovo) ("CBK") and is currently subject to the Law "On Banks, Microfinance Institutions and Non-Bank Financial Institutions", No. 04/L-093. ProCredit Bank, was the first licensed bank in Kosovo. ProCredit Bank sh.a. is a development-oriented commercial bank which offers customer services to Small and Medium-sized Enterprises (SMEs) and to private individuals. In its operations, it adheres to a number of core principles: it values transparency in its communication with customers; does not promote consumer lending, seeks to minimise ecological footprint; and, to provide services which are based both on an understanding of each client's situation and a sound financial analysis.

Registered address and place of business

The Bank's registered address is Str. "George Bush", No 26, 10000 Prishtina, Republic of Kosovo. During 2021, apart from offering online services via e-Banking platform and website service, the Bank operated with a branch, Contact Centre and 24/7 (self-service) Zones, in order to provide customers with comprehensive and more accessible services.

Board of Directors:

- Mr. Gabriel Schor, Chairperson
- Mr. Marcel Zeitinger, Member
- Mr. Rainer Ottenstein, Member
- Mr. Jordan Damchevski, Member
- Mrs. Semra Citaku, Member
- Mrs. Eriola Bibolli, Member

2. Significant accounting policies

(a) Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of investment securities measured at 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.

Use of judgements and estimates

The bank's financial reporting and its financial result are influenced by assumptions, estimates, and management judgements, which necessarily have to be made in the course of preparation of the Financial Statements. All estimates and assumptions required are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances. Revisions to estimates are recognised prospectively. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 4, 5 and 6.

2. Significant accounting policies (continued)

Functional and presentation currency

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

The following material changes in presentation were made in the current year:

- The "loss allowance" is reported after the positions "personnel expenses" and "Administrative expenses". Similarly, the Bank adjusted the subtotal for "operating income".
- "Personnel expenses" is reported separately and not included in "Administrative expenses"
- "Net other operating result" is reported separately and not included in "Administrative expenses" and "Other operating income"
- "Other financial assets" are included in "other assets" and "other financial liabilities" are included in "other liabilities"

(b) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

2. Significant accounting policies (continued)

(c) Fees and commissions

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

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

(d) Leases

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate. Generally, the Bank uses its average interest rate on business loans as the discount rate.

(e) Foreign currency transactions

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

Foreign currency monetary assets and liabilities are translated using the closing exchange rates. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year. Foreign currency differences arising on translation are generally recognised in the Statement of Profit or Loss.

(f) Income tax

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

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

2. Significant accounting policies (continued)

(f) Income tax (continued)

(i) Current tax

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

(ii) Deferred tax

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

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

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

(iii) Uncertain tax positions

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

(g) Financial instruments

(i) Recognition and initial measurement

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

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

(ii) Classification

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

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

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(ii) Classification (continued)

Financial assets (continued)

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

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

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

Business model assessment

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

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

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

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

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

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

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

(iii) Derecognition

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.
In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

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

(iv) Modifications of financial assets and financial liabilities

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

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

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

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

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

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

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(iv) Modifications of financial assets and financial liabilities (continued)

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

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

(v) Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

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

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

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

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

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

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vi) Fair value measurement (continued)

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

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

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

(vii) Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

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

No impairment loss is recognized on equity investments.

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

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

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

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

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

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

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

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

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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

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

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

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

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

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

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

Credit impaired financial assets (continued)
In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

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

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

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

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

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

Non-integral financial guarantee contracts

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

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

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL. If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

(h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost.

(i) Loans and advances

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

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

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

2. Significant accounting policies (continued)

(j) Investment securities

The ‘investment securities’ caption in the statement of financial position includes: debt securities measured at FVOCI. For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

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

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

(k) Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation and impairment losses. Acquisition or production costs include all expenditure directly attributable to the goods. Component parts of an asset are recognised separately if they have different useful lives or have different patterns of use. The acquisition costs of rights-of-use assets (ROU) include the amount of the lease liability, plus all lease payments made at or before provision, initial direct costs and estimated dismantling and removal costs, less any incentives received.

Subsequent purchase or production costs are included in the asset’s carrying amount or are recognised as a separate asset, 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 repair and maintenance costs are charged to the Statement of Profit or Loss during the current financial period.

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

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

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

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

Description	**Useful life 2021**
Buildings	40 years
Business and office equipment	2-10 years

Leasehold improvements are depreciated over the shorter of rental contract life or expected use life. The rights of use are amortised on a straight-line basis until the end of the lease term.

Property, plant and equipment with useful lives of more than one year which fall under the materiality threshold of EUR 100 (2020: EUR 100) and, are also not material in aggregate, are expensed in profit or loss.

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

2. Significant accounting policies (continued)

(l) Intangible assets

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

(m) Repossessed collateral

Repossessed collateral represents properties acquired by the Bank in settlement of overdue loans. The assets are initially recognised at the lower value between fair value less costs to sell and the carrying amount of the loan at the date of exchange. Movable property is not recognised as an asset when repossessed. .

The Bank subsequently measures repossessed collateral at the lower between amount initially recognised and the fair value of the properties less costs to sell. For the assessment of the fair value, the management uses appraisal performed by external expert valuators, licensed by Central Bank of Kosovo. The Bank applies haircuts determined by the Bank that reflect limitations of the market, consideration of time value of money and legal issues with the properties.

The maximum period of holding repossessed property on the bank's balance sheet is 3 years. Any loss arising from the above remeasurement is recorded in profit or loss. Gains or losses from the sale of these assets are recognized in the profit or loss.

(n) Due from other 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 amortised cost.

(o) Deposits and subordinated liabilities

Deposits and subordinated liabilities are the Bank's main sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(p) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

2. Significant accounting policies (continued)

(q) Employee benefits

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

(r) Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IAS 37 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Bank recognizes a loss allowance in accordance with IFRS 9

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(s) Share capital

(i) Share issue costs

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

(ii) Share premium

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

(iii) Dividends on ordinary shares

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

3. Adoption of new and revised International Financial Reporting Standards

3.1. Standards, amendments and interpretations that are already effective

- Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16 in relation to Interest Rate Benchmark Reform (IBOR reform) will have a minor impact. The amendments concern changes in contractual cash flows: If a change in the reference interest rate results in changes in contractual cash flows, the carrying amount of the financial insruments concerned shall not be adjusted or derecongnised, but the effective interest rate shall be updated. Information must be disclosed on new risks arising from the IBOR reform and on how the transition to new reference interest rates is handled. The amendments are effective for annual periods beginning on or after 1 January 2021.

The following standards, amendments or interpretation were issued by the IASB had no impact on the financial statements: Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9" and amendments to IFRS 16 "COVID-19-Related Rent Concessions".

3.2 Standards, amendments and interpretation issued but not yet effective

- Amendments to IFRS 16 "COVID-19-Related Rent Concessions beyond 30 June 2021" have no impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 April 2021.
- Annual improvements to IFRS (2018-2020 cycle) with amendments to IFRS 1, IFRS 9, IFRS 16 (Illustrative Example) and IAS 41 have a minor impact on the financial statements with regard to the amendment to IFRS 9. The amendment clarifies which fees are to be included when assessing whether the contractual terms of a modified financial liability differ significantly from the original financial liability. The amendments are effective for annual periods beginning on or after 1 January 2022.
- Amendments to IFRS 3: "Reference to the Conceptual Framework", to IAS 16: " Property, Plant and Equipment: Proceeds before Intended Use" and IAS 37: "Onerous Contracts: Cost of Fulfilling a Contract" will not have an impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2022.
- Amendments to IAS 1: "Classification of Liabilities as Current or Non-Current" have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after January 2023.
- Amendments to IAS 1 and to IFRS Practice Statement 2: "Making Materiality Judgements" have a negligible impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.
- Amendments to IAS 8: "Definition of Accounting Estimates" have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.
- Amendments to IAS 12: "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" have a minor impact on the measurement of deferred taxes. The amendments are effective for annual periods beginning on or after 1 January 2023.
- IFRS 17 "Insurance Contracts" will not have an impact on the financial statements. The standard is effective for annual periods beginning on or after 1 January 2023.

There was no early adoption of any standards, amendments and interpretations not yet effective.

4. Critical accounting judgments and key sources of estimation uncertainty

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

(a) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the subsequent years is set out below in relation to the impairment of financial instruments.

(i) Impairment charge for credit losses

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

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

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in impairment on loans and advances by EUR 1,500 thousand (2020: EUR 1,673 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in impairment on loans and advances by EUR 101 thousand (2020: EUR 201 thousand), respectively.

5. Financial risk management

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

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

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

5. Financial risk management (continued)

(a) Market risk

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

(i) Foreign currency risk

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

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

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

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

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

	31 December 2021	31 December 2020
1 USD	0.8829	0.8149
1 CHF	0.9680	0.9258
1 GBP	1.1901	1.1123

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2021 and 2020 as translated into EUR '000.

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

5. Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

31 December 2021	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Assets					
Balances with Central Banks	221,315	1,191	160	4	222,670
Loans and advances to banks	12,557	10,810	207	49	23,623
Loans and advances to customers	571,334	-	-	-	571,334
Investment securities measured at FVOCI	49,717	21,281	-	-	70,998
Other financial assets	2,672	618	-	-	3,290
Total monetary financial assets	**857,595**	**33,900**	**367**	**53**	**891,915**
Liabilities					
Liabilities to banks	1,120	1	-	-	1,122
Liabilities to customers	736,426	33,926	195	22	770,568
Borrowings and subordinated debt	33,443	-	-	-	33,443
Other financial liabilities	1,775	-	-	-	1,775
Total monetary financial liabilities	**772,764**	**33,927**	**195**	**22**	**806,908**
Net on-balance sheet financial position	**84,831**	**(26)**	**171**	**32**	**85,007**
Credit commitments	76,631	71	-	-	76,702
Off balance sheet - letters of credit	239	-	-	-	239
Off balance sheet - bank guarantees	35,569	468	-	-	36,037
Total credit related commitments	**112,439**	**539**	**-**	**-**	**112,978**

31 December 2020	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Assets					
Balances with Central Banks	261,576	1,301	187	12	263,076
Loans and advances to banks	22,735	16,810	270	100	39,916
Loans and advances to customers	514,254	-	-	-	514,254
Investment securities measured at FVOCI	51,750	13,205	-	-	64,955
Other financial assets	1,320	531	-	-	1,851
Total monetary financial assets	**851,635**	**31,847**	**457**	**112**	**884,051**
Liabilities					
Liabilities to banks	607				607
Liabilities to customers	717,005	32,433	340	21	749,799
Borrowings and subordinated debt	32,518	-	-	-	32,518
Other financial liabilities	1,248	-	-	1	1,249
Total monetary financial liabilities	**751,378**	**32,433**	**340**	**22**	**784,173**
Net on-balance sheet financial position	**100,258**	**(585)**	**117**	**90**	**99,878**
Credit commitments	69,171	4	-	-	69,175
Off balance sheet - letters of credit	35	41	-	-	76
Off balance sheet - bank guarantees	33,549	489	-	-	34,038
Total credit related commitments	**102,755**	**534**	**-**	**-**	**103,289**

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

5. Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

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

	Increase 2021	Increase 2020	Effect on profit or loss and net equity 31 December 2021	Effect on profit or loss and net equity 31 December 2020
USD	10%	10%	3	56
Other	10%	10%	20	21

(ii) Interest rate risk

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

The tables below summarize the Bank’s exposure to interest rate risks. Included in the tables are the Bank’s monetary assets and liabilities (principal and future interest) with both fixed and non-fixed interest rates (the Bank's IRR management follows the EU guidelines and German MaRisk").

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

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

EUR interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive	Total
At 31 December 2021										
Assets										
Cash on hand		-	-	-	-	-	-	-	49,019	49,019
Balances with Central Banks		120,525	-	-	-	-	-	120,525	51,934	172,459
Current accounts with banks		5,950	-	-	-	-	-	5,950	49	5,999
T-bills and marketable securities	Fixed	236	1,112	9,967	12,497	5,721	-	29,533	104	29,637
	Variable	10,242	10,114	-	-	-	-	20,356	771	21,127
Term deposits with banks		-	6,806	-	-	-	-	6,806	-	6,806
Loans and advances to customers	Fixed	27,977	90,413	149,096	67,653	53,023	2,080	390,242	-	390,242
	Variable	96,638	16,758	36,932	45,471	42,506	-	238,305	-	238,305
Off-balance sheet items		18,865	25,081	37,048	-	-	-	80,993	-	80,993
Total assets		**280,433**	**150,284**	**233,043**	**125,621**	**101,251**	**2,080**	**892,711**	**101,878**	**994,589**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	1,243	1,243
Current accounts from customers		10,727	35,958	82,661	43,116	-	-	172,463	501,345	673,808
Deposits from customers		4,192	15,649	30,648	7,248	4,391	500	62,628	-	62,628
Borrowings and subordinated debt	Fixed	3,070	1,568	15,203	5,354	125	-	25,320	-	25,320
	Variable	59	88	705	1,606	8,807	-	11,266	-	11,266
Total liabilities		**18,047**	**53,264**	**129,217**	**57,324**	**13,323**	**500**	**271,676**	**502,588**	**774,264**
IR sensitivity gap- open position		**262,386**	**97,020**	**103,825**	**68,297**	**87,928**	**1,579**	**621,035**	**-**	**220,325**

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

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

EUR interest Sensitivity Gap		**Up to 1 month**	**1-6 months**	**6-12 months**	**1-2 Years**	**2-5 Years**	**More than 5 Years**	**Total interest sensitive**	**Not interest sensitive**	**Total**
At 31 December 2021										
Assets										
Cash on hand		-	-	-	-	-	-	-	49,019	49,019
Balances with Central Banks		120,525	-	-	-	-	-	120,525	51,934	172,459
Current accounts with banks		5,950	-	-	-	-	-	5,950	49	5,999
T-bills and marketable securities	Fixed	236	1,112	9,967	12,497	5,721	-	29,533	104	29,637
	Variable	10,242	10,114	-	-	-	-	20,356	771	21,127
Term deposits with banks		-	6,806	-	-	-	-	6,806	-	6,806
Loans and advances to customers	Fixed	27,977	90,413	149,096	67,653	53,023	2,080	390,242	-	390,242
	Variable	96,638	16,758	36,932	45,471	42,506	-	238,305	-	238,305
Off-balance sheet items		18,865	25,081	37,048	-	-	-	80,993	-	80,993
Total assets		**280,433**	**150,284**	**233,043**	**125,621**	**101,251**	**2,080**	**892,711**	**101,878**	**994,589**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	1,243	1,243
Current accounts from customers		10,727	35,958	82,661	43,116	-	-	172,463	501,345	673,808
Deposits from customers		4,192	15,649	30,648	7,248	4,391	500	62,628	-	62,628
Borrowings and subordinated debt	Fixed	3,070	1,568	15,203	5,354	125	-	25,320	-	25,320
	Variable	59	88	705	1,606	8,807	-	11,266	-	11,266
Total liabilities		**18,047**	**53,264**	**129,217**	**57,324**	**13,323**	**500**	**271,676**	**502,588**	**774,264**
IR sensitivity gap- open position		**262,386**	**97,020**	**103,825**	**68,297**	**87,928**	**1,579**	**621,035**	**-**	**220,325**

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

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

EUR interest Sensitivity Gap		**Up to 1 month**	**1-6 months**	**6-12 months**	**1-2 Years**	**2-5 Years**	**More than 5 Years**	**Total interest sensitive**	**Not interest sensitive**	**Total**
At 31 December 2020										
Assets										
Cash on hand		-	-	-	-	-	-	-	49,429	49,429
Balances with Central Banks		212,346	-	-	-	-	-	212,346	-	212,346
Current accounts with banks		15,840	-	-	-	-	-	15,840	100	15,940
T-bills and marketable securities		2,027	11,186	15,088	8,673	4,790	-	41,764	430	42,194
	Fixed	-	10,163	-	-	-	-	10,163	370	10,533
Term deposits with banks	Variable	-	6,842	-	-	-	-	6,842	-	6,842
Loans and advances to customers		29,547	83,568	145,510	66,654	55,385	2,380	383,044	-	383,044
	Fixed	91,336	8,544	20,540	20,102	38,823	401	179,745	-	179,745
Off-balance sheet items	Variable	68,781	-	-	-	-	-	68,781	-	68,781
Total assets		**419,877**	**120,302**	**181,138**	**95,428**	**98,998**	**2,781**	**918,525**	**50,329**	**968,853**
Liabilities										
Current accounts from banks		-	-	8,500	-	-	-	8,500	950	9,450
Current accounts from customers		9,857	33,040	75,953	39,617	-	-	158,467	453,779	612,245
Deposits from customers		4,542	27,207	42,719	17,391	4,256	10	96,126	-	96,126
Borrowings and subordinated debt	Fixed	2,215	1,155	5,681	12,464	4,141	-	25,657	-	25,657
	Variable	-	-	379	343	9,869	-	10,591	-	10,591
Total liabilities		**16,614**	**61,403**	**133,231**	**69,816**	**18,267**	**10**	**299,341**	**454,729**	**754,070**
IR sensitivity gap- open position		**403,262**	**58,899**	**47,907**	**25,613**	**80,731**	**2,771**	**619,183**	**-**	**214,783**

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

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

USD interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive	Total
At 31 December 2021										
Assets										
Cash on hand		-	-	-	-	-	-	-	1,191	1,191
Balances with Central Banks		-	-	-	-	-	-	-	-	-
Current accounts with banks		789	-	-	-	-	-	789	2,207	2,996
T-bills and marketable securities	Fixed	2,489	5,568	10,644	1,224	1,403	-	21,328	47	21,375
	Variable	-	-	-	-	-	-	-	-	-
Term deposits with banks		5,742	2,650	-	-	-	-	8,392	-	8,392
Loans and advances to customers	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-	-	-	-
Off-balance sheet items		71	-	-	-	-	-	71	-	71
Total assets		**9,091**	**8,218**	**10,644**	**1,224**	**1,403**	**-**	**30,579**	**3,445**	**34,025**
Liabilities										
Current accounts from banks		-	-	-	-	-		-	1	1
Current accounts from customers		395	1,324	3,043	1,587	-	-	6,348	27,475	33,823
Deposits from customers		2	-	-	10	91	-	102	-	102
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-	-	-	-
Total liabilities		**397**	**1,324**	**3,043**	**1,597**	**91**	**-**	**6,451**	**27,476**	**33,926**
IR sensitivity gap- open position		**8,694**	**6,895**	**7,601**	**(373)**	**1,312**	**-**	**24,129**	**-**	**98**

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

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

USD interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive	Total
At 31 December 2020										
Assets										
Cash on hand		-	-	-	-	-	-	-	1,301	1,301
Balances with Central Banks		-	-	-	-	-	-	-		
Current accounts with banks		512	-	-	-	-	-	512	7,041	7,554
T-bills and marketable securities	Fixed	4,849	1,787	6,576	-	-	-	13,212	91	13,303
	Variable	-	-	-	-	-	-	-	-	-
Term deposits with banks		4,076	5,708					9,784		9,784
Loans and advances to customers	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-	-	-	-
Off-balance sheet items		391	-	-	-	-	-	391	-	391
Total assets		**9,829**	**7,495**	**6,576**	**-**	**-**	**-**	**23,899**	**8,434**	**32,333**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	-	-
Current accounts from customers		403	1,351	3,107	1,620	-	-	6,481	25,857	32,339
Deposits from customers		2	-	-	41	52		95		95
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-	-	-	-
Total liabilities		**405**	**1,351**	**3,107**	**1,661**	**52**		**6,576**	**25,857**	**32,433**
IR sensitivity gap- open position		**9,424**	**6,143**	**3,470**	**(1,661)**	**(52)**	**-**	**17,323**	**-**	**(100)**

The interest rate gaps at the year end 2020 were recalculated using the model updated in 2021, where bank has applied a different methodology for quantification of interest rate risk.

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

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The analysis and calculations are done to quantify the effect on the interest rate movements on economic value of capital and interest earning capacities over a certain period of time, and consequently to mitigate risks which have an impact on these two parameters. Considering denominated asset and liability structures as at 31 December 2021 and 2020, and assuming a parallel shift of interest rate for +/-200bp for the yield curves that reflect the interest rate environment on international markets and for the local currency ,as well as for EUR and USD, a parallel up and down that reflects the local specifics of the market rates (while ensuring a minimum shock of +/- 200 basis point is applied), the Bank's interest rate risk profile is presented below, where negative figures represent losses to profit or loss and decrease of net equity:

+/- parallel shift of the yield curves	**12 month P&L – Effect (parallel down)**		**Economic Value impact (parallel up)**	
Assets and Liabilities in:	2021	2020	2021	2020
EUR	**(257)**	**(580)**	**(11,514)**	**(7,881)**

The risk values at the yearend 2020 were recalculated using the model updated in 2021, where bank has applied a different methodology for quantification of interest rate risk. Therefore, the figures are different from those of last year by approximately EUR 2.2 million for the economic value impact and EUR– 6.8 million for the 12 month P&L-effect.

(b) Credit risk

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

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

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

5. Financial risk management (continued)

(a) Market risk (continued)

(i) Analysis of credit quality

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

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

Maximum exposure to credit risk	**31 December 2021**		**31 December 2020**	
	Carrying amount	**Amount committed/ guaranteed**	**Carrying amount**	**Amount committed/ guaranteed**
Balances with Central Banks	172,459	-	212,346	-
Loans and advances to banks	23,623	-	39,916	-
Loans and advances to customers	571,334	-	514,254	-
Investment securities measured at FVOCI	70,998	-	64,955	-
Other financial assets	3,290	-	1,851	-
Lending commitments and guarantees	-	112,978	-	103,289
Total	**841,704**	**112,978**	**833,322**	**103,289**

	31 December 21	**31 December 20**
Credit commitments	76,702	69,175
Financial guarantees	27,020	26,305
Non-financial guarantees	9,017	7,733
Letters of Credit	239	76
	112,978	**103,289**
Provisions recognised as liabilities	(852)	(738)
Total	**112,126**	**102,551**

Cash and balances with central banks

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

31 December 2021	**Fitch Rating**	**Cash balances with central banks, including mandatory reserves**	**Kosovo Government securities with maturities less than 3 months**	**Total**
Neither past due nor impaired				
Central Bank of the Republic of Kosovo	Not rated			
- Current accounts		16,815	-	16,815
- Mandatory reserve		51,934	-	51,934
- Government securities		-	503	503
Central Bank of the Republic of Germany (Deutsche Bundesbank)	AAA	103,710	-	103,710
Total cash and cash equivalents, excluding cash on hand		**172,459**	**503**	**172,962**

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

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

31 December 2020	Fitch Rating	Cash balances with central banks, including mandatory reserves	Kosovo Government securities with maturities less than 3 months	Total
Neither past due nor impaired				
Central Bank of the Republic of Kosovo	Not rated			
- Current accounts		20,203	-	20,203
- Mandatory reserve		43,067	-	43,067
- Government securities		-	2,015	2,015
Central Bank of the Republic of Germany (Deutsche Bundesbank)	AAA	149,075	-	149,075
Total cash and cash equivalents, excluding cash on hand		**212,346**	**2,015**	**214,360**

Due from banks

Interbank exposures are closely monitored on a daily basis by Risk Monitoring Unit and Treasury unit. The Bank limits its deposits and other banking transactions to financially sound international banks. Before a business relationship is initiated with a given bank, management of the Bank and Risk Monitoring Unit carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's. A function independent from the Treasury unit, Risk Monitoring Unit, monitors that the exposure toward all banks does not exceed regulatory limits or internal limits set by the management of the Bank. Thus, Risk Monitoring Unit supports the Treasury unit by providing reports that indicate the exposures and placements that can be made to all correspondent banks without violating present exposure limits.

In accordance with the regulation on large exposures of the Central Bank of Republic of Kosovo, banks shall not have any aggregate credit risk exposure to related counterparties exceeding 15% of Tier I Regulatory Capital. In addition, to further reducing the counterparty risk, the ALCO approves internal limits on counterparty exposures slightly below the regulatory requirements, limits which have been continuously maintained by the Bank.

Loans and advances to banks are granted without collateral. The table below presents the Bank's current accounts and time deposits with corresponding banks by credit ratings:

	31 December 2021	31 December 2020
Neither past due nor impaired		
- AA+ to AA- rating	11,489	13,967
- A+ to A- rating	10,608	16,596
- BBB+ to B- rating	1,526	9,353
Total due from other banks	**23,623**	**39,916**

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

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Loans and advances to customers

As of 31 December 2021	Private loans	Business Loans	Total
Stage 1			
Gross outstanding amount	133,930	423,406	557,336
Loss allowance for loans to customers	(2,104)	(4,863)	(6,967)
Net outstanding amount	131,826	418,543	550,369
Stage 2			
Gross outstanding amount	812	18,577	19,389
Loss allowance for loans to customers	(111)	(3,073)	(3,184)
Net outstanding amount	701	15,504	16,205
Stage 3			
Gross outstanding amount	2,108	10,508	12,616
Loss allowance for loans to customers	(1,351)	(6,844)	(8,195)
Net outstanding amount	757	3,664	4,421
POCI			
Gross outstanding amount	34	744	777
Loss allowance for loans to customers	(34)	(406)	(439)
Net outstanding amount	-	338	338
Total Gross outstanding amount	136,884	453,235	590,119
Total Loss allowance for loans to customers	(3,599)	(15,185)	(18,785)
Total Net outstanding amount	**133,284**	**438,050**	**571,334**

As of 31 December 2020	Private loans	Business Loans	Total
Stage 1			
Gross outstanding amount	62,778	433,038	495,816
Loss allowance for loans to customers	(1,631)	(5,731)	(7,362)
Net outstanding amount	61,147	427,307	488,454
Stage 2			
Gross outstanding amount	820	20,103	20,923
Loss allowance for loans to customers	(71)	(1,996)	(2,067)
Net outstanding amount	750	18,106	18,856
Stage 3			
Gross outstanding amount	1,773	15,531	17,304
Loss allowance for loans to customers	(1,154)	(9,582)	(10,736)
Net outstanding amount	619	5,949	6,568
POCI			
Gross outstanding amount	55	979	1,034
Loss allowance for loans to customers	(49)	(609)	(658)
Net outstanding amount	6	370	376
Total Gross outstanding amount	65,426	469,651	535,077
Total Loss allowance for loans to customers	(2,905)	(17,918)	(20,823)
Total Net outstanding amount	**62,521**	**451,733**	**514,254**

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Loans and advances to customers (continued)

Impairment and provisioning

Loss allowances

The bank establishes loss allowances in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for investment securities recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet financial instruments. A three-stage model is used to report loss allowances. Estimates and assumptions are particularly necessary for determining which future-related macroeconomic factors are to be included. Furthermore, determining probabilities in the weighting of scenarios requires discretionary decisions.

The bank sets aside loss allowances for the balance sheet items “Central bank balances”, “Loans and advances to banks”, “Loans and advances to customers”, “Investment securities” and for the financial assets under “Other assets”. These are generally recognised at net value within the corresponding balance sheet position; the exception is “Investment securities” recognised at fair value. The loss allowances for “Investment securities” are recognised directly in shareholders’ equity under “Revaluation reserve”.

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

Specifically, the model addresses the IFRS 9 requirements on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current and forecasted information. This model outlines three stages based on changes in the exposure’s credit risk since the date of initial recognition.

- Stage I: Financial assets are generally classified as “Stage 1” when they are recognised for the first time. The bank establishes loss allowances in an amount equivalent to the expected credit losses during a maximum of 12 months following the balance sheet date, insofar as there is no significant increase in credit risk since initial recognition.
- Stage II: If credit risk increases significantly, the assets are classified as “Stage 2” and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- Stage III: Defaulted financial assets are classified as “Stage 3” and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (less loss allowances). Stage 3 also includes financial assets which are already impaired at initial recognition in the balance sheet (POCI). These financial assets are initially recognised at fair value and thus no loss allowances are established. Regardless of future changes in credit risk, POCI assets remain in Stage 3 until their derecognition.

For the “Other assets” position, loss allowances are established using the simplified approach. As a rule, loss allowances are recorded at initial recognition and on each subsequent reporting date in an amount equivalent to the expected credit losses during the total maturity period. For these generally short-term assets, the total maturity period has been set at 12 months.

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when it is determined that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Recoveries of amounts previously written off and direct write-offs

When a loan is uncollectible, it is written off against the related loss allowance which has been set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts which have been written off are recognised in the Statement of Profit or Loss under "Loss allowances". Uncollectible loans for which no loss allowances have been set aside in full are recognised in profit or loss as direct write-offs.

Investments securities measured through FVOCI

Investments in debt securities are with sovereign issuers, central banks and other supranational borrowers rated as AA- or higher by Fitch, S&P or Moody's. Exposure to debt securities is regulated by the Investment Policy. Investments are allowed only in liquid securities that have high credit ratings. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The table below presents the entire portfolio, which includes non-rated Kosovo Government securities.

31 December 2021	**Kosovo Government bonds**	**OECD Government bonds**	**Total**
Neither past due nor impaired			
- AAA rated	-	42,082	42,082
- AA+ rated	-	-	-
- Unrated (at Government or Country level)	28,916	-	28,916
Total Investment securities measured through FVOCI	**28,916**	**42,082**	**70,998**

Lending commitments and financial guarantees

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

Risk limit control and mitigation policies

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

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

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

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

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Collateral held and other credit enhancements, and their financial effect

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

- Mortgages over immovable properties (residential, commercial, industrial, vacant land etc.);
  Pledge over movable properties, such as: machinery, equipment, vehicles, livestock etc.; and
  Charges over cash and cash equivalents (cash collateral).

(ii) Risk limit control and mitigation policies

Loans to corporate entities and individuals are generally secured; private individual overdrafts and credit cards issued to individuals are secured by cash collateral or other types of collateral determined with a decision of credit committees.

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

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

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

	Over-collateralised		Under-collateralised	
At 31 December 2021	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Business	232,961	523,037	205,089	145,241
Private	46,117	102,037	87,167	34,097
	279,078	**625,074**	**292,256**	**179,339**

	Over-collateralised		Under-collateralised	
At 31 December 2020	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Business	275,648	719,131	176,085	132,364
Private	20,623	65,761	41,898	10,095
	296,272	**784,892**	**217,982**	**142,458**

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

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

5. Financial risk management (continued)

(b) Credit risk (continued)

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

Concentration of credit risk

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

Geographical sectors

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

	2021			2020		
	OECD countries	**Kosovo**	**Total**	**OECD countries**	**Kosovo**	**Total**
Assets						
Balances with Central Banks	103,710	68,749	172,459	149,075	63,271	212,346
Loans and advances to banks	23,623	-	23,623	39,916	-	39,916
Loans and advances to customers	1,517	569,817	571,334	-	514,254	514,254
Investment securities FVOCI	42,082	28,916	70,998	44,299	20,656	64,955
Other financial assets	-	3,290	3,290	-	1,851	1,851
Total assets	**170,932**	**670,772**	**841,704**	**233,290**	**600,032**	**833,322**
Liabilities						
Liabilities to other banks	-	1,122	1,122	41	567	608
Liabilities to customers	56,680	713,888	770,568	65,895	683,903	749,798
Borrowings	25,905	-	25,905	24,981	-	24,981
Subordinated debt	7,538	-	7,538	7,537	-	7,537
Other financial liabilities	-	1,775	1,775	-	1,249	1,249
Total liabilities	**90,123**	**716,785**	**806,908**	**98,454**	**685,719**	**784,173**

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

5. Financial risk management (continued)

(b) Credit risk (continued)

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

Industry

	2021			2020		
	Private	**Business**	**Total**	**Private**	**Business**	**Total**
Assets						
Balances with Central Banks		172,459	172,459	-	212,346	212,346
Loans and advances to banks		23,623	23,623	-	39,916	39,916
Loans and advances to customers	133,284	438,050	571,334	62,522	451,732	514,254
Investment securities FVOCI		70,998	70,998	-	64,955	64,955
Other financial assets		3,290	3,290	-	1,851	1,851
Total assets	**133,284**	**708,420**	**841,704**	**62,522**	**770,800**	**833,322**
Liabilities						
Liabilities to other banks		1,122	1,122	-	608	608
Liabilities to customers	474,946	295,622	770,568	456,055	293,743	749,798
Borrowings		25,905	25,905	-	24,981	24,981
Subordinated debt		7,538	7,538	-	7,537	7,537
Other financial liabilities		1,775	1,775	-	1,249	1,249
Total liabilities	**474,946**	**331,962**	**806,908**	**456,055**	**328,118**	**784,173**

(c) Liquidity risk

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

The table below presents the liquidity analysis of undiscounted remaining contractual maturities at the reporting date grouped by expected maturities of the financial assets and liabilities. The amounts disclosed in the first part of the table are contractual discounted cash flows, whereas the Bank manages the inherent liquidity risk on an expected basis, based on expected undiscounted cash inflows and outflows reported on the second part. In transforming the liabilities from contractual to expected, the Bank considers two sets of assumptions: first assumptions which are recommended by ProCredit Holding and which are based on German Liquidity Regulation; and second assumptions are derived from historical analysis of customer deposits and their withdrawal pattern.

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

5. Financial risk management (continued)

(c) Liquidity risk (continued)

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

In the liquidity gap table presented below the following definitions are considered relevant:

- Assets 1 - are assets which do not have a contractual maturity and/or can be converted into cash very quickly;
- Assets 1-S – are assets that have a contractual maturity and the distribution into the time buckets is based on the remaining maturities;
- Liabilities 1 – are liabilities which contractually are due on demand; and
- Liabilities 1-S – are liabilities that have a contractual maturity and the distribution into the time buckets is based on the remaining maturities.

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

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2021	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	Total
Assets 1						
Cash on hand	50,211	-	-	-	-	50,211
Reserves with the Central Bank	51,971	-	-	-	-	51,971
Current accounts with Central Banks	120,525	-	-	-	-	120,525
Current accounts with banks	3,812	390	2,080	1,725	988	8,995
T-bills and marketable securities	22	8,512	664	15,431	46,369	70,998
Assets 1-S						
Term deposits with banks	2,647	12,560	-	-	-	15,207
Loans and advances to customers	23,335	46,370	70,513	151,018	353,921	645,156
Total Assets	**252,523**	**67,832**	**73,257**	**168,174**	**401,278**	**963,064**
Contractual Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	398	-	-	-	-	398
Liabilities to customers (due daily)	680,446	-	-	-	-	680,446
Contingent liabilities from guarantees	36,276	-	-	-	-	36,276
Unused credit commitments	76,595	-	-	-	-	76,595
Liabilities 1-S						-
Liabilities to customers	3,667	3,522	11,293	35,077	27,094	80,652
Borrowings and subordinated debt	87,273	486	345	13,866	14,389	116,360
Total Contractual Liabilities	**884,654**	**4,008**	**11,638**	**48,943**	**41,483**	**990,727**
Periodic Contractual Liquidity Gap	**(632,131)**	**63,823**	**61,620**	**119,231**	**359,794**	**(27,663)**
Cumulative Contractual Liquidity Gap	**(632,131)**	**(568,308)**	**(506,688)**	**(387,457)**	**(27,663)**	**-**
Expected Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	423					423
Liabilities to customers (due daily)	5,529	-	-	100	764,822	770,452
Contingent liabilities from guarantees	1,814	-	-	-	-	1,814
Unused credit commitments	7,660	-	-	-	-	7,660
Liabilities 1-S						-
Liabilities to customers	3,667	3,522	11,293	35,077	27,094	80,652
Borrowings and subordinated debt	87,273	486	345	13,866	14,389	116,360
Total Expected Liabilities	**106,366**	**4,008**	**11,638**	**49,043**	**806,306**	**977,360**
Periodic Expected Liquidity Gap	**146,158**	**63,823**	**61,620**	**119,131**	**(405,028)**	**(14,297)**
Cumulative Expected Liquidity Gap	**146,158**	**209,981**	**271,600**	**390,732**	**(14,297)**	**-**

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

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

As at 31 December 2020	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	Total
Assets 1						
Cash on hand	50,731	-	-	-	-	50,731
Reserves with the Central Bank	43,100	-	-	-	-	43,100
Current accounts with Central Banks	169,278	-	-	-	-	169,278
Current accounts with banks	18,904	447	1,450	1,265	1,751	23,817
T-bills and marketable securities	2,018	6,650	825	30,575	24,887	64,955
Assets 1-S						
Term deposits with banks	4,073	8,479	4,075	-	-	16,627
Loans and advances to customers	26,625	44,149	53,989	127,930	327,655	580,348
Total Assets	**316,729**	**59,725**	**60,339**	**159,770**	**354,294**	**950,856**
Contractual Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	367	-	-	-	-	367
Liabilities to customers (due daily)	623,588	-	-	-	-	623,588
Contingent liabilities from guarantees	34,114	-	-	-	-	34,114
Unused credit commitments	69,168	-	-	-	-	69,168
Liabilities 1-S						
Liabilities to customers	3,896	5,250	5,549	24,294	42,141	81,129
Borrowings and subordinated debt	2,143	345	488	4,949	30,976	38,901
Total Contractual Liabilities	**733,275**	**5,595**	**6,037**	**29,243**	**73,117**	**847,267**
Periodic Contractual Liquidity Gap	**(416,547)**	**54,130**	**54,302**	**130,527**	**281,176**	**103,589**
Cumulative Contractual Liquidity Gap	**(416,547)**	**(362,417)**	**(308,115)**	**(177,587)**	**103,589**	**-**
Expected Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	292					292
Liabilities to customers (due daily)	38,826	15,867	32,258	29,812	519,524	636,287
Contingent liabilities from guarantees	1,706	-	-	-	-	1,706
Unused credit commitments	6,917	-	-	-	-	6,917
Liabilities 1-S						
Liabilities to customers	3,896	5,250	5,549	24,294	42,141	81,129
Borrowings and subordinated debt	2,143	345	488	4,949	30,976	38,901
Total Expected Liabilities	**53,779**	**21,462**	**38,295**	**59,055**	**592,641**	**765,231**
Periodic Expected Liquidity Gap	**262,950**	**38,263**	**22,044**	**100,715**	**(238,347)**	**185,624**
Cumulative Expected Liquidity Gap	**262,950**	**301,213**	**323,257**	**423,972**	**185,624**	**-**

5. Financial risk management (continued)

(c) Liquidity risk (continued)

For liquidity purposes, the Bank classifies demand and saving deposits as due on demand and maturing within one month. As a result, the contractual liquidity gap of up to twelve months is increased. However, the possibility that large amounts of customer deposits will leave the Bank is very unlikely. Therefore the Bank does not consider having the liquidity gap in short term. It rather focuses on expected maturity gap which represents a more likely scenario.

The Bank is maintaining a portfolio of highly marketable financial assets (Investment Securities measured at FVOCI) that can easily be liquidated as protection against any unforeseen events interruption to cash flow. The management of the Bank is monitoring liquidity ratios against internal and regulatory requirements on a daily, weekly and monthly basis. As a result, Management believes that the Bank has no short term liquidity gap. During 2021, the Bank applied liquidity stress testing on a monthly basis for all operating currencies and discussed it regularly in the Bank's Financial and Market Risk Management Committee and ALCO. The stress test is performed applying four different scenarios as per Liquidity Risk Management policy, starting from less to more conservative scenarios. In case the Management Board and Risk Monitoring Unit see any concerns under these scenarios, the Bank takes the necessary measures to minimise any risk.

(d) Capital risk management

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the Central Bank of Kosovo (CBK); (ii) to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and (iii) to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a monthly basis by Bank's management, employing techniques based on the guidelines of the CBK. The required information is provided to the CBK on a regular monthly basis. The risk-weighted assets are classified according to the class categories that the assets are assigned to. The category of classes in itself reflects the nature and estimation of credit, market and other risks associated with each asset and off-balance sheet exposure, with some adjustments to reflect the contingent nature of certain potential losses.

The CBK requires the Bank to hold the minimum level of the regulatory capital of EUR 7,000 thousand, to maintain a ratio of Tier I capital to the risk-weighted assets (the 'Basel ratio') at or above the minimum of 9% (Actual 13.43%; 2020:17.55%) and to maintain a total regulatory capital, Tier II, to risk-weighted assets at or above the minimum 12% (Actual 15.84%; 2020:20.02%) Therefore, based on the respective ratios, the bank was in compliance with the capital adequacy requirements as at the reporting dates, at 31 December 2021 and 2020.

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

5. Financial risk management (continued)

(d) Capital risk management (continued)

As at 31 December 2021 and 2020 the Bank's capital adequacy ratios measured in accordance with the CBK rules are as follows:

	2021	2020
Tier 1 capital		
Share capital and share premium	65,550	65,550
Reserves	6,987	6,956
Retained earnings	11,480	32,328
less: Intangible assets	(39)	(51)
less: Credits to bank related persons	(2,607)	(4,110)
less: Deferred tax assets	(104)	(183)
Total qualifying Tier 1 capital	**81,267**	**100,490**
Tier 2 capital		
Subordinated liability	7,500	7,500
Provisions for loan losses (limited to 1.25% of RWA)	7,070	6,619
Total qualifying Tier 2 capital	**14,570**	**14,119**
Total regulatory capital	**95,837**	**114,609**
Risk-weighted assets:		
On-balance sheet	536,827	501,778
Off-balance sheet	28,781	27,717
Risk assets for operational risk	39,436	43,032
Total risk-weighted assets	**605,043**	**572,528**
Tier I capital adequacy ratio	**13.43%**	**17.55%**
Tier II capital adequacy ratio	**15.84%**	**20.02%**

(e) Economic capital

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

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates and their statistical distribution is calculated. The historical loss rates in different arrears categories (at a 99% confidence level) are applied to the loan portfolio to calculate potential loan losses.
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation (after adjustment).
- Market risks: Whereas historical currency fluctuations are statistically analysed and highest variances (99% confidence level) are applied to current currency positions, interest rate risk is calculated by determining the economic value impact of a standard interest rate shock of 200 basis points up and down for the yield curves that reflect the interest rate environment on international markets and for the local currency ,as well as for EUR and USD, a parallel up and down that reflects the local specifics of the market rates is determined, while ensuring a minimum shock of +- 200 basis point is applied.
- Operational risk: The Basel II Standard approach is used to calculate the respective value.

The Bank showed a modest level of utilization of its RAtCR as of 31 December 2021. Counterparty and market risk limit utilization are again low, reflecting the risk-averse management approach which guides the Bank's treasury operations. The economic capital required to cover operational risk is calculated according to the Basel II standard approach. Data collected during 2021 in the Risk Event Database (RED), which captures risk event data on a bank and group-wide scale, indicates a low level of operational risk. All risks combined, as quantified by the methods established by the Bank's policies, are below the limit of 60% of the Bank's total risk taking potential.

6. Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

a) Valuation models

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

Level 1 Inputs:

Quoted prices (unadjusted) in active markets for identical instruments assets or liabilities that the entity can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 Inputs:

Other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3 Inputs:

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

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

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

6. Fair values of financial instruments (continued)

a) Valuation models (continued)

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

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

b) Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. These values are recognized in the statement of financial position.

Investment securities measured at FVOCI	Total Fair Value	Level 1	Level 2	Level 3
31 December 2021	**70,998**	**42,082**	**28,916**	**-**
Bonds	70,998	42,082	28,916	-
Treasury bills	-	-	-	-
31 December 2020	**64,955**	**44,299**	**20,656**	**-**
Bonds	64,955	44,299	20,656	-
Treasury bills	-	-	-	-

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

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

As of 31 December 2021	Category	Carrying Value	Fair Value	Fair value hierarchy		
				Level 1	Level 2	Level 3
Financial Assets						
Cash and balances with Central Banks	AC	222,670	222,670	-	222,670	-
Loans and advances to banks	AC	23,623	23,623	-	23,623	-
Loans and advances to customers	AC	571,334	559,734	-	-	559,734
Investment securities	FVOCI	70,998	70,998	42,082	28,916	-
Other assets(shares)	FVOCI	41	41	-	41	-
Other financial assets	AC	3,290	3,290	-	3,290	-
Total		**891,956**	**880,356**	**42,082**	**278,540**	**559,734**
Financial Liabilities						
Liabilities to banks	AC	1,122	1,122	-	1,122	-
Liabilities to Customers	AC	770,568	770,547	-	707,715	62,832
Borrowings	AC	25,905	25,323	-	-	25,323
Subordinated debts	AC	7,538	7,538	-	-	7,538
Other financial liabilities	AC	1,775	1,775	-	1,775	
Total		**806,908**	**806,305**	**-**	**710,612**	**95,693**

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

6. Fair values of financial instruments(continued)

c) financial instruments not measured at fair value for which fair value is disclosed (continued)

As of 31 December 2020	Category	Carrying Value	Fair Value	Fair value hierarchy Level 1	Level 2	Level 3
Financial Assets						
Cash and balances with Central Banks	AC	263,109	263,109	-	263,109	-
Loans and advances to banks	AC	39,916	39,916	-	39,916	-
Loans and advances to customers	AC	514,254	503,075	-	-	503,075
Investment securities	FVOCI	64,955	64,955	44,299	20,656	-
Other assets(shares)	FVOCI	39	39	-	39	-
Other financial assets	AC	1,851	1,851	-	1,851	-
Total		**884,124**	**872,945**	**44,299**	**325,571**	**503,075**
Financial Liabilities						
Liabilities to banks	AC	608	608	-	608	-
Liabilities to Customers	AC	749,798	749,764	-	653,578	96,186
Borrowings	AC	24,981	24,176	-	-	24,176
Subordinated debts	AC	7,537	7,537	-	-	7,537
Other financial liabilities	AC	1,249	1,249	-	1,249	
Total		**784,173**	**783,334**	**-**	**655,435**	**127,899**

* Categories: AC - Amortised cost; FVOCI - fair value through other comprehensive income

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

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.
The fair value of borrowings and subordinated debt is based on discounted contractual cash flows, taking into consideration market interest rates, which would have been payable by the Bank in need of replacing the old sources with the new ones of equal remaining maturity.

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

7. Net interest income

	2021	2020
Interest income		
Loans and advances to customers	28,430	27,866
Loans and advances to banks	18	(88)
Investment securities measured at FVOCI	1,022	214
Other	27	19
Total interest income (effective interest method)	**29,498**	**28,011**
Interest expense		
Liabilities to customers	1,385	1,575
Borrowed funds	725	660
Other	1,067	114
Total interest expense	**3,177**	**2,349**
Net interest income	**26,321**	**25,662**

Interest income and expenses are recognised in Statement of profit or loss on an accrual basis. Net interest Income is calculated on the gross book value of a financial asset; for financial assets in Stage 3, net interest income is calculated on the net book value of a financial asset. Payments received in respect of written-off loans are not recognised in the net interest income, but rather under ''Loss allowance'.'

8. Net fee and commission income

	2021	2020
Fee and commission income from		
Payment services	4,215	3,699
Debit/Credit cards	3,008	2,008
Account maintenance fee	4,800	5,316
Letters of credit and guarantees	712	730
Others	679	482
Total fee and commission income	**13,414**	**12,235**
Fee and commission expense on		
Transactions related to processing centre and other financial services	1,532	673
Account maintenance fee	1,302	981
Other fees to banks	984	657
Fees and expenses related to cards	525	283
Third- party transactions	2,112	2,282
Other fees	158	202
Total fee and commission expense	**6,613**	**5,078**
Net fee and commission income	**6,801**	**7,157**

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

9. Net other operating result

	2021	2020
Other operating income from		
Reversal of provisions	231	285
Reimbursement of expenses	30	60
Sale of property plant and equipment	86	103
Others	244	299
Other operating income	**591**	**748**
Other operating expenses for		
Deposit insurance	778	765
Disposal of property, plant and equipment	125	42
Credit Recovery Services	587	443
Others	390	420
Other operating expense	**1,880**	**1,670**
Net other operating result	**(1,290)**	**(923)**

10. Personnel expenses

	2021	2020
Salary expenses	4,816	4,494
Pension contribution	239	222
Other employee costs	285	174
	5,340	**4,890**

At 31 December 2021, the Bank had 273 employees (2020: 278 employees).

11. Administrative expenses

	2021	2020
Repairs and maintenance	3,827	3,448
Depreciation fixed and intangible assets	1,817	1,413
Consulting, legal and other fees	1,743	1,261
Other expenses	1,114	1,000
Expenses paid to ProCredit Holding	1,113	915
Security services	700	665
Marketing, advertising and representation	545	473
Training	408	261
Royalties on software	304	457
Communication (telephone, on-line connection)	277	365
Utilities	244	263
Transport (fuel, maintenance)	123	102
Office supplies	113	153
Lease expenses	35	30
Impairment of fixed assets	-	176
	12,362	**10,982**

Lease expenses mainly include short – term leases to which the exemptions established in IFRS 16 are applied.

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

12. Loss allowance

	2021	2020
Change in loss allowances	(607)	(6,803)
Recovery of written-off loans	5,034	4,132
	4,427	**(2,671)**

13. Income taxes

Amounts recognised in profit or loss

	2021	2020
Current tax expenses	1,912	1,505
Deferred tax income/ expense	76	(622)
Income tax expense	**1,988**	**883**

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% (2020: 10%).

Amounts recognised in Other Comprehensive Income ('OCI')

	2021			2020		
	Before tax	Tax charge	Net of tax	Before tax	Tax charge	Net of tax
Investment securities measured at FVOCI	(34)	3	(31)	75	(8)	67
Total	**(34)**	**3**	**(31)**	**75**	**(8)**	**67**

Reconciliation of effective tax rate

The following is a reconciliation of income taxes calculated at the applicable tax rate of 10% (2020: 10%) to current income tax expense:

	2021	2020
Profit before tax	19,434	14,133
Tax using the corporate tax rate	1,943	1,413
Exempt income	(61)	(38)
Non-deductible expenses	30	131
Deferred tax (income) / expense	76	(622)
	1,988	**883**

Prepaid income tax payable at 31 December 2021 is EUR 592 thousand (31 December 2020: prepaid income tax payable of EUR 1,527 thousand).

Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 10% (2020: 10%).

	31 December 2020	Profit or loss	OCI	31 December 2021
Deferred tax assets				
Accrued interest from deposits	75	(60)	-	15
Depreciation for property and equipment	114	(16)	-	98
	189	**(76)**	**-**	**113**
Deferred tax liabilities				
Investment securities measured at FVOCI	(6)	-	(3)	(9)
	(6)	**-**	**(3)**	**(9)**
Net deferred tax assets/(liabilities)	**183**	**(76)**	**(3)**	**104**

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

14. Cash and balances with Central Banks

	2021	2020
Cash on hand	50,211	50,731
Amounts held at the CBK		
Current accounts	16,815	20,203
Statutory reserves	51,971	43,100
Balance with Deutche Bundesbank	103,710	149,075
Loss allowance	(37)	(33)
	222,670	**263,076**

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

	2021	2020
Loss allowances as of 01 January	33	30
New financial assets originated	-	-
Release due to derecognition	-	-
Transfers between stages	-	-
Increase/Decrease in credit risk	4	3
Closing balance	**37**	**33**

In accordance with CBK regulation on Minimum reserve requirement, the bank should maintain the minimum required reserve ratio 10 % of the following liabilities with maturities up to one year: deposits, borrowings and securities.
The assets with which the bank can meet its demands for reserve are its deposits with the CBK and fifty per cent (50%) of the cash in its vaults. However, deposits with the CBK may not be less than half of the applicable minimum reserve requirement.
Cash and cash equivalents as at 31 December 2021 and 2020 are presented as follows in statement of cash flows:

	2021	2020
Cash and balances with Central Banks	222,670	263,076
Statutory reserves	(51,971)	(43,100)
Loans and advances to banks with maturities of 3 months or less	19,081	31,905
	189,780	**251,881**

15. Loans and advances to banks

	2021	2020
Current accounts	8,419	23,286
Time deposits with banks	15,204	16,631
Loss allowance	(1)	(2)
	23,623	**39,916**

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

	2021	2020
Loss allowances as of 01 January	2	**2**
New financial assets originated	8	-
Release due to derecognition	(2)	-
Transfers between stages	-	-
Increase/Decrease in credit risk	(7)	-
Closing balance	**1**	**2**

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

- Deposits in EUR: from -0.52% p.a. (2020: from -0.60% to -0.49% p.a.); and
- Deposits in USD: from 0.12% to 0.25% p.a. (2020: from 0.13% to 0.16% p.a.).

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

16. Loans and advances to customers

	2021	2020
Loans to customers	558,352	507,626
Overdrafts	31,696	27,362
Credit cards receivable	71	89
	590,119	**535,077**
Loss allowance	(18,785)	(20,823)
	571,334	**514,254**

The movement on loans to customers and provision for impairment on loans to customers for the year ended December 31, 2021, and December 31, 2020 based on IFRS 9 requirements, is as follows:

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross outstanding amount as of 1 January	**495,816**	**20,923**	**17,304**	**658**	**534,701**
New financial assets originated	244,824	4,169	3,028	-	252,021
Modification of contractual cash flows of financial assets	-	-	-	-	-
Derecognitions	(53,170)	(6,103)	(3,992)	-	(63,265)
Write-offs	-	-	(2,861)	-	(2,861)
Changes in interest accrual	(73)	(37)	148	29	66
Changes in the principal and disbursement fee amount	(116,512)	(10,272)	(3,721)	(52)	(130,556)
Transfers to Stage 1	(25,165)	26,012	(847)	-	-
Transfers to Stage 2	11,792	(16,081)	4,289	-	-
Transfers to Stage 3	(193)	747	(554)	-	-
Foreign exchange and other movements	17	30	(177)	142	12
Gross outstanding amount as of 31.12.2021	**557,336**	**19,389**	**12,617**	**777**	**590,119**

Loss allowance loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January	**(7,362)**	**(2,067)**	**(11,112)**	**(282)**	**(20,823)**
New financial assets originated	(3,762)	(1,004)	(1,548)	-	(6,314)
Release due to derecognition	713	271	2,747	-	3,731
Transfers to Stage 1	715	(711)	(4)	-	-
Transfers to Stage 2	(311)	554	(243)	-	-
Transfers to Stage 3	(20)	(71)	91	-	-
Increase in PD/LGD/EaD	(2,794)	(2,127)	(4,543)	(189)	(9,653)
Decrease in PD/LGD/EaD	5,853	1,973	3,588	31	11,446
Usage of allowance	-	-	2,861	-	2,861
Foreign exchange and other movements	-	-	(33)	-	(33)
Loss allowances as of 31.12.2021	**(6,967)**	**(3,183)**	**(8,196)**	**(439)**	**(18,785)**

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

16. Loans and advances to customers (continued)

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1 January	492,044	15,595	14,441	675	522,755
New financial assets originated	170,217	-	3,699	-	173,916
Modification of contractual cash flows of financial assets	(3)	5	5	-	8
Derecognitions	(48,756)	(6,082)	(3,361)	-	(58,199)
Write-offs	-	-	(3,524)	-	(3,524)
Changes in interest accrual	697	171	236	-	1,104
Changes in the principal and disbursement fee amount	(99,100)	268	(2,204)	(281)	(101,316)
Transfers to Stage 1	(48,615)	46,703	1,912	-	-
Transfers to Stage 2	28,257	(36,531)	8,274	-	-
Transfers to Stage 3	932	927	(1,859)	-	-
Foreign exchange and other movements	141	(133)	61	264	333
Gross outstanding amount as of 31.12.2020	**495,816**	**20,923**	**17,680**	**658**	**535,077**

Loss allowance loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January	(5,409)	(1,044)	(10,720)	(322)	(17,495)
New financial assets originated	(2,321)	-	(1,784)	-	(4,106)
Release due to derecognition	441	513	1,292	-	2,247
Transfers to Stage 1	708	(669)	(39)	-	-
Transfers to Stage 2	(681)	1,372	(691)	-	-
Transfers to Stage 3	(20)	(100)	120	-	-
Increase in PD/LGD/EaD	(3,648)	(3,545)	(6,417)	(78)	(13,689)
Decrease in PD/LGD/EaD	3,569	1,406	3,469	119	8,563
Usage of allowance	-	-	3,524	-	3,524
Foreign exchange and other movements	-	-	134	-	134
Loss allowances as of 31.12.2020	**(7,362)**	**(2,067)**	**(11,112)**	**(282)**	**(20,823)**

	2021			2020		
	Gross amount	Loss allowance	Net amount	Gross amount	Loss allowance	Net amount
Retail customers:						
Overdrafts	1,597	(117)	1,480	1,254	(107)	1,147
Credit cards	9	(3)	6	10	(2)	8
Private loans	2,891	(295)	2,596	3,110	(729)	2,381
Home improvement	100,770	(2,848)	97,922	88,472	(3,233)	85,239
Corporate customers:						
Overdrafts	30,099	(414)	29,685	26,108	(1,268)	24,840
Up to EUR 150 thousand	156,648	(7,446)	149,202	152,012	(8,987)	143,025
Above EUR 150 thousand	298,105	(7,662)	290,443	264,111	(6,497)	257,614
	590,119	**(18,785)**	**571,334**	**535,077**	**(20,823)**	**514,254**

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

17. Investment securities measured at FVOCI

	2021	2020
Investment securities measured at FVOCI	70,998	64,969
Loss allowance	(21)	(14)
Total	**70,977**	**64,955**

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

	2021	2020
Loss allowances as of 01 January	14	**11**
New financial assets originated	11	**8**
Release due to derecognition	-	**(2)**
Transfers between stages		
Increase/Decrease in credit risk	(4)	**(3)**
Closing balance	**21**	**14**

18. Intangible assets

	Software
Cost	
At January 2020	7,255
Additions	45
Disposals	-
At 31 December 2020	**7,299**
Additions	-
Disposals	-
At 31 December 2021	**7,299**
Accumulated depreciation	
At 1 January 2020	**7,235**
Charge for the year	13
Disposals	-
At 31 December 2020	**7,248**
Charge for the year	12
Disposals	-
At 31 December 2021	**7,260**
Net carrying value	
At 31 December 2020	**51**
At 31 December 2021	**39**

19. Property, plant and equipment

in '000 EUR	Land and buildings	Business and office equipment	Land and buildings (ROU)	Total PPE
Total acquisition costs as of 1 January 2021	10,131	10,895	2,539	23,565
Additions	310	255	-	565
Disposals	(406)	(1,866)	(522)	(2,795)
Transfers	-	-	-	-
Total acquisition costs as of 31 December 2021	**10,035**	**9,284**	**2,017**	**21,336**
Accumulated depreciation as of 1 January 2021	(1,718)	(7,801)	(807)	(10,326)
Depreciation	(221)	(1,233)	(351)	(1,805)
Disposals	281	1,858	206	2,345
Impairment	-	-	-	-
Accumulated depreciation as of 31 December 2021	**(1,657)**	**(7,176)**	**(952)**	**(9,785)**
Net book value	**8,377**	**2,108**	**1,065**	**11,550**
Total acquisition costs as of 1 January 2020	8,620	9,793	2,542	20,955
Additions	1,578	3,018	22	4,618
Disposals	(56)	(1,572)	(25)	(1,653)
Transfers	(10)	10	-	-
Total acquisition costs as of 31 December 2020	**10,131**	**11,249**	**2,539**	**23,919**
Accumulated depreciation as of 1 January 2020	(1,575)	(8,625)	(401)	(10,601)
Depreciation	(179)	(798)	(423)	(1,400)
Disposals	36	1,445	17	1,498
Impairment	-	(176)	-	(176)
Accumulated depreciation as of 31 December 2020	**(1,718)**	**(8,154)**	**(807)**	**(10,679)**
Net book value	**8,413**	**3,095**	**1,733**	**13,240**

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

20. Other assets

	2021	2020
Accrued account maintenance fees	241	288
Security deposits	576	531
Receivables from financial institutions	843	413
Receivables from clients (Not related to lending)	367	356
Others	1,301	294
Prepaid expenses	245	243
Year-end clearance accounts	229	448
Inventories and advances	157	248
Loss allowance	(39)	(31)
	3,921	**2,790**

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

	2021	2020
Loss allowances as of 01 January	31	40
New financial assets originated	-	-
Release due to derecognition	-	(12)
Transfers between stages	-	-
Increase/Decrease in credit risk	8	3
Closing balance	**39**	**31**

21 Liabilities to banks

	2021	2020
Current accounts	1,122	608
	1,122	**608**

22. Liabilities to customers

	2021	2020
Current accounts	524,220	484,388
Saving accounts	178,811	164,948
Term deposits	62,730	96,220
Other customer accounts	4,807	4,242
	770,568	**749,798**

The published annual interest rates at 31 December 2021 and 2020 were as follows:

	Private Customers		Business Customers	
	2021	2020	2021	2020
Saving accounts	0.20%	0.30%	0.20%	0.30%
Time deposits:				
- One year	0.50%	0.50%	0.01%	0.01%
- Two years	0.70%	0.70%	0.01%	0.01%
- Three years	1.00%	1.00%	0.01%	0.01%
- Four years	n/a	n/a	0.50%	0.50%
- Five years	n/a	n/a	1.50%	1.50%

Current accounts do not generally bear interest.

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

23. Other liabilities

	2021	2020
Accrued expenses	135	88
Liabilities for goods and services	1,098	1,022
Liabilities to related parties	487	101
Pension contribution payable to Kosovo Pension Fund	56	38
Provision for untaken vacation	179	196
Provision for litigation cases	867	822
Provisions for financial off-balance sheet items	852	738
Lease liabilities	1,149	1,815
Other	1,265	1,111
	6,086	**5,931**

24. Borrowings and subordinated debt

	2021	2020
European Investment Bank (EIB)	10,034	10,034
European Bank for Reconstruction and Development (EBRD)	15,871	14,947
Subordinated debt from ProCredit Holding AG & CO.KGaA	7,538	7,537
	33,443	**32,518**

Outstanding amount includes accrued interest expense for borrowings and subordinated debts. Movements in interest accrued as at 31 December 2021 and 2020 are presented below:

	2021	2020
Opening balance	136	103
Interest expense	715	660
Interest paid	(691)	(627)
Closing balance	**160**	**136**

The Bank signed an agreement in amount EUR 10,000 thousand with the European Investment Bank (EIB) on November 2013 to finance projects that are undertaken by small and medium sized enterprises.

The Bank signed an agreement with European Bank for Reconstruction and Development (EBRD) on December 2018 in amount of EUR 20,000 thousand. The purpose of this agreement is for the Small & Medium-sized Enterprises Competitiveness Support Programme. In addition to this, another agreement was signed on February 2021 in amount EUR 2,500 thousand, out of which EUR 1,000 thousand were utilized during 2021 for the Green Economy Financing Facility.

The Bank has contracted in November 2019 a subordinated debt from ProCredit Holding AG & CO. KGaA. The subordinated debt meets the regulatory requirement for tier II capital and has been approved as such by the regulator the Central Bank of the Republic of Kosovo.

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

25. Shareholder's equity and reserves

Share capital At 31 December 2021 the authorised share capital comprised 12,269,242 ordinary shares (2020: 12,269,242), with a par value of EUR 5 each, while the shareholding structure was as follows:

	Number of shares	In EUR	%
ProCredit Holding AG & CO.KGaA	12,269,242	61,346,210	100
	12,269,242	**61,346,210**	**100**

All issued shares are fully paid. There are no restrictions, conditions or preferences attached to the ordinary shares.

Share premium Share premium of EUR 4,204 thousand (2020: EUR 4,204 thousand) represents the excess of contribution received over the nominal value of shares issued.

Contingency Reserve The contingency reserve of EUR 511 thousand was created in 2000, through the appropriation of retained earnings. The reserve represents a provision against political risk and cannot be distributed as dividend without prior approval of CBK.

Following the initial adoption of IFRS 9 from the Central Bank of Kosovo, as of January 1, 2020, an amount of EUR 6,371 thousand has been presented for regulatory purposes as Other Reserve. This reserve represents the change between IFRS reported figures and CBK reported figures as of January 1, 2020, therefore it is a transfer from Retained Earnings to Other Reserve balance and is not distributable for dividend purposes.

Fair value reserve The fair value reserve includes the cumulative net change in the fair value of Investment Securities measured at FVOCI, until the investment is derecognised or impaired. The movements in the fair value reserve are presented as follows:

	2021	2020
Balance at 1 January	74	141
Revaluation losses reserve for Investment Securities - FVOCI	(155)	185
Revaluation gains reserve for Investment Securities - FVOCI	183	(263)
Deferred tax on revaluation reserve for Investment Securities - FVOCI	(3)	8
Allowance for impairment	7	3
Balance at 31 December	**105**	**74**

Dividends paid: Dividends of EUR 35,000 thousand in total or EUR 2.85 per share were approved in November 2021 and paid to the sole shareholder in December 2021 (2020: Dividends are not distributed).

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

26. Related party transactions

The ProCredit Group (the 'Group') is made up of development-oriented commercial banks operating in the South Eastern and Eastern Europe and South America, as well as a bank in Germany. The Parent company of the Group is ProCredit Holding, a Frankfurt based entity which guides the Group. At a consolidated level the Procredit group is supervised by the German financial supervisory authorities (BaFin and Bundesbank). The ProCredit Group aims to combine high development impact with commercial success for its shareholders.

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

	Relationship	2021	2020
Assets receivable from:			
Loans and advances to other ProCredit banks	Entities under common control	1,530	3,367
		1,530	**3,367**
Liabilities to:			
Other ProCredit banks	Entities under common control	391	298
Quipu GmbH		493	357
ProCredit Holding AG & Co. KGaA	Parent Company	-	8,541
Subordinated debt from ProCredit Holding AG & Co. KGaA		7,538	7,537
		8,422	**16,733**

At 31 December 2021, the Bank had a stand-by line agreement with ProCredit Holding with an undrawn available limit of EUR 15,000 thousand (2020: EUR 15,000 thousand), maturing on 31 March 2022 (the maturity date shall automatically be extended by one year) for the purposes of meeting general financing needs.

	Relationship	2021	2020
Income from:			
Interest income from ProCredit banks	Under common control	-	(3)
Other income from ProCredit banks		140	146
Other income from Quipu		13	9
		153	**152**
Expenses:			
The Parent: Interest expenses for subordinated debt	Parent Company	354	344
The Parent: Other administrative expenses		1,113	830
The Parent and academies: Training expenses		350	314
The Parent: commitment fees		774	666
Quipu GmbH: IT services	Under common control	3,612	3,096
Quipu GmbH: Card processing fees		757	673
		6,961	**5,923**

Key management remuneration:	**2021**	**2020**
Salaries	286	195
Short-term pension contributions (mandatory scheme)	14	10
Personal income tax	26	18
	327	**223**

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

27. Commitments and contingencies

	2021	2020
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	76,702	69,175
International guarantees	24,833	22,346
Local guarantees	11,204	11,692
Letters of credit	239	76
Less: Provisions recognised as liabilities	(852)	(738)
	112,126	**102,551**
Credit commitments		
Unused credit card facilities	1,616	1,506
Unused overdraft limits	36,050	37,330
Non-disbursed loans tranches	9,557	5,568
Unused portion of credit lines	29,478	24,772
	76,702	**69,175**

Guarantees and letters of credit issued in favour of customers are secured by cash collateral, real estate and counter guarantees received from other financial institutions.

Commitments to extend credit represent contractual commitments to grant loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total amounts do not necessarily represent cash requirements.

Legal cases In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no additional material losses will be incurred in relation to legal claims outstanding as at 31 December 2021 except for those already provided for (Note 23).

28 Events after the end of the reporting period

No material events subsequent to the reporting date have occurred which require disclosure in the financial statements.