NLB Banka

We believe in this region’s potential

Annual report 2021

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We are – where you are.

Our home is here.

Here are our families, friends, colleagues, neighbours, our favourite athletes, hosts, who know what kind of coffee we like … All this is our home and we believe in it with all our hearts.

Since we are where you are, we know your potential and understand your commitment – even when no one else understands it. Where others merely see a spot on the map, we see a region full of opportunities.

And we believe you deserve each and every one of them.

Financial highlights

Profit and loss account indicators (in EUR thousand)	2021	2020	2021/2020
Net operating income	**41,832**	**38,678**	**8.2%**
Net interest income	34,461	32,286	6.7%
Net non-interest income	7,372	6,392	15.3%
Total operating costs	**-13,545**	**-12,287**	**10.2%**
Employee costs	-6,850	-6,158	11.2%
Other general administrative expenses	-4,453	-4,099	8.6%
Depreciation	-2,242	-2,030	10.4%
Profit before provisions	**28,287**	**26,391**	**7.2%**
Net impairments and Provisions	-1,063	-11,346	-90.6%
Profit before Tax	**27,224**	**15,045**	**81.0%**
Tax	-2,787	-1,711	62.9%
Profit after Tax	**24,437**	**13,334**	**83.3%**
Balance sheet indicators (in EUR thousand)	**2021**	**2020**	**2021/2020**
Total assets	930,547	879,064	5.9%
Loans to non-banking sector (net)	634,530	559,223	13.5%
Loans to non-banking sector (gross)	672,377	596,076	12.8%
Deposits from non-banking sector	798,789	748,317	6.7%
Total equity	98,857	98,335	0.5%
Key indicators	**2021**	**2020**	**2021/2020**
ROE a.t (Return on equity after tax)	22.4%	14.4%	8.0%
ROA a.t (Return on assets after tax)	2.7%	1.6%	1.1%
RORAC a.t	19.6%	12.2%	7.4%
CIR (Cost to income ratio)	32.4%	31.8%	0.6%
LTD (net loans NBS/deposits NBS)	79.4%	74.7%	4.7%
CAR (Capital adequacy ratio as per CBK)	17.3%	17.8%	-0.5%
Tier 1 ratio	13.9%	14.1%	-0.2%
Interest margin	4.1%	3.8%	0.3%
Portfolio quality and provisions	**2021**	**2020**	**2021/2020**
Gross NPL (non-performing loans)	15,613	17,519	-10.9%
Share of NPL in total loans to NBS+Banks	2.2%	2.7%	-0.5%
Share of NPL in total loans to NBS	2.3%	2.9%	-0.6%
Cost of risk	5	198	-97.5%
Other business indicators (IFRS)	**2021**	**2020**	**2021/2020**
Market share of total assets	16.3%	17.2%	-0.8%
Market share of loans to NBS	17.6%	18.0%	-0.4%
Market share of deposits	16.7%	17.5%	-0.9%
Number of business units	33	34	-2.9%
Number of ATM's	99	99	0.0%
Number of POS	2,362	2,397	-1.5%
Number of clients	346,804	340,129	0.1%
Number of employees	463	463	0.0%

Amounts presented by Index
Percentages presented in difference

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Statement from the President of the Management Board

Dear stakeholders of NLB Banka,

We were aware of the challenges from Covid 19 in our business and on the country's economy overall, but we started the year with sense of optimism, confidence, and trust on what we do and on trust on our clients. We had a clear vision what we want to achieve, and we invest our knowledge devotion and commitments for realization of our objectives. We do it responsibly, and we strive!

Albert Lumezi
President of the Management Board

2021 started with inherent uncertainty brought by Covid 19, with the negative impacts it encompassed on macroeconomic environment and on banking operation overall. The lesson we learned in 2020 strengthened our way ahead and on making our home better for all. We achieved our joint objectives through balancing the decision-making channeling our financial support to the economy followed by transformational digitalization, client centricity. This was the root towards value creation.

In first half of the year, the negative impact from the pandemic were present. The banking sector was dealing with lack of loan demand caused by uncertainty on investments and over-liquidity from contraction of consumption. This was unseen previously and bears costs on itself. We took brave decisions promoting loan demand, we supported our clients towards their investments, and we contributed on economic recovery.

We created value for our shareholders, and we fulfilled our commitments to their return on investments. We distributed EUR 23.6 million as dividend for 2019 and 2020 and the bank continued to have sound structure of capital.

During the year we worked hard towards our ambitious targets, our mission and commitments and corporate social responsibility, while continuing to fulfill our client's needs. We strived to maintain our strong position in the market with systematic role and marked positive financial performance, maintained responsible growth through self-funding, and sound structure of asset quality.

Our socially responsible actions have continued actively towards wider socio-economic development and have been fully aligned with UN Sustainable Development Goals. We have implemented for the second time the #HelpFrame project to support micro and small businesses - the important pillars of the economy who have been affected the most by COVID-19. As part of the campaign, we donated advertising space to 25 selected local entrepreneurs from all over Kosovo.

Through our capital investments, we have been committed on continuance of digitalization and transformation, with the main purpose of increasing banking service efficiency and quality and being closer to our client needs.

Key highlights of the year would be shortly summarized as follows:

- The Bank has accomplished the operating profit of EUR 24.4 million representing 83.3% increase YoY, peak performance.
- Regardless of the pressure and competition on interest rate the bank achieved the net interest income in the amount of EUR 34.5 million which are 6.7% more YoY.
- The net non-interest income has increased compared with 2020 for 15.3% reaching EUR 7.4 million indicating the role of systematic bank in the market.
- Total assets reached EUR 930.5 million with an increase for EUR 51.5 million or 5.9% compared to 2020.
- Net loans of non-banking sector as of 31.12.2021 were EUR 634.5 million, increasing by EUR 73.5 million or 13.5% compared to 2020;
- Bank continued to be well capitalized with CAR ratio of 17.3% (2020: 17.8%). The bank managed to distribute to its shareholders the dividend for the years 2019 and 2020 in amount of EUR 23.6 million.
- Cost efficiency further improved as indicated by CIR 32.4%, (2020: 31.8%);
- Sustainable non-performing loans trends reached 2.3% (2020: 2.9%)

Furthermore, the Bank during 2021 continued with its commitment towards responsible citizenship through ESG activities aiming towards UN Principles of Responsible Banking, MIGA agreement for sustainable banking, aligning fulfillment of variety of qualitative objectives, which make us proud for our contribution made in different areas especially in health care, social, cultural and sports activities. We have proudly supported different groups of society, initiatives that contribute to good

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health and well-being, sport, and a greener environment.
To love and to protect the nature, we have implemented the "Paperless" project which aims to reduce the paper usage with internal and external campaigns. The biggest jointly cross border financed renewable project – "Sowi Kosova" has been one of our success stories, which makes us proud for our contribution in the renewable energy sector, reducing CO2 emission and increase of electricity production capacities. We will continue our investments in green energy sector also on the coming years and we will continue to serve as a bridge for cross border financing projects in Kosovo.

As usual, I would like to thank all our employees - without their commitment, dedication, and high professionalism, without whom NLB Banka would not be able to maintain its position and showing excellent results.
Dear stakeholders of the Bank, during last two years, we have learned significantly on how to deal with the unknown, we are aware of possible obstacles in 2022 and our ambition targets we have, but we remain fully dedicated and confident on achievement of our journey towards delivering our vision and mission and making our home better for all.

Albert Lumezi
President of the Management Board

Lavdim Koshutova
Member of the
Management Board

Albert Lumezi
President of the
Management Board

Gem Maloku
Member of the
Management Board

Macroeconomic environment and market development

Even though the structure of the Kosovo's economy, which is highly dependent on the income flow from abroad (export of services and remittances, which all together comprise one fourth of the GDP), makes it very sensitive against this global shock the Kosovo economy recovered due to strong growth in domestic and external demand. Lifted restrictions on travel across Europe boosted tourism inflows. The rebound in the hospitality sector, while strong remittances inflow upheld private consumption. Surging exports of goods and services buoyed the economy when private and public consumption lost momentum in H2. Higher prices for food and energy have driven up price pressures over the course of the year.

Economic growth is projected to remain less than 4.2 percent in the medium term. The projected outlook is based on assumptions of relaxed mobility between Europe and Kosovo, no further strict local containment measures, a recovery in Euro Area growth, and an increase in base metal and mineral prices.

GDP - The Kosovo economy is recovering mainly on the back of a supportive external sector. GDP growth in 2021 was 10.4 per cent according to data published by Kosovo Agency of Statistics. This increase is mainly attributed to the rapid increase in exports of goods and services, to be followed by a more moderate increase in consumption and investment. Household consumption is upheld by a continuously growing inflow of remittances, and credit growth. Exports of services, which were more than four times exports of goods pre pandemic, doubled compared with the same period in 2020, surpassing the respective 2019 level.

Inflation (CPI) – The recovery of the economic activity as well as the increase of prices in foreign markets are reflected in an increase of prices also in Kosovo. Kosovo economy was characterized with an annual inflation rate of 3.4% as of December 2021, the highest inflation rate since 2008. The monthly dynamics of inflation has been continuously increasing, recording growth of 5.7%, 6.9% and 6.7% in October, November, and December, respectively. Price movement in Kosovo is similar to the movement of prices in international markets as a result of high dependence of the Kosovo's economy on imports.

Public debt –has continued with a double-digit annual growth at 23.3% of the GDP (2020: 22.4%), the lowest public debt in the region however in the near future it is expected to increase.

Unemployment rate – referring to the latest data (March 2021) from Kosovo Agency of Statistics the unemployment rate is 25.8% which remained highest in the region and EU.
Below are key performance macroeconomic indicators and respective explanation.

Table 1: Real GDP growth and remittances (period average)

Kosovo	2021	2020
GPD (real growth v %)	10.4	0.7
Inflation - average of the year (in %)	3.4	0.2
Unemployment rate (in %)	[1]25.8	24.6
Public debt (% of GDP)	23.3	21.8

Source: CBK and ASK reports
1. Latest data as of 31.03.2021.

We are your loyal partners.

Great-grandfathers built bridges.
Grandfathers built factories.
Fathers built the internet.
Your goal is to build the future.

New builders of the future are driven by the same pioneer spirit that has accompanied this region for decades. You also are not going to sit and wait for better times to come along, instead you want to create them yourself. We are right here by your side, following the trends and always developing new solutions which will inspire and encourage you to create change. The same way we helped others before you.

Banking system

There are eleven (11) banks that are operating nowadays in the banking system in Kosovo, representing 67.8 percent of the total assets in the financial sector. Their products and services include banking accounts, loans, domestic and international payments, banking cards, banking guarantees, letter of credit, e-banking. Access to these services is enabled through 211 branches and sub-branches, 513 ATMs, 13,175 POS, and 411,347 e-banking accounts.
Nine banks with foreign ownership continue to dominate the banking sector, and they manage 85.5% of total assets. As regards to the country of origin, Austria, Germany, Slovenia, and Serbia are represented with a single bank each, Albania is represented with two banks, while Turkey is represented by three banks. There are 3,518 employees of commercial banks.

The profit of banking sector for the year of 2021 (cumulative) was EUR 117.5 million, despite the pandemic situation was sound which is more compared to YoY by 47.7%.

Kosovo's banks are well capitalized within an aggregate capital adequacy ratio by 15.3% (2020: 16.5%). The ratio of loans to deposits was at 76.5% (2020: 74.5%). The ratio of non-performing loans was 2.3% (2020: 2.7%) based on report from CBK.

The average interest rate on loans was 5.8% (2020 were 6.0%). The average interest rate on deposits was 1.3%, (2020 were 1.5%). The interest rate spread was 4.5%, (2020 was 4.5%).

Despite intense competitive environment in the banking market, NLB Bank has achieved to show its presence in the market reaching the total market share of 16.3% (2020: 17.2%). Which ranks the bank in second position in market.

Net Loans to NBS, remains as the second largest bank in Kosovo and had a market share of 17.6% (2020: 18.0%). The increase of net loans of NLB Banka compared to previous quarter was 5.3%, which represent higher increase than the banking sector which was 5.1%.

Deposits from NBS - had a market share of 16.6% (2020: 17.5%) remains as the second largest bank in Kosovo. NLB Deposits compared to previous quarter increased by 4.7%, while the total banking sector deposits increased by 5.1%.

NLB Bank it is ranked as the second bank in terms of profitability in banking sector, owning 20.8% of total profit of banking sector.

CIR – in NLB Banka is better than peer group and market average.
CAR – the Bank continued to have adequate and appropriate capital position at 17.3% (2020: 17.8%) better capitalized than Banking System which was at 15.3%, while the minimum is 12% as per local requirements.
LTD was 79.4%, which is higher than the average of banking sector 76.5%.
NPL (total loans to NBS) – was to 2.3%, (2020 was 2.9%) whereas market average was also 2.3%, (2.7% as of December 31, 2020).
ROE a.t. was 22.4%, (2020 was 14.4%) and is above the market average which was 19.5%, but with stable trend comparing to market benchmark with higher fluctuations on year-to-year basis.

Table 2: Banking sector in Kosovo (key indicators)

Bank	Period	Total assets	Loans to NBS	Deposits	Net profit	NPL	NPL	ROE a.t.	CAR	CIR	LTD	Interest margin
		000 EUR	000 EUR	000 EUR	000 EUR	000 EUR	%	%	%	%	%	%
Banking	2020	5,122,203	3,115,353	4,269,933	79,592	87,394	2.7%	14.0%	16.5%	38.7%	74.5%	4.5%
Sector	**2021**	**5,696,857**	**3,605,921**	**4,799,637**	**117,518**	**85,858**	**2.3%**	**19.5%**	**15.3%**	**37.4%**	**76.5%**	**4.5%**
NLB	2020	879,065	559,224	748,315	13,334	17,519	2.9%	14.4%	17.8%	31.7%	74.7%	3.8%
Banka	**2021**	**930,547**	**634,530**	**798,789**	**24,437**	**15,613**	**2.3%**	**22.4%**	**17.3%**	**32.4%**	**79.4%**	**4.1%**

* Source: KBA reports

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Strategy

NLB Banka is in line with renewed group's comprehensive strategy, mirroring of Kosovo's economy. The aim is protecting and strengthening the market position and actively participate in the growth and consolidation of the market in Kosovo, as further extensive digitalization, significant increase of client centricity, and cost efficiency. NLB Banka will pursue further its strategy with sustainable development, maintaining high quality of loan portfolio, financial stability, while delivering continuously strong results and contributing to the society. The bank is focused in providing higher level of service quality and introducing new modern products. We will achieve this by focusing on the needs of our clients and the community at large, therefore delivering long-term sustainable value to all our stakeholders.

Vision and Mission

Within the bank's strategy, new vision and mission statements were defined, as set out below.
The foundations of our vision are:

- Together we will take care of the financial needs of our clients and will impact the quality of life in our country;
- We will improve the quality of life in our home country.

The foundations of the new mission are:

- We strive to improve and develop our home together for present and future generations;
- We are from this country; therefore, we understand its business environment, customs and, most of all; its people. With our commitment, knowledge, and our innovative solutions, we take superior care for our customers and create a better life, a better future for us all;
- Welcome to our home.

Further, the Bank will keep enforcing the following corporate values inside and outside the bank:

- Responsibility towards clients, employees and social environment;
- Commitment to deliver on our promises and objectives;
- Modern, innovative and professional;
- Open communication and cooperation;
- A win-win player;
- Efficiency in fulfillment of our commitments;
- Serving as bridge between Kosovo market and markets were NLB Group is present;
- Internal capacity building.

As part of NLB Group, NLB Banka will follow the UN Principles of Responsible Banking signed in Group level and it is part of the MIGA agreement of sustainable banking by undertaking commitments to EBRD and MIGA on the Group level.
NLB Banka renewed strategy addresses opportunities to boost growth and improve profitability of its operations. The new strategy puts forward a portfolio of strategic initiatives with short- and medium-term impact that will modernize and improve its operations, increase revenues, reduce costs and improve its growth prospects.
We are committed to developing a culture of client focus, risk awareness, integrity, efficient processes, and social responsibility. Honoring the mutual trust of our clients, employees, shareholders and the society in which we work gives us great responsibility. By incorporating our values in everything we do, we have the power to shape our environment and further contribute to positive changes.
In its core business the Bank will differentiate itself by in depth client understanding, providing high service level and advisory competence, easy accessibility and a competitive product/ channel mix under a commonsense approach.
NLB Banka will be focused on upgrading client digital satisfaction and experience, developing and implementing new and innovative solutions by using digital and mobile technologies in order to meet the needs of a modern user and the changing environment.

Dividend Policy

The payment of dividends by the Bank will depend on several factors, including the Bank's capital structure, risk appetite, profits, financial condition, regulatory requirements, general economic and business conditions, as well as future prospects.
The Bank's dividend policy envisages yearly distribution of dividends in the approximate amount of 70% of the Bank's result, while fulfilling all regulatory and risk appetite requirements.

Risk Factors

The Bank closely monitors the risk factors that might impact the result of the Bank. Amongst many challenges that the Bank will face during the following years, there are main risk factors that will have the impact on business activity of the bank: unfavorable low interest rate environment, lower interest margins, further deterioration of macroeconomic circumstances and instability in financial markets. The Covid 19 it was one of the biggest challenges which has impacted directly the macroeconomic indicators and activity of the bank also in 2021. Based on the measures taken by the governments of Kosovo, the Bank has granted an option of moratoriums on the payment of obligations to all eligible borrowers due to COVID-19, which is not treated as a trigger for a significant increase in the credit risk. The moratoriums have expired as of September 2021.

Outlook 2022

NLB Banka will pursue further its strategy in 2022 with sustainable development, maintaining high quality of loan portfolio, financial stability fostering resilience of the bank, while delivering continuously strong results and contributing to the society. The Bank foresees further growth of its activity in 2022 and continuing with good financial performance.
It is expected that the year 2022 will have its challenges on:

- Uncertainty deriving from Ukraine war, disrupting supply chains
- Elevated inflation rate decreases the purchasing power of import dependent real economy, its impacts towards purchasing power could be expected on the second half of the year.
- Changed deposit trends driven by increased prices resulting towards decrease of deposits while use of credit buffers will take place, which will require immediate change of funding strategy.
- Increased profitability pressures resulting from elevated inflation, due to limited options for asset repricing
- Normalization of economic growth with a GDP growth of 3.8% as per IMF (slower economic trend)
- Slower remittance inflows
- Pressure on interest rates and margins
- Regulatory changes impacting business activities in particular profitability (basic account packages).
- Migration

We are your neighbours.

Great-grandmothers saved up for hard times.
For grandmothers, education was the best investment.
Mothers invested in their own companies.
As modern women, you invest in dreams.

We support you through all life periods, help you successfully tackle challenges they bring, offer you useful solutions and a reliable path towards realising the biggest and the most daring of goals. And even though your priorities change throughout the years, ours remain the same: we help you with the best advice and provide you with new opportunities at every step.

Financial Performance

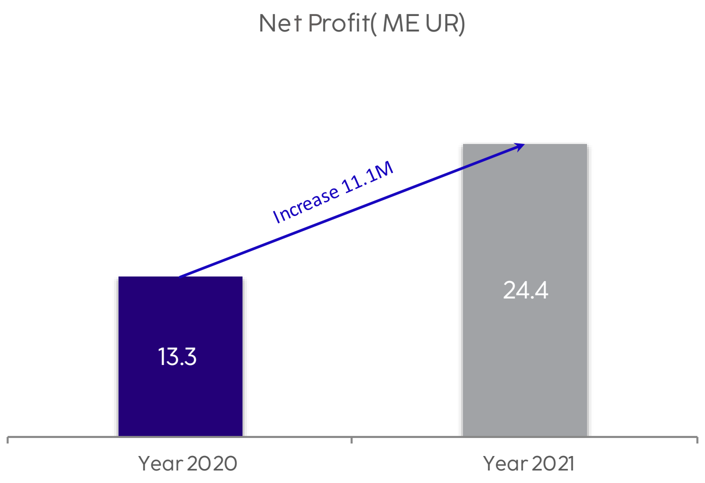
Table 3: Statement of profit and loss and other comprehensive income

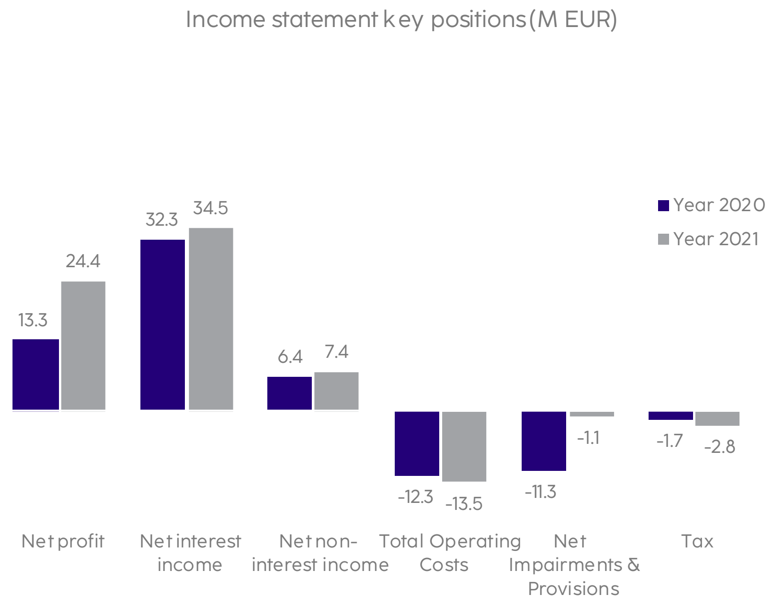
Income statement (000EUR)	2021	2020	2021 /2020
Total operating income	**41,832**	**38,678**	**8%**
Net interest income	**34,461**	**32,286**	**7%**
Interest income	38,083	36,496	4%
Interest expenses	-3,624	-4,210	-14%
Net non-interest income	**7,372**	**6,392**	**15%**
Net fee and commission income	**8,805**	**7,703**	**14%**
Fee and commission income	13,423	11,204	20%
Fee and commission expenses	-4,619	-3,501	32%
Other net operating profits/losses	-1,433	-1,311	9%
Total Operating Costs	**-13,545**	**-12,287**	**10%**
Staff expenses	-6,850	-6,158	11%
General and administrative expenses	-4,453	-4,099	9%
Depreciation	-2,242	-2,030	10%
Profit before impairments and tax	**28,287**	**26,391**	**7%**
Net Impairments and Provisions	-1,063	-11,346	-91%
Profit before tax	**27,224**	**15,045**	**81%**
Tax	-2,787	-1,711	63%
Net profit	**24,437**	**13,334**	**83%**

Profit

Despite the challenges faced, the year 2021 has shown high financial performance and the bank has managed to mark record results regarding profitability. **Net profit** for the year 2021 was € 24.4 million or 83% higher compared to YoY basis, which is the highest amount since establishment of the bank, reflecting from higher operating interest and non-interest income. Profit before impairments and tax was € 28.3 million an increase of € 1.9 million or 7%, mainly driven by the abovementioned strong revenue performance.

Illustration 1: Profit or Loss and other comprehensive income structure





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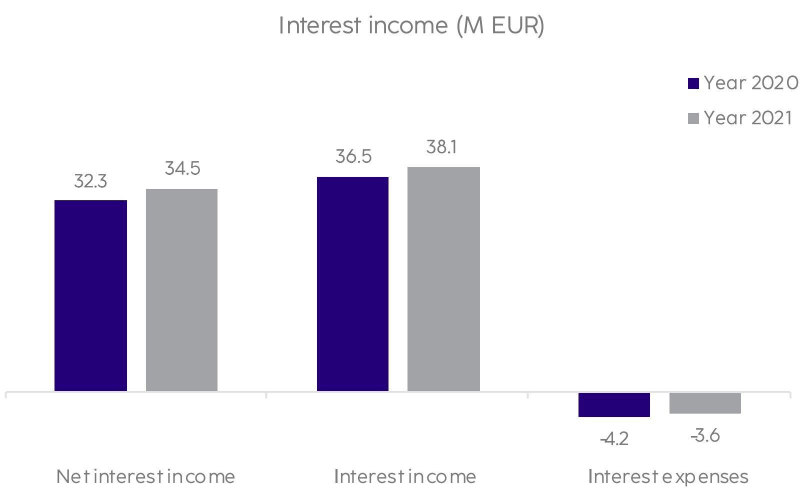
Net interest income

Net interest income was € 34.5 million in 2021 compared to € 32.3 million in 2020, an increase of € 2.2 million, or 7%. The increase was primarily driven from growth in loan volumes, maintenance of interest margin, repricing of deposits, and overall through implementing of balance sheet optimization strategy. The net interest margin (4.1%) improved by 3 basis points compared to the prior year to 3.8% in 2020.

Illustration 2: Net interest income - Interest income/expenses



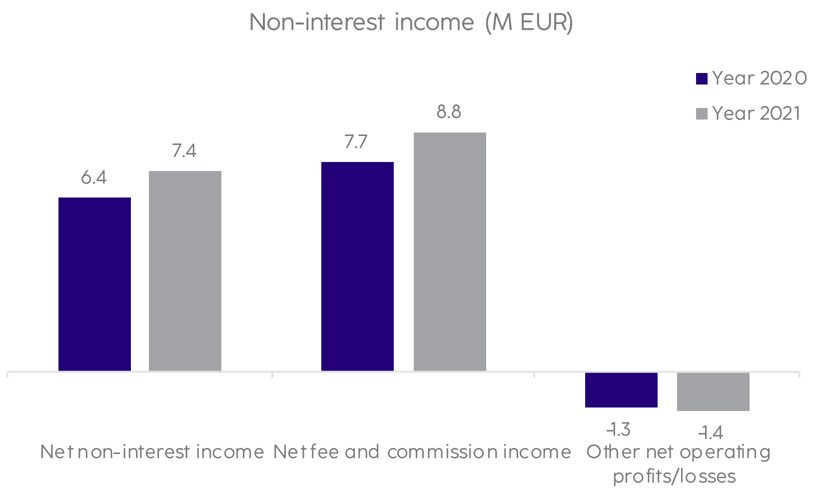
Net Non-interest income

Net noninterest income was € 7.4 million in 2021, an increase of € 1 million, or 15%, compared to 2020. The increase was mainly driven by improvement of economic activities and banking transaction volume.

Net non – interest income composes of:

- Net fee and commission income.
- Net foreign exchange differences.
- Other net noninterest income/expenses.

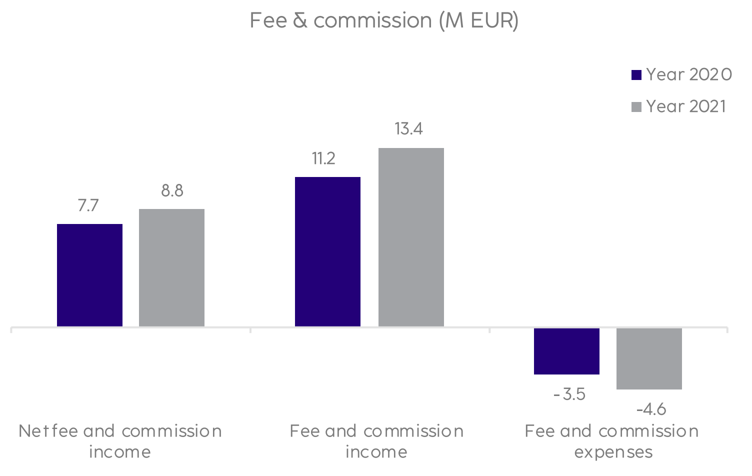
Illustration 3: Non-Interest income/expenses



Net fees and commission's income

Net fees and commissions income was € 8.8 million in 2021, an increase of € 1.1 million, or 14%, compared to 2020. The increase was primarily driven from card business caused by diaspora visit, increase of fee from reorganization of services for account maintenance and overall increase in the size and number of transactions.

Illustration 4: Net fee & commission income/expenses|



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Costs

Total costs increased by € 1.3 million, or 10%, € 13.5 million in 2021 compared to € 12.3 million in 2020. The increase was driven by normalization of post covid operations and across all major technological cost categories reflecting NLB Banka commitment to continue spending on technology and controls in line with its transformation strategy.

As a structure total costs consist of 51% staff costs, 33% general and administrative costs and 16% depreciation and amortization costs.

Total costs result with CIR ratio of 32.4% the lowest in banking sector.

Staff expenses amounted to € 6.9 million which are higher compared to YoY by EUR 0.7 million or 11 %, as result of return in to pre COVID-19 compensation packages as described above.

Depreciation amounted to € 2.2 million which are higher compared to YoY by € 0.2 million or 10%.

General and administrative expenses amounted to € 4.5 million and are higher compared to YoY by € 0.4 million or 9% mainly in services costs, communication costs, and technology cost.

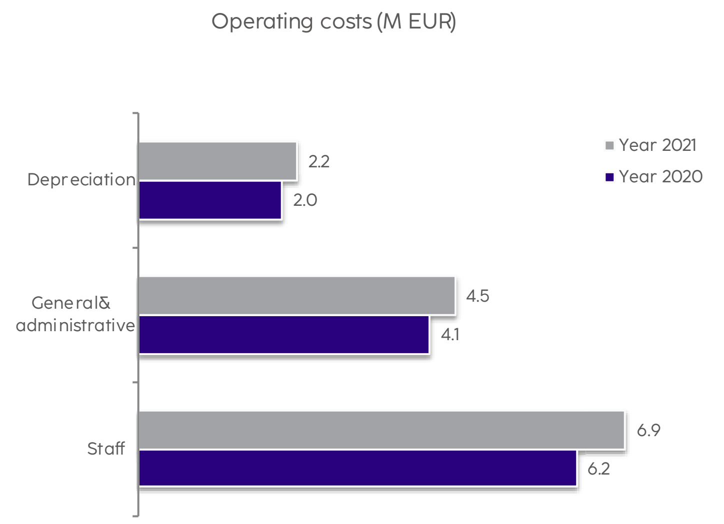
Provisions and Impairments

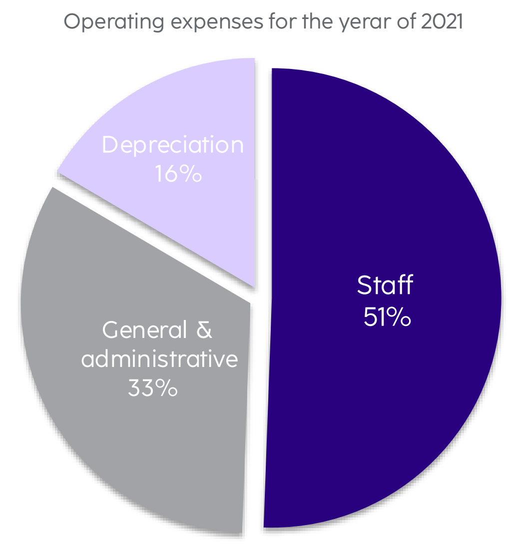
Provisions and Impairments – amounted € 1.1 million reflecting the positive economic environment, sound structure of asset quality and increase of client's performance. Nevertheless, during the year the main driver of provision charge results from implementation of local specifics on credit risk approach, one of criteria implemented was assigning of credit rating for exposure above EUR 2 million based on audited financial statements.

Despite the growth of portfolio and due to normalization of CoR the bank has achieved to have sound quality structure of portfolio with NPL ratio (NBS) of 2.3% (last year 2.9%), decreasing the NPL exposure for EUR 1.9 million YOY basis. The net cost CoR was 5 bps significantly below last year (2020) of 198 bps.

*In 2021 CoR was calculated without charge from account maintenance.

Illustration 5: Operating expenses





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Statement of financial position

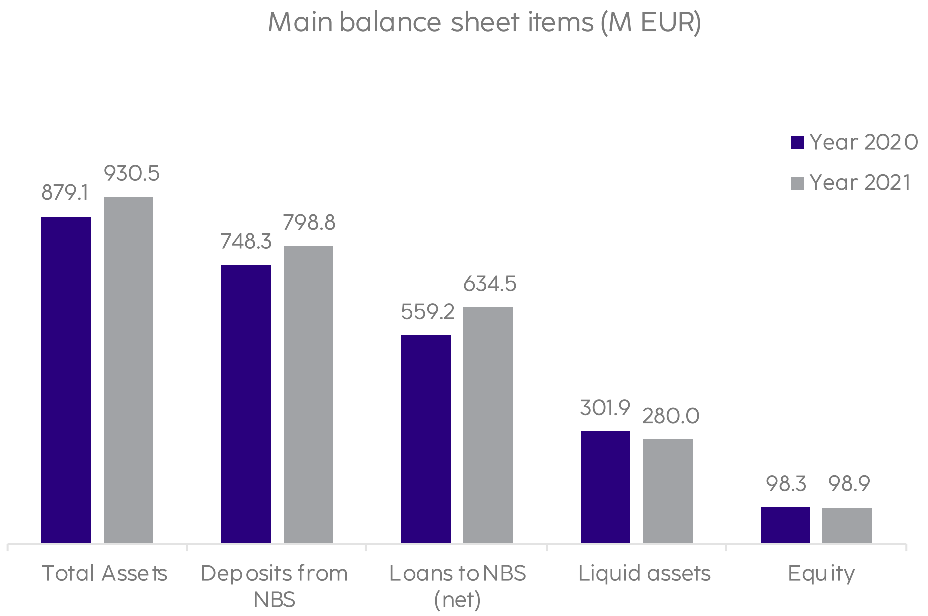
Balance Sheet (000EUR)	2021	2020	2021 / 2020
Total Assets	**930,547**	**879,064**	**6%**
Cash and balances with central banks	134,038	169,346	-21%
Placements to banks (net)	26,940	29,837	-10%
Loans to non-banking sector (NBS)- gross	672,377	596,076	13%
Loan impairments to non-banking sector	-37,847	-36,853	3%
Loans to non-banking sector (net)	**634,530**	**559,223**	**13%**
Loans to corporate (net)	*379,992*	*343,287*	*11%*
Loans to retail (net)	*254,528*	*215,927*	*18%*
Loans to state (net)	*10*	*9*	*11%*
Securities	118,980	102,710	16%
Fixed assets	14,118	14,610	-3%
Other assets	1,941	3,338	-42%
Total Liabilities and shareholders' equity	**930,547**	**879,064**	**6%**
Total Liabilities	**831,690**	**780,729**	**7%**
Deposits from banks	558	1,172	-52%
Borrowings (Leasing)	0	5	-100%
Deposits from non-banking sector	**798,789**	**748,317**	**7%**
Deposits from retail	603,710	540,927	12%
Deposits from corporate & state	195,079	207,390	-6%
Subordinated debt	15,008	15,008	0%
Other liabilities	17,335	16,227	7%
Total equity	**98,857**	**98,335**	**1%**
Issued capital	51,287	51,287	0%
Retained earnings	21,691	31,961	-32%
Other	1,442	1,753	-18%
Profit/loss for the period	24,437	13,334	83%
Off balance sheet main items	**49,012**	**43,509**	**13%**
Guarantees and letters of credit	28,928	25,302	14%
Written-off loans in off balance	20,084	18,207	10%

Total assets continued with the increasing trend reaching its peak in amount of € 930.5 million as at December 2021, which is the highest sum of statement of financial position amount since the establishment of the Bank. Compared to the year of 2020 there was an increase of total assets by € 51.5 million or 6%. The structure of total assets of the bank consists of: 68% NBS loan portfolio, 30% liquid assets and 2% other assets.

Cash and cash equivalents amounted EUR 134 million, decreased by EUR 35.3 million or 21% compared to the end of 2020. The funds were utilized towards disbursement to NBS sector.
Mainly consist of:

- CBK balances € 86.2 million or 64% (o/w: obligatory reserve € 70,2 million, cash € 16 million)
- Cash € 31.5 million or 24%,
- Sight deposits/placements to banks € 16.3 million or 12%.

Illustration 6: Main balance sheet items and asset's structure



Placements to banks - Term deposits amounted to € 26.9 million. Compared to end of the year 2020, the balance decreased by € 2.9 million or 10%.

Investments on Securities amounted € 119 million and compared to 2020 it increased by EUR 16.3 million or 16%. The increase was done intentionally on international securities for purpose of RWA management on group level. The structure of securities consists of 65% Kosovo securities, while 35% international. The Kosovo securities were one of interest income sources producing above 1 million interest income. The average interest rate on Kosovo securities is 1.56% and investments on international securities are with negative interest rate of -0.88% (as of December 2021)
In addition, the bank has held the Visa shares in amount of EUR 157 thousand.

Total Gross NBS loans portfolio. The growth of NBS YoY was € 76.3 million or 13%. On segment basis both corporate and retail has increased for EUR 38 million or corporate 11% while retail EUR 38.3 million or 17%.

Even though the growth on portfolio, the bank has achieved to have the sound structure of quality portfolio with NPL of 2.3% (last year 2.9%) and decreasing the NPL exposure for EUR 2 million. The structure of portfolio consists of: Stage 1: 83%; Stage 2: 15%; Stage 3: 2%.

The total increase of NBS portfolio absorbs the increase of total deposits, and the remining part was financing through structuring of balance sheet and utilization of liquid assets.

The self-funding continued, and the over liquidity was managed through placements on NBS sector and discouraging deposit approach, increasing YoY the net LTD ratio for 4.7 p.p reaching 79.4% as of December 2021.

Net impairment and provisions - The Bank continued to have a conservative approach for creating impairment and provisions, especially with the pandemic situation impacts. The amount of provision amounts to € 37.8 million, which increased compared to the year 2020 by 3%.

Total Deposits amounted to € 798.8 million, with increase of € 50.5 million or 7% YoY. The increase was driven by retail segment deposits in amount of EUR 62.8 million or 12% caused by contraction of consumption and showing a systematic role of the bank in market. On the other hand, discouraging approach on deposits reflects on decrease of deposits in corporate segment for 12.3 million or 6%. The structure of deposits consists of: 76% retail deposits, 23% corporate deposits and 1% deposits from government.

Shareholders` equity

After regulatory lifting on prohibition of dividend distribution, the bank managed to distribute to its shareholders the dividend for 2019 and 2020 in amount of € 23.6 million (NLB d.d € 19.43 million). Despite dividend payout the bank has a sound capital structure, with CAR ratio of 17.3%, which is above regulatory limit (12%) and internal risk appetite (14.5%).

The total **equity** is at approximately at same level EUR 98.9 million compared YoY, this impacted by decrease for € 23.6 million of dividend payment but increased from current year net profit of € 24.5 million.

Illustration 7: Net loans to NBS

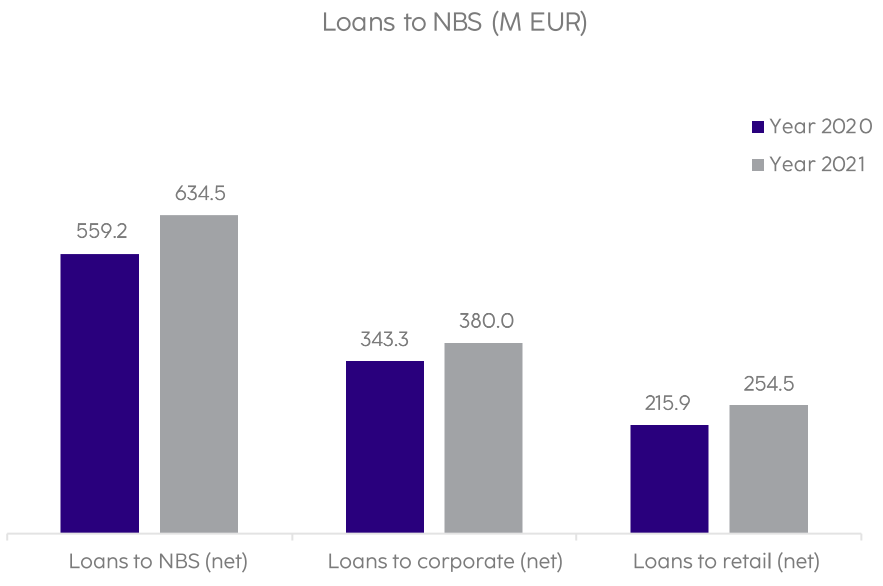
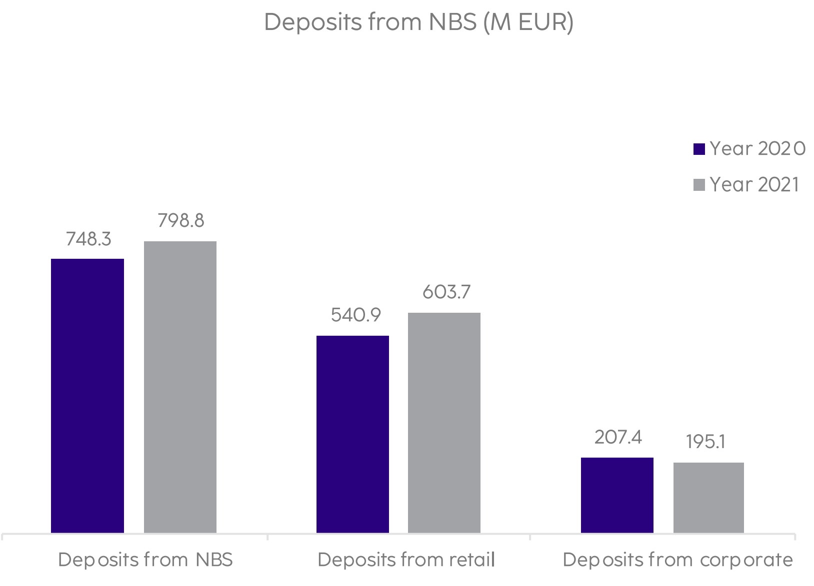


Illustration 8: Deposits from NBS



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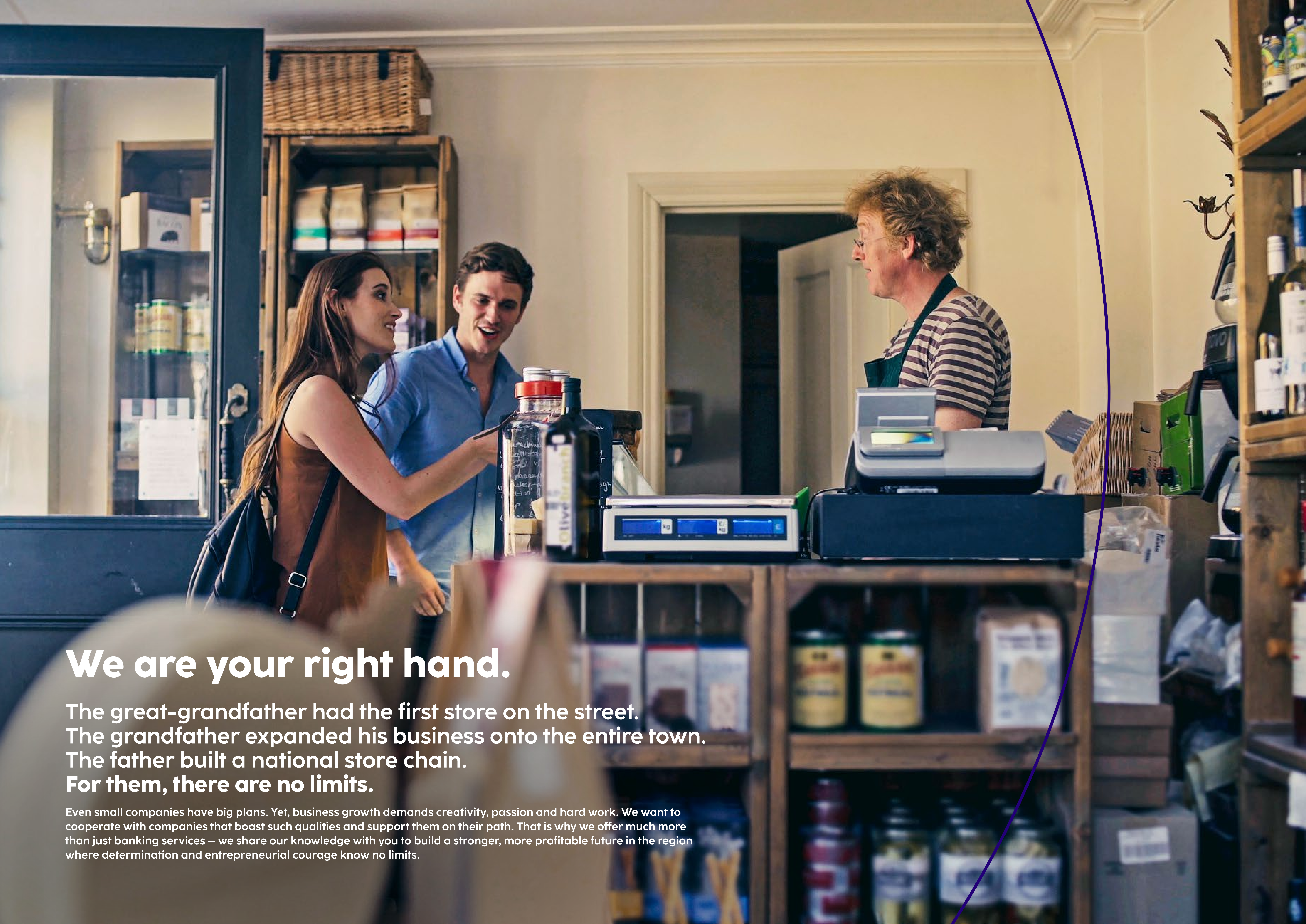


We are your right hand.

**The great-grandfather had the first store on the street.
The grandfather expanded his business onto the entire town.
The father built a national store chain.
For them, there are no limits.**

Even small companies have big plans. Yet, business growth demands creativity, passion and hard work. We want to cooperate with companies that boast such qualities and support them on their path. That is why we offer much more than just banking services – we share our knowledge with you to build a stronger, more profitable future in the region where determination and entrepreneurial courage know no limits.

Activities by business segments

Corporate Banking

19,204 clients or 1.15% more than 2020;
17,954 debit and credit cards to legal entities, or 8% more compared to 2020;
8,699 e-banking users in the segment of legal entities;
2,362 POS-es.

The Bank offers wide range of financial solutions to legal entities including Corporate, SME, Micro and institutional clients. Corporate banking is a key activity of banks globally which plays a pivotal role for the economies they serve. The bank has played an active role in the design and execution of the COVID-19 financing program sponsored by the Kosovo government that provided EUR 70M of Guarantee Fund for economic recovery package and we have conducted EUR 10M to our clients.

Customer expectations continue to evolve, with more interactions moving to digital or via a virtual channel and more customers seeking expert guidance for their specific financial circumstances. We also continue to see a reduction in the use of our branch infrastructure and a significant shift away from cash usage towards contactless payments. Where appropriate, we will continue reshaping our footprint to better support the customers we serve in ways they want to be serviced. We are committed to meet the full range of our client's needs, at every stage of their financial lives.

We are working to build a better bank for customers, a more efficient bank that is safe, intuitive and that will support customers and businesses responsibly and sustainably. Our focus is on customers and putting them at the heart of the decisions we make about running our business and shaping it for the future. We are building partnerships in the open market and working across the whole bank to deliver additional value for our customers and businesses through our size and scale. Working closely with our clients, we empowered them to embrace our digital innovations so they could access information, execute transactions, and seamlessly collaborate with their client officers.

We will continue to invest in digital platforms, remove unnecessary processes and costs and make it seamless for customers to self-serve. We will continue to invest in digitalization and automation to be more efficient, reduce costs and to create additional capacity for colleagues to support customers.

Based on our principles, we are continuing to maintain our position as one of the key banks for all sizes of corporate clients in Kosovo, servicing more than 19,204 companies in 33 branches and sub branches, by offering different products and financial services to our clients, including lending, payment services, as well as trade finance. The Bank continues to be a reliable partner to all segments of enterprises. The strategic focus is to increase support of SME-s.

The business activities with legal entities are continuing to represent the largest share in the Bank's activities. It incorporates short-term loans for current needs, credit lines, overdrafts, long term loans for financing of investment projects, loans for construction of business facilities, letters of credit and guarantees, depositary operations, services of domestic and international payment transactions.

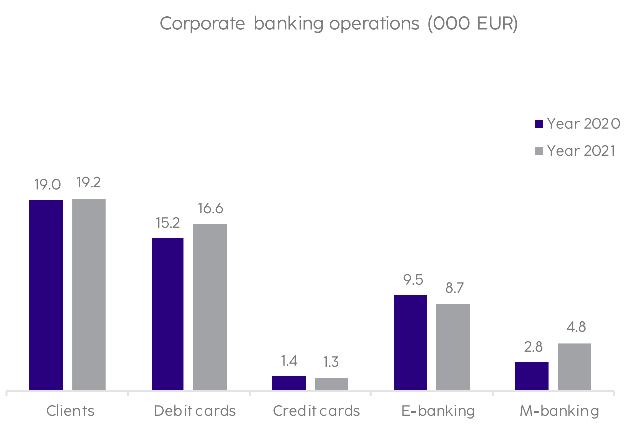
We believe all these efforts resonated with our clients and translated into our ability to increase our loan portfolio by 11% during 2021. This resulted in a total amount of EUR 380M in loans, including the last strongest quarter in our bank. In addition, due to business strategy for decreasing interest expenses, we achieved to decrease corporate & state deposits for 6% compared to the end of year 2020

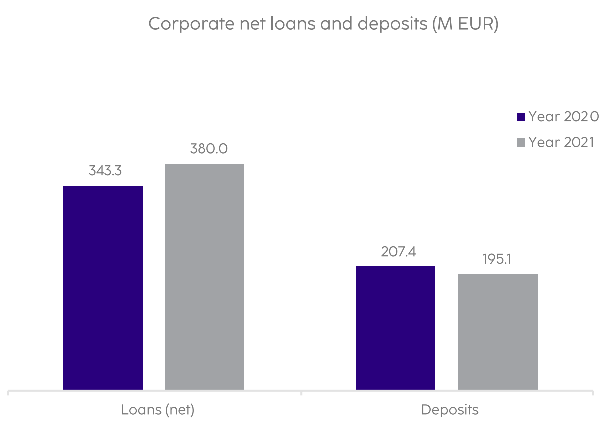
The Bank also ensured optimization of the risk profile by keeping a close monitoring of the loan portfolio focusing centrally on maintaining a qualitative loan portfolio and finding

Table 4: The main/key data on operations with corporate banking

000 EUR	2021	2020	2021 /2020
Amount of corporate loans (net)	379,992	343,287	11%
Amount of corporate & state deposits	195,079	207,390	-6%
Number of clients	19,204	18,986	1%
Number of cards (debit)	16,621	15,174	10%
Number of cards (credit)	1,333	1,445	-8%
Number of E-banking	8,699	9,512	-9%
Number of M-banking	4,818	2,832	70%

Illustration 9: Trend of loans & deposits with corporate banking





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the best solution for their clients. All those results are achieved based on key strengths that we have as follow:

- Talented, diverse and dedicated employee base.
- Close monitoring and cooperation with clients.
- For our Corporate Clients, teammates and client officers, close coordination and enhanced communication was key to providing optimal financing and strategic solutions for clients while winning their confidence in 2021.
- User-friendly e-banking platform for providing customers constant availability of our service, whenever and wherever.
- Extensive range of financing products supported by flexible, tailor-made products and professional service.
- Very strong and growing position in corporate loans.

We see all of these as valuable indicators of our client's confidence in our people and capabilities.
We believe that we are strongly positioned for the future, ready to answer the next set of challenging questions that comes.

Illustration 10: Trend of number of corporate banking operations

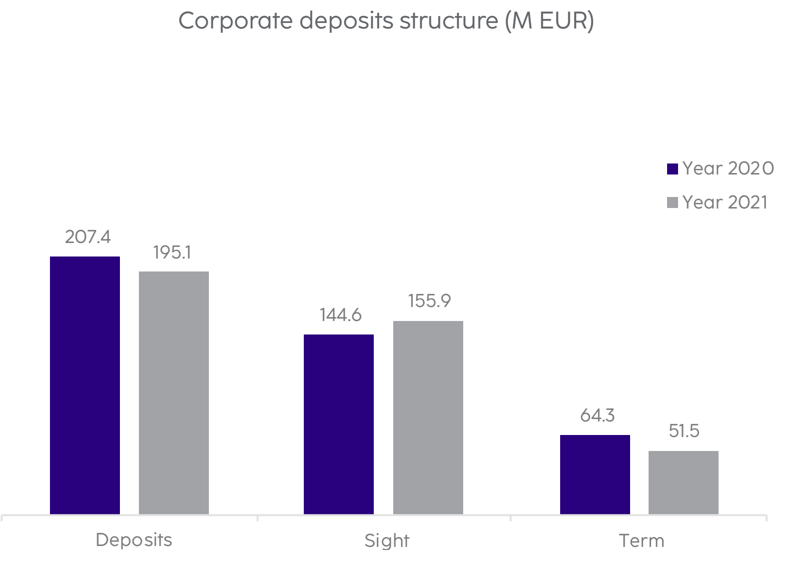
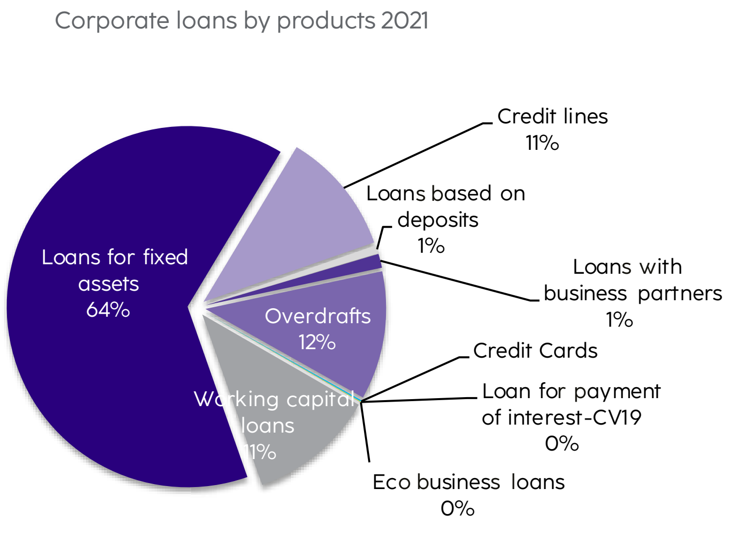
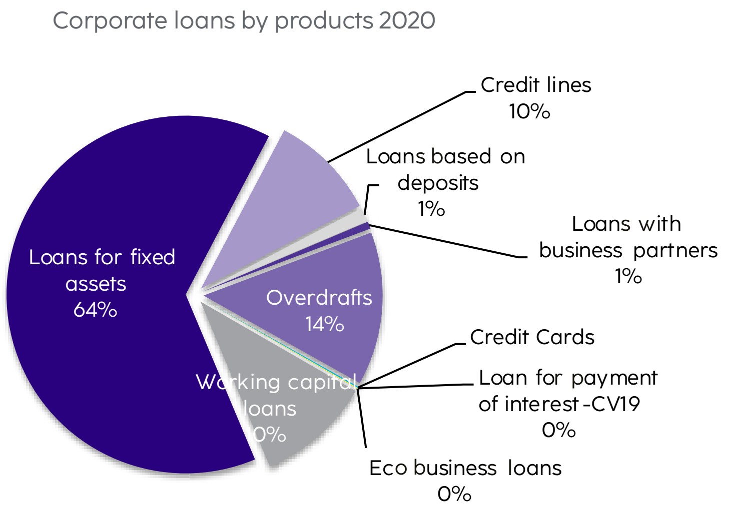


Illustration 11. Structure of new loans of corporate by products





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Retail Banking

327,600 Individual Clients, or 2% growth compared to 2020, because of acquiring new clients.
285,275 Debit and Credit cards, used by individuals, or -3% decrease compared to 2020, due to updating the customer data and closing some of the accounts without turnover.
61,298 E-click and M-click individual users, or 17.8% growth of digital users, compared to 2020.
33 Branches/sub-branches, covering the most populated towns in Kosovo.

Retail banking during 2021 despite the challenges faced continued its development course and success, operating systematically in line with acquisition strategy of the bank and the highest standards of the NLB Group. Our market position is ranked as second bank and remains as one of the best retail banks in Kosovo with 18.7% market share.

In addition to the regular sales activities related to retail banking operations, our focus continues to be in digitalization strategy and focusing on severe projects toward this goal. Customer migration to digital channels was enabled by designing appropriate packages as an incentive for sales efficiency and improvement of customer experience. On the other hand, financial advisory is complementing part as the only way to support healthy growth and steady long-term relationship.

Through these continuous efforts and initiatives, we have succeeded to retain our retail client base during 2021 as a precondition to increase retail loan portfolio and support of investment plans for retail clientele, so that retail clients can purchase homes and increase their family assets. Additional measures have been taken toward design of the processes in lending to support a growth in consumer lending part. Through optimized processes in retail operations, we have achieved higher levels of client satisfaction, confirmed by client satisfaction survey performed by outsource company.

Branch network: The branch network of NLB Banka sh.a. it is present in 9 major cities through 33 organizational units that plays an important role in being as close as possible to customers. Presence of the bank is supported by 99 ATM's offering cash deposit option in more than 50% of ATM network. Integral part of sales effort are marketing campaigns that have enabled not only effective communication with wide public, but it has had educational background as well in terms of digital channels and bancassurance products. All marketing initiatives have utilized adequate marketing channels to penetrate in the market and also helped enhancement of corporate values and brand image of the NLB Banka.

New products and services – main activities:

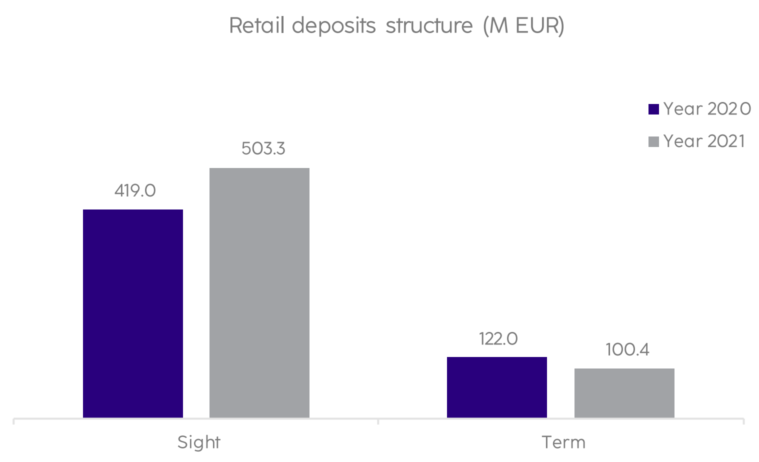
The Bank during 2021 has introduced new services such as:

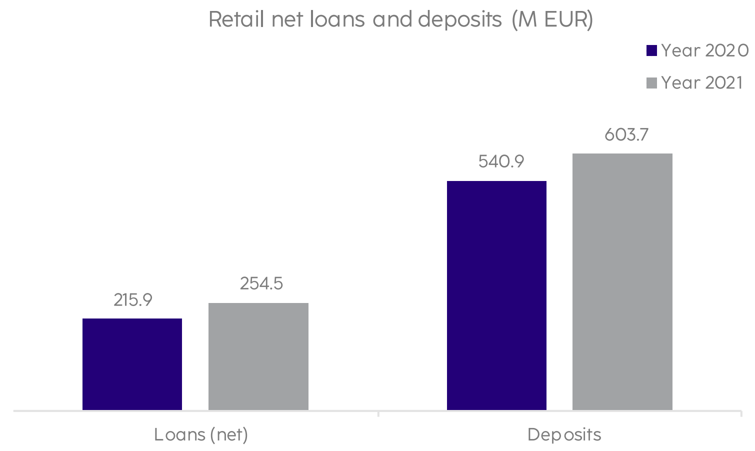
- New service communication channels: Co-browsing.
- Pay-to-Friend – new service via mobile banking platform.
- Split the Bill - new service via mobile banking platform.
- Fingerprint Identification – new easy and secure form of identification on mobile banking platform.
- Fingerprint Authorization – new easy and secure form of authorization of transaction on mobile banking platform.
- App for managing online requests and applications for Loans and Credit Cards via website.
- Loyalty Bonus scheme - Implementation of value-added feature in all credit card products.

Table 5. The main data on operations with retail banking

000 EUR	2021	2020	2021 /2020
Amount of retail loans (net)	254,528	215,927	18%
Amount of retail deposits	603,710	540,927	12%
Number of clients	327,600	321,143	2%
Number of cards (debit)	264,140	271,977	-3%
Number of cards (credit)	21,135	21,826	-3%
Number of E-banking	19,138	22,360	-14%
Number of M-banking	42,160	29,655	42%

Illustration 12. Trend of loan & deposit operation with retail banking





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Modern distribution channels

- **The Bank** continued to utilize the user portfolio of modern payment channel products and services by introducing the new services within m-Banking platform which offers our clients new innovative and easy means of conducting transfers, which has led to the increase of the number of users as well as satisfaction in terms of quality of services.
- m-Banking platform of the Bank now offers to all its users the Pay-to-Friend and Split-the-Bill service option thus enabling them quick and easy way of conducting transactions within the application.
- As a result **of development of electronic channels, number of transactions and turnover from the clients using modern channels of distribution has increased continuously.**

- **ATM Withdrawal** - have an increase of 11% in volume and 6% in number of transactions.
- **ATM deposit** - also has seen significant increase in usage with following figures: 38% in number of deposit transaction and increase by 54% in volume of deposit transaction.
- **POS payments** – have had a significant increase in usage with following figures: 40% increase in number of transactions and 47% increase in volume of transactions.
- **e-Banking** - platform has an increase of 0.5% in number of transactions and 42.7% in the volume of transactions.
- **m-Banking** –platform has even higher rate of increase which is 125% in number of transactions and 196% in volume of transactions.
- **NLB Pay** - And last but not least, NLB Pay product also has seen an increase both in number and volume of transactions with the following figures: increase of 38% in number of transactions and increase of 59% in volume of transactions.

Illustration 13: Trend of retail banking operations

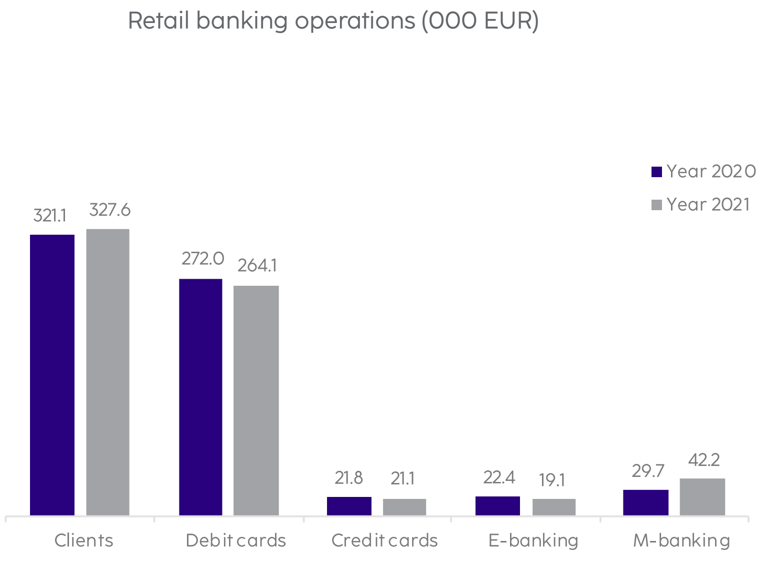
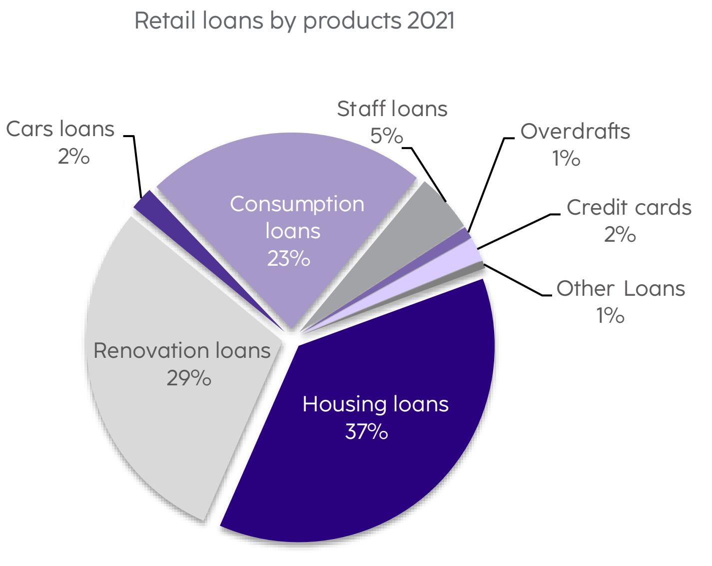
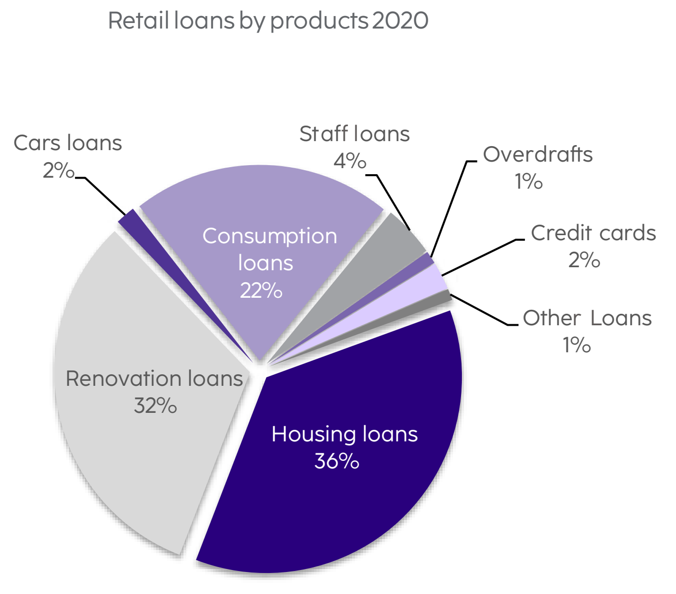


Illustration 14. Structure of new loans of retail by products





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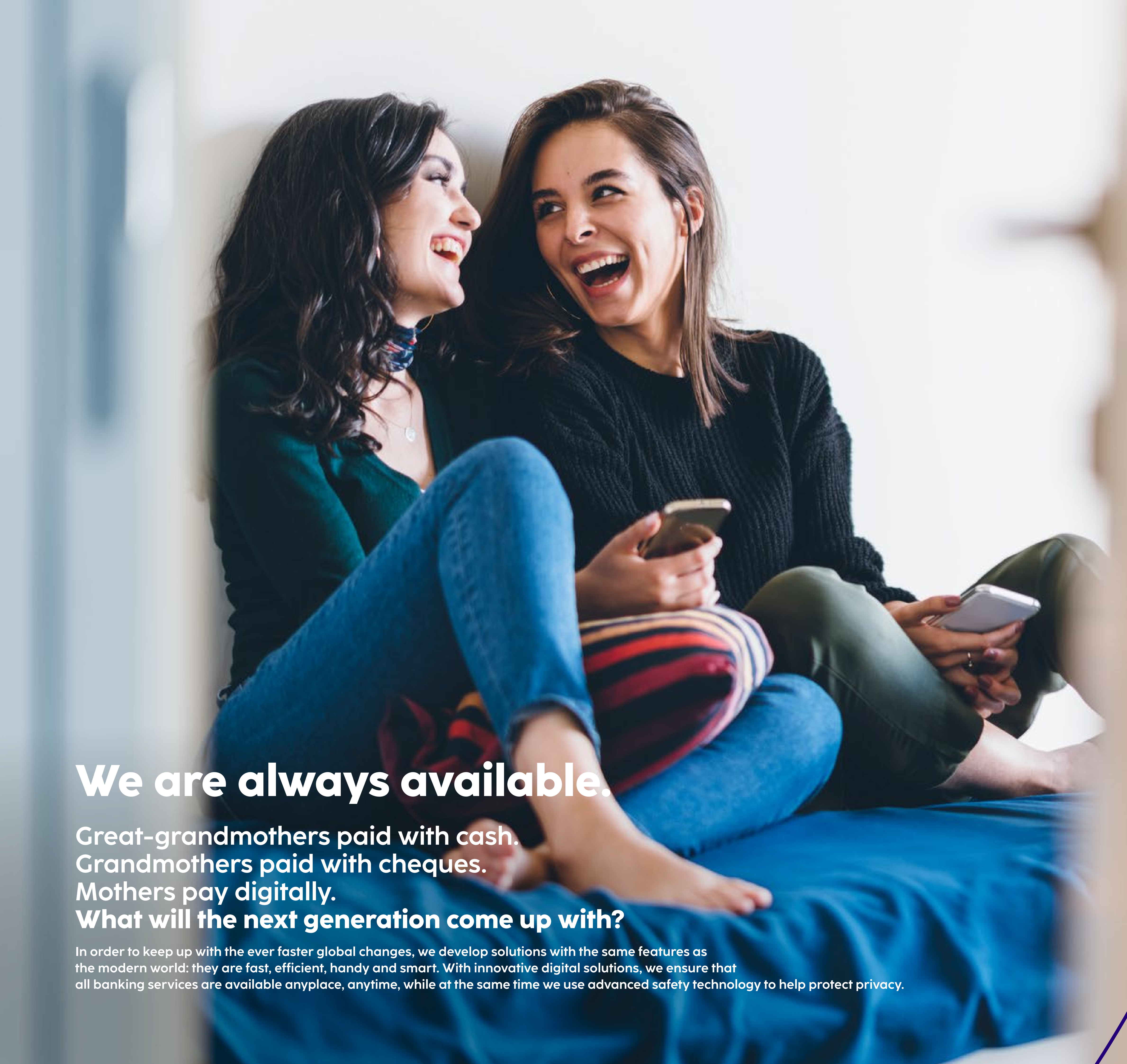

We are always available.

Great-grandmothers paid with cash.
Grandmothers paid with cheques.
Mothers pay digitally.
What will the next generation come up with?

In order to keep up with the ever faster global changes, we develop solutions with the same features as the modern world: they are fast, efficient, handy and smart. With innovative digital solutions, we ensure that all banking services are available anyplace, anytime, while at the same time we use advanced safety technology to help protect privacy.

Financial Markets and Payments Operations

Assets and Liabilities Management

NLB Bank has managed the interest rate, liquidity, and exchange rate risks with the purpose of managing sustainable profit and protecting the bank's reputation. We continued to take actions to have diversified funding at the same time reaching consistent liquidity targets. By taking proper actions in terms of liquidity ratios, the bank, was able to fund the credit growth. We closely monitor the domestic and international markets to anticipate any potential market volatility and minimize structural risks related to interest rates, liquidity positions and foreign exchange on the banks' balance sheet.
The asset and liability management had an important role in modeling the interest rate and liquidity risk properly, reporting the realizations of the profit of the bank.
In order to provide sustainable and secure financial services to our clients, we need to have a strong and comprehensive asset and liability management, to have a solid funding and to have all indicators in line with risk management limits.
Additionally, the bank has continued to be funded mainly by deposits and we continued our efforts to diversify our funding base, mainly retail clients to secure a broad base of deposits. Strategies were carried out to manage the liquidity and risk management, including intraday liquidity management and management of liquidity under stressful situations. The bank has set and continuously monitors its liquidity indictors, where we also regularly conduct stress scenarios that allows the bank to analyze the liquidity positions in the event of potential shocks including internal or external ones.
The year 2021 continued with the pandemic but with positive economic growth, which impacted positively our balance sheet and our clients. Clients continued their trust in the banking sector for their savings and in terms of financing their businesses, where we have seen quite a positive growth trend both in loans and deposits sector. The banking sector in Kosovo is over liquid and self-sufficient in terms in funding where deposits reached 4.79 billion, where the sector continues to keep a loan to deposit ratio of less than 80% at the end of 2021. As a result of over liquidity interest margins were further pressured down compared to last year even though interest income was higher, but the dropdown in loan interest continues. NPL and cost funds for the banks in Kosovo remains quite low. During 2021 the Bank increased its deposits by 6.8% and its customer loans portfolio by 13%. The Bank focuses on stable retail deposits as its core funding base for loan operations. The assets and liabilities were managed continually by analyzing potential risks of liquidity FX, interest rate risk and operational risks in the balance sheet. Profitability management continued by undergoing through proper fund transfer pricing application by setting targets to the business lines to meet its set targets.

Liquidity Risk

Liquidity risk can be as defined as the risk resulting from lack of sufficient cash inflow to fully meet cash obligations in due time. Liquidity risk also includes the risk of not being able for the bank to close the positions at favorable prices due to inability of access to the market.
NLB Bank's objective is to maintain the quality of asset structure in order that liquid assets would be able to meet all the obligations, which means regular monitoring of liquidity ratios and the standards for maintaining high liquidity assets at all times.
The Bank managed the main liquidity indicators above the minimum limits set, be that from regulators or from internal aspect. By the end of 2021 the NSFR (Net Stable Funding Ratio) was above 168% and LCR (Liquidity Coverage Ratio) stood a 343%. The local liquidity ratio which includes liquid assets/short term liabilities was 36%, which is way above the minimum required level of 25%. The liquidity reserve is mainly concentrated in cash, balances with Central Bank, banking book investments such as local and international high rated Government securities, nostro funds and money market deposits. The bank complies with the requirements set by the Central Bank of Kosovo, which includes Liquidity ratios, apart from the local requirements, the bank complies with Basel III which includes reporting and maintaining LCR and NSFR ratios.
NLB Bank uses group wide approach to evaluate the impact of sudden stress events on the liquidity position. The bank performs projections of future cash flows under different types of stress scenarios such as business view, asset-side, liabilities-side, combined and local scenario. The bank monitors the liquidity position in a comprehensive limit system, that are defined both under business as usual and stress scenario. According to the risk appetite, NLB Bank has demonstrated a survival period of several months under adverse combined scenario, which is ensured by a high liquidity buffer. On the other hand, under business-as-usual situation, the cumulative liquidity position for a period up to one year needs to be positive.
The Bank has internal models to control and reduce liquidity risk. In terms of the loan portfolio, it is of high quality which are mainly concentrated in a short up to medium term exposures, where from the liquidity risk point of view this allows the bank to have predictable inflows. On the liabilities side, which remain to be our main source of funding, therefore the use of other financial market instruments is not needed.

Foreign Currency Risk

Currency risk arises from the change in price of one currency against in relation to another. The Bank monitors the currency risk by monitoring the foreign exchange of open positions on a daily basis. There are internal and regulatory foreign exchange limits set by currency and in all currencies. These limits are regularly monitored and reported internally. The foreign exchange rates that the bank operates with are closely monitored in order to limit any potential FX loss, however, NLB Bank FX risk is very low taking into consideration the low level of exposure of open positions.
NLB Bank continues to be the only bank in Kosovo that offers foreign currency exchange services in the market in nine currencies which includes USD, CHF, GBP, NOK, SEK, AUD, CAD, HRK and DKK.

Payments systems

The year 2021 has been oriented towards offering our clients a unique experience in terms of friendly user access of our electronic services including payments.

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By the end of 2021 NLB Bank became a member of SWIFT GPI and introduced a new standard of international payments that is linked to the innovative Global Payment Initiative for which we have worked for a long time to introduce new standards for international payments. By using the SWIFT GPI service, customers are guaranteed faster payment, with the possibility of the bank monitoring the transaction directly, in real time and tracking from the beginning until the transaction is completed. In addition, it is possible to present all costs related to the payment, exact time of the transaction, as well as confirmation of the crediting of funds to the final beneficiary's account. A high percentage of SWIFT GPI payments will be credited to the beneficiary's account within a very short time frame.
In addition, during 2021 the Bank has made necessary developments in the bank's application in order to comply with SWIFT standard release regarding category 7 which includes trade finance business.
Our user-friendly online e-banking and m-banking includes an advanced security system which offers a secure access, time saving, suitable online banking on a 24/7, where our clients can transfer funds electronically for national and international payments for beneficiaries worldwide.
The international payments compared to 2020 has shown an increasing trend both for outgoing and incoming payments. Outgoing payments shows the increase in amount of payments by 35%, while in the number of payments by 17%. In terms of incoming international payments increased in the amount of payments by 13%, while in the number of incoming payments an increase by 7%.

Furthermore, we see an increasing trend in e/m-banking in international payments, if we compare the data of 2021 with last year, we have an increase of payments by 32% in amounts and 21% increase in the number of international outgoing payments though e/m-banking compared to last year.

Illustration 15: Trend of international payment (incoming & outgoing)

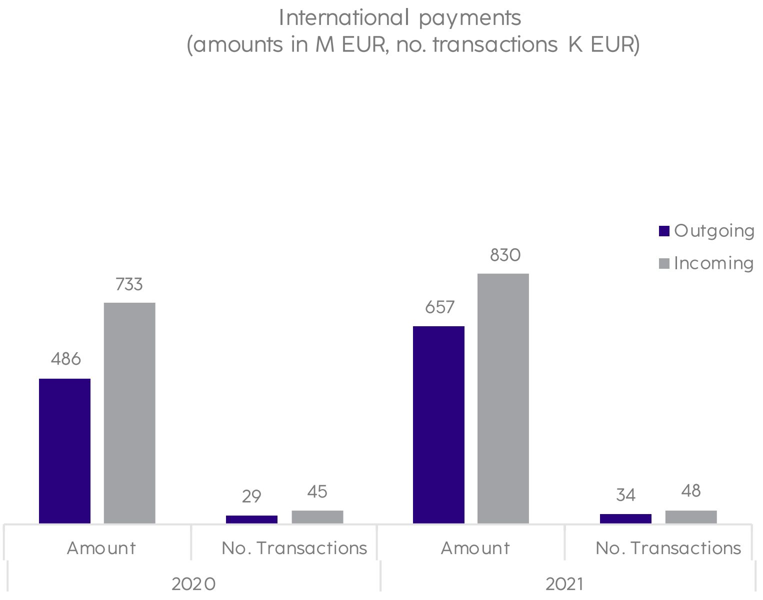
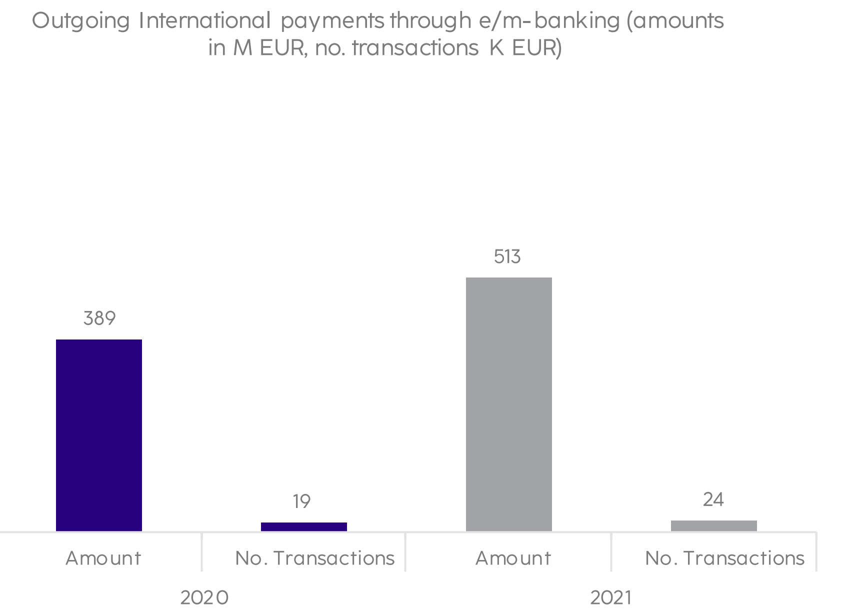


Illustration 16: Trend of outgoing international payment through e/m-banking



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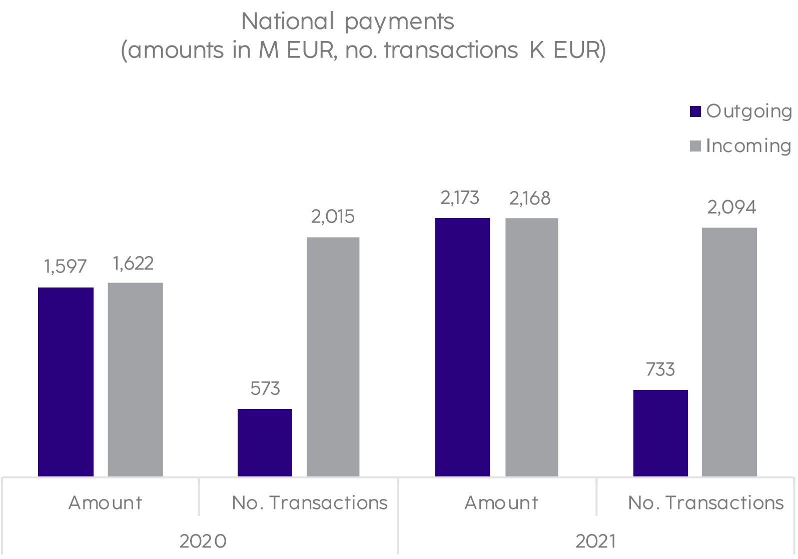
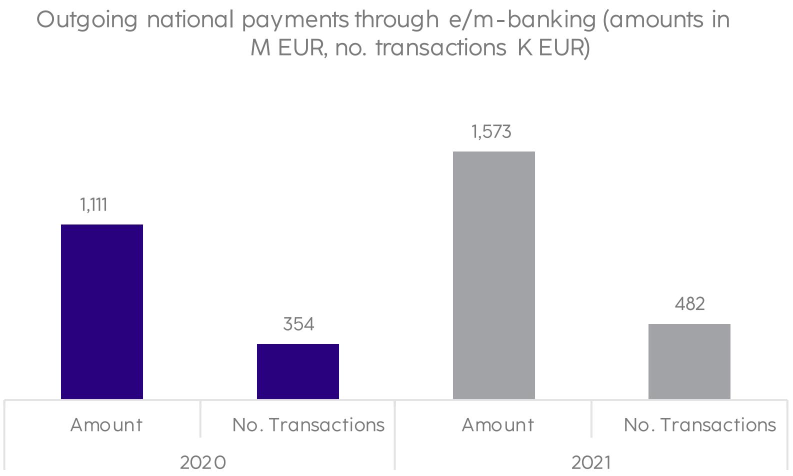
National payments compared to 2020 has shown an increasing trend both for outgoing and incoming payments. The outgoing payments has increased by 36% in the amount of payments while in the number of payments by 28%. The incoming payments has been increased by 34% in the amount of payments while in the number by 4%.

Illustration 17: Trend of national payment (incoming & outgoing)



In addition, there has been an increasing trend in e/m-banking also in national payments, compared to 2020, for national payments by 42% in amounts and 36% increase in the number of national payments through e/m-banking compared to last year.

Illustration 18: Trend of outgoing national payment through e/m-banking



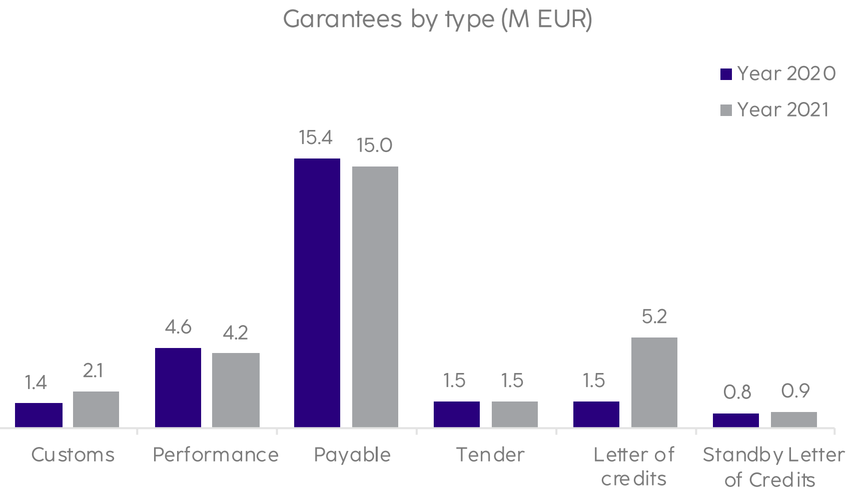
Trade Finance

With the experience in the documentary business NLB Banka opens up new perspectives and opportunities for its clients, offering solutions to enable them to trade overseas with full confidence and maximize efficiency across their supply chains. NLB Bank in the year 2021 was awarded for the fifth time, by European Bank for Reconstruction and Development - EBRD as the "Most Active Issuing Bank in Kosovo for 2020" for using the TFP (Trade Facilitation Program) of EBRD.
Under the Trade Facilitation Program, the Bank was enabled to support foreign trade for its customers, to, from and among the economies where the EBRD invests through a range of products. Being part of NLB Group which has a wide presence and professional expertise, this offers us an additional advantage in broadening our geographic cover and products. In 2021, NLB Bank became a member of Factor Chain International, which will allow the bank to promote the Factoring service and develop partnership with international organizations which will enable local and international organizations to cooperate in a more safe and legal terms.

In 2021 the Bank issued trade finance instruments for the total amount of 34 Million euros, where out of this amount about 12 Million euros were guarantees and circa 22 Million Euros letters of credit. Payment guarantees and letters of credit comprise the largest portion of the total amount of issued trade finance instruments, followed by tender guarantees, service guarantees and customs ones.

In 2021 the Bank increased its role of offering to its clients the advising service for the proper usage of the Trade Finance transactions in order to reduce the risk of commercial agreements with the respective international partners. The Bank has also kept acting as the agent in the concluded escrow agreements; and related to documentary collections.

Illustration 19. Guarantees and Letter of Credits



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Information technology

In 2021, IT continued to play it's role of supporting business operations and ensuring efficiency of operations. Several infrastructure and application projects have been implemented in IT field in order to ensure proper IT support for the business processes and development initiatives that increase productivity, performance, improve the customer experience, streamline communications and enhance managerial decision-making.

The majority of IT infrastructure projects and activities were focused in the field of IT security, productivity and business continuity.

In the process of introduction of Microsoft Online Services features to which the bank is subscribed last three years, the bank has implemented Azure MFA (Multi-factor authentication) for administrative access to internal IT Resources. The aim was to increase security of administrative access to critical resources by safeguarding access to data and apps through additional security by requiring a second form of verification for IT Administrator.

The bank completed the implementation of NAC (Network Access Control) solution. HP Aruba ClearPass was the solution of choice by the bank. The implementation of solution allows the bank to control business and personal devices connecting to the internal network and ensuring compliance with the security policies and access limitations based on the security posture of the device being connected.

An additional layer of protection for internet facing web applications hosted by the bank was provided by the implementation of F5 web application firewall (WAF). In this way, the bank's web applications are protected especially against fraud and data theft by inspecting and filtering traffic between each web application and the internet. The solution provides protection against attacks such as cross-site request forgery (CSRF), cross-site-scripting (XSS), file inclusion, and SQL injection.

A WAF can be especially beneficial to a company that provides an e-commerce site, online financial services, or any other type of web-based product or service involving interactions with customers or business partners. In these cases, WAFs can be especially useful in preventing fraud and data theft.

However, since a WAF is not designed to ward off all types of attacks, it works best as part of a suite of tools that support a comprehensive application security program.

Vulnerability management continued to be an important part of the bank's cybersecurity strategy of discovering, investigating and mitigating against vulnerabilities on the enterprise network across software and various devices. In order to keep the bank ahead of threats, by first understanding the cyber exposure and then putting in place appropriate mitigations, the banks internal and external IT Resources were subject to penetration tests performed by external company. The employees of the bank were subject to social engineering attacks in order to test their security awareness.

The Bank has actively participated in regional standardization and optimization initiatives in the fields where such activities were initiated. Based on the standardization strategy for datacenter network equipment, the bank has actively participated in RFP Process and has ordered the quantity of datacenter network equipment that will replace its existing datacenter network infrastructure which will continue to be based on Cisco technology.

The same process was followed for replacement of Tape Libraries at primary and disaster recovery sites, by which the bank will implement new NLB Group standardized IBM based Tape Library solution. After an active participation in RFP process, the bank has ordered the planned equipment and services.

In order to utilize current communication lines with NLB d.d. and reduce communication costs with Card Processing Center (Bankart), the bank has migrated communication links with Bankart through existing communication lines with NLB d.d. In addition to reduced costs, this implementation contributed to an enhanced Business Continuity because communication with Bankart in case of primary link failure is switched automatically through disaster recovery site thus eliminating the need for manual failover and failback procedures.

Moving towards full utilization of existing Microsoft 365 subscriptions and productivity tools, the bank has successfully accomplished migration to single tenant as a first step in implementation of other Microsoft Cloud Services. By the end of 2021, activities have started for migration to Exchange Online and implementation of security solutions like Intune for mobile device management, Always on VPN, etc.

In 2021, the RFP process for upgrade of existing VOIP infrastructure has completed, By the end of 2021, the first phase of implementation was completed by fully virtualizing current VOIP infrastructure. In Q1 2022, complete replacement of IP phones will follow by which complete VOIP infrastructure will be based on Cisco technology.

In 2021, new IT strategy was prepared and approved by the relevant bodies of the bank. IT Strategy constitutes an integral part of the NLB Group business strategy with the aim of aligning technology and operations with business goals set forth in H.O.M.E. strategy of the bank. This strategy clearly sets goals and objectives for how those technologies will be implemented and used, as well as articulates how the technology strategy supports key business objectives.

In March 2021, the bank performed an integral BCP testing of most end-user applications with production data under typical loads that involved several organizational units.

In support of business requests, IT participated in preparation, modification and testing of API Backend Connectors and Core System to support LOPA project requirements and Digital Onboarding with video identification. On the other hand, IT accomplished it's part of tasks relating to implementation of Swift GPI full membership, configuration, and support for core system and other related modules and regulatory reporting.

In 2021, IT implemented new interface with Tax Administration using Web API technology.

Risk Management

As a financial institution the Bank is inherently exposed to various types of risks as part of its business activities. Thus, responsible and efficient risk management enables healthy and sustainable growth of our bank. Having a sound risk management system underpins efficiently meeting our client needs while delivering value for our shareholder and stakeholders.

We take a comprehensive approach towards risk management, which is articulated through our risk strategy and risk appetite. Robust risk management practices are integrated within day-to-day activities of the Bank, through a well -established organizational structure supported and led by a sound risk management strategy ensuring appropriate overview and accountability within the Bank.

Therefore, the main role of the risk management is reflection and implementation of the risk appetite of NLB Banka sh.a, in integrated and consistent manner, which begins with understanding the specifics of the bank and market specifics, with a sole objective of maintaining and contributing on the effective and efficient risk management.

A well-established risk management function employing a structure of non-executive and executive directors enables independent and efficient risk governance. Employment of a three lines of defense model is the backbone of the risk governance structure of the Bank.

Lending activities as one of the core business activities of the bank exposures the bank towards the credit risk, which is also the key driver of credit risk exposure. Therefore, in order to establish a prudent approach towards risk management, the Bank has employed practices aligned with NLB Group risk management strategy and CBK regulations acknowledging local specifics and differences of business environment prevailing in the Kosovo market. Such an approach enabled installment of an efficient and effective credit risk management system.

Environmental and Social Governance (ESG) represents one of the key important topic for the Bank during 2021 and is one of several risks management realms. The Bank has established an appropriate Environment and Social Management System (ESMS) which enables us to have a better understanding of our customers' activities, addressing issues/concerns, and minimize/mitigate risks related to ESG as well managing our stakeholder's expectations.

Operational Risk - Purpose of risk management is to manage the exposure towards the operational risk and mitigate the potential loss that may occur as a result of inappropriate internal systems, process of control, weaknesses and failures during the process of work, illegal activities and external events which may cause losses to the Bank. In order to enable a sound system of operational risk management, the Bank has established appropriate structures (operational risk management committee) and assigned responsibility and accountability through a decentralized approach within the organizational structure of the Bank, in order to ensure efficient risk identification, recording, mitigating and monitoring of operational risk. The loss events arising from operational risk were followed on monthly basis, actively monitored and reported to internal bodies of the Bank.

Details on Risk Management including credit risk, liquidity risk, interest rate risk, capital management risk, etc. are disclosed in note (31) in risk management section of the audited financial statements.

We are on your team.

The first generation opened clubs.
The next generation won all the national championships.
The third generation raised regional champions.
We will help this generation reach for the stars.

Nothing connects, strengthens the bonds of cooperation or teaches how to win and lose with dignity as well as sport does. Especially in a region with such diversely rich sporting history. Since we believe that sport boasts an immense power for connecting, enhancing physical and spiritual well-being and inclusion, we are proud to support top athletes and young sports prodigies on a regional level, among those are girls from U13 football team NK Radomlje. This way, we are becoming one of the largest sponsors of sport in the region.

Corporate social responsibility

NLB Banka perceives the responsibility to its clients, employees and society at large as a mission. Through different activities, the Bank continues to build its credibility, enrich its image and make its brand more powerful.

In 2020, NLB Group embarked on a path of more intensive integration of sustainability into banking operations to improve and develop the region for present and future generations and being a member of NLB Group, the largest banking and financial group in South-Eastern Europe, in addition to meeting the goal of business performance, NLB Banka strives to improve the quality of life also through socially responsible projects. For the most part, our CSR activities such as donations and sponsorships are performed in accordance with UN Sustainable development goals. The key pillars of socially responsible operations of NLB Banka are the care for its employees, compliance and integrity, promotion of entrepreneurship, mentorship, support to professional and youth sports, humanitarian activities, and the protection of the environment.

During 2021, we have continued to actively contribute towards wider socio-economic development through our Corporate Social Responsibility activities in the community where we operate with constant commitment to different groups of society, financially supporting initiatives that contribute to good health and well-being, quality education, reducing inequalities, poverty reduction, decent work and economic growth and contributing to a greener environment, fully aligned with UN Principles for Responsible Banking.

Activities undertaken in supporting of clients/citizens

With the development of digital banking, investment and insurance services, the Bank is striving to get closer to its clients through anchor products and by offering personalized digital services to suit their lifestyle. The Bank is also looking to cover more complex products and services to suit clients' needs and the employees at the Bank possess better knowledge of products and services and advise clients based on expertise and experience for services that are appropriate to their financial needs.

NLB Banka has implemented for the second time the #HelpFrame project to support the important pillars of the economy, micro and small businesses who have been affected the most by COVID-19 in recovering from the pandemic and in business development. Through "HelpFrame", the Bank offered its own advertising space to businesses in promoting their products on TV channels, information portals, social networks, billboards and citylight all over Kosovo. 25 local businesses have benefited from this project from all over Kosovo that are active in the production, trade, services, agriculture and bring innovative projects for environmental protection and social welfare.

Social

Through 2021, the Bank supported social and humanitarian activities as follows:

- NGO for the blind "Shoqata Ndërkomunale e të Verbërve Prishtinë" to complete monthly activities of the organization.
- Cycle Kosovo for Children event – a yearly tradition that advocates for green policies and fundraise for a very important cause, mother's and children's health in Kosovo.
- Vaccination centers, all municipalities in Kosovo - Donation of 90 digital signature devices together with Kosovo Banking Association
- Vaccination process and health personnel – donation to support the vaccination process and health personnel in Kosovo together with Kosovo Banking Association
- Breast awareness Month - NLB Banka has donated breast epenthesis, bras, and wigs to women affected by breast cancer.
- The National Autism Association in Kosovo – supporting talents through paintings
- End of the year gifs for children with special needs – gifts to different organizations throughout Kosovo.
- "The Ideas Partnership" NGO – donation for education activities and programs of children from marginalized communities - Roma / Ashkali / Egyptian
- "You Can Do" NGO – NLB Banka supported the literary competition organized with participants with special needs from all over Kosovo to write essays with the topic on the importance of life as a person with special needs, difficulties and discrimination by society. The essays will be published in a book.
- AMC – "Action for mothers and Children" – donation to support and provide medical equipment for mothers and premature babies.
- "American Chamber of Commerce in Kosovo" - Donation in support of Afghan evacuees.

NLB Banka has also supported activities that reduce the poverty and hunger by purchasing essential food items and providing for the families in need.

Environmental

NLB Bank contributes to various activities and projects that affect the improvement of conditions in the environment where we work and live.
The Bank is focused on digitalization of services that affect the reduction of paper usage and environmental protection. Digital platforms play significant role on saving paper that is spent while providing services to customers in the Bank branches, and equipping customers with electronic services such as e-banking and m-banking reduces the use of paper, thus saving trees. As part of the "To love and protect the nature"

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initiative, the Bank has completed the planting activity of 123 trees in the Velania Memorial Park.
We have lowered our carbon footprint indirectly, through our lending and investing activities: restraining from coal-related business and financing projects related to low-carbon economy.

Culture

NLB Banka is committed in supporting cultural activities. In 2021, the Bank has sponsored the documentary film dedicated to the life and work of academic Gazmend Zajmi and his contribution for the development of the University of Prishtina during the period when he was in charge of this highest institution of knowledge in Kosovo.
Further on, the Bank has supported the documentary film "The architect of the Independent University of Prishtina and the role of Prof.Dr. Ejup Statovci".

Sport

In the field of sports, the Bank remained among the main supporters of all sports, continuously supporting:

- Football Club "FC Prishtina" as a traditional sponsor.
- Hana Beiqi, a swimmer at Sports Club "H2O" as a sponsor.
- Basketball Club "KB Bashkimi", as a traditional sponsor.
- Chess Club "KSH Prishtina" - NLB Banka sponsored the activities of the club for participating at the Chess Federation Competition.
- Handball Club "KH Vllaznimi" - NLB Banka sponsored the participation of the club at European competitions.
- Chess Club "KSH Drejtësia" - Sponsorship of the chess memorial tournament dedicated to the former employee of the Bank "Mustafë Ibrahimi",

We are attentive to what you cherish the most.

52 years ago, we celebrated Earth Day for the first time.
40 years ago, we introduced recycling.
2 years ago, we committed to low-carbon economy.
What will the next generations commit to?

The rising importance of environmental and social issues plays an important role in the quality of life in our local region. By incorporating sustainability in our banking services, we not only strengthen relations with our clients, employees, suppliers, investors and broader communities, but also take care of present and future generations.
We do not perceive sustainability as merely a letter on a piece of paper, but as a string of decisions, measures and actions that will provide new opportunities for the generations to follow.

Human Resources Management

We are committed to a culture of responsibility, compliance with legislation and rules, principles of excellence and integrity, and promotion of supportive organization in the NLB Group.
The trust we have in clients, associates, shareholders and society at large gives us great responsibility. We justify this belief by working with key stakeholders for positive change, mutual benefits and growth.
Together with the employees, we went through and faced various challenges throughout 2021, and our confrontation with it naturally, as in other areas, was aggravated by the situation with the Covid-19 pandemic.
Our confrontation with the Covid-19 pandemic which created both fear and panic, because its traces spread everywhere around us continued in 2021 as well. Therefore, the Crisis group continued its work and made sure to make the right decisions for prompt action in order to protect employees, clients and citizens.
As a result of this pandemic, even today, we live with new behaviors, with new demands. We live with the new imposing, painful and costly reality.
However, despite this not easily affordable reality, we still managed to be close to our employees and through them to our clients, to be with them and for them throughout the year. As always, we were at their service, responding in time to their requests.

It was another successful showdown, albeit with a general fragility! Success that does not belong to anyone individually, but to all together, and to all of us.
The work, commitment and contribution of each individual, and of all together are the foundation of our Bank's success.
Besides the activities that the Human Resources Section deal with on daily basis, during 2021 were also conducted the following key activities:

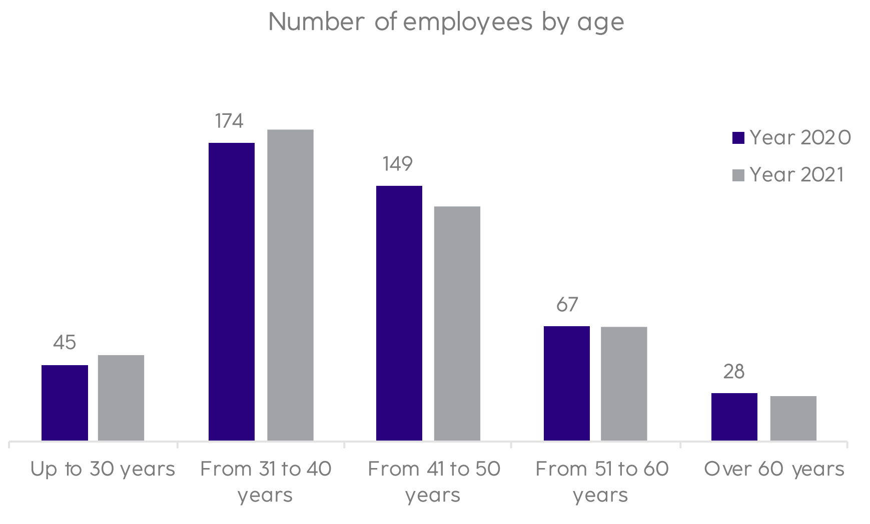
- Assessment of the Employee engagement, with the external company "Interpretacija" from Slovenia
- Organization Organizational Culture survey at the NLB Group level with the external company "Human Synergetics".
- Organization of Leadership/Impact and Management/Impact for B-1 with the external company "Human Synergetics".
- Announcement of various job vacancies, testing of candidates, interviews and the completion of hiring process as well as Compilation of various contracts, decisions.
- Signing of contract with the private health insurance company Scardian for the heal insurance of all Bank's employees- process which is conducted annually.
- Signing of contract for the second year with the private laboratory Avicena for conducting COVID-19 testing for the Bank's employees as needed.
- Organization of various online, internal and external trainings with internationally knows coaches and trainers.
- Organization of performance evaluation and the distribution of bonuses.
- Organization of various activities with the group of Talents, such as skills training, mentoring, shadowing, coaching, project work, book club, focus groups etc.
- Activities regarding Employee Brand which is a NLB Group activity.
- Establishment of book club, with more than 30 international bestsellers in the first year.

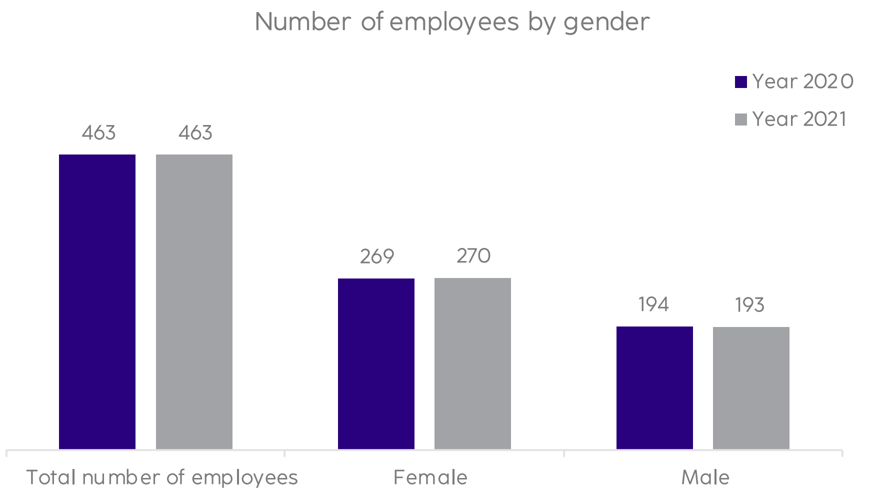
Table 6. Employee trainings

External trainings	2021
No. of external trainings	122
No. of participations	641

Internal trainings	2021
No. of participations in internal trainings	1,009
No. of participations in online trainings	138
No. of trainings in ECHO module	7
No. of participations in trainings in ECHO module	3,154
Average training hours per employee	20

Illustration 20. Structure of employees





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Corporate Governance

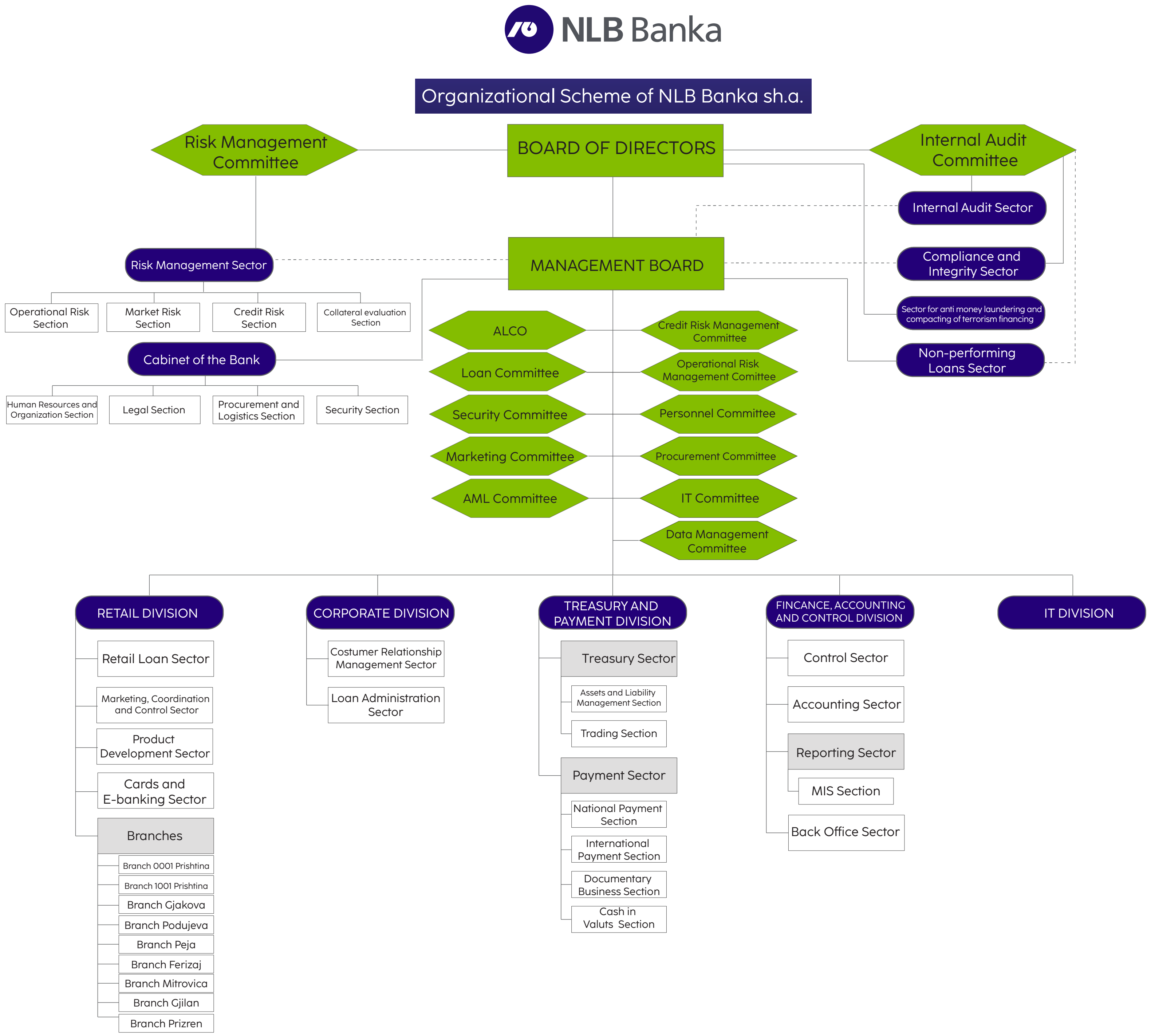
Corporate Governance and Management Bodies

The Bank has a clear organizational structure that precisely defines the rights and responsibilities of the members of the Boards of Directors and other Management Bodies, the other employees as well as the lines of control in the performance of daily duties.

The organizational structure of NLB Banka is as follows:

The Bank's main bodies are:

- General Meeting of Shareholders
- Board of Directors
- Audit Committee
- Risk Committee
- Management Board



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General Meeting of Shareholders

The General Meeting of Shareholders of NLB Banka meets and makes decisions at regular and extraordinary meetings, where it adopts resolutions in accordance with the law. The nominal shares assign the owner the right on dividend payment and voting right at the General meeting of Shareholders.

The responsibilities of the General Meeting of NLB Banka j.s.c. Shareholders are stipulated by NLB Banka Statute, which are also in compliance with the requirements set from the regulatory.

During 2021, General Meeting of Shareholders had three meetings, one regular meeting and two extraordinary. The regular meeting was held on March 26, 2021 were approved several acts, among which the following: External Auditors report for 2020, Business plan for the period 2021-2025, appointment of external auditor for the year 2021 and supplements and amendments of the Statute of NLB Banka j.s.c. Prishtina, whereas on the extraordinary meetings were approved new composition of Board of Directors and amendments of the Statute/changes in the shareholders structure of NLB Banka j.s.c. Prishtina and on extra ordinary meeting held on December 2021 was approved the dividend distribution of net profit from 2019 and 2020 in amount of EUR 23.6 million.

Composition of Board of Directors

Board of Directors is elected by the shareholders of the Bank at the General meeting of Shareholders and they are responsible for the establishment of Bank policies, including the Policies for risk management and supervision of its implementation. The BoD conducts its activities in accordance with the provisions of the laws on governing banks and the Statute of the Bank.

The Board of Directors during the year 2021 had 8 meetings, 5 regular meetings and 3 extraordinary.

The structure of BoD of NLB Banka j.s.c. Prishtina as of December 31, 2021, was as follow:

- Mr. Blaž Brodnjak, chairman
- Mr. Peter Zelen, vice chairman
- Mrs. Mateja Treven, member
- Mr. Abdylmenaf Bexheti, member
- Mrs. Ardiana Bunjaku, member
- Mr. Albert Lumezi, member – President of MB of NLB Banka as per function with no voting right.

Audit Committee

The Audit Committee members as of December 31, 2021 were:

- Mrs. Mateja Treven, President of Audit Committee
- Mr. Peter Zelen, member of the Audit Committee
- Mr. Goce Hristov, member of Audit Committee

The Audit Committee has been established based on the law for banks and activities are defined in the Rules of Procedure of the Audit Committee. Audit Committee is held on quarterly basis in the Bank. During 2021 in total four (4) Audit Committee sessions were held.

Areas covered by Audit Committee are: approval of the internal audit reports, assessment of audit procedures, assessment of internal controls, review of the compliance report, review of the bank's financial performance, review of the external auditor's management letter and final audited financial statements and recommends the external auditors. In addition, audit committee also performs acknowledgment, assessment and adoption of recommendations and resolutions regarding documents of external regulators.

Risk Committee

As of December 31, 2021, the members of Risk Committee were as follows:

- Mr. Peter Zelen, chairman
- Mrs. Ardiana Bunjaku, member
- Mr. Abdylmenaf Bexheti, member

Risk Management Committee has been established based on the law for banks and operates based on the internal Rules of Procedure for the Risk Management Committee.

Risk Management Committee is the extended arm of the Board of Directors with a specialized focus on the area of risk management. The Committee is employed by three non-executive directors.

Risk Management Committee meets on quarterly basis in order to monitor the risk exposure and risk management of the Bank. During 2021 in total four (4) Audit Committee sessions were held. As such the Risk Committee supervises the area of credit risk, market risk and operational risk, with the aim of efficient and effective implementation of risk management appetite and risk strategy of NLB Banka.

Composition of the Management Board

NLB Banka Management Board governs, represents and acts on behalf of the Bank, independently and on its own responsibility, as provided for by the Statute of Bank. The president and members are appointed for a term of four years and may be reappointed or recalled before their term expires in accordance with Law and Bank's Statute.

The Management Board of NLB Banka consists of three persons:

- Mr. Albert Lumezi as President of the Management Board
- Mr. Lavdim Koshutova as Member of Management Board and
- Mr. Gem Maloku as member of Management Board.

In order to ensure the proper function of the Bank's business and monitor the regular activities of the Bank, the following operational Committees also operate within the Bank:

- ALCO Committee (Within ALCO Committee is established a sub-committee called Pricing Committee)
- Credit Committee
- Credit Risk management Committee
- Security Committee
- Operational Risk management Committee
- IT Committee
- Personnel Committee
- Procurement Committee
- Marketing Committee
- AML Committee
- Data management Committee.

Internal Audit

Internal Audit function of the NLB Banka is carried out by Internal Audit Sector. Internal Audit Sector is independent function in the Bank that functionally reports directly to the Audit Committee of the Board of Directors of the Bank, whereas administratively reports to a member of Management Board of the Bank. The main objective of the Internal Audit Sector is to provide assurance and advice with the aim of adding value and improving operations in the Bank. This is achieved by using a systematic and professional approach to assess and improve the risk management, system of internal control, governance, and the efficiency of operations of the bank. Internal audit gives a significant contribution for the bank to meet its strategic and business objectives and applying best banking practices.

The Internal Audit's work methodology, its competencies and responsibilities are defined in Charter for Internal Audit in NLB Banka Prishtina and Internal Auditing Methodology, which are prepared in accordance with standards of Internal Audit in NLB d.d, international best practices and audit related laws and regulations of Kosovo.

Internal Audit function complies with International Standards for the Professional Practice of Internal Auditing, Code of Ethics of internal auditing and Kosovo rules and regulations

Internal Audit Sector consists of four employees. The internal audit activities are carried out in line with the Internal Audit Plan, which is prepared on annual basis using a risk-based approach consistent with the Internal Audit Methodology, best practices, Bank's goals, and objectives. The risk-based approach is used also in definition of the audit scope of each audit engagement of the plan, including the timing and the resource allocation. Every Internal Audit Plan is approved by the Audit Committee of the Bank. The Internal Audit Plan is updated regularly to reflect the relevant changes that address the key risks of the bank at the certain point of time.

During 2021, Internal Audit Sector has performed 22 audit engagements in line with the audit plan 2021. The internal audit reports mainly consist of the internal auditors' opinion, findings, causes, risks and recommendations as well as actions agreed to be taken from process owner for implementing the given recommendations. The reports are approved by Audit Committee of the Bank on quarterly basis. The given recommendations in the audit reports are regularly followed up and reported to Management Board as well as to Audit Committee of the Bank. After, the Board of Directors of the Bank is also informed on key observations on quarterly basis.

Internal Audit continuously cooperates with Internal Audit of NLB d.d regarding joint audits, audits performed in group level as well as methodology of the audit work. Additionally, quarterly reporting takes place to Internal Audit of NLB d.d regarding key observations, overdue recommendations as well as key recommendations given from the regulators. Internal Audit provides internal audit reports to external auditors and external parties (police, insurance companies, and the regulator) upon their request. Finally, in 2021 the quality of the work of Internal Audit Sector is once per year assessed from NLB d.d, and on five year basis from independent external assessor.

Compliance and Integrity Sector

Compliance and Integrity sector is independent organizational unit in the Bank that informs and advice the senior management and report to the Board of Directors (Audit Committee). Legal and integrity framework of compliance sector is established in accordance with requirements of NLB Group Minimum Standards of Compliance and Integrity, and local Regulation on Corporate Government of Banks. The sector is consisting of three employees – Head of Sector and two senior compliance officers.

In general, performed compliance and integrity activities cover the implementation of tasks according to the annual working plan 2021, implementation of recommendations issued by Compliance Competence Line NLB d.d., and Internal Audit, implementation of Enterprise Compliance Risk Assessment recommendations, regular review and updating of Compliance and Integrity Sector internal acts related to the implementation of Standards (Compliance and Integrity Standards in the NLB Group), conducting regular and extraordinary compliance review in banks processes, and monitoring implementation of issued measures.

Compliance and Integrity sector cooperates closely with Compliance Competence Line in NLB dd, related to implementation of Compliance and Integrity Standards of NLB Group, regarding the methodology of work in compliance issues, preparation of Compliance Report on quarterly basis etc.

In following, are listed the most important activities performed by Compliance and Integrity Sector during 2021:

- Enterprise compliance risk assessment (ECRA) – update for 2021, based on the Instructions for the Implementation of the Enterprise compliance risk assessment (August 2019).
- Compliance reviews on four areas and processes - procurement of products and services; the Local inside information management system; review of secondary Internal Control on Bank's branches; review of retail loan processes regarding regulatory risks, conflict of Interest and corruption, as well as risks related to ethics and integrity.
- Short survey (quizzes with rewards), with the purpose of establishing the employees' view (perception) on the situation in the Bank concerning conflict of interest management and anti-bribery and corruption, giving/accepting gifts management.
- Identification and monitoring of legal/regulatory changes with effects on the bank's operations; information of bank employees related regarding legal/regulatory changes (periodic e-bulletin) and other awareness activities on compliance and integrity.
- Review of Compliance and Integrity sector internal acts – update in line with requirements of Compliance and Integrity Standards in the NLB Group.
- Regular annual e-learning and other education and awareness activities on Compliance & Integrity topics - Ethics, Integrity and Code of Conduct, Prevention of conflict of interest and corruption, gifts, Prevention of misconduct and harmful behavior, Prevention of abuse on financial instruments market.
- Supporting OU's by giving opinions, advises and proposals in solving different banking issues.
- Investigation of suspected cases of harmful conduct.
- Investor relations activities based on Rules on Inside Information - communication with employees regarding closed period (period during which certain identified persons are prohibited from engaging in transactions involving shares and other financial instruments of NLB d.d., Ljubljana).
- FATCA report for the year 2021 (as of 31.12.2021) with information as per requirements of FATCA agreement and its submission to Tax Administration of Kosovo.

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Prevention of Money Laundry and Financing Terrorism Sector (PMLFT)

The Bank is fully aware of AML/CFT requirements both locally and internationally and understands the ML/FT risks. Thus, it implements zero tolerance policy toward the use of our bank products and services for illicit purposes. The AML sector continued with further adaption of policies and procedures in line with new AML/CFT legal requirements and Group standards, during 2021 the focus was on Customer Risk Rating Project (Siron KYC) and Client KYC Review. In coordination and with support of Group AML, other important activities:

- Quantitative and Qualitative AML Risk Assessment – Group methodology.
- Initiation of Customer Risk Rating Project Plan (Siron KYC).
- Approval of Policy on acceptance of conducting business with high-risk clients and risk appetite concerning MLTF in NLB Banka sh.a.
- KYC Review for high-risk clients.
- Implementation of Group e-learning methodology.
- Approval of Money Laundering and Terrorist Financing Prevention Policy, 4th version.
- Approval of Rule on AML Committee.
- Recruitment of new staff for AML Sector.
- Prepared and issued numerous instruction and memos for front office.

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Disclaimer on Events after balance sheet date

On February 25, 2022 the Kosovo Government has issued a decision for imposing sanctions against Russia in line with USA and EU sanctions. The bank is treating carefully and with high awareness possible transactions with countries involved in conflict. The bank does not have any exposure against those countries, and it is not expected any related potential impact on performance of the bank.

According to published information, the trade between Kosovo and Ukraine is non-significant, round 30 million in a year, while with Russia it can be considered no transactions.

The industries that are expected to have impacted are iron, wood and cereal industries. Lastly it has been noticed also the impact on increase of the prices of oil industry. The estimated exposure of the bank on below industries, including oil industries is less than 6.7% of bank's portfolio.
No other material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statements.

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Financial Reports

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NLB BANKA SH.A.

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2021

WITH INDEPENDENT AUDITORS' REPORT THEREON

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY

To the Shareholders and Board of Directors of NLB Banka

The Management Board hereby confirms its responsibility for the preparation of the financial statements of the Bank for the year ended December 31, 2021, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards to give a true and fair view of the financial position of the Bank as at December 31, 2021 and the financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of the Bank, together with the notes, have been prepared on a going-concern basis and in compliance with the International Financial Reporting Standards.

The Management Board is also responsible for appropriate accounting practices, for the adoption of appropriate measures for the safeguarding of assets, and for the prevention and identification of fraud and other irregularities or illegal acts.

Prishtina, Kosovo
February 28, 2022

Management Board

Lavdim Koshutova	Gem Maloku	Albert Lumezi
Member of the Management Board	Member of the Management Board	President of the Management Board

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Building a better working world

INDEPENDENT AUDITOR'S REPORT

To the shareholders of NLB Banka Sh.a

Opinion

We have audited the financial statements of NLB Banka Sh.a ("the Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements presents fairly, in all material respects the financial position of the Bank as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

Other information included in NLB Banka Sh.a 2021 Annual Report

Other information consists of the information included in Bank's 2021 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2021 Annual Report is expected to be made available to us after the date of this auditor's 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.

Responsibilities of management and those charged with governance for the financial statements

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

Responsibilities of management and those charged with governance for the financial statements (continued)

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 Responsibility for audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Ernst & Young Certified Auditors Kosovo sh.p.k.
Ernst & Young Certified Auditors Kosovo
7 March 2022
Prishtina, Kosovo

Mario Vangjeli
Certified Auditor

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

	Note	December 31, 2021	December 31, 2020
ASSETS			
Cash and balances with the Central Bank	4	134,038	169,346
Loans and advances to banks	5	26,940	29,837
Loans and advances to customers	6	634,530	559,223
Financial assets at fair value through OCI	7	118,980	102,710
Other assets	8	1,651	2,743
Prepaid current income tax	25	-	268
Property and equipment	9	10,405	10,957
Right of use assets	9.1	2,369	2,515
Intangible assets	10	1,344	1,138
Deferred tax asset	25	290	327
Total assets		**930,547**	**879,064**
LIABILITIES			
Due to banks	11	558	1,172
Due to customers	12	798,789	748,317
Other financial liabilities	13	10,296	8,693
Provisions and other liabilities	14	6,344	7,534
Corporate tax payable	25	695	-
Borrowings and Subordinated debts	16	15,008	15,013
Total liabilities		**831,690**	**780,729**
SHAREHOLDERS' EQUITY			
Share capital	17	51,287	51,287
Revaluation reserve on AFS securities	26	1,442	1,753
Retained earnings		46,128	45,295
Total shareholders' equity		**98,857**	**98,335**
Total liabilities and shareholders' equity		**930,547**	**879,064**

These financial statements have been approved by the Management Board on February 28, 2022 and signed on their behalf by:

Mr. Albert Lumezi CEO	Mr. Gem Maloku Deputy CEO/CFO	Mr. Visar Kabashi Director of Finance Division

The accompanying notes from page 10 to 79 form an integral part of these financial statements.

NLB BANKA SH.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended December 31, 2021

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

		Year ended December 31, 2021	Year ended December 31, 2020
Interest and similar income	18	38,083	36,496
Interest and similar expense	19	(3,623)	(4,210)
Net interest income		**34,460**	**32,286**
Fee and commission income	20	13,423	11,204
Fee and commission expense	21	(4,619)	(3,501)
Net fee and commission income		**8,804**	**7,703**
Impairment losses on loans to customers	4,5,6,7,8	(2,267)	(10,670)
Net Operating Income		**40,997**	**29,319**
Other operating income	22	475	339
Other operating expenses	22	(1,907)	(1,650)
Other provisions	15	1,204	(676)
Personnel expenses	23	(6,850)	(6,158)
Depreciation and amortization	9,10	(2,242)	(2,030)
Administrative and other operating expenses	24	(4,453)	(4,099)
Profit before tax		**27,224**	**15,045**
Income tax expense	25	(2,787)	(1,711)
Net profit for the year		**24,437**	**13,334**
Other comprehensive income / (loss):			
Other comprehensive income that will not be reclassified to profit and loss statement			
Net gain on equity instruments at fair value of FVOCI		54	50
Total items that will not be reclassified to the profit and loss statement		54	50
Other comprehensive income that will be reclassified to profit and loss statement			
Net gain on debt instruments at fair value of FVOCI		(365)	24
Total items that will be reclassified to the profit and loss statement			
Other comprehensive (loss)/income for the year	26	**(311)**	**74**
Total comprehensive income for the year		**24,126**	**13,408**
Basic and diluted earnings per share (EUR\share)	27	572	312

The accompanying notes from page 10 to 79 form an integral part of these financial statements.

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

	Share capital	Revaluation reserve for AFS securities	Retained earnings	Total
Balance as of January 1, 2020	**51,287**	**1,679**	**31,961**	**84,927**
Net profit for the year	-	-	13,334	13,334
Net change in fair value of financial instrument at FVOCI (Note 26)	-	74	-	74
Total comprehensive income loss for the year	**-**	**74**	**13,334**	**13,408**
Balance as of December 31, 2020	**51,287**	**1,753**	**45,295**	**98,335**
Net profit for the year	-	-	24,437	24,437
Net change in fair value of financial instrument at FVOCI (Note 26)	-	(311)		(311)
Total comprehensive income loss for the year	**-**	**(311)**	**24,437**	**24,126**
Dividend paid			(23,604)	**(23,604)**
Balance as of December 31, 2021	**51,287**	**1,442**	**46,128**	**98,857**

The accompanying notes from page 10 to 79 form an integral part of these financial statements.

NLB BANKA SH.A.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2021
(All amounts expressed in EUR thousand, unless otherwise stated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
Cash flows from operating activities			
Profit for the year before taxation		**27,224**	**15,045**
Depreciation and amortization	9,10	2,242	2,030
Credit loss expenses	4,5,6,7,8	2,267	10,670
Loss from sale of PPE		-	11
Other impairment losses and provisions	15	(1,204)	676
Interest income	18	(38,083)	(36,496)
Interest expense	19	3,623	4,210
		(3,931)	**(3,854)**
Increase in mandatory reserve with CBK	4.1	(7,368)	(8,239)
Decrease in loans and advances to banks	5	1,854	(1,679)
Increase in loans and advances to customers	6	(77,554)	(28,574)
Decrease/(Increase)in other assets	8	128	(1,623)
(Increase)/Decrease in due to banks	11	(614)	578
Increase in due to customers	12	50,472	62,932
Increase/(Decrease) in other financial liabilities	13	1,603	499
Increase/(Decrease) in other liabilities	14	30	39
		(35,380)	**20,079**
Interest received		38,443	36,014
Interest paid		(3,972)	(4,041)
Income tax paid		(1,726)	(2,135)
Cash inflows used in operating activities		**(2,635)**	**49,917**
Cash flows from investing activities			
Purchases of property and equipment	9	(689)	(1,034)
Proceeds from sale of PPE		-	83
Purchases of intangible assets	10	(594)	(467)
Purchases of financial assets at FVOCI	7	(64,873)	(61,710)
Proceeds from maturity of financial assets at FVOCI		48,675	37,020
Net cash used in investing activities		**(17,481)**	**(26,108)**
Cash flows used in financing activities			
Repayments of borrowings	16	(5)	(35)
Payment of dividend		(23,604)	-
		-	
Cash inflows used in financing activities		**(23,609)**	**(35)**
Increase in cash and cash equivalents		**(43,725)**	**23,774**
Cash and cash equivalents of January 1	4.1	130,308	106,534
Cash and cash equivalents of December 31	**4.1**	**86,583**	**130,308**

The accompanying notes from page 10 to 79 form an integral part of these financial statements.

1. GENERAL

NLB Banka sh.a.is a commercial bank (the "Bank") registered with the Kosovo Registry under Certificate of Registration no. 70053484 dated December 18, 2007. The Bank was established by the merger of two banks, NLB Kasabank and NLB New Bank of Kosova (during 2007 both banks were in control of Nova Ljubljanska Banka d.d.) and it obtained the license for banking activities on December 19, 2007 from Central Bank of Kosovo ("CBK").

The Bank is controlled by Nova Ljubljanska Banka d.d. Ljubljana incorporated in Slovenia (Parent), which owns 82.38% of the ordinary shares as at December 31, 2021 (2020: 81.21% ordinary shares). Nova Ljubljanska Banka d.d. Ljubljana was privatized in the year 2018 and listed in London Stock Exchange and Ljubljana Stock Exchange. As of December 31, 2020, 75% minus one share of the Bank, is owned by private international investors each owning not more than 10% of shares, while the Republic of Slovenia remains the major shareholder with 25% plus one share equity stake.

The Bank's registered head office is located at Street. Ukshin Hoti, no.124, Prishtina, Kosovo. The Bank operates as a commercial bank to all categories of customers, through its network of 9 branches in Prishtina, Gjakova, Peja, Ferizaj, Mitrovica, Gjilan, Besiana, Prizren, 25 sub-branches.

The Bank as of December 31, 2021 had 463 employees. (December 31, 2020: 463).

The financial statements of the Bank for the year ended December 31, 2021 were approved by the Management Board on February 28, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The Bank prepares its financial statements according to International Financial Reporting Standards (IFRS). The Bank's financial statements for the year ended December 31, 2021 are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and its predecessor body. Additionally, the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRSIC) and its predecessor body have been applied.

The Bank's IFRS financial statements comprise the statement of financial position, statement of profit or loss and comprehensive income, the statement of changes in equity, the statement of cash flows, significant accounting policies and the notes to the financial statements. These financial statements cover the individual entity as the Bank is not a parent.

2.2 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of Financial assets through other comprehensive income and financial assets and financial liabilities at fair value through profit or loss, if any. The principal accounting policies are set out below.

2.2.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

The outbreak of the COVID-19 pandemic and the measures adopted by the Government in Kosovo to mitigate its spread have impacted the operations of the Bank, The Bank has responded with a cautious approach towards expected credit losses, and increased alertness towards monitoring of loan portfolios. The Bank has assessed its impact and through utilization of increase of ECL and cost of risk has reflected the negative impact of pandemic on financial performance of the Bank. Other financial instruments held by the Bank have not displayed any significant increase in credit risk

The market demand for new loans and banking services has proven strong. The Bank managed to realize a satisfactory level of profit and it has sufficient capital and liquidity buffers to stand resilient towards any shocks from the pandemic, which in Kosovo seems to be subsiding and restrictive measures lifted.

Therefore, the financial statements continue to be prepared on the going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation of financial statements (continued)

2.2.2 Estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Significant estimates are disclosed in more detail in Note 2.27, 2.28, 2.30, 2.31, 2.32 and 2.33. Revision to estimates is recognized prospectively.

2.3 Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative amounts. Where applicable, comparative figures have been reclassified to conform to changes in presentation in the current year and disclosed, in cash flow statement at investing activities and on the note (Note 4.1)..

2.4 Functional Currency

The financial statements are presented in EUR which is also the Bank's functional currency.

2.5 Interest income and expense

Interest income and expenses for all financial instruments measured at amortised cost, and financial assets measured at fair value through other comprehensive income are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest rate method. Interest income on all trading assets and financial assets mandatorily required to be measured at fair value through profit or loss is recognised using the contractual interest rate.

The effective interest rate method is used to calculate the amortized cost of a financial asset or financial liability, and to allocate the interest income or interest expense over the relevant period. The effective interest rate is the rate that precisely discounts estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period (when appropriate) on the net carrying amount of the financial asset or financial liability. Interest income includes coupons earned on fixed-yield investments and trading securities, and accrued discounts and premiums on securities. The calculation of the effective interest rate includes all fees and points paid or received by parties to the contract and all transaction costs, but excludes future credit risk losses.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets, in which case is applied over the net carrying amount.

2.6 Fee and commission

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers . fee and commission income is recognized at an amount that reflects the consideration to the Bank expects to be entitled in exchange for providing the service, and expenses services are used.

Loan management fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee and commission income and expenses also include fees from letters of guarantees and letters of credit issued by the Bank in favor of the clients, fees arising from domestic and international bank charges, and other services provided by the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments

a) Classification and measurement

From a classification and measurement perspective, IFRS 9 requires all debt financial assets to be assessed based on Bank's business model for managing the assets and the instruments' contractual cash flow characteristics. Measurement categories of financial assets are as follows:

- Financial assets, measured at amortised costs (AC);
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets held for trading (FVTPL); and
- Non-trading financial assets, mandatorily at fair value through profit or loss (FVTPL).

Financial assets are measured at AC if they are held within a business model for the purpose of collecting contractual cash flows ('held to collect'), and if cash flows are solely payments of principal and interest on the principal amount outstanding.

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ('held to collect and sell'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at AC in the income statement. Gains and losses, except for expected credit losses and foreign currency translations, are recognised in other comprehensive income until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement, except for dividends that are recognised in the income statement.

All other financial assets are mandatorily measured at FVTPL, including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

IFRS 9 includes an option to designate financial assets at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

The accounting for financial liabilities remained broadly the same as the requirements of IAS 39, except for the treatment of gains or losses arising from bank's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

Assessment of Bank's business model
The Bank has determined its business model separately for each reporting unit and is based on observable factors for different portfolios that best reflect how the Bank manages groups of financial assets to achieve its business objective, such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and, in particular, the way those risks are managed;
- how the managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets or on collection of contractual cash flows); and
- the expected frequency, value, and timing of sales.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

a) Classification and measurement (continued)

The business model assessment is based on reasonably expected scenarios without taking worst-case and stress case scenarios into account. In general, the business model assessment of the Bank can be summarised as follows:

- loans and deposits given are included in a business model 'held to collect' since the primary purpose of NLB Group for the loan portfolio is to collect the contractual cash flows.
- debt securities are divided into three business models:
- the first group of debt securities presents 'held for trading' category
- the second group of debt securities are held under a business model 'held to collect and sale' with the aim to collect the contractual cash flows and sale of financial assets, and forms part of the Group's liquidity reserves;
- the third part of debt securities is held within the business model for holding them in order to collect contractual cash flows.

With regard to debt securities within the 'held to collect' business model, the sales which are related to the increase of the issuers' credit risk, concentrations risk, sales made close to the final maturity, or sales in order to meet liquidity needs in a stress case scenario are permitted. Other sales, which are not due to an increase in credit risk may still be consistent with a held to collect business model if such sales are incidental to the overall business model and;

- are insignificant in value both individually and in aggregate, even when such sales are frequent;
- are infrequent even when they are significant in value.

A review of instruments' contractual cash flow characteristics (the SPPI test – solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being 'held to collect' and 'held to collect and sell' relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only the consideration for the time value of money, credit risk, other basic lending risks, and a profit margin consistent with basic lending features. If the cash flows introduce more than *de minimis* exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVTPL.

The Bank reviewed the portfolio within 'held to collect' and 'held to collect and sale' for standardised products on a level of a product and for non-standardised products on a single exposure level. The Bank established a procedure for SPPI identification as part of regular investment process with defined responsibilities for primary and secondary controls. Special emphasis is put on new and non-standardised characteristics of the loan agreements.

Accounting policy for modified financial assets

Modified financial assets are those assets that contractual terms were changed during their lifetime. Contractual terms may be changed by the bank and the debtor entering into an agreement to exchange the original financial asset for a new financial asset or by the bank and the debtor "renegotiating" the original contract.

Investments in the Bank, contractual characteristics of a loan may be modified as follows:

-loan renewal or extension, which is possible only for clients not in financial difficulties;
-restructuring of financial assets, which is possible only for clients in financial difficulties.

If the modified contractual terms are significantly different from the original ones, the original financial asset is derecognised and new financial asset for the purpose of accounting treatment in accordance with IFRS 9 is recognised. Accordingly, a date of modification should be treated as the date of initial recognition of that financial asset. Qualitative test is to be performed to assess whether a change of contractual characteristics is significant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

a) Classification and measurement (continued)

Accounting policy for modified financial assets

Possible changes of contractual characteristics and the performance of qualitative tests are: Modification of contractual cash flows that is in bank's commercial interests (loan renewal and extension); Restructured financial assets for clients in financial difficulties.

When contractual cash flows of a financial asset are modified, the Bank assesses if the terms and conditions have been modified to the extent that, substantially, it becomes a new financial asset. The following factors are, amongst others, considered when making such assessment:

- reason for modification of cash flows (commercial or client's financial difficulties);
- change in currency of the loan;
- introduction of an equity feature;
- replacement of initially agreed debtor with a new debtor that is not related party to initial debtor; and
- if the modification is such that it changes the result of the SPPI test.

If the modification results in derecognition of a financial asset, the new financial asset is initially recognised at fair value, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. If the derecognised asset was classified in Stage 3 as defaulted, the new asset recognised is classified as POCI (Purchased or Originated Credit Impaired).

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

b) Reclassification

Financial assets can be reclassified when and only when Bank's business model for managing those assets changes. The reclassification takes place from the start of the reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period. Financial liabilities are never reclassified.

c) Day one gains or losses

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by a comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or based on a valuation technique whose variables only include data from observable markets.

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument or is based on a valuation technique whose variables only include data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement ('day one gains or losses').

In cases where the data used for valuation are not fully observable in financial markets, day one gains or losses are not recognised immediately in the income statement. The timing of recognition of deferred day one gains or losses is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

d) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred, and the transfer qualifies for derecognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

d) Derecognition (continued)

A financial liability is derecognised only when it is extinguished, i.e., when the obligation specified in the contract is discharged, cancelled, or expires.

e) Write-offs

The Bank writes off financial assets in their entirety or a portion thereof when it has exhausted all practical recovery efforts and has no reasonable expectations of recovery. Criteria indicating that that there is no reasonable expectation of recovery include default period, quality of collateral and different stages of enforcement procedures. The Bank may write-off financial assets that are still subject to enforcement activities, but this does not affect its rights in the enforcements procedures. The Bank still seeks to recover all amounts it is legally entitled to in full. Write-off reduces the gross carrying amount of a financial asset and allowance for the impairment. Any subsequent recoveries are credited to credit loss expense.

f) Fair value measurement principles

The fair value of financial instruments traded on active markets is based on the price that would be received to sell the assets or transfer liability (exit price) being measured at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

If discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates; and the discount rate is a market-based rate at the reporting date for an instrument with similar terms and conditions. If pricing models are used, inputs are based on market-based measurements at the reporting date. The methods used by the Bank in estimation of fair value are further detailed in Note 2.33.

2.8 Impairment of financial assets

a) Expected credit losses for collective allowances

IFRS 9 applies an expected credit loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The expected loss model requires the Bank to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses (ECL) is required for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since the initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL). When determining whether the risk of default increased significantly since the initial recognition, the Banks considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Bank's historical data, experience, expert credit assessment, and incorporation of forward-looking information.

Classification into stages
The Bank prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, risk indicators calculation, and the validation of models. The Group classifies financial instruments into Stage 1, Stage 2, and Stage 3, based on the applied ECL allowance methodology as described below:

- Stage 1 – performing portfolio: no significant increase of credit risk since the initial recognition, the Bank recognises an allowance based on 12-month period,
- Stage 2 – underperforming portfolio: significant increase in credit risk since the initial recognition, the Bank recognises an allowance for lifetime period, and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of financial assets (continued)

a) Expected credit losses for collective allowances (continued)

Classification into stages (continued)

- Stage 3 – impaired portfolio: Defaulted clients are rated D or E based on the bank's internal rating system and contain clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. The retail clients are rated on the facility level, however the rating can be deteriorated based on the rating of other credit facilities of the same client.

A significant increase in credit risk is assumed:

- SICR triggers for Stage 2 include: -
- downgrade based on long credit rating for legal entities,
- delays material, delays over 30 days (days-past due are also included in the credit rating assessment),
- forbearance,
- inclusion on WL/ICL list.
- To allow for more precise detection of SICR in June 2021 additional rules have been upgraded, where Stage 2 would be triggered by 3 notch downgrades of credit rating.

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies Fitch, Moody's, or S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings, the classification is based on the internal methodology of the Bank.

ECL for Stage 1 financial assets is calculated based on 12-month PDs (probability of default) or shorter period PDs, if the maturity of the financial asset is shorter than 1 year. The 12-month PD already includes a macroeconomic impact effect. Allowances in stage 1 are designed to reflect expected credit losses that had been incurred in the performing portfolio but have not been identified.

LECL for Stage 2 financial assets is calculated on the basis of lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. This calculation is also based on a forward-looking assessment that takes into account the number of economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts.

For financial instruments in Stage 3, the same treatment is applied as for those considered to be credit impaired. Exposures below the materiality threshold obtain collective allowances using PD of 100%. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in the lifetime expected losses since initial recognition are recognised as a loss allowance.

The calculation of collective allowances is performed by multiplying the EAD (exposure at default) at the end of each month with an appropriate PD and LGD (loss-given default). The EAD is determined as the sum of on-balance exposure and off-balance exposure multiplied by the CCF (credit conversion factor). The obtained result for each month is discounted to the present time. For Stage 1 exposures, the ECL only takes a 12-month period into account, while for Stage 2 all potential losses until the maturity date are included.

For the purpose of estimating the LGD parameter, NLB uses collateral HC (hair-cut) at the level of each type of collateral, and URR (unsecured recovery rate) at the level of each client segment. Both parameters are calculated on the bank's historical repayment data.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of financial assets (continued)

a) Expected credit losses for collective allowances (continued)

Forward looking information

The Bank incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECL. The Bank considers forward-looking information such as macroeconomic factors (e.g., unemployment rate, GDP growth, interest rates, and housing prices) and economic forecasts. The baseline scenario represents the more likely outcome resulting from the Group's normal budgeting process, while the better and worst-case scenarios represent more optimistic or pessimistic outcomes (similar as by ICAAP).

Recalculation of all parameters is performed annually or more frequently if the macro environment changes more than it was incorporated in previous forecasts. In such a case all the parameters are recalculated according to new forecasts.

b) Individual assessment of allowances for impaired financial assets

Assets carried at an amortised cost

The Bank assesses the impairments of financial assets separately for all individually significant assets classified in Stage 3. All other financial assets obtain collective allowances. The materiality threshold is set at EUR 50 thousand.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, which are discounted to the estimation date at the original effective interest rate of the asset. The scenario of expected cash flows can be based on the 'going concern' assumption, where the cash flow from operations is taken into account along with the sale of collateral that is not crucial for future business. In the case of the 'gone concern' principle, the repayments are based on expected cash flows from the collateral sale. The expected payment from the collateral is calculated from the appraised market value of the collateral, the haircut used as defined in the Haircut Methodology, and discounted. Off-balance sheet liabilities are also assessed individually and, where necessary, related allowances are recognised as liabilities.

The carrying amount of financial assets measured at amortised cost is reduced through an allowance account and the loss is recognised in the income statement item 'Impairment of financial assets.' If the amount of allowances for ECL decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance account and gain is recognised in the same income statement item. For off-balance exposures, the amount of ECL is recognised in the statement of financial position in item 'Provisions' and in the income statement in item 'Provisions for credit losses.'

The ECLs for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit or loss upon derecognition of the assets or when the amount of allowances for ECL decreases due to an event occurring after the impairment was recognised.

If the amount of allowances for ECL decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance for loan impairment and the gain is recognised in the income statement

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Cash and cash equivalents

Cash equivalents are items which can be converted into cash at short notice (with less than three months original maturity). Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash equivalent are carried at amortized cost.

2.10 Mandatory liquidity reserve

In accordance with the CBK rules, the Bank should meet the minimum average liquidity requirement. The liquidity requirement is calculated on a weekly basis as 10% of the deposit base, defined as the average total deposit liabilities to the non-banking public in EUR and other currencies, over the business days of the maintenance period. The assets with which the Bank may satisfy its liquidity requirement are the EUR deposits with the CBK and 50% of the EUR equivalent of cash denominated in readily convertible currencies. Deposits with the CBK must not be less than 5% of the applicable deposit base. As the respective liquid assets are not available to finance the Bank's day to day operations, they have been excluded from cash and cash equivalents for the purposes of the cash flow statement.

2.11 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.12 Foreign currencies

Transactions denominated in currencies other than Euro are translated in the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss (as foreign exchange translation gains and losses).

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2.13 Property and equipment

Property and equipment are accounted for under the cost model of IAS 16. They are stated at cost less accumulated depreciation and accumulated impairment loss, where required. Each year, the Bank assesses whether there are indications that assets may be impaired. If any such indication exists, the recoverable amounts are estimated. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the profit and loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining the operating result for the period. Repairs and maintenance are charged to the profit or loss when the expenditures are incurred.

Depreciation is charged using the straight line method, over the estimated useful lives of each part of an item of property and equipment. For additions depreciation is charged subsequent to the month of purchase while for disposals up to the month of disposal. Depreciation does not begin until the assets are available for use.

The annual depreciation rates used for each category of property and equipment are as follows:

Category of assets	**Depreciation rates used**
Buildings	3%
Leasehold improvements	Lower of the lease term or 20%
Furniture, fixtures and equipment	20%
Computers and related equipment	20%
Motor vehicles	20%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Intangible assets

The Bank’s intangible assets consist of computer software. Intangible assets acquired by the Bank are recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits will flow to the Bank. Intangible assets are accounted for under the cost model of IAS 38 and are stated at cost less accumulated amortization and impairment losses, when required. Amortization is provided on a straight-line basis at an annual rate of 20% or as per contractual period.

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred. Amortization does not begin until the assets are available for use.

2.15 Seized assets

Seized assets represent financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

2.16 Impairment of non-financial assets

An impairment loss is recognized whenever the carrying value of an asset exceeds its recoverable amount. Recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. Value in use of an asset is the present value of estimated future cash flows expected from the continuing use of an asset and from its disposal.

2.17 Due to banks

Due to banks are recorded when money or other assets are advanced to the bank by counterparty banks. The non-derivative liability is carried at amortized cost.

2.18 Due to customers

Due to customers are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

2.19 Borrowings and subordinated debits

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any interest or fee related to the borrowed funds is expensed using the effective interest method and presented in the profit and loss for the period.

2.20 Share capital and revaluation reserves

Share capital represents the nominal value of issued shares. Revaluation reserve of financial assets through other comprehensive income. On maturity or sale financial assets through other comprehensive income, the fair value reserve is transferred to profit and loss for the year.

2.21 Taxation

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the balance sheet date. The tax rate on corporate income is set at 10% in accordance with Kosovo tax regulations currently in force, Law no. 06/L-105 “On Corporate Income Tax”.

The income tax charge in the profit and loss for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates enforced or substantially enacted at the balance sheet date. Taxable profit differs from profit as reported in the profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than income taxes are recorded within operating expenses.

Deferred income tax is accounted for using the balance sheet liability method for temporary differences arising between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Taxation (continued)

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted on balance sheet date.

Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority.

2.22 Off-balance sheet commitments and contingencies

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The provision for losses on commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees at the date of issue are recognized at fair value which is equal to the amount of the fee received. The fee is amortized to the profit and loss during the contract period using the straight line method. The Bank's liabilities under guarantees are subsequently measured at the greater of the initial measurement, less amortization calculated to recognize fee income over the period of guarantee or the best estimate of the expenditure required settling the obligation.

Guarantee for completion - are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to complete the work when due, in accordance with the terms of contract.

Guarantees at the date of issue are recognized at fair value which is equal to the amount of the fee received. The fee is amortized to the profit and loss during the contract period using the straight-line method. The Bank's liabilities under guarantees are subsequently measured at the greater of:

- The initial measurement, less amortization calculated to recognize fee income over the period of guarantee; or
- The best estimate of the expenditure required to settle the obligation

2.23 Provisions

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

2.24 Employee benefits

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 9 Property, equipment and right-of-use assets.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned. For the year ended December 31, 2020 the Bank does not have any contracts as lessor.

2.26 Critical judgements in applying the accounting policies and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in note 2, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades,
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment,
- The segmentation of financial assets when their ECL is assessed on a collective basis,
- Development of ECL models, including the various formulas and the choice of inputs,
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs,
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

2.28 Provisions and other contingent liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in country and in other jurisdictions, arising in the ordinary course of the Bank's business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

2.29 Effective interest rate

As disclosed in Note 2.5 Interest income and expense are recognized in the profit and loss for all interest bearing instruments on an accrual basis using the effective interest rate 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. The effective interest rate differs from the contractual rate as a result of fees and commission that the Bank may charge, however, the Bank does not have any financial instruments where additional fees and commissions represent significant cash flows in comparison to the contractual rate. The most significant cash flows arise from lending fees that are applied on issuance of the loan. Due to information system constrains, the Bank does not use the effective interest rate to recognize overall interest income from loans, but defers lending fees separately over the life of each loan using a method that approximates the effective interest rate and management estimates that no material differences would arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

2.31 Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (‘IBR’) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The rate used by bank is 2.4% which represent interest rate on 5 years deposits of customers. The IBR therefore reflects what the Bank ‘would have to pay’, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency).The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary’s stand-alone credit rating, or to reflect the terms and conditions of the lease).

2.32 Taxation

Current tax expense

The Bank is subject to taxation laws in the Republic of Kosovo. Management uses its best estimate and judgment to fully comply with the relevant tax laws. Owing to use of judgment in complying with certain requirements of tax laws and depending on the tax authorities’ assessment, tax liabilities may differ compared to the one reported in these financial statements, however Management is confident that no material differences can arise.

Deferred tax assets

Deferred tax assets are recognized in respect of temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Tax losses can be used for a period of 4 years in Kosovo.

2.33 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Bank FVOCI assets are the only assets measured at fair value and they are not significant to overall financial assets. For disclosure purpose of the fair value of other financial assets and liabilities, valuation models are used based on observable market data where possible, but if this is not available, judgement is required to establish fair values. The disclosure of fair value of financial instruments and the methods used are described in more detail in Note 26.

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

i) Initial application of new amendments to the existing standards effective for the current reporting period

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2021:

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments) -** In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, Bank is not required to restate prior periods.

  The Bank generally applies fixed rates on its loans to customers and has limited financial assets and liabilities with interest rates based on benchmarks, so the amendment has no significant impact on the Bank.

ii) Standards and interpretations issued but not yet effective and not early adopted

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

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture –** The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The Bank is neither a parent nor it has any associates.
- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments) -** The amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendment may impact the Bank only in terms of disclosures of maturities of liabilities, because it presents the financial statements in order of liquidity.
- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments) -** The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - **IFRS 3 Business Combinations (Amendments)**
  - **IAS 16 Property, Plant and Equipment (Amendments)**
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)**
  - **Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases**

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

ii) Standards and interpretations issued but not yet effective and not early adopted (continued)

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

  The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments) -** The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments) -**The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations

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

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

4. CASH AND BALANCES WITH THE CENTRAL BANK

	December 31, 2021	December 31,2020
Cash on hand	31,519	27,230
Cash at banks–current accounts with correspondent banks	16,293	18,617
Amounts held at the CBK	-	-
Current account	16,045	60,749
Statutory reserve account	70,297	62,929
Provision impairments	(116)	(179)
Cash and balances with the Central Bank	**134,038**	**169,346**

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

	December 31, 2021	December 31, 2020
Opening balances	179	109
Charge to profit and loss	(63)	70
Closing balance	**116**	**179**

During 2021 almost all correspondent banks applied negative interest rates on daily credit balance (very few over a certain threshold balance). The rates varied between from -0.75% to 0.01% for EUR Currency and -2.00 % (CHF) to 3.87 % for other currencies (NOK)

The minimum reserve base requirement increased during 2021 by EUR 7 million compared to 2020 as result of increase of liability base of the Bank. The high-quality liquid assets increased during the year, mainly due to increase of cash in vault and balances with the Central Bank.

Balance and obligatory reserve with Central Bank of Kosovo (“CBK”) represents the mandatory reserve under the CBK regulations as discussed in note 2.11. The statutory reserve is not available for day-to-day use by the bank. The restricted liquidity reserves balance with CBK is excluded from cash and cash equivalents for the purpose of cash flow statement. The Central Bank of Kosovo does not possess external credit rating.

4.1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of cash flows comprise of:

	December 31, 2021	December 31, 2020
Cash and balances with the Central Bank	134,038	169,346
Less: Liquidity reserve	(70,297)	(62,929)
Deposits with maturity with less than 3 months (note 5)	22,842	23,890
Cash and cash equivalents	**86,583**	**130,308**

In the current year the Bank excluded from cash equivalents the entire statutory reserve balance with Central Bank. The comparative amounts, which previously excluded the liquidity reserve only, have also been reclassified.

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

4. CASH AND BALANCES WITH THE CENTRAL BANK (CONTINUED)

The movement in the allowance for ECL on cash and balances with Central Bank for the year ended December 31, 2021, based on IFRS 9 requirements, is as follows:

December 31, 2021	Balance at January 1, 2021	Transfer	Increases/ (Decreases)	Written offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2021
Stage 1 - 12M expected credit losses	**(179)**	**-**	**63**	**-**	**-**	**-**	**-**	**(116)**
Cash and Cash equivalents`	(179)	-	63	-	-	-	-	**(116)**
Stage 2 – Lifetime ECL not credit impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash and Cash equivalents	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash and Cash equivalents	-	-	-	-	-	-	-	-
Total	**(179)**	**-**	**63**	**-**	**-**	**-**	**-**	**(116**

December 31, 2020	Balance at January 1, 2020	Transfer	Increases/ (Decreases)	Written offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2020
Stage 1 - 12M expected credit losses	**(109)**	**-**	**(70)**	**-**	**-**	**-**	**-**	**(179)**
Cash and Cash equivalents	(109)	-	(70)	-	-	-	-	**(179)**
Stage 2 Lifetime ECL not credit impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash and Cash equivalents	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash and Cash equivalents	-	-	-	-	-	-	-	-
Total	**(109)**	**-**	**(70)**	**-**	**-**	**-**	**-**	**(179)**

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

5. LOANS AND ADVANCES TO BANKS

	December 31, 2021	December 31, 2020
Term deposits with maturity less than three months	22,845	23,890
Term deposits	4,114	5,971
Accrued interest	(8)	(11)
Allowance for impairment	(11)	(13)
Total loans and advances to banks	**26,940**	**29,837**
Current	**26,940**	**29,837**
Non-Current	**-**	**-**

As at December 31, 2021 included in the total term deposits are EUR 4,114 which are blocked funds for Trade Finance activities (2020: EUR 4,119).

Allowance for ECL movement for the years ended December 31, 2021 and 2020 is as following:

	December 31, 2021	December 31, 2020
Opening balances	13	6
Charge to profit and loss	(2)	7
Closing balance	**11**	**13**

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

5. LOANS AND ADVANCES TO BANKS (CONTINUED)

The movement in the allowance for ECL on Loans and advances to Banks for the year ended December 31, 2021, based on IFRS 9 requirements, is as follows:

December 31, 2021	**Balance at January 1, 2021**	**Transfer**	**Increases/ Decreases**	**Write offs**	**Repayments of written off receivables**	**Change in model risk parameters**	**Foreign exchange and other movements**	**Balance at December 31, 2021**
Stage 1 - 12M expected credit losses	**(13)**	**-**	**1**	**-**	**-**	**1**	**-**	**(11)**
Placements	(13)	-	1	-	-	1	-	**(11)**
Stage 2 Lifetime ECL not credit impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Placements	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Placements	-	-	-	-	-	-	-	-
Total	**(13)**	**-**	**1**	**-**	**-**	**1**	**-**	**(11)**

December 31, 2020	**Balance at January 1, 2020**	**Transfer**	**Increases/ Decreases**	**Write offs**	**Repayments of written off receivables**	**Change in model risk parameters**	**Foreign exchange and other movements**	**Balance at December 31, 2020**
Stage 1 - 12M expected credit losses	**(6)**	**-**	**(7)**	**-**	**-**	**-**	**-**	**(13)**
Placements	(6)	-	(7)	-	-	-	-	**(13)**
Stage 2 Lifetime ECL not credit impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Placements	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Placements	-	-	-	-	-	-	-	-
Total	**(6)**	**-**	**(7)**	**-**	**-**	**-**	**-**	**(13)**

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

6. LOANS AND ADVANCES TO CUSTOMERS

Analysis by class of advance

	December 31, 2021	December 31, 2020
Loans to customers	570,470	498,701
Overdrafts	96,152	91,659
Credit cards	5,755	5,716
	672,377	**596,076**
Provision for impairment on loans to customers	(37,847)	(36,853)
Total loans to customers	**634,530**	**559,223**
Current	209,021	192,273
Non-current	425,509	366,950

Loans and advances to customers include accrued interest income in the amount of EUR 1,536 thousand (2020: EUR 1,949 thousand). Loans and advances to customers include deferred disbursement fee that is part of the effective interest rate from loans to customers in the amount of EUR 1,963 thousand (2020: EUR 1,634 thousand). Overdraft facilities represent short term revolving facility and consumer loans.

The Current – Non-Current classification above is made based on contractual basis.

Analysis by sector is as follows:

Gross carrying amount	December 31, 2021	December 31, 2020
Loans to Corporate	412,378	374,884
Loans to Retail	258,827	220,482
Loans to Finance*	1,172	710
	672,377	**596,076**

Less: Allowance for ECL	December 31, 2021	December 31, 2020
Loans to Corporate	(33,536)	(32,293)
Loans to Retail	(4,299)	(4,555)
Loans to Finance*	(12)	(5)
	(37,847)	**(36,853)**

* Non-banking financial institutions

The table below shows the credit quality and the maximum exposure to loans and advances to costumers based on the Bank’s internal credit rating system, 12 month Basel III PD range and year-end stage classification. The amounts presented are gross of allowance for ECL.

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

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The table below shows the credit quality and the maximum exposure to loans and advances to costumers as of December 31, 2021.

December 31, 2021 **Internal rating grade**	**12-month Basel III PD range**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing						
High grade	0.27% - 5.24%	314,586	3	-	-	**314,589**
Standard grade	5.24% - 12.40%	238,097	47,901	-	-	**285,998**
Sub-standard grade	12.40% - 20.12%	5,410	50,767	-	-	**56,177**
Low grade	100.00%	-	-	-	-	**-**
Non-performing						
Group impaired	100.00%	-	-	3,238		**3,238**
Individually impaired	100.00%	-	-	12,375	-	**12,375**
Total		**558,093**	**98,671**	**15,613**	**-**	**672,377**

The table below shows the credit quality and the maximum exposure to loans and advances to costumers on segment level as of December 31, 2021.

Corporate Lending

December 31, 2021 **Internal rating grade**	**12-month Basel III PD range**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing						
High grade	1.20% - 1.38%	64,767	-	-	-	**64,767**
Standard grade	6.17% - 9.21%	233,883	47,507	-	-	**281,390**
Sub-standard grade	19.06% - 37.06%	5,005	48,533	-	-	**53,538**
Low grade	100.00%	-	-	-	-	**-**
Non-performing						**-**
Group impaired	100.00%	-	-	1,127	-	**1,127**
Individually impaired	100.00%	-	-	11,556	-	**11,556**
Total		**303,655**	**96,040**	**12,683**	**-**	**412,378**

The table below shows the credit quality and the maximum exposure to loans and advances to finance lending as of December 31, 2021.

Finance Lending

31 December 2021 **Internal rating grade**	**12-month Basel III PD range**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing						
High grade	1.20% - 1.38%	649	-	-	-	**649**
Standard grade	6.17% - 9.21%	519	3	-	-	**522**
Sub-standard grade	19.06% - 37.06%	-	1	-	-	**1**
Low grade	100.00%	-	-	-	-	**-**
Non-performing						**-**
Group impaired	100.00%	-	-	-	-	**-**
Individually impaired	100.00%	-	-	-	-	**-**
Total		**1,168**	**4**	**-**	**-**	**1,172**

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

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The table below shows the credit quality and the maximum exposure to loans and advances to retail lending as of December 31, 2021.

Retail Lending

31 December 2021 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.36% - 0.53%	249,170	3	-	-	**249,173**
Standard grade	4.86% - 19.73%	3,696	390	-	-	**4,086**
Sub-standard grade	12.45% - 25.17%	404	2,234	-	-	**2,638**
Low grade	100.00%	-	-	-	-	**-**
Non-performing						**-**
Group impaired	100.00%	-	-	2,111	-	**2,111**
Individually impaired	100.00%	-	-	819	-	**819**
Total		**253,270**	**2,627**	**2,930**	**-**	**258,827**

The table below shows the credit quality and the maximum exposure to loans and advances to costumers as of December 31, 2020.

December 31, 2020 Internal rating grade	12 month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.48% - 5.65%	260,806	64	-	-	**260,870**
Standard grade	5.65% – 18.43%	226,350	32,633	-	-	**258,983**
Sub-standard grade	18.43% - 26.95%	1,257	57,448	-	-	**58,705**
Low grade	100.00%	-	-	-	-	**-**
Non-performing						
Group impaired	100.00%	-	-	2,311		**2,311**
Individually impaired	100.00%	-	-	15,207	-	**15,207**
Total		**488,413**	**90,145**	**17,518**	**-**	**596,076**

The table below shows the credit quality and the maximum exposure to loans and advances to corporate lending as of December 31, 2020.

Corporate Lending

December 31, 2020 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	1.26% - 3.93%	50,377	-	-	-	**50,377**
Standard grade	9.23% - 13.12%	223,082	32,422	-	-	**255,504**
Sub-standard grade	11.25% - 35.95%	730	52,749	-	-	**53,479**
Low grade	100.00%	-	-	-	-	**-**
Non-performing						**-**
Group impaired	100.00%	-	-	1,107	-	**1,107**
Individually impaired	100.00%	-	-	14,417	-	**14,417**
Total		**274,189**	**85,171**	**15,524**	**-**	**374,884**

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The table below shows the credit quality and the maximum exposure to loans and advances to finance lending as of December 31, 2020.

Finance Lending

December 31, 2020 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	1.26% - 3.93%	437	-	-	-	**437**
Standard grade	9.23% - 13.12%	246	-	-	-	**246**
Sub-standard grade	11.25% - 35.95%	-	27	-	-	**27**
Low grade	100.00%	-	-	-	-	**-**
Non-performing						**-**
Group impaired	100.00%	-	-	-	-	**-**
Individually impaired	100.00%	-	-	-	-	**-**
Total		**683**	**27**	**-**	**-**	**710**

The table below shows the credit quality and the maximum exposure to loans and advances to retail lending as of December 31, 2020.

Retail Lending

December 31, 2020 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.46% - 3.24%	209,992	64	-	-	**210,056**
Standard grade	3.43% - 13.60%	3,022	211	-	-	**3,233**
Sub-standard grade	6.26% - 44.43%	527	4,672	-	-	**5,199**
Low grade	100.00%	-	-	-	-	**-**
Non-performing						**-**
Group impaired	100.00%	-	-	1,204	-	**1,204**
Individually impaired	100.00%	-	-	790	-	**790**
Total		**213,541**	**4,947**	**1,994**	**-**	**220,482**

The tables below summarize the ageing of stage 2 and stage 3 as of December 31, 2021.

Stage 2 – loans less than 30 days past due (dpd) and loans greater than 30 dpd irrespective of the criteria that triggered their classification in Stage 2).

Stage 3 – loans less than 90 dpd and loans greater than 90 dpd, thus presenting the loans classified as stage 3 due to ageing and those identified at an earlier stage due to other criteria. Stage 3 exposures are further analyzed to indicate those which are no longer credit impaired but in cure period that precedes transfer to stage 2.

(in Eur '000)	Stage 2		Stage 3		Total	
December 31, 2021	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
Less than:	**4,020**	**403**	**6,382**	**5,792**	**10,402**	**6,195**
30 dpd	4,020	403	3,933	3,589	7,593	3,992
90 dpd	-	-	2,450	2,203	2,450	2,203
More than:	**406**	**70**	**3,144**	**2,820**	**3,550**	**2,890**
30 dpd	406	70	-	-	406	70
90 dpd	-	-	3,144	2,820	3,144	2,820
Total	**4,426**	**473**	**9,527**	**8,612**	**13,953**	**9,085**

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The tables below summaries the ageing of stage 2 and stage 3 as of December 31, 2021 for corporate lending:

Corporate Lending	Stage 2		Stage 3		Total	
December 31, 2021	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
Less than:	**3,854**	**389**	**5,507**	**4,999**	**9,361**	**5,388**
30 dpd	3,854	389	3,390	3,112	7,244	3,501
90 dpd	-	-	2,117	1,887	2,117	1,887
More than:	**178**	**24**	**1,947**	**1,758**	**2,125**	**1,782**
30 dpd	178	24	-	-	178	24
90 dpd	-	-	1,947	1,758	1,947	1,758
Total	**4,032**	**413**	**7,454**	**6,757**	**11,486**	**7,170**

The tables below summaries the ageing of stage 2 and stage 3 as of December 31, 2021 for retail lending:

Retail Landing	Stage 2		Stage 3		Total	
December 31, 2021	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carryin g amount**	**ECL**
Less than:	**166**	**14**	**875**	**793**	**1,041**	**807**
30 dpd	166	14	543	477	709	491
90 dpd	-	-	333	316	333	316
More than:	**228**	**46**	**1,197**	**1,062**	**1,425**	**1,108**
30 dpd	228	46	-	-	228	46
90 dpd	-	-	1,197	1,062	1,197	1,062
Total	**394**	**60**	**2,073**	**1,855**	**2,467**	**1,915**

The tables below summarize the ageing of stage 2 and stage 3 as of December 31, 2020

(in Eur '000)	Stage 2		Stage 3		Total	
December 31, 2020	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
Less than:	**4,298**	**533**	**7,650**	**6,146**	**11,948**	**6,679**
30 dpd	4,298	533	5,371	4,356	9,669	4,889
90 dpd	0	0	2,279	1,790	2,279	1,790
More than:	**451**	**88**	**4,518**	**4,262**	**4,969**	**4,350**
30 dpd	451	88	0	0	451	88
90 dpd	0	0	4,518	4,262	4,518	4,262
Total	**4,749**	**621**	**12,168**	**10,408**	**16,917**	**11,029**

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

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The tables below summarize the ageing of stage 2 and stage 3 as of December 31, 2020 for corporate lending:

Corporate Lending	**Stage 2**		**Stage 3**		**Total**	
December 31, 2020	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
Less than:	**4,003**	**472**	**7,458**	**6,006**	**11,461**	**6,478**
30 dpd	4,003	472	5,247	4,266	9,250	4,738
90 dpd	0	0	2,211	1,740	2,211	1,740
More than:	**114**	**9**	**3,470**	**3,326**	**3,584**	**3,335**
30 dpd	114	9	0	0	114	9
90 dpd	0	0	3,470	3,326	3,470	3,326
Total	**4,117**	**481**	**10,928**	**9,332**	**15,045**	**9,813**

The tables below summaries the ageing of stage 2 and stage 3 as of December 31, 2020 for retail lending:

Retail Landing	**Stage 2**		**Stage 3**		**Total**	
December 31, 2020	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
Less than:	**295**	**61**	**192**	**140**	**487**	**201**
30 dpd	295	61	124	90	419	151
90 dpd	0	0	68	50	68	50
More than:	**337**	**79**	**1,048**	**936**	**1,385**	**1,015**
30 dpd	337	79	0	0	337	79
90 dpd	0	0	1,048	936	1,048	936
Total	**632**	**140**	**1,240**	**1,076**	**1,872**	**1,216**

Allowance for ECL for loans and advances to customers - Charge to profit or loss

	December 31, 2021	**December 31, 2020**
ECL charge for the year, net	2,074	9,596
Recovery of previously written of loans	(564)	(594)
Charge to profit and loss	**1,510**	**9,002**

Movement of allowance for ECL for loans and advances to customers

	December 31, 2021	**December 31, 2020**
Allowance for ECL for loans and advances to customers at January 1,	36,853	27,030
Charge during the year	29,524	25,704
Recoveries	(27,450)	(16,108)
ECL charge for the year, net	**2,074**	**9,596**
Written off loans	(895)	(42)
Change in accrued interest for stage 3 loans	(185)	269
Provision for loan impairment at December 31,	**37,847**	**36,853**

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

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

December 31, 2021	Balance at January 1, 2021	Transfer	Increases/ Decreases	Write offs	Repayments of written off receivables	Change in model risk parameter	Foreign exchange and other movements	Balance at December 31, 2021
Stage 1 12 M expected credit losses	**(10,991)**	**239**	**(2,380)**	**-**	**-**	**2,450**	**-**	**(10,682)**
Loan and advances to individuals	(1,708)	(169)	(277)	-	-	1,013	-	(1,141)
Loan and advances to legal entities	(9,283)	408	(2,103)	-	-	1,437	-	(9,541)
Stage 2 Lifetime ECL not credit impaired	**(11,630)**	**(1,294)**	**415**	**-**	**-**	**(348)**	**-**	**(12,857)**
Loan and advances to individuals	(1,169)	345	214	-	-	193	-	(417)
Loan and advances to legal entities	(10,461)	(1,639)	201	-	-	(541)	-	(12,440)
Stage 3 Lifetime ECL - credit impaired	**(14,232)**	**1,055**	**(500)**	**895**	**(563)**	**(1,148)**	**185**	**(14,308)**
Loan and advances to individuals	(1,678)	(176)	(774)	89	(116)	(89)	-	(2,744)
Loan and advances to legal entities	(12,554)	1,231	274	806	(447)	(1,059)	185	(11,564)
Total	**(36,853)**	**-**	**(2,465)**	**895**	**(563)**	**954**	**185**	**(37,847)**

December 31, 2020	Balance at January 1, 2020	Transfer	Increases/ Decreases	Write offs	Repayments of written off receivables	Change in model risk parameter	Foreign exchange and other movements	Balance at December 31, 2020
Stage 1 12 M expected credit losses	**(7,857)**	**(5,200)**	**1,771**	**-**	**-**	**295**	**-**	**(10,991)**
Loan and advances to individuals	(796)	(922)	269	-	-	(259)	-	**(1,708)**
Loan and advances to legal entities	(7,061)	(4,278)	1,502	-	-	554	-	**(9,283)**
Stage 2 Lifetime ECL not credit impaired	**(9,769)**	**207**	**252**	**-**	**-**	**(2,320)**	**-**	**(11,630)**
Loan and advances to individuals	(1,267)	(36)	603	-	-	(469)	-	**(1,169)**
Loan and advances to legal entities	(8,502)	243	(351)	-	-	(1,851)	-	**(10,461)**
Stage 3 Lifetime ECL - credit impaired	**(9,404)**	**4,993**	**(8,995)**	**42**	**(609)**	**10**	**(269)**	**(14,232)**
Loan and advances to individuals	(884)	958	(1,643)	10	(119)	-	-	**(1,678)**
Loan and advances to legal entities	(8,520)	4,035	(7,352)	32	(490)	10	(269)	**(12,554)**
Total	**(27,030)**	**-**	**(6,972)**	**42**	**(609)**	**(2,015)**	**(269)**	**(36,853)**

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31, 2021	December 31, 2020
Treasury bonds and bills	118,200	102,002
AFS Investment in shares	780	708
Total financial assets available for sale	**118,980**	**102,710**
Current	75,327	48,495
Non-current	43,653	54,215

The Kosovo Government Securities amounted to EUR 76.5 million and compared to 31.12.2020 it increased by EUR 1.3 million or 1.7%. Structure of securities is as follows:

- Kosovo Bonds EUR 76.5 million, (interest rates 0.80% to 4.5%) and maturity from 1-6.5 years.
- US Bonds USD 11.5 million (EUR 10.2 million), (interest rate average of 0.24%) and maturity of 1-5 months.
- EU Bonds EUR 31.5 million, (interest rate average of -1.10%) and maturity of 1-2 months.

The US and EU Bonds are also issued by US and EU countries governments. All financial assets are with fixed interest yield. As of December 31, 2021, there are no pledged debt securities to third parties.

Investment in shares are in amount of 0.78 million and represents investments in shares in VISA Inc, Class C Common stock, quoted in active market. These equity instruments were granted by VISA inc to all of its members at no considerations. The fair value of the instruments on grant date was recognised by the Bank in the current year income.

The table below shows the credit quality and the maximum exposure financial assets at fair value through other comprehensive income as of:

December 31, 2021 Internal rating grade	12 month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.05% - 0.30%	41,667	-	-	-	**41,667**
Standard grade	0.60% - 2.40%	76,533	-	-	-	**76,533**
Sub-standard grade	4.80% - 19.20%	-	-	-	-	-
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	-	-	-
Individually impaired	100.00%	-	-	-	-	-
Total		**118,200**	**-**	**-**	**-**	**118,200**

December 31, 2020 Internal rating grade	12 month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.05% - 0.30%	26,780	-	-	-	**26,780**
Standard grade	0.60% - 2.40%	75,222	-	-	-	**75,222**
Sub-standard grade	4.80% - 19.20%	-	-	-	-	-
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	-	-	-
Individually impaired	100.00%	-	-	-	-	-
Total		**102,002**	**-**	**-**	**-**	**102,002**

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Movement in allowance for ECL for financial instruments FVOCI, charged to profit and loss and equity is as following:

	December 31, 2021	December 31, 2020
Opening balances	1,022	846
Charge to profit and loss	(141)	176
Closing balance	**881**	**1,022**

Debt Securities: December 31, 2021	Balance at January 1, 2021	Transfer	Increases/ Decreases	Write offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2021
Stage 1 - 12 M expected credit losses	**(1,022)**	-	7	-	-	134	-	**(881)**
Stage 2 Lifetime ECL not credit impaired	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	-	-	-	-	-	-	-	-
Total	**(1,022)**	**-**	**7**	**-**	**-**	**134**	**-**	**(881)**

Debt Securities: December 31, 2020	Balance at January 1, 2020	Transfer	Increases/ Decreases	Write offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2020
Stage 1 12 M expected credit losses	(846)	-	(176)	-	-	-	-	**(1,022)**
Stage 2 Lifetime ECL not credit impaired	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	-	-	-	-	-	-	-	-
Total	**(846)**	**-**	**(176)**	**-**	**-**	**-**	**-**	**(1,022)**

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

8. OTHER ASSETS

	December 31, 2021	December 31, 2020
Prepaid expenses	283	408
Receivables from cards business	1,258	2,039
Inventories	28	12
Other financial assets	82	284
Total other assets	**1,651**	**2,743**
Current	**1,651**	**2,743**

Receivables from cards business has been reclassified in 2020 as other assets and do not form part of cash and cash equivalents.

Other financial assets consist of receivables from maintenance of accounts fees, Receivables from insurance Companies, maintenance accounts etc, and their expected credit losses are as follows:

	December 31, 2021			December 31, 2020		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
Other financial assets	3,228	(3,146)	82	2,467	(2,183)	284
Total	**3,228**	**(3,146)**	**82**	**2,467**	**(2,183)**	**284**

Allowance for ECL movement for the years ended December 31, 2021 and 2020 is as following:

	December 31, 2021	December 31, 2020
Opening balances	2,183	768
Charge for the year	963	1,415
Closing balance	**3,146**	**2,183**

Recoveries of impairment are entirely due to decreases other financial asset balances as a result of collection or sale.

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

9. PROPERTY AND EQUIPMENTS

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Motor vehicles	Total
Cost:						
As at January 1, 2020	**10,768**	**925**	**3,189**	**3,876**	**710**	**19,468**
Additions during the year	-	1	493	540	-	1,034
Transfer	-	-	(595)	595	-	-
Write offs/disposals	(122)	(16)	(54)	(22)	(44)	(258)
As at December 31, 2020	**10,646**	**910**	**3,033**	**4,989**	**666**	**20,244**
Additions during the year	2	49	346	134	158	689
Transfer	-	-	(132)	132	-	-
Write offs/disposals	-	-	(5)	-	(49)	(54)
As at December 31, 2021	**10,648**	**959**	**3,242**	**5,255**	**775**	**20,879**
Accumulated depreciation:						
As at January 1, 2020	**2,071**	**831**	**2,238**	**2,633**	**609**	**8,382**
Charge for the year	323	22	149	504	51	1,049
Write offs	(27)	(16)	(54)	(21)	(26)	(144)
As at December 31, 2020	**2,367**	**837**	**2,333**	**3,116**	**634**	**9,287**
Charge for the year	320	26	225	621	36	1,228
Write offs/disposals			(5)		(36)	(41)
As at December 31, 2021	**2,687**	**863**	**2,553**	**3,737**	**634**	**10,474**
Net book value:						
As at December 31, 2020	**8,279**	**73**	**700**	**1,873**	**32**	**10,957**
As at December 31, 2021	**7,961**	**96**	**689**	**1,518**	**141**	**10,405**

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

9. PROPERTY AND EQUIPMENTS (CONTINUED)

9.1. RIGHT OF USE OF ASSETS

The bank has adopted IFSR 16 as of January 1, 2019 and the table below represents the details for 2021 and 2020.

	Land and buildings at cost-lease	Furniture and equipment at cost-lease	Total
Cost:			
As of January 01, 2020	**2,757**	**510**	**3,267**
Additions during the year	604	102	706
Transfer			-
Write offs/disposals	(254)	-	(254)
As of December 31, 2020	**3,107**	**612**	**3,719**
Additions during the year	740	99	839
Transfer			-
Write offs/disposals	(599)	-	(599)
As of December 31, 2021	**3,248**	**711**	**3,959**
Accumulated depreciation:			
As of January 01, 2020	**530**	**102**	**632**
Charge for the year	518	102	620
Transfer			
Write offs	(48)	-	(48)
As of December 31, 2020	**1,000**	**204**	**1,204**
Charge for the year	525	101	626
Transfer			
Write offs	(240)	-	(240)
As of December 31, 2021	**1,285**	**305**	**1,590**
Net book value:			
As of December 31, 2020	**2,107**	**408**	**2,515**
As of December 31, 2021	**1,963**	**406**	**2,369**

9.1.1 Expenses recognized in Statement of Comprehensive Income

	December 31,2021	December 31,2020
Depreciation Expenses	626	620
Interest expense (included in finance cost)	60	58
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)	91	149
Total cash outflow for leases	**686**	**827**

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

9. PROPERTY AND EQUIPMENTS (CONTINUED)

9.1. RIGHT OF USE OF ASSETS(CONTINUED)

9.1.2 Lease Liability

	December 31, 2021	December 31, 2020
Lease Liability opening January 1,	2,521	2,627
Addition of Right of Use Assets	839	706
Write of/Disposal	(358)	(206)
-less Lease payment	(668)	(664)
Net interest on Lease Liabilities	50	58
Total Lease Liability	**2,384**	**2,521**

9.1.3 Maturity Lease Liability

The present value of lease liabilities as at 31 December 2021 and 2020 is as follows:

	December 31, 2021	December 31, 2020
Up to 30 days	52	53
From 1 to 3 months	104	107
From 3 to 6 months	156	240
From 6 to 12 months	312	240
Over 12 months	1,760	1,881
Total	**2,384**	**2,521**

10. INTANGIBLE ASSETS

Cost:	**Software**
As at January 1, 2020	4,054
Additions	467
As at December 31, 2020	**4,521**
Additions	594
As at December 31, 2021	**5,115**
Accumulated amortization:	
As at January 1, 2020	3,022
Charge for the year	361
As at December 31, 2020	**3,383**
Charge for the year	388
As at December 31, 2021	**3,771**
Net book value:	
As at December 31, 2020	**1,138**
As at December 31, 2021	**1,344**

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

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

11. DUE TO BANKS

	December 31, 2021	December 31, 2020
Current accounts	558	1,172
Total due to banks	**558**	**1,172**
Current	558	1,172

Due to banks represents deposits of local and foreign banks, which have accounts in the Bank.

12. DUE TO CUSTOMERS

Demand Deposits	**December 31, 2021**	**December 31, 2020**
Enterprises	167,580	156,504
Citizens	503,335	418,972
Governments	7,289	5,888
	678,204	**581,364**
Term Deposits		
Enterprises	15,996	39,972
Citizens	100,375	121,955
Governments	4,214	5,026
	120,585	**166,953**
Total due to customers	**798,789**	**748,317**
Current	741,621	675,835
Non-Current	57,168	72,482

Due to customers include accrued interest in the amount of EUR 635 thousand (2020: EUR 984 thousand). The Current – Non Current distinction is made on contractual basis.

Analysis by class of business for term deposits and current accounts is as follows:

	December 31, 2021	**December 31, 2020**
Sector	**% of total due to customers**	**% of total due to customers**
Citizens	76%	72%
Enterprises, governments and other legal entities	24%	28%
	100%	**100%**
	Amounts total due to customers	**Amounts total due to customers**
Citizens	603,710	540,927
Enterprises, governments and other legal entities	195,079	207,390
	798,789	**748,317**

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

13. OTHER FINANCIAL LIABILITIES

	December 31, 2021	December 31, 2020
Pending client's transfers	4,701	3,244
Accrued expenses	1,020	1,044
Due to suppliers	436	103
Liabilities for bonuses	577	611
Liabilities on transfers remote on - us	886	775
Lease liabilities	2,384	2,521
Others	292	395
Total other financial liabilities	**10,296**	**8,693**

Pending client's transfers represents the payments collected on behalf of third parties through the clearing system, which remained unpaid to the intended recipients at the year end. In this amount is included amount of EUR 4,025 thousand (2020: EUR 1,334 thousand) payable to Customs Authorities, which was transferred on January 05, 2022 to the customs authorities' bank account. The remaining balance represents amounts payable to other recipients.

14. PROVISIONS AND OTHER LIABILITIES

	December 31, 2021	December 31, 2020
Provisions for legal cases	4,195	4,199
Provisions for fines and penalties	22	22
Provisions for guarantees	596	1,387
Expected credit losses for unused exposures	1,198	1,623
Other provisions	80	80
Total Provisions	**6,091**	**7,311**
Deferred income from guarantees	91	111
VAT and other tax payable	162	112
Total other liabilities	**253**	**223**
Total provisions and other liabilities	**6,344**	**7,534**

Movements on allowance for ECL on Guarantees and unused exposures as of December 31, 2021 and 2020 are as follows:

December 31, 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at January 1, 2021	**1,733**	**506**	**772**	**3,011**
Transfer	82	-81	(1)	-
Increases/Decreases	20	(152)	(734)	(866)
Write offs	-	-	-	-
Changed in models/risk parameters	-331	-20	1	-350
Foreign exchange and on movements	-	-	-	-
Balance at December 31, 2020	**1,504**	**253**	**38**	**1,795**

December 31, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at January 1, 2020	**(1,329)**	**(300)**	**(767)**	**(2,396)**
Transfer	(32)	16	16	-
Increases/Decreases	(491)	(171)	(20)	(682)
Write offs	-	-	-	-
Changed in models/risk parameters	119	(51)	-	68
Foreign exchange and on movements	-	-	-	-
Balance at December 31, 2020	**(1,733)**	**(506)**	**(771)**	**(3,010)**

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

15. PROVISION FOR LEGAL CASES – OTHER PROVISIONS

Provision expense for legal cases, guarantees and other are as follows:

	December 31, 2021	December 31,2020
Provisions for legal cases	13	68
Provisions for fines and penalties	-	-
Provisions/Release for guarantees	(791)	188
Provisions /Release for unused exposures	(426)	426
Charge to profit and loss	**(1,204)**	**676**

Movement of Guarantees and unused exposures is presented on the Note 14 above, while movement of provisions for legal cases are as follows:

	December 31, 2021	December 31, 2020
Balance as at January 1, for legal cases	4,199	4,137
Charge of the year for provision for legal cases	23	62
Utilized during the year	(27)	-
Balance as at December 31, for legal cases (note 29, b)	**4,195**	**4,199**

16. BORROWINGS AND SUBORDINATED DEBTS

	December 31, 2021	December 31, 2020
Current portion		
Leasing for vehicles	-	5
Interest payable ne subordinated debt	8	8
Total current portion	**8**	**13**
Non-current portion		
Leasing for vehicles	-	-
Subordinated debt	15,000	15,000
Total non-current portion	**15,000**	**15,000**
Total borrowings	**15,008**	**15,013**

The subordinated debt represents the loan used for purpose of additional Tier II capital. The agreement has been signed on June 19, 2019 with tenor of 10 years with fixed interest rate of 4.95%.

The bank has signed three contracts for leasing vehicles, two agreements dated April 18, 2016 and maturity March 16, 2021, with fixed interest rate of 7%, and one dated November 11, 2017 and maturity November 11, 2022, and fixed interest rates of 6%. The leases are low value and no right of use assets has been recognised. As of December 31, 2021 the Bank has paid the leasing liabilities.

17. SHARE CAPITAL

As at December 31, 2021, the share capital amounted to EUR 51,287 thousand (2020: EUR 51,287 thousand.

Authorised share capital		
42,739 Ordinary shares at par value of EUR 1,200 each	51,287	51,287
Paid up share capital		
42,739 Ordinary shares at par value of EUR 1,200 each	**51,287**	**51,287**

All shares have rights to dividends and carry equal voting rights. There are no restrictions attached to the shares. The capital of the Bank has been increasing organically during the years through capitalization of retained earnings.

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

17. SHARE CAPITAL (CONTINUED)

A summary of share ownership of the Bank is as follows:

Shareholders	Precentage ownership	December 31, 2021	Precentage ownership	December 31, 2020
Nova Ljubljanska Banka d.d	82.38%	42,249	81.21%	41,652
Agjencioni Turizmit "MCM"	4.71%	2,414	4.71%	2,414
Mr. Hashim Deshishku	2.48%	1,271	2.48%	1,271
Mr. Rizah Deshishku	1.24%	636	1.24%	636
Mr. Bashkim Deshishku	1.24%	636	1.24%	636
Mrs. Nerimane Ejupi	1.22%	625	1.22%	625
Mr. Naim Ejupi	1.21%	622	1.21%	622
Mr. Remzi Ejupi	0.00%	462	1.16%	596
Mr. Metush Deshishku	0.90%	323	0.90%	462
"Dardania - 2" Sh.p.k.	0.63%	310	0.63%	323
Mr. Xhemajl Ismajli	0.60%	308	0.60%	310
NPTSh "Jehona"	0.60%	259	0.60%	308
Mrs. Blerina Ejupi	0.51%	223	0.51%	259
MR. Elez Sylaj	0.44%	174	0.44%	223
Mr. Kadri Shalaku	0.34%	124	0.34%	174
"Raf II" sh.p.k.	0.24%	116	0.24%	124
Others	1.27%	535	1.27%	652
Total	**100%**	**51,287**	**100%**	**51,287**

During 2021 the NLB d.d has increased for 1.16% the ownership in NLB Banka through purchase of shares from minority shareholder of the bank.

18. INTEREST AND SIMILAR INCOME

Analysis by class of assets:

	Year ended December 31, 2021	Year ended December 31, 2020
Income from loans and advances to customers	36,936	35,441
Income from financial assets available for sale	1,146	1,054
Income on loans and advances to banks	1	1
Total interest income	**38,083**	**36,496**

19. INTEREST AND SIMILAR EXPENSES

Analysis by class of liabilities:

	Year ended December 31, 2021	Year ended December 31, 2020
Interest to customers	2,357	3,023
Interest on borrowings	753	755
Interest on due to banks	186	176
Negative interest on loans and advances to banks	327	256
Total interest expense	**3,623**	**4,210**

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

20. FEE AND COMMISSION INCOME

Analysis of fee and commission income relating to activities:

	Year ended December 31, 2021	Year ended December 31, 2020
Card and ATM operations	4,786	3,662
Payment transfers and transactions	2,402	1,904
Account maintenance fee	4,867	4,487
Guarantees and letters of credit	555	486
Payments -account maintenance fee for retirees	431	436
Fee for repayment of loan before maturity	165	184
Others	217	45
Total fee and commission income	**13,423**	**11,204**

Payments from account maintenance fee from retirees represents fee income paid by the Ministry of Labour of Kosovo for retirees based on the Memorandum of Understanding concluded between the bank and Ministry of Labour of Kosovo for all retirees having a bank account with the Bank. For each retiree an amount of EUR 5 is paid to the bank on an annual basis.

21. FEE AND COMMISSION EXPENSES

Analysis of fee and commission expenses relating to activities:

	Year ended December 31, 2021	Year ended December 31,2020
Card and ATM operations	3,660	2,630
Payment transfers and transactions	278	219
Guarantees and Letters of Credit	79	76
Payments –CBK related fees	280	307
Other fees	322	269
Total fee and commission expenses	**4,619**	**3,501**

22. OTHER INCOME/EXPENSES, NET

	Year ended December 31, 2021	Year ended December 31,2020
Licensing expense	(604)	(551)
Deposit insurance expenses	(1,256)	(1,079)
Other expense	(76)	(66)
Other Income	29	46
Other operating income/expenses, net	**(1,907)**	**(1,650)**
Foreign exchange translation (loss)/gain	**16**	**23**
Foreign exchange trading income	645	683
Foreign exchange trading expense	(186)	(367)
Foreign exchange trading income	**459**	**316**
Net foreign exchange gain	**475**	**339**
Other operating income/expenses, net	**(1,432)**	**(1,311)**

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

23. PERSONNEL EXPENSES

	Year ended December 31, 2021	Year ended December 31, 2020
Salaries and wages	5,217	5,134
Mandatory staff pension contributions	280	274
Staff health insurance costs	183	183
Employee's food costs	223	207
Other staff costs	947	360
Total staff costs	**6,850**	**6,158**

24. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Year ended December 31, 2021	Year ended December 31, 2020
Maintenance	1,680	1,383
Charge for professional services	554	471
Office supplies	432	437
Security and insurance costs	421	365
Telecommunications	287	268
Utilities	222	206
Marketing and sponsorship	200	274
Taxes and commissions	177	66
Operating lease expenses	175	185
Others	157	254
Cleaning expenses	77	110
Representation	59	38
Travel	12	42
Total Administrative and other operating expense	**4,453**	**4,099**

25. INCOME TAX EXPENSE

	Year ended December 31, 2021	Year ended December 31, 2020
Current income tax expense	2,731	1,780
Deferred tax expense/(credit)	56	(69)
Tax expense	**2,787**	**1,711**

a) Detailed below is the calculation of current income tax expense.

	Year ended December 31, 2021	Year ended December 31, 2020
Profit for the year before taxation	**27,224**	**15,045**
Profit tax on profit at the rate of 10%	2,722	1,505
Net tax effect of adjustments for tax purposes	9	275
Tax expense	**2,731**	**1,780**

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

25. INCOME TAX EXPENSE (CONTINUED)

The tax rate on corporate income is set at 10% in accordance with Kosovo tax regulations currently in force, Law no. 06/L-105 "On Corporate Income Tax". According to tax legislation in Kosovo, the tax authorities have the right to examine tax returns six years after their submission. Movement of current tax receivable is as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Current income tax receivable at January 1,	268	(118)
Income tax expense	(2,731)	(1,780)
Income tax expense paid during the year	1,726	2,137
Transfer to prepaid tax for previous years	42	29
Current income tax payable/receivable	**(695)**	**268**

b) Deferred tax asset has been recognized as follows for the temporary differences:

	Year ended December 31, 2021	Year ended December 31, 2020
Loan and guarantees impairment provision		-
Property and equipment and intangible assets	(1,833)	(1,777)
Interest expense on deposits	529	1,038
Provision for legal and other	4,825	4,836
Available for sale revaluation reserve	(623)	(827)
Total deductible temporary difference	**2,898**	**3,270**
Total net deferred tax asset @ 10%	**290**	**327**

The movement in the deferred tax asset account is as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Deferred tax asset as at January 1,	327	248
Deferred tax income/ charge	(56)	69
Available for sale revaluation reserve (equity)	19	10
Deferred tax asset as at December 31,	**290**	**327**

26. OTHER COMPREHENSIVE INCOME

	Year ended December 31, 2021	Year ended December 31, 2020
Gain on change of fair value of AFS securities	561	731
Credit/Debit to other comprehensive income	**561**	**731**

The movement in revaluation reserve is as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Market price as at January 1	731	833
Price change of financial instruments FVOCI	(189)	(113)
Deferred tax on FVOCI	19	11
Net as presented in other comprehensive income (a)	**(170)**	**(102)**
Market price as of December 31 (A)	**561**	**731**
Allowance for ECL of securities at FVOCI at January 1	(1,022)	(846)
Net as presented in profit or loss (b)	**141**	**(176)**
Allowance for ECL of securities at FVOCI at December 31 (B)	**(881)**	**(1,022)**
Revaluation Reserve as at December 31 (A-B)	**1,442**	**1,753**
Fair value change during the year (a-b)	**(311)**	**74**
Net gain on debt instruments at fair value of FVOCI securities	(365)	24
Net gain on equity instruments at fair value of FVOCI securities	54	50
Net impact	**(311)**	**74**

27. EARNING PER SHARE

Earnings per share are calculated by dividing net profit attributable to the ordinary shareholders by the number of ordinary shares for the period.

	Year ended December 31, 2021	Year ended December 31, 2020
Net profit	24,437	13,334
Number of ordinary shares (in thousands)	42.7	42.7
Earnings per share	**571.8**	**312.3**

DIVIDENDS DECLARED AND PAID

The General Assembly of Shareholder's on its extraordinary meeting held on December 3, 2021 approved the dividend distribution of net profit of 2019 and 2020.

The bank declared and paid dividend per share of EUR 333.88 from net profit of 2019 totalling EUR 14,270 thousand and dividend per share of EUR 218.38 from net profit of 2020 totalling EUR 9,333 thousand, which represents 70% of realized of net profit of respective year

The total dividend paid from the net profit of 2019 and 2020 was EUR 23,604 thousand. The majority of dividend was paid to shareholders on December 17, 2021.

28. RELATED PARTY DISCLOSURES

In determination of related parties the Bank applies IAS 24 requirements. Related parties include:

- The parties which directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with the entity,
- Parties in which the Bank has an interest that gives it significant influence or joint control over the entity,
- Private individuals who directly or indirectly have voting power in the Bank that gives them significant influence over the Bank, and entities controlled or jointly controlled by such individuals, members of the key management personnel, i.e. individuals with authority and responsibilities for planning, managing and controlling the Bank's operations, including directors,
- When taking into account each possible transaction with a related party, attention is focused on the substance of the relationship not just the legal form.

The Bank is controlled by Nova Ljubljanska Banka d.d. Ljubljana incorporated in Slovenia (Parent), which owns 82.38% of the ordinary shares as at December 31, 2021 (2020: 81.21% ordinary shares). The remaining shares are held by other small shareholders (17.62%).

The Bank performs a number of related party transactions in the course of its regular operations. The transactions include investments, deposits, borrowings, and foreign currency transactions. These transactions were carried out on normal commercial terms and market prices.

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

28. RELATED PARTY DISCLOSURES (CONTINUED)

The following table summarizes the scope of related party transactions, balances of assets and liabilities at December 31, 2021 and related income and expenses for the year then ended. These transactions are on contractual terms.

December 31, 2021	Parent Company	Sister companies	Key management personnel	Total
Receivables				
Loans and advances to banks	972	30	-	**1,002**
Loans and advances to customers	-	-	262	**262**
Securities	-	-	-	-
Other receivables	-	-		-
Total Receivables	**972**	**30**	**262**	**1,264**
Liabilities				
Deposits	0	-	1,417	**1,417**
Borrowings	-	-	-	**0**
Subordinated debt	15,008	-	-	**15,008**
Other liabilities	51	54		**105**
Total Liabilities	**15,059**	**54**	**1,417**	**16,530**
Net Receivables/(Liabilities)	**(14,087)**	**(24)**	**(1,155)**	**(15,266)**
Confirmed guarantees	-	22	**-**	**22**
Income				
Interest income	-	-	-	**-**
Fee income			3	**3**
Foreign exchange gain	196	-	-	**196**
Total Income	**196**		**3**	**199**
Expenses				
Interest expenses	(753)	0	(3)	**(756)**
Fee expenses	(46)	(2)	-	**(48)**
Foreign exchange loss	(155)	-	-	**(155)**
Salaries rents and other expenses	(105)	(109)	-	**(214)**
Total Expenses	**(1,059)**	**(111)**	**(3)**	**(1,173)**
Net income/(expense)	**(863)**	**(111)**	**0**	**(974)**

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

28. RELATED PARTY DISCLOSURES (CONTINUED)

The following table summarizes the scope of related party transactions, balances of assets and liabilities at December 31, 2020 and related income and expenses for the year then ended.

December 31, 2020	Parent Company	Sister companies	Key management personnel	Total
Receivables				
Loans and advances to banks	1,181	95	-	1,276
Loans and advances to customers	-	-	164	164
Securities	-	-	-	-
Other receivables	-	-		-
Total Receivables	**1,181**	**95**	**164**	**1,440**
Liabilities				
Deposits	62	-	1,297	1,359
Borrowings	-	4	-	4
Subordinated debt	15,008	-	-	15,008
Other liabilities	11	152	97	163
Total Liabilities	**15,081**	**156**	**1,394**	**16,534**
Net Receivables/(Liabilities)	**(13,900)**	**(61)**	**(1,230)**	**(15,094)**
Confirmed guarantees	780	403	-	1,183
Income				
Interest income	-	-	3	3
Fee income	-	-	-	-
Foreign exchange gain	151	-	-	151
Total Income	**151**	**-**	**3**	**154**
Expenses				
Interest expenses	(757)	(1)	(1)	(759)
Fee expenses	(43)	(2)	-	(45)
Foreign exchange loss	(135)	-	-	(135)
Salaries rents and other expenses	(90)	(64)	-	(154)
Total Expenses	**(1,025)**	**(67)**	**(1)**	**(1,093)**
Net income/(expense)	**(874)**	**(67)**	**2**	**(939)**

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

28. RELATED PARTY DISCLOSURES (CONTINUED)

Key management Compensation: Key management consists of the management board of the bank and its compensation was as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Salaries	309	288
Bonus	184	-
Total	**493**	**288**

29. OFF BALANCE SHEET, COMMITMENTS AND CONTINGENCIES

a. Guarantees and letters of credit

Credit related commitments include commitments to extend credit, letters of credit and guarantees given, which are designed to meet the requirements of the Bank's customers. Letters of credit and guarantees given to customers commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Commitments to extend credit represent contractual commitments to make 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.

The aggregate outstanding amount of guarantees, letters of credit and stand by letter of credit issued by the Bank are as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Customs	2,081	1,398
Guarantees for payments	15,000	15,448
Public tenders guarantee	1,510	1,513
Letters of Credit	5,178	1,512
Standby letter of Credit	914	844
	24,683	**20,715**
Guarantees for completion of work	4,245	4,587
	28,928	**25,302**
Committed loans to customers not yet issued	75,430	62,604
Total	**104,358**	**87,906**

Guarantees:	Year ended December 31, 2021	Year ended December 31, 2020
Secured		
Secured by cash deposits	3,806	3,576
Secured by other collateral	17,607	20,332
	21,413	**23,908**
Unsecured	1,423	1,394
Total	**22,836**	**25,302**

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

29. OFF BALANCE SHEET, COMMITMENTS AND CONTINGENCIES (CONTINUED)

a. Guarantees and letters of credit (continued)

The table below shows the credit quality and the maximum exposure of balance sheet commitments and contingencies as of December 31, 2021.

Internal rating grade	12 month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	1.20% - 1.38%	33,546	1	-	-	**33,547**
Standard grade	6.17% - 9.21%	63,104	6,466	-	-	**69,570**
Sub-standard grade	19.06% - 37.06%	230	939	-	-	**1,169**
Low grade	100.00%	-	-	-	-	**-**
Non-performing						**-**
Group impaired	100.00%	-	-	55	-	**55**
Individually impaired	100.00%	-	-	17	-	**17**
Total		**96,880**	**7,406**	**72**	**-**	**104,358**

The table below shows the credit quality and the maximum exposure of balance sheet commitments and contingencies as of December 31, 2020.

Internal rating grade	12 month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.27% - 5.24%	36,858	-	-	-	**36,858**
Standard grade	5.24% - 12.40%	44,380	3,510	-	-	**47,890**
Sub-standard grade	12.40% - 20.12%	340	2,008	-	-	**2,348**
Low grade	100.00%	-	-	-	-	**-**
Non-performing						**-**
Group impaired	100.00%	-	-	58	-	**58**
Individually impaired	100.00%	-	-	752	-	**752**
Total		**81,578**	**5,518**	**810**	**-**	**87,906**

b. Legal cases

From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice, management has calculated provision for expected losses, and accordingly provision has been made in these financial statements in the amount of EUR 4,195 thousand (note other liabilities) as at December 31, 2021. The nature of the most significant cases is as follows:

- Disagreement with supplier of headquarter building in relation to the surface are of the property (Eur 1,148 thousand),
- Claimed unfairness of dismissal by former employees,
- Disagreement with Lessors in relation to the amount of rent.

The cases are expected to be closed in the next two or three years. In case of, no reimbursement from insurance or other sources is expected. The Bank has provided the maximum exposure in each legal case.

c. Seized collateral

As at December 31, 2021 Bank has off balance sheet seized collateral on liquidated amount (bailiff valuation) of EUR 5,773 thousand (2020 EUR 5,829 thousand). The Bank has completed legal foreclosure procedures however it still is in the process of obtaining physical control of the properties.

30. FAIR VALUES AND RISK MANAGEMENT

a. Capital Risk Management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.
The capital structure of the Bank consists of debt, which includes the borrowings, and the equity attributable to equity holders, comprising paid up capital and retained earnings.

Tier I capital means a bank's permissible permanent paid-in capital which may be comprised of any or all of the following:

(i) Common equity shares and their related surplus;
(ii) Earnings which have not been distributed.

Additional Tier 1 capital – means:

(i) Perpetual preferred shares (being those which, in the event of liquidation of the bank, are not paid any amounts until all depositors and other creditors have been fully addressed, but are paid in full, (preferred) before any common shareholder is paid and which have rights to agreed dividend payments but which have no maturities or options of their holders to redeem);

(ii) Such other instruments as may be approved by the CBK as permissible permanent capital from time to time by rule or order.

Deductions from Tier 1 Capital:

(i) Goodwill and intangible assets are to be deducted from a bank's Tier 1 capital before the Tier 2 capital portion of the calculation is made;
(ii) Investments in equity of banks or other financial institutions that comprise above ten per cent (10%) of their capital (this percentage shall include also the subordinated rights), or investments in amounts less than 10% of their capital, but with a significant influence in decision making of these financial institutions. Investments in equity of banks and other financial institutions (including here also the subordinated rights) that comprise less than 10% of the bank's equity before deductions, where the amount above the 10% threshold shall be deducted.;
(iii) Deferred tax assets;
(iv) Lending to a Bank-Related Person, except lending covered with cash.

Tier II capital includes a Bank's:

(i) Reserves for loan losses up to a maximum of 1.25% (one point twenty-five percent) of its risk weighted assets at any one time or such other percentage as may be established by the CBK from time to time by rule or order;

(ii) Ordinary preferred shares (being preferred shares which have maturities or are redeemable at the option of their holders and which are cumulative (have the right to payment of past dividends missed) if the bank has the option to defer payment of dividends;

(iii) Term preferred shares (shares whose holders have the right to redeem them and which have terms of 5 years or more). These shares are subject to approval as capital from time to time throughout their terms by the CBK. The amount of long-term preferred shares (shares with maturities in excess of ten (10) years eligible to be included in Tier 2 capital will be reduced by 20 % (twenty percent) of their original amounts at the beginning of each of the last 5 years of their terms;

(iv) Term debt instruments which are fully subordinated to the rights of depositors (those which, in the event of liquidation of the bank, are not paid any amounts until all depositors have been paid. The amount of long-term subordinated debt instruments (those with maturities in excess of ten years) eligible to be included in Tier 2 capital will be reduced by 20% (twenty percent) of their original amounts at the beginning of each of the last five (5) years of the instrument's life;

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

a. Capital Risk Management (continued)

(v) Debt instruments which are mandatory convertible into common shares and which are unsecured and fully paid-in;

(vi) Subordinated term debt are liabilities, but if subordinated term debt was issued with an original term to maturity of over five years, then it may be included as Tier 2 capital to a maximum of 50% (fifty percent) of Tier 1 capital;

(vii) Tier 2 capital cannot be higher than 100% (one hundred percent) of Tier 1 capital.

Minimum Risk-Based Capital Ratios

The bank maintains a minimum total capital to risk-weighted asset ratio of 12% and a Tier I capital to risk-weighted asset ratio of 8% in accordance with the rule on Capital Adequacy issued by the Central Bank of Republic of Kosovo. Also the bank is required to maintain a minimum 9 percent leverage ratio. (Leverage ratio equals total equity / total assets).

i. A bank's risk adjusted capital is obtained by dividing its capital base by its risk weighted assets.
ii. The minimum ratio set forth above may be increased by the CBK by rule or order from time to time.

As of reporting period, the capital adequacy ratios in accordance with CBK's framework for the preparation of financial statements are as follows:

Tier 1 capital	**December 31, 2021**	**December 31, 2020**
Share capital	51,287	51,287
Reserves	1,714	1,753
Eligible retained earnings	40,202	31,961
less: deductions from capital	(3,386)	(3,433)
Total qualifying Tier 1 capital	**89,817**	**81,568**
Tier 2 capital		
Subordinated liability	15,000	15,000
Provisions for loan losses (limited to 1.25% of RWA)	7,459	6,657
Total qualifying Tier 2 capital	**22,459**	**21,657**
Total regulatory capital	**112,276**	**103,225**
Risk-weighted assets:		
On-balance sheet	568,178	506,318
Off-balance sheet	28,520	26,284
Risk assets for operational risk	51,234	47,133
Total risk-weighted assets	**647,932**	**579,735**
Tier I capital to risk- weighted asset ratio	**13.9%**	**14.1%**
Total capital to risk-weighted asset ratio	**17.3%**	**17.8%**
Total equity to total assets	**10.6%**	**11.2%**

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

b. Categories of Financial Instruments

The table below is reconciliation of financial instruments classes as per IFRS 9 measurement categories. As at the year end the Bank has the following financial instruments:

	December 31, 2021	December 31, 2020
Loans and advances		
Cash and balances with Central bank	134,038	169,346
Loans and advances to banks	26,940	29,837
Loans and advances to customers	634,530	559,223
Financial assets available for sale	118,980	102,710
Other financial assets	83	284
Total financial assets	**914,571**	**861,400**
Financial liabilities at amortized cost		
Due to banks	558	1,172
Due to customers	798,789	748,317
Other financial liabilities	10,296	8,693
Borrowings from banks	15,008	15,013
Total financial liabilities	**824,651**	**773,195**

c. Financial Risk Management Objectives

The Bank's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk), credit risk and liquidity risk.

Compliance with policies and exposure limits is reviewed by the management committees and internal auditors on a continuous basis. The Bank does not enter into or trade significant derivative financial instruments.

d. Market Risk

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The market risk is not concentrated to currency risk or interest rate risk, as major transactions of the Bank are in local currency and majority of the interest rates are fixed.

In EUR Thousands	Carrying amount	Traded risk	Non-traded risk	Carrying amount	Traded risk	Non-traded risk	Primary risk sensitivity
	2021	2021	2021	2020	2020	2020	
Assets							
Cash and balances with central banks	134,037	-	134,037	169,346	-	169,346	Interest rate
Due from banks	26,940		26,940	29,837		29,837	Interest rate FX
Debt instruments at FVOCI	118,200	118,200		102,002	102,002	-	Interest rate
Equity instruments at FVOCI	780	780	-	708	708	-	Traded risk
Loans and advances to customers	634,529	-	634,529	559,223	-	559,223	Interest rate FX
Total	**914,486**	**118,980**	**795,506**	**861,116**	**102,710**	**758,406**	
Liabilities							
Due to banks	558	-	558	1,172	-	1,172	Interest rate FX
Due to customers	798,789	-	798,789	748,317	-	748,317	Interest rate FX
Debt issued and other borrowed funds	15,008	-	15,008	15,013	-	15,013	Interest rate
Other liabilities	10,296	-	10,296	8,693	-	8,693	Interest rate FX
Total	**824,651**	**-**	**824,651**	**773,195**	**-**	**773,195**	

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

e. Foreign Currency Risk

The Policy on Management of the currency risk of NLB Banka, defines the methods of currency risk management in the bank. The purpose of currency risk management policy is the management and limitation of the potential loss, which is created as a result of changes on the foreign currency rates and, reflected on the business results and capital adequacy of the bank. The currency risk presents the probability of realizing the losses as per on balance and off balance sheet items, as a result of changes on the currency rates and/or non-harmonization on the level of assets, liabilities and off balance items in the same currency. The Bank manages foreign currency risk through managing currency structure of assets and liabilities in line with expected changes in foreign currency rates. Foreign exchange rate risk is managed and governed according to the policies of the NLB group. As such NLB Banka continuously monitors exchange rate movements and foreign currency markets, and determines its currency positions on a daily basis. Any exception to the policy shall be subject of approval by the Supervisory Board of NLB Banka and the Risk Management Department of NLB group. The bank and group policy forbids the bank to maintain open currency position for speculative purposes. Nevertheless, foreign exchange derivatives may be used for hedging purposes to close certain positions, in which case they are closely monitored at both local and group level.

The Bank undertakes transactions in both Euro and foreign currencies. The Bank has not entered into significant forward exchange or any embedded derivative transactions during the year ended December 31, 2021 and 2020.

The Bank is exposed to currency risk through transactions in foreign currencies. As the currency in which the Bank presents its financial statements is Euro, the Bank's financial statements are effected by movements in the exchange rates between the Euro and other currencies.

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

Foreign currency sensitivity analysis

The Bank is mainly exposed to US Dollar (USD) and Swiss Franc (CHF). The following table details the Bank's sensitivity to the respective increase and decrease in the value of Euro against the foreign currencies. The percentage used is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a respective change in foreign currency rates. The Bank has applied a 10% increase or decrease to the current currency exchange rates. A positive number below indicates an increase in profit and other equity where the Euro strengthens with respective percentages against the relevant currency.

	+10% of Euro	**-10% of Euro**
Assets:		
Impact on cash and due from banks	2,694	(2,694)
Liabilities:		
Impact on due to banks and customers	(2,658)	2,658
Net impact on profit and loss and equity	**36**	**(36)**

As at December 31, 2020

	+10% of Euro	**-10% of Euro**
Assets:		
Impact on cash and due from banks	2,781	(2,781)
Liabilities:		
Impact on due to banks and customers	(2,763)	2,763
Net impact on profit and loss and equity	**18**	**(18)**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

e. Foreign Currency Risk (continued)

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

	EURO	USD	CHF	Others	Total
Financial assets					
Cash and balances with CBK	125,243	1,030	7,157	608	**134,038**
Due from banks	19,300	1,765	3,871	2,004	**26,940**
Loans to customers – net	634,530	-	-	-	**634,530**
Financial assets at FVOCI	108,047	10,933	-	-	**118,980**
Other Financial assets	1,342	-	-	-	**1,342**
Total financial assets	**888,462**	**13,728**	**11,028**	**2,612**	**915,830**
Financial liabilities					
Due to banks	536	21	1	-	**558**
Due to customers	772,592	13,245	11,000	2,510	**799,347**
Borrowings and Subordinated Debts	15,008	-	-	-	**15,008**
Other financial liabilities	9,599	185	3	-	**9,787**
Total financial liabilities	**797,735**	**13,451**	**11,004**	**2,510**	**824,700**
Net currency position	**90,727**	**277**	**24**	**102**	**91,130**

The following table summarises the Bank's currency position as at December 31, 2020:

	EURO	USD	CHF	Others	Total
Financial assets					
Cash and balances with CBK	159,632	1,728	7,255	731	**169,346**
Due from banks	23,415	-	4,622	1,800	**29,837**
Loans to customers – net	559,223	-	-	-	**559,223**
Financial assets at FVOCI	92,228	10,482	-	-	**102,710**
Other financial assets	2,324	-	-	-	**2,324**
Total financial assets	**836,822**	**12,210**	**11,877**	**2,531**	**863,440**
Financial liabilities					
Due to banks	1,070	23	24	55	**1,172**
Due to customers	721,955	12,015	11,864	2,483	**748,317**
Borrowings and Subordinated Debts	15,013	-	-	-	**15,013**
Other financial liabilities	8,693	-	-	-	**8,693**
Total financial liabilities	**746,731**	**12,038**	**11,888**	**2,538**	**773,195**
Net currency position	**90,091**	**172**	**(11)**	**(7)**	**90,245**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

e. Foreign Currency Risk (continued)

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

	December 31, 2021	December 31, 2020
United States Dollar (USD)	1.1326	1.2271
British Pound (GBP)	0.8403	0.8990
Swiss Franc (CHF)	1.0331	1.0802

f. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets (re-pricing risk). The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The assets and customer term deposits of the bank carry fixed interest rates while borrowings are at variable interest rate. The interest rates applicable to financial assets and liabilities are disclosed in relevant note to these financial statements. Interest rate risk management policy of the bank defines the method of identification, measurement, following up and controlling the risk in the event of interest rate modification. The purpose of policy is management on the exposure to interest rate risk and limitation of potential loss, which is created as a result of modification of levels of interest rates in the market and the effect of those changes on business results and the market value of bank capital.

With the policy are defined methodologies of risk assessment from the interest rate:

- Gap analysis
- NII (Net Interest Income) methodology – sensitivity of NII
- Basis Point Value (“BPV”) methodology

The risk management department monitors exposure to interest-rate risk using the interest-rate gap analysis methodology. To that end, NLB Banka defines a set of input data that are based on cash flows by individual time interval. The principle of residual maturity is applied to agreements with a fixed interest rate, while the interest rate re-pricing date is taken into account for agreements with a variable interest rate.

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

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

At the current stage trading activities are not applicable for NLB Banka, as per required criteria of NLB Group policies. As part of NLB group NLB Banka is subject to NLB policies and procedures.

Management believes that the Bank is not exposed to interest rate risk on its financial instruments except borrowings which are at variable interest rates. Funds and obligations which do not have defined maturity (such as deposits due on demand) or which have variable maturities in relation with original achievement specified with contract, are classified in the category as demand to deposits for the purpose of gap analysis.

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

f. Interest rate risk (continued)

Interest rate risk management in the Bank's book is carried out based on Gap analysis and Basis Point Value methodology.

Gap analysis relates to an interest rate risk measurement technique by means of which asset, liabilities and off-balance sheet assets are categorized into corresponding time buckets by the earlier of contractual re-pricing (for instruments with floating interest rate) or maturity date (for instruments with fixed interest rate).

Assets and liabilities with no maturity date (e.g. on-demand deposits) or with maturity dates which may be different from the original maturity dates defined by the contracts are categorised into corresponding time buckets based on the Bank's estimate and considering its previous experience.

With a view to more adequate interest rate risk management and measurement, BPV (Basis Point Value) methodology is used, measuring the financial instruments' sensitivity to changes of market interest rates. Based on this method, it is estimated how the position value will change if the market interest rates change by +/- 200 basis points.

The main tool for management of interest rate exposure is gap analysis, i.e. gap analysis for interest bearing assets and liabilities. The Assets and Liabilities Committee (ALCO) based on the proposal suggested by expert services, adopts the strategy of adjusting the assets and liabilities items based on the estimated changes in market interest rates.

Sensitivity analysis

Interest rate risk management is supplemented by monitoring the sensitivity of the Banks profit or loss and equity to various floating interest rate scenarios. The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. The analysis assumes a parallel increase of interest rates of 200 basis points (± 2%) on the level of net profit and equity.

Exposure to interest rate risk and its impact on the bank's statement of changes in equity and profit and loss is measured through Basis Point Value methodology. Results presented below represent the changes in profit and loss and equity, which would occur if interest rates will increase or decrease by 200 basis points.

The effect of interest rate risk on equity is similar to that on Profit and Loss. Analysis of the sensitivity of profit or loss and equity to changes in interest rates is as follows:

	Sensitivity of the profit and loss and equity	
Interest rate sensitivity	**2021**	**2020**
Increase in basic points		
+200 bps parallel shift	(9,846)	(7,103)

Interest rate sensitivity	**2021**	**2020**
Decrease in basic points		
-200 bps parallel shift	8,057	5,373

Economic Value of Equity (EVE) results as at December 31, 2021 is -10.96% of capital (2020: -8.71%). As per interest rate risk management policy the maximum limit of EVE result is -12% of total capital.

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

f. Interest rate risk (continued)

The table below gives the contractual maturity on net interest rate position for financial assets and financial liabilities as monitored by management.

December 31, 2021 Assets	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-Interest bearing
Cash and balances with central banks	134,038	102,520	-	-	-	31,518
Due from banks	26,940	22,826	-	-	-	4,114
Debt and equity instruments at FVOCI	118,200	51,493	23,834	42,873	-	-
Loans and advances to customers	634,530	55,053	153,969	304,014	121,494	-
Total financial assets	**913,708**	**231,892**	**177,803**	**346,887**	**121,494**	**35,632**
Liabilities						
Due to banks	558	-	-	-	-	558
Due to customers	798,789	136,120	51,723	57,154	-	553,792
Debt issued and other borrowed funds	15,008		8	-	15,000	-
Total financial liabilities	**814,355**	**136,120**	**51,731**	**57,154**	**15,000**	**554,350**
Total interest sensitivity gap after risk management	**99,353**	**95,772**	**126,072**	**289,733**	**106,494**	**(518,718)**

December 31, 2020 Assets	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-Interest bearing
Cash and balances with central banks	169,346	79,187				90,159
Due from banks	29,837	26,530	3,307	-	-	-
Debt and equity instruments at FVOCI	102,710	30,941	17,554	53,507	-	708
Loans and advances to customers	559,223	50,614	141,659	268,659	98,291	-
Total financial assets	**861,116**	**187,272**	**162,520**	**322,166**	**98,291**	**90,867**
Liabilities						
Due to banks	1,172	-	-	-	-	1172
Due to customers	748,317	11,990	82,483	72,482	-	581,362
Debt issued and other borrowed funds	15,013	13	-	-	15,000	-
Total financial liabilities	**764,502**	**12,003**	**82,483**	**72,482**	**15,000**	**582,534**
Total interest sensitivity gap after risk management	**96,614**	**175,269**	**80,037**	**249,684**	**83291**	**(491,667)**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

g. Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

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

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by type of customer in relation to the Bank's loans and advances, and guarantees issued.

For subsequent measurement and impairment of assets the bank assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Kosovo Government as reflection of Covid19 outbreak, has implemented the law on economic recovery which foresees the increase of credit guarantee scheme (from 50% to 80% coverage) and us such the Bank has signed the agreement with Kosovo Credit Guarantee Fund for disbursement of loans under such scheme. In addition, the Central Bank of Kosovo since March 2020 has introduced the loan moratorium period in which 47% of existing clients on its peak has applied for temporary deferral in payments. Furthermore, the CBK has introduced the second wave of moratoriums for which only 10% of the portfolio applied for and are active as of date of financial statements.

The Covid19 outbreak impacted significantly macroeconomic environment which was reflected on risk parameters but also on the quality of portfolio which resulted in elevated cost of risk for 2020 at 198 bps.

During 2021 all loans under moratorium has been expired and the active loans under moratorium as of December 31, 2021 is nil.

December 31, 2020	**Number of clients**	**Gross Book Value**	**ECL Allowance**	**Net Book Value**
Non-financial corporations	217	62,157	(9,056)	53,101
Households	74	900	(34)	866
Total active moratoriums	**291**	**63,057**	**(9,090)**	**53,967**
Classification under stages is as follows:				
Stage 1		29,287	(1,249)	28,038
Stage 2		31,712	(6,407)	25,305
Stage 3		2,058	(1,434)	624
Total active moratoriums		**63,057**	**(9,090)**	**53,967**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

g. Credit risk (continued)

Terms and conditions of use of collateral

Collateral held under loan agreement can only be possessed by the bank in case of borrower's default and conduct of legal procedures in accordance with legislation of Kosovo which enable the bank to take full legal title and ownership. Only after the completion of these procedures, the bank can sell or transfer the collateral.

In addition, the Bank recognises seized collateral as an asset only when it has full legal title and physical possession of the collateral and the fair value of collateral can be determined reliably.

The Bank cannot sell, transfer or re-pledge the collateral while the borrowers are performing or legal procedures for transfer of ownership as a result of default have not been completed.

Maximum exposure to credit risk:

December 31 2021	**Gross maximum exposure**	**Impairment**	**Net maximum exposure**	**Fair value of collateral**
Cash, cash balances at central banks, and other demand deposits as banks	**134,154**	**(116)**	**134,038**	**57,373**
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-
Financial assets at amortized cost	**699,328**	**(37,858)**	**661,470**	**1,135,320**
Debt securities	-	-	-	-
Loans to government	10	-	10	-
Loans to banks	26,951	(11)	26,940	-
Loans to financial organizations	1,172	(12)	1,160	2,263
Loans to individuals	**258,827**	**(4,299)**	**254,528**	**203,786**
Granted overdrafts	2,641	(64)	2,577	271
Loans for houses and flats	187,226	(2,906)	184,320	182,831
Consumer loans	63,709	(1,186)	62,523	20,638
Other loans	5,251	(143)	5,108	46
Loans to other customers	**412,368**	**(33,536)**	**378,832**	**929,271**
Loans to large corporate customers	12,807	(979)	11,828	20,443
Loans to small- and medium- sized enterprises	399,561	(32,557)	367,004	908,828
Financial assets at fair value through OCI	119,081	(881)	118,200	0
Other financial assets	4,489	(3,146)	1,343	0
Total net financial assets	**957,052**	**(42,001)**	**915,051**	**1,192,693**
Guarantees	**-**	**-**	**22,835**	**37,871**
Financial guarantees	-	-	15,001	22,782
Non-financial guarantees	-	-	7,834	15,089
Loan commitments	-	-	75,431	120,957
Other potential liabilities	-	-	6,091	7,882
Total contingent liabilities	**-**	**-**	**104,357**	**166,710**
Total maximum exposure to credit risk	**957,052**	**(42,001)**	**1,019,408**	**1,359,403**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

g. Credit risk (continued)

Maximum exposure to credit risk:

December 31, 2020	Gross maximum exposure	Impairment	Net maximum exposure	Fair value of collateral
Cash, cash balances at central banks, and other demand deposits as banks	169,525	(179)	169,346	44,742
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-
Financial assets at amortized cost	**625,926**	**(36,866)**	**589,060**	**1,030,638**
Debt securities	-	-	-	-
Loans to government	10	-	10	-
Loans to banks	29,850	(13)	29,837	-
Loans to financial organizations	710	(5)	705	1,709
Loans to individuals	**220,482**	**(4,555)**	**215,927**	**190,148**
Granted overdrafts	2,302	(77)	2,225	447
Loans for houses and flats	159,361	(2,823)	156,538	168,622
Consumer loans	53,569	(1,509)	52,060	21,040
Other loans	5,250	(146)	5,104	39
Loans to other customers	**374,874**	**(32,293)**	**342,581**	**838,781**
Loans to large corporate customers	13,236	(1,465)	11,771	27,951
Loans to small- and medium- sized enterprises	361,638	(30,828)	330,810	810,830
Financial assets at fair value through OCI	102,002	(1,022)	100,980	-
Other financial assets	4,506	(2,183)	2,323	-
Total net financial assets	**901,959**	**(40,250)**	**861,709**	**1,075,380**
Guarantees	-	-	22,947	35,731
Financial guarantees	-	-	15,454	21,858
Non-financial guarantees	-	-	7,493	13,873
Loan commitments	-	-	62,604	96,572
Other potential liabilities	-	-	2,356	4,153
Total contingent liabilities	-	-	87,907	136,456
Total maximum exposure to credit risk	**901,959**	**(40,250)**	**949,616**	**1,211,836**

h. Loans and advances

Financial assets measured at amortised cost as per Internal rating of Bank as of December 31, 2021

December 31, 2021	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	338,799	3	-	-	**338,802**
B	240,814	47,900	-	-	**288,714**
C	5,409	50,788	-	-	**56,197**
D and E	-	-	15,615	-	**15,615**
Loss allowance	**(10,693)**	**(12,860)**	**(14,305)**	**-**	**(37,858)**
Carrying amount	**574,329**	**85,831**	**1,310**	**-**	**661,470**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Loans and advances

Financial assets measured at amortised cost as per Internal rating of Bank as of December 31, 2020

December 31, 2020	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	290,653	64	-	-	**290,717**
B	226,350	32,633	-	-	**258,983**
C	1,258	57,449	-	-	**58,707**
D and E	-	-	17,519	-	**17,519**
Loss allowance	**(11,004)**	**(11,630)**	**(14,232)**	**-**	**(36,866)**
Carrying amount	**507,257**	**78,516**	**3,287**	**-**	**589,060**

Debt instruments at fair value through other comprehensive income as per Internal rating of Bank as of December 31, 2021.

December 31, 2021	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	41,667	-	-	-	41,667
B	76,533	-	-	-	76,533
C	-	-	-	-	-
D and E	-	-	-	-	-
Loss allowance	**(881)**	**-**	**-**	**-**	**(881)**
Carrying amount	**117,319**	**-**	**-**	**-**	**117,319**

Debt instruments at fair value through other comprehensive income as per Internal rating of Bank as of December 31, 2020

December 31, 2020	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	26,780	-	-	-	**26,780**
B	75,222	-	-	-	**75,222**
C	-	-	-	-	**-**
D and E	-	-	-	-	**-**
Loss allowance	**(1,022)**	**-**	**-**	**-**	**(1,022)**
Carrying amount	**100,980**	**-**	**-**	**-**	**100,980**

Loan commitments and financial guarantee contracts as per Internal rating of Bank as of December 31, 2021 and 2020.

December 31, 2021	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	33,566	1	-	-	**33,567**
B	63,082	6,467	-	-	**69,549**
C	230	939	-	-	**1,169**
D and E	-	-	72	-	**72**
Loss allowance	**(1,504)**	**(253)**	**(37)**	-	**(1,794)**
Carrying amount	**95,374**	**7,154**	**35**	-	**102,563**

December 31, 2020	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	36,857	1	-	-	**36,858**
B	44,380	3,511	-	-	**47,891**
C	340	2,008	-	-	**2,348**
D and E	-	-	810	-	**810**
Loss allowance	**(1,734)**	**(506)**	**(772)**	-	**(3,012)**
Carrying amount	**79,843**	**5,014**	**38**	-	**84,895**

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Loans and advances (continued)

Category A

All direct loans or facilities and off-balance sheet exposures of the bank that carry normal banking risk. Available information concerning the credit exposure, the performance of the customer's account, and the financial data all indicate that the settlement of the exposure is reasonably certain without difficulties, (or the obligation is fully secured by eligible collateral). Similarly within A graded clients/exposures *are a*ll direct loans or facilities and off-balance sheet exposures of the bank which are risk free. Exposures which have as collateral cash deposit or a guarantee issued by a bank which has an external credit rating of grater the BBB, grade evaluated by Moody's or S&P credit rating agencies.

Category B- Watch

Special Attention (or Watch) **-** This classification is used to identify and monitor exposures which contain weaknesses or potential weaknesses that, at the time of review, do not jeopardize the repayment of the credit or reflect a potential for loss, but which, if not addressed or corrected could result in the deterioration of the credit to a substandard or more severe classification. Absent any documented evidence to the contrary, the bank classifies as "special attention" those exposures that are overdue more than 30 days but less than 60 days or those with continuous indebtedness in excess of 5% of approved lines for more than 30 days but less than 60 days. This category of classification is intended to identify and address potentially weak relationships at an early stage.

Category C-Substandard

Substandard **-** Exposures which, based upon a review of all factors attendant to the credit, have well defined credit weaknesses that jeopardize repayment of the credit in the normal course. A substandard credit is one which, by an analysis of financial data and other factors, is not currently protected by the sound worth and paying capacity of the borrower or guarantors or the value of the collateral, if any. Recourse to a responsible and able guarantor for repayment that would involve prolonged negotiations before liquidation of the credit would invoke a substandard classification. The need for recourse to the collateral as the means of satisfying

the obligation also would be the basis for a substandard classification. Absent any documented evidence to the contrary, an exposure is classified at least substandard if any of the following criteria apply:

(a) If deposits/cash flows into the customer's overdraft account are insufficient to liquidate the outstanding balance within 60 days from the expiration date of the facility.
(b) If the customer exceeded the authorized limit of the facility by 5% or more for over 60 days without paying this excess or without bank management formally raising the authorized limit.
(c) If the customer is overdue in repaying contractual instalments (including interest) for over 60 days.
(d) If the maturity of the loan or facility is over 60 days past due without repayment.

Category D-Doubtful

Doubtful **-** Exposures which, based upon a review of all factors attendant to the credit, contain all the weaknesses that are inherent in a substandard credit, but which are so pronounced that there is a strong probability that a significant portion of the principal amount will not be paid. There is a likelihood of loss, but the exact amount cannot be clearly defined at the time of review or is dependent upon the occurrence of a future act or event. Although the possibility of loss is thus extremely high, because of significant pending factors, reasonably specific, which could be expected to work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until more exact status may be determined. Such pending factors include but are not limited to mergers, acquisitions, capital restructuring, and the furnishing of new collateral or realistic refinancing plans. Uncooperative guarantors or those who are in weak financial condition should not be considered as being able to provide strength to the credit.

Recourse to any available collateral that would not be sufficient to cover the amount owing may also justify a doubtful classification.

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Loans and advances (continued)

vi. Impairment of financial assets

Absent any documented evidence to the contrary, an exposure is classified at least doubtful if any of the following criteria apply:

(a) If deposits/cash flows into the customer's overdraft account are insufficient to liquidate the outstanding balance within 90 days from the date of expiration of the overdraft facility.
(b) If the customer exceeded the authorized limit of the facility by 5% or more for over 90 days without paying this excess or without bank management formally raising the authorized limit.
(c) If the customer is overdue in repaying any contractual instalment (including interest) for over 90 days.
(d) If there are deficiencies in the customer's financial condition that have caused negative equity.
(e) If the maturity/expiration date of the loan or facility is over 90 days past due without repayment.

Category E- Loss

Bad (Loss) - Exposures which, based upon a review of all factors attendant to the credit are of such little value or will require such an extended period to realize any value, are no longer justifiable for carrying on the active books of the bank.

An exposure is classified bad (loss) if any of the following criteria apply:

a) If deposits/cash flows into the customer's overdraft account are insufficient to liquidate the balance of the outstanding overdraft within 180 days from the expiration date of the overdraft facility.
b) If the customer exceeded the authorized limit of the facility by 5% or more for over 180 days without paying the excess or without bank management formally raising the authorized limit.
(c) If the customer fails to repay a contractual instalment (including interest) for over 180 days.
(d) If the maturity/expiration date of the loan or facility is over 180 days past due without repayment.

Impairments and provisions for the remaining part of the portfolio of companies, sole proprietors and retail clients (receivables from clients which are not individually relevant) and for the receivables from individually significant clients (except banks) for which there is no evidence of impairment is calculated on group basis (portfolio approach). Loans in group are further divided in categories, as companies and sole proprietors' group of retail clients on balance sheet. All the three groups are further divided in to five sub categories A, B, C, D, and E.

When a loan is considered to be uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the profit or loss.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the profit of loss.

As of December 31, 2021 there were written off EUR 793 thousand loan principal and EUR 102 thousand interests, (2020 EUR 39 thousand loan principal and EUR 3 thousand interests), based on the CBK rules and regulations and NLB Ljubljana standards. All these written off loans, were provisioned 100%, and as such there was no effect on the financial statements for the year ended December 31, 2021 and 2020.

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Loans and advances (continued)

The effect of collateral of financial assets that are credit impaired at December 31, 2021:

	Fully/over collateralized financial assets		**Financial assets not or not fully covered with collateral**	
December 31, 2021	**Net value of loans and advances**	**Fair value of collateral**	**Net value of loans and advances**	**Fair value of collateral**
Financial assets at amortised cost	**1,290**	**37,292**	**18**	**209**
Debt securities	-	-	-	-
Loans to government	-	-	-	-
Loans to banks	-	-	-	-
Loans to financial organizations	-	-	-	-
Loans te individuals	**171**	**4,172**	17	**205**
Granted overdrafts	-	2	-	3
Loans for houses and flats	160	3,386	8	126
Consumer loans	11	782	6	76
Other loans	-	2	3	-
Loans to other customers	**1,119**	**33,120**	1	**4**
Loans to large corporate customers	-	-	-	-
Loans to small- and medium- sized enterprises	1,119	33,120	1	4
Other financial asstes	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-
Loans and advances	-	-	-	-
Total	**1,290**	**37,292**	**18**	**209**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

h. Loans and advances (continued)

The effect of collateral of financial assets that are credit impaired at December 31, 2020:

December 31, 2020	Fully/over collateralized financial assets		Financial assets not or not fully covered with collateral	
	Net value of loans and advances	**Fair value of collateral**	**Net value of loans and advances**	**Fair value of collateral**
Financial assets at amortised cost	**3,159**	**42,443**	**128**	**225**
Debt securities	-	-	-	-
Loans to government	-	-	-	-
Loans to banks	-	-	-	-
Loans to financial organizations	-	-	-	-
Loans te individuals	**192**	**2,795**	**125**	**146**
Granted overdrafts	-	-	5	3
Loans for houses and flats	172	2,539	52	72
Consumer loans	20	256	55	71
Other loans	-	-	13	-
Loans to other customers	**2,967**	**39,648**	**3**	**79**
Loans to large corporate customers	-	-	-	-
Loans to small- and medium- size enterprises	2,967	39,648	3	79
Other financial assets	-	-	-	-
Financial assets at FVOCI	-	-		-
Loans and advances	-	-	-	-
Total	**3,159**	**42,443**	**128**	**225**

The analysis of identification of over or under collateralized loans is performed by the Bank at the gross carrying amount of loans. The table above presents total net loans against total collateral.

The collaterals taken in consideration for the mitigation of the credit risk consists of immoveable properties such as land and buildings and pledge on moveable properties such as stocks and any other moveable property which could be converted in to liquid assets on an arm's length transaction. As prescribed by the credit policy the exposure of the Bank should be covered at least 163% with residential property and/or 200% with commercial property in correlation with the market value of the collateral. Risk free items include loans covered by cash or any other easily converted asset into liquid assets in an arms’ length transaction, as defined by the Credit risk management policy of the Bank and the CBK Rule on large exposures.

Collateral security is taken into consideration in the impairment loss calculation process. The fair market and liquidation values of the collateral are documented by a current appraisal made by a competent party. The Bank’s ability to access and liquidate the collateral within a reasonable period also is considered. Within the collaterals are included movable and immovable properties of the counterparties, in order to cover the exposure towards the credit risk and the risk of failure to repay the loan.

i. Financial assets at fair value through other comprehensive income

The table below presents the whole portfolio of financial assets at fair value through other comprehensive income and their credit grade assigned by Moody’s or Fitch credit rating agencies:

December 31, 2021

Ratings	Financial assets at FVOCI	Total
AAA	20,156	20,156
AA	21,511	21,511
A+	780	780
Not-rated	76,533	76,533
Total	**118,980**	**118,980**

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

i. Financial assets at fair value through other comprehensive income (continued)

December 31, 2020

Ratings	Financial assets at FVOCI	Total
AAA	9,775	9,775
AA	17,005	17,005
A+	708	708
Not-rated	75,222	75,222
Total	**102,710**	**102,710**

j. Concentrations

NLB Banka has a credit strategy which determines the types of investments (concentrations) based primarily on economic segments such as industry, trade, construction, etc. Due to the small size of the Republic of Kosovo, geographical concentrations within Kosovo are not significant; this strategy is reviewed and updated on an annual basis by the management board or the bank.

NLB Banka, Prishtina	in EUR thousand	
Country	**December 31, 2021**	**December 31, 2020**
Republic of Slovenia	-	35
Other European Union members	28,068	29,332
Serbia	179	-
Other countries	634,564	562,017
Total	**662,811**	**591,384**

The following table breaks down the Bank's main credit exposure at their net amounts, as categorized by the industry sectors of our counterparties.

As of December 31, 2021, and 2020, an analysis of loans to customers and banks by industry sectors was as follows:

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

j. Concentrations (continued)

Industry concentration

	December 31, 2021				December 31, 2020			
Industry sector	**Gross loans and advances**	**Impairment provision**	**Net loans**	**%**	**Gross loans and advances**	**Impairment provision**	**Net loans**	**%**
Placements								
Banks	26,951	(11)	26,940	4.1%	29,850	(13)	29,837	5.0%
Loans and advances to customers								
Citizens	258,823	(4,296)	254,527	38.4%	220,481	(4,555)	215,926	36.5%
Trade	151,114	(11,456)	139,658	21.1%	123,356	(9,090)	114,266	19.3%
Constructions	86,540	(8,081)	78,459	11.8%	85,006	(8,472)	76,534	12.9%
Industry	73,311	(5,640)	67,671	10.2%	67,076	(6,281)	60,795	10.3%
Services	25,945	(1,653)	24,292	3.7%	25,066	(1,781)	23,285	3.9%
Services-tourism	24,659	(1,954)	22,705	3.4%	21,628	(1,691)	19,937	3.4%
Transport and comunication	22,928	(2,189)	20,739	3.1%	23,716	(2,731)	20,985	3.5%
Mining	7,291	(505)	6,786	1.0%	12,558	(622)	11,936	2.0%
Education	5,702	(920)	4,782	0.7%	5,671	(842)	4,829	0.8%
Agriculture, silviculture and fishing	5,653	(576)	5,077	0.8%	4,007	(307)	3,700	0.6%
Other financial assets	4,489	(3,146)	1,343	0.2%	4,507	(2,183)	2,324	0.4%
Services-holdings	3,735	(115)	3,620	0.5%	-	-	-	0.0%
Electricity, gas and water	2,732	(334)	2,398	0.4%	4,197	(393)	3,804	0.6%
Health service and social security	2,721	(75)	2,646	0.4%	2,593	(83)	2,510	0.4%
Finances	1,170	(11)	1,159	0.2%	712	(5)	707	0.1%
Government	51	(41)	10	0.0%	9	-	9	0.0%
Total	**703,815**	**(41,003)**	**662,812**	**100%**	**630,433**	**(39,049)**	**591,384**	**100%**

k. Liquidity risk

Liquidity risk arises in the general funding of the Bank’s activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

k. Liquidity risk (continued)

The Bank monitors its liquidity on a daily basis in order to manage its obligations as and when they fall due. Funds are raised using a broad range of instruments including deposits, borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required for meeting business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy. The amount disclosed in tables below is contractual undiscounted cash flows

Analysis of financial assets and liabilities by contractual maturities:

December 31, 2021 Financial assets	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Cash and balances with the Central Bank	134,038	-	-	-	-	**134,038**
Of which restricted balance	(70,297)	-	-	-	-	**(70,297)**
Due from banks	22,826	1,535	1,495	1,084	-	**26,940**
Loans and advances to customers	18,069	36,983	153,969	304,014	121,495	**634,530**
Financial instruments held at FVOCI	33,485	18,008	23,834	42,873	780	**118,980**
Other financial assets	1,343	-	-	-	-	**1,343**
Total undiscounted financial assets	**139,464**	**56,526**	**179,298**	**347,971**	**122,275**	**845,534**
Financial liabilities						
Due to banks	558	-	-	-	-	**558**
Due to customers	680,886	9,027	51,723	57,153	-	**798,789**
Debt issued and other borrowed funds Subordinated	-	-	8	-	15,000	**15,008**
Lease liabilities	52	104	468	1,760	-	**2,384**
Other financial liabilities	7,912	-	-	-	-	**7,912**
Total undiscounted financial liabilities	**689,408**	**9,131**	**52,199**	**58,913**	**15,000**	**824,651**
Net undiscounted financial assets/(liabilities)	**(549,944)**	**47,395**	**127,099**	**289,058**	**107,275**	**20,883**
Future contractual interests						
Financial Assets						
Contractual amounts receivables	3,314	6,214	23,986	64,302	11,408	**109,224**
	3,314	**6,214**	**23,986**	**64,302**	**11,408**	**109,224**
Financial liabilities						
Contractual amounts payable	-	-	(753)	(3,015)	(1,864)	**(5,632)**
	-	-	**(753)**	**(3,015)**	**(1,864)**	**(5,632)**
Total net financial assets/(liabilities)	**(546,630)**	**53,609**	**150,332**	**350,345**	**116,819**	**124,475**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

k. Liquidity risk (continued)

The required minimum liquidity ratio for local currency is 20% and the actual ratio as at December 31, 2020 is 43%. The bank is also in compliance with foreign currency liquidity ratios, which however are less significant to its operations

Analysis of financial assets and liabilities by contractual maturities

December 31, 2020 Financial assets	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Cash and balances with the Central Bank	169,346	-	-	-	-	**169,346**
Of which restricted balance	(62,929)	-	-	-	-	**(62,929)**
Due from banks	24,766	1,764	3,307	-	-	**29,837**
Loans and advances to customers	18,058	32,556	141,659	268,659	98,291	**559,223**
Financial instruments held at FVOCI	30,941	-	17,554	53,507	708	**102,710**
Other financial assets	284	-	-	-	-	**284**
Total undiscounted financial assets	**180,466**	**34,320**	**162,520**	**322,166**	**98,999**	**798,471**
Financial liabilities						
Due to banks	1,172	-	-	-	-	**1,172**
Due to customers	585,798	7,554	82,483	72,482	-	**748,317**
Debt issued and other borrowed funds Subordinated	8	5	-	-	15,000	**15,013**
Lease liabilities	53	107	480	1,881	-	**2,521**
Other financial liabilities	6,172	-	-	-	-	**6,172**
Total undiscounted financial liabilities	**593,203**	**7,666**	**82,963**	**74,363**	**15,000**	**773,195**
Net undiscounted financial assets/(liabilities)	**(412,737)**	**26,654**	**79,557**	**247,803**	**83,999**	**25,276**
Future contractual interests						
Financial Assets						
Contractual amounts receivables	2,460	4,451	19,849	51,392	12,236	**90,388**
	2,460	**4,451**	**19,849**	**51,392**	**12,236**	**90,388**
Financial liabilities						
Contractual amounts payable	(191)	(376)	(2,070)	(4,980)	(2,615)	**(10,232)**
	(191)	**(376)**	**(2,070)**	**(4,980)**	**(2,615)**	**(10,232)**
Total net financial assets/(liabilities)	**(410,468)**	**30,729**	**97,336**	**294,215**	**93,620**	**105,432**

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

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

l. Fair value of financial instruments

a) Fair values of financial instruments carried at amortised cost

IFRS 13 defines fair value as 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. Fair values have been based on management assumptions according to the profile of the asset and liability base.

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities not presented on the statement of financial position at their fair value.

	31-Dec-21		31-Dec-20	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
ASSETS				
Loans to banks	**26,940**	**26,940**	**29,837**	**29,922**
Loans to government	**10**	**10**	**-**	**-**
Loans to financial organizations	**1,160**	**1,162**	**705**	**735**
Loans to individuals	**254,528**	**257,869**	**215,927**	**228,069**
Granted overdraft	2,577	2,165	2,094	3,148
Loans for houses and flats	184,320	187,653	153,795	161,993
Consumer loans	62,523	63,321	50,140	53,013
Other loans	5,108	4,730	9,898	9,915
Loans to other customers	**378,832**	**383,967**	**342,591**	**349,253**
Loans to large corporate customers	11,828	12,140	11,781	11,826
Loans to small and medium size enterprises	367,004	371,827	330,810	337,427
TOTAL LOANS	**661,470**	**669,948**	**589,060**	**607,979**
LIABILITIES				
Due from banks	558	558	1,172	1,172
Due to customers	**798,789**	**800,640**	**748,315**	**753,433**
TOTAL DEPOSITS AND BORROWINGS	**799,347**	**801,198**	**749,487**	**754,605**

All fair value disclosures are based on management estimates and valuation techniques and fall under Level 2 of the fair value hierarchy. The valuation techniques and estimates for most significant assets and liabilities are described below:

Loans to banks

Loans and advances to other banks comprise inter-bank placements. The fair value of placements and overnight deposits is their carrying amount due to their short-term nature.

Loans to customers

Loans to customers in the balance sheet are presented in net amount, i.e. net of allowances for impairment. For the purpose of calculating the fair value, the Bank used discounted cash flow method. Thus, the calculation is based on contractual cash flows. Credit risk of individual clients is taken into consideration through the expected impairment.

Deposits and borrowings

The estimated fair value of deposits and borrowings 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)

30. FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

I. Fair value of financial instruments (continued)

b) Analysis by fair value hierarchy of financial instruments carried at fair value

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

a) **Level 1**: Quoted market price (unadjusted) in an active market for an identical instrument
b) **Level 2**: Valuation techniques based on observable inputs other than quoted prices, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
c) **Level 3**: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.
d) The following table shows the distribution of fair values over the different fair value hierarchies.

December 31, 2021	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets				
Debt instruments	118,200	41,667	76,533	-
Equity instruments	780	-	780	-
Total financial instruments through other comprehensive income	**118,980**	**41,667**	**77,313**	**-**

December 31, 2020	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets				
Debt instruments	102,002	26,780	75,222	-
Equity instruments	708	-	708	-
Total financial instruments through other comprehensive income	**102,710**	**26,780**	**75,930**	**-**

The availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. The 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 future markets.

The Bank does not possess instruments that are subject to possible movements from one level to another of fair value category.

Debt instruments - Kosovo government securities

Kosovo government securities are not traded actively in secondary markets. Management estimates the current required market yield based on the latest primary auction of securities. Subsequently it estimates fair value of securities by comparison with the trading price of the instruments with the most similar maturity to the remaining maturity of the instruments held.

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

31. ADDITIONAL CASH FLOW INFORMATION

Changes in liabilities arising from financing activities

	As of 31 December 2021		As of 31 December 2020
	Dividends	Borrowings	Borrowings
Opening balance	-	15,013	15,048
Cash flow items:			
Issuances	23,604	-	
Payments	(23,604)	(5)	(35)
Non-cash items	-	-	
Ending balance	**-**	**15,008**	**15,013**

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	December 31, 2021			December 31, 2020		
Assets	**Within 12 months**	**After 12 months**	**Total**	**Within 12 months**	**After 12 months**	**Total**
Cash and balances with the Central Bank	134,038	-	**134,038**	169,346	-	**169,346**
Due from other banks	25,856	1,084	**26,940**	29,837	-	**29,837**
Loans to customers, net	209,021	425,509	**634,530**	192,273	366,950	**559,223**
Financial assets designated at FVOCI	75,327	43,653	**118,980**	48,495	54,215	**102,710**
Other assets	1,651	-	1,651	2,743	-	**2,743**
Property, equipment and right-of-use assets	-	12,774	**12,774**	-	13,472	**13,472**
Intangible assets	-	1,344	**1,344**	-	1,138	**1,138**
Current Tax Asset tax asset	-	-	**-**	268	-	**268**
Deferred tax asset	290	-	**290**	327	-	**327**
Total assets	**446,183**	**484,364**	**930,547**	**443,289**	**435,775**	**879,064**
Liabilities						
Deposits from banks	558	-	558	1,172	-	**1,172**
Customer accounts	741,636	57,153	**798,789**	135,167	613,150	**748,317**
Other financial liabilities	7,912	-	**7,912**	6,172	-	**6,172**
Provision and other Liabilities	5,271	1,073	6,344	5,943	1,591	**7,534**
Corporate tax payable	695	-	695	-	-	-
Lease liabilities	624	1,760	**2,384**	640	1,881	**2,521**
Borrowings and Subordinated debts	8	15,000	**15,008**	13	15,000	**15,013**
Total liabilities	**756,704**	**74,986**	**831,690**	**149,107**	**631,622**	**780,729**
Net	**(310,521)**	**409,378**	**98,857**	**294,182**	**(195,847)**	**98,335**

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

Expected maturities are in general similar to contractual maturities for most of the assets and liabilities, except for customer current account and short-term deposits which have a high renewal rate. Management has estimated the current and long-term portion of contractually current customer accounts based on the minimum regulatory liquidity ratio of 20%, with the assumption that since liquid assets are required to cover 20% of liabilities, the remaining 80% will be renewed or rolled over.

33. EVENTS AFTER THE END OF THE REPORTING PERIOD

On February 25, 2022 the Kosovo Government has issued a decision for imposing sanctions against Russia in line with USA and EU sanctions. The bank is treating carefully and with high awareness possible transactions with countries involved in conflict. The bank does not have any exposure against those countries, and it is not expected any related potential impact on performance of the bank.

According to published information, the trade between Kosovo and Ukraine is non-significant, round 30 million in a year, while with Russia it can be considered no transactions.

The industries that are expected to have impacted are iron, wood and cereal industries. Lastly it has been noticed also the impact on increase of the prices of oil industry. The estimated exposure of the bank on below industries, including oil industries is less than 6.7% of bank’s portfolio

We believe you deserve every opportunity.

First, we liked your résumé.
Then, you fascinated us with your enthusiasm.
After that, we saw great potential in you.
Now, we will make sure you utilise it to the fullest.

We believe that a satisfied and efficient employee is one who successfully aligns their private and professional life, while at the same time preserves the feeling that their potential is recognised and respected. With intensive investments into the upgrading of the potential of our employees, we have raised a company of enthusiastic experts from across the region who firmly believe in their work and mission. Just like Nino, Ljubica and Matej from our Ljubljana IT office.