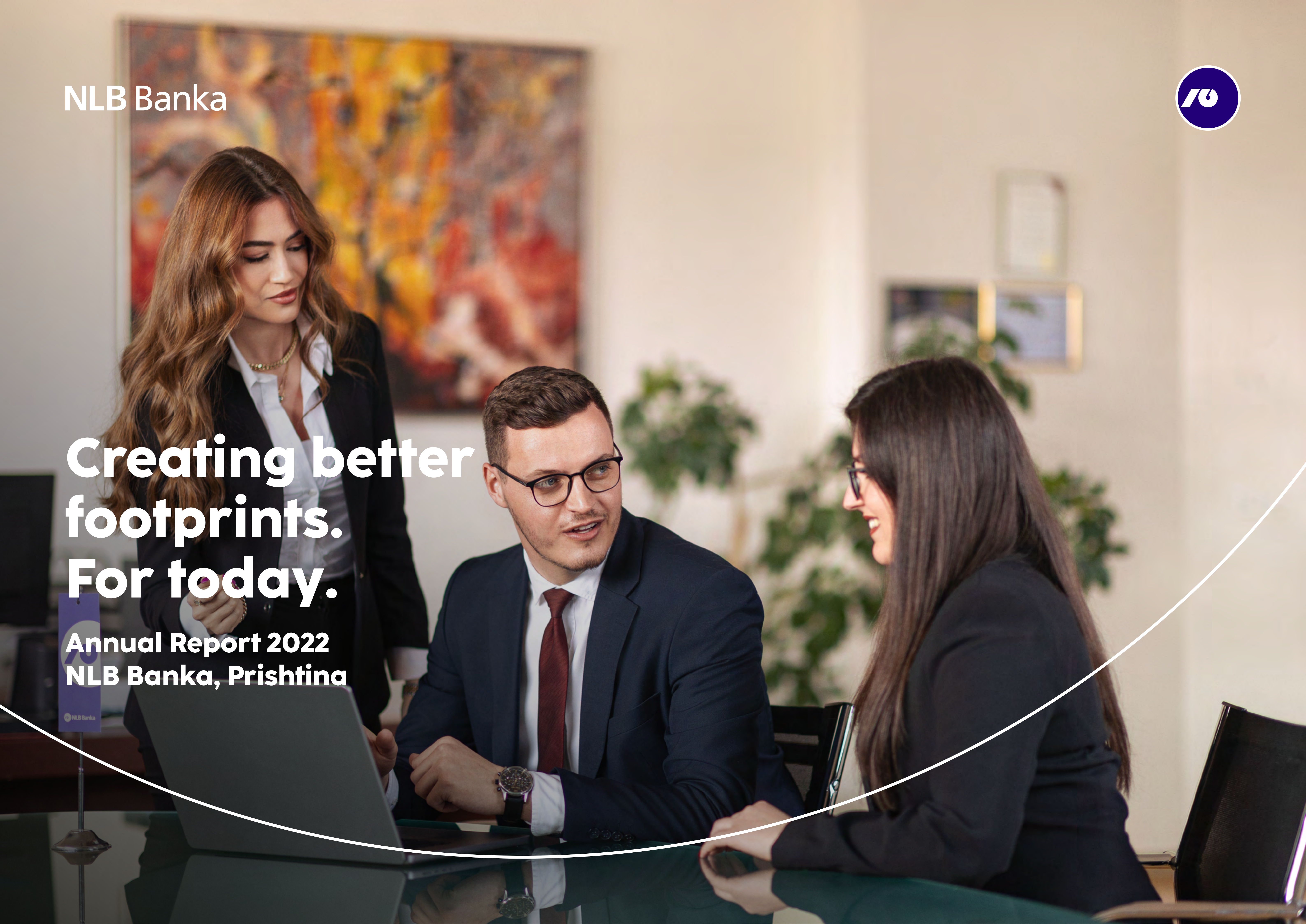
NLB Banka



Creating better footprints. For today.

Annual Report 2022
NLB Banka, Prishtina

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Statement from the President of the Management Board

It is with immense pride that I look back at the progress we have made over the years, and I am thrilled to declare that 2022 has been our most successful year. The year 2022 marked an exceptional performance for our bank! We have exceeded for the first time one billion Euro of total assets and achieved the peak net profit in the history of the Bank in amount of EUR 32.4 million. Our success is the result of our strong commitment to our core values, client centricity, investments in people, technology digitalization and innovation to continuously improve our operations. It is trust of our valuable clients and precious work of our team. We have exceeded all our objectives and this new momentum created will serve as milestone for other successful years in the future.

Albert Lumezi
President of the Management Board

Dear stakeholders of NLB Banka,

I feel deeply honored to present the achievements of another successful year of NLB Banka. The year 2022 began with a great deal of uncertainty deriving from geopolitical developments that disrupted the supply chain and elevated the prices in Kosovo. Consequently, we had exceptional increase in loan demand and a challenging interest rate environment, reflecting the developments both in international and national markets. The bank remained committed towards its clients, providing them with continuous support. Following the latest market developments, we took the lead in taking courageous decisions on pricing of assets and liabilities, mirroring new conditions created in the business environment. Although this was challenging, however it was necessary for fostering value creation.

In the second half of the year, we continued with our self-funding strategy, shaping the growth potential for upcoming periods. We created value for our shareholders, and we fulfilled our commitments to their return on investment. We distributed EUR 17.1 million as dividend for the fiscal year 2021, and the bank continued to have sound and resilient capital structure.

Our financial support for our clients during 2022 was exceptional, with new loans disbursed in the amount of EUR 328 million, which directly impacts capex investments and has continued to contribute the economic growth of Kosovo. Our loan portfolio growth reached its peak with a YoY growth of EUR 105 million.

Through our capital investments, we have continued implementation of one of our main strategic objectives of optimization, digitalization and transformation, aiming to increase our operational efficiency and cost management. Our aim is to provide smart and innovative services. We have developed new products that are aligned with market trends and responsive to the evolving needs of our clients. We have fulfilled our systemic role in the market, offering 360-degree banking services as most trusted Bank in the market. We strengthened our position, as the second largest Bank in the market, while being the first in terms of profitability.

Our social responsibility actions remain amongst top strategic objectives, by being continuously active towards wider socio-economic development, and we have been fully aligned with UN Sustainable Development Goals. We have continued with #HelpFrame project, which aims to support the promotion of micro and small businesses as one of the most important pillars of the economy.

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

- The Bank has accomplished an operating profit of EUR 32.4M, which represents an impressive YoY increase of 32.6%, peak performance.
- Regardless of the pressure and competition in interest rates, the Bank achieved net interest income in the amount of EUR 39.8 million, YoY increase by 15.6%.
- Net non-interest income has increased compared with 2021 for 15.9% reaching EUR 8.5 million indicating the role of systemic Bank in the market.
- Total assets reached EUR 1,083.6 million with an increase for EUR 153.1 million or 16.5% YoY.
- Gross loans of non-banking sector as of 31.12.2022 were EUR 777 million, increasing by EUR 105 million or 15.6% YoY;
- Bank continued to be well capitalized above regulatory limits and internal risk appetite with CAR ratio of 15.7% (2021: 17.4%), after capitalization of the first half current year profit. The Bank has assessed its liquidity position and accordingly has distributed the dividend payment (EUR 17.1 million or 70% of profit from the year of 2021) to its shareholders.
- Cost efficiency further improved as indicated by CIR 29.7%, (2021: 32.4%) which is the lowest in banking sector;
- Sustainable non-performing loans trends reached 2.0% (2021: 2.3%), the bank has continued to have the sound structure of quality portfolio.

During 2022 the Bank has continued its full commitment and implementation of the sustainability program with its main three pillars of: Sustainable Operations, Sustainable Finance and Corporate Social Responsibility. Moreover, the Bank has implemented the Environment and Social Management System (ESMS) as part of ESG agenda and UN Principles of Responsible Banking and MIGA agreement for sustainable banking, aligning fulfillment of variety of qualitative objectives. We are proud that through our CSR activities taken in 2022 we have supported and contributed towards different areas especially in health care, social, cultural, sports activities, employee care, compliance and integrity, entrepreneurship promotion, mentorship, humanitarian activities, environmental protection, reducing inequalities and poverty, and encouraging decent work and economic growth. The “Paperless” project has shown high impact on paper usage, contributing to our efforts to care for nature. We will continue to invest in the green energy sector also on the coming years and we will continue to serve as a bridge for cross border financing projects in Kosovo.

All the above outstanding results has been achieved with exceptional commitment, dedication, and high professionalism of our valuable employees. I would like to express my gratitude to each one of them for their loyalty and commitment.

Dear stakeholders of the Bank, in April 2023 I will retire. Reviewing the results, from when I took the mandate, during 16 years of my service at NLB Banka, we have achieved extraordinary results. From organic growth and through self-funding, with the loan portfolio increasing from EUR 121 million to EUR 777 million, and all key financial indicators showing positive trends. I feel deeply honored being part of the Bank and I am sure that the road we have drawn will serve as strong foundation for future success. Thus, I would sincerely like to thank all of you and wish all the best in the future. I will end my statement with by saying thank you all for these marvelous 16 years. Our roads may cross again in the future!

Albert Lumezi
President of the Management Board

€
32.4M
net profit of NLB Banka

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Lavdim Koshutova
Member of the
Management Board

Albert Lumezi
President of the
Management Board

Gem Maloku
Member of the
Management Board

Financial highlights

Profit and loss account indicators (in EUR thousand)	2022	2021	Index compared to 2021
Net operating income	**48,392**	**41,832**	**15.7%**
Net interest income	39,846	34,460	15.6%
Net non-interest income	8,546	7,372	15.9%
Total operating costs	**-14,350**	**-13,545**	**5.9%**
Employee costs	-7,450	-6,850	8.8%
Other general administrative expenses	-4,684	-4,453	5.2%
Depreciation	-2,216	-2,242	-1.2%
Profit before provisions	**34,042**	**28,287**	**20.3%**
Net impairments and Provisions	2,051	-1,063	-292.9%
Profit before Tax	**36,093**	**27,224**	**32.6%**
Tax	-3,693	-2,787	32.5%
Profit after Tax	**32,400**	**24,437**	**32.6%**
Balance sheet indicators (in EUR thousand)			
Total assets	1,083,638	930,547	16.5%
Loans to non-banking sector (net)	740,776	634,530	16.7%
Loans to non-banking sector (gross)	777,203	672,377	15.6%
Deposits from non-banking sector	894,242	798,789	11.9%
Total equity	113,844	98,857	15.2%
Key indicators			
ROE a.t (Return on equity after tax)	29.2%	22.4%	6.8%
ROA a.t (Return on assets after tax)	3.3%	2.7%	0.6%
RORAC a.t	23.6%	19.6%	4.0%
CIR (Cost to income ratio)	29.7%	32.4%	-2.7%
LTD (net loans NBS/ deposits NBS)	82.8%	79.4%	3.4%
CAR (Capital adequacy ratio as per CBK)	15.7%	17.4%	-1.7%
Tier 1 ratio	12.6%	13.9%	-1.3%
Interest margin	3.9%	4.1%	-0.2%

Profit and loss account indicators (in EUR thousand)	2022	2021	Index compared to 2021
Portfolio quality and provisions			
Gross NPL (non-performing loans)	15,705	15,613	0.6%
Share of NPL in total loans to NBS	2.0%	2.3%	-0.3%
Cost of risk	-40	5	-900.0%
Other business indicators (IFRS)			
Market share of total assets	16.7%	16.3%	0.4%
Market share of loans to NBS	17.6%	17.6%	0.0%
Market share of deposits	17.0%	16.7%	0.3%
Number of business units	33	33	0.0%
Number of ATM's	99	99	0.0%
Number of POS	2,414	2,362	2.2%
Number of clients	341,372	346,804	-1.6%
Number of employees	467	463	0.9%

Amounts presented by Index
Percentages presented in difference

Shareholder structure of NLB

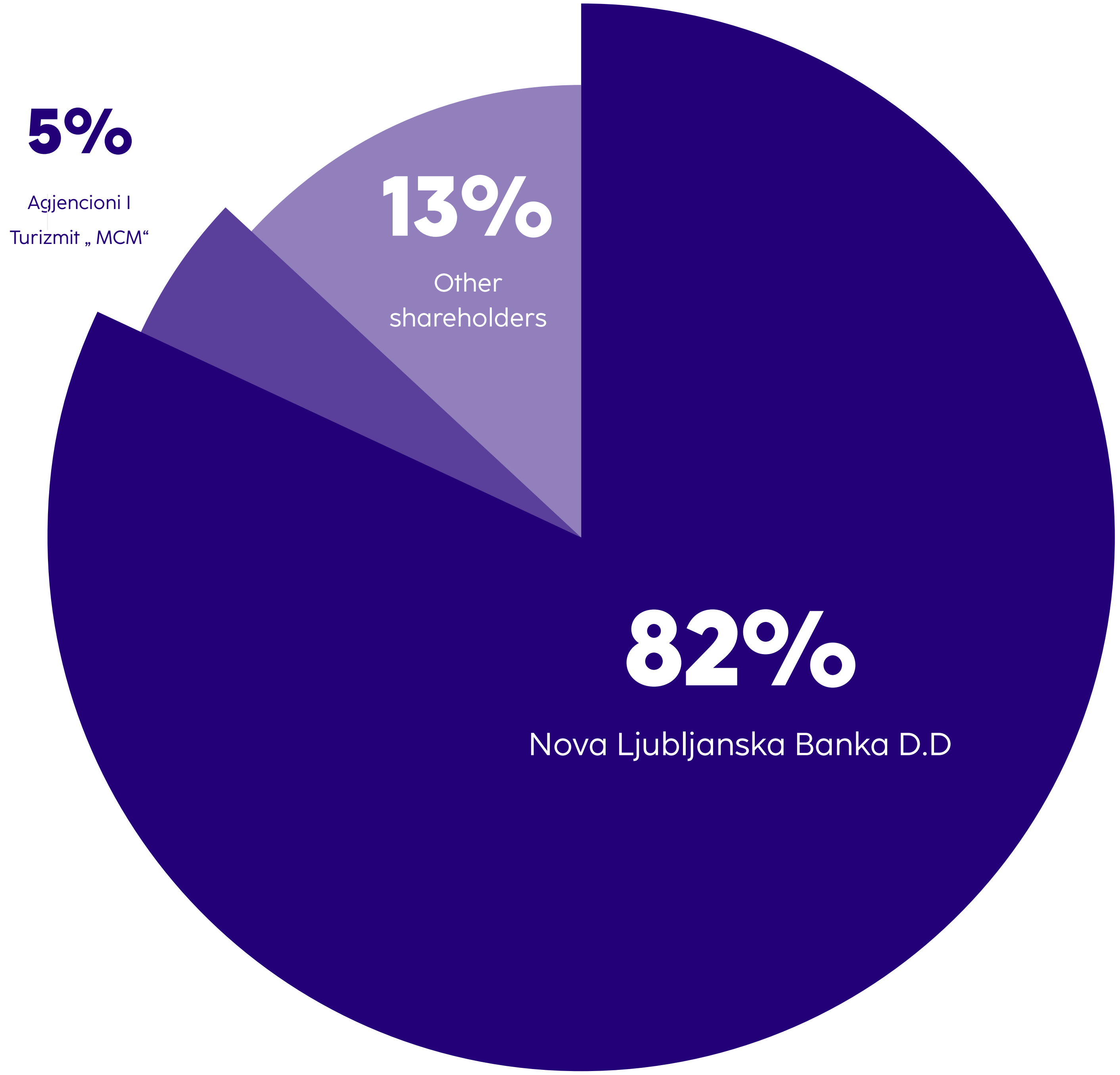
As at December 31, 2022, the share capital amounted to EUR 51,287 thousand (2021: EUR 51,287 thousand).

All shares are fully entitled to dividends and carry equal voting rights. There are no restrictions attached to the shares. The capital of the Bank has seen an organic rice over the years, through capitalization of retained earnings.

Authorized 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

Shareholders	Percentage ownership	December 2022
Nova Ljubljanska Banka D.D	82%	42,248
Agjencioni I Turizmit „ MCM“	5%	2,414
Hashim Deshishku	2%	1,271
Rizah Deshishku	1%	636
Bashkim Deshishku	1%	636
Nerimane Ejupi	1%	625
Naim Ejupi	1%	622
Metush Deshishku	1%	462
„Dardania“ - 2“ Sh.P.K.	1%	323
Xhemail Ismajli	1%	310
Ndërmarrja Prodhuese Tregtare Shërbyese“Jehona“	1%	308
Blerina Ejupi	1%	259
Elez Sylaj	0%	223
Kadri Shalaku	0%	174
„Raf Ii“ Sh.P.K.	0%	124
Rudis D.D. Trbovlje	0%	116
Others	1%	535
Total	100.0%	51,287



Key Events

First quarter

- **War in Ukraine:** Russian federation began military invasion of Ukraine. The Russian invasion of Ukraine has directly impacted on increase of prices in oil sector, wood, cereal and metal industries. All the above components impacted the environment by decreasing domestic purchasing power, while first impact towards the bank was increase of loan volume on NBS segment significantly.

- **The Shareholder Assembly** was held and the respective decision on dividend distribution from profit of 2021 has been taken.

Second quarter

- '**Most Active Issuing Bank in Kosovo in 2022**' award from the TFP
- For seven consecutive years NLB Banka sh.a. Banka is winning this prestigious award being supported by TFP continued to facilitate foreign trade finance activities. During the year 2022 there were a lot of uncertainties in terms of the global environment of doing business continued to be reflected in every part of the world, with increase in prices and disruption in supply chains as a result of Russia -Ukraine war, however our bank achieved to continue to foster international trade apart from the challenges through EBRD TFP, supporting our clients that had imports from Ukraine and offering our clients tailor made solutions in terms of facilitating international trade.
- **Notification of additional service in SWIFT GPI - Email Notification**
- NLB Banka has developed a new service for notification via email within the framework of international payments that is connected to the innovative global payment platform GPI (Global Payment Initiative). In addition to the e-mail notification of SWIFT acceptance when the outgoing international payment is processed, with this additional service customers will be notified within a very short time when the funds are credited to the beneficiary's account. This type of notification is made only for outgoing international payments that have been credited to the beneficiary's account.
- NLB Group joined the UN-Convened Net-Zero Banking Alliance.

Third quarter

- After raising the interest rate from ECB, the Central Bank of Kosovo has announced the increase on interest rates in amount above the obligatory reserve (removed negative interest rate from -0.7% to 0.0%).
- The bank has received the approval from CBK for dividend distribution (EUR 17.1M).

Fourth quarter

- **The Supervisory Board of NLB d.d. was in an official visit at the Bank.**
- In October a meeting was held at the Bank's Headquarters, where the members of the Supervisory Board were informed about the Bank's results, challenges and strategy. Meanwhile, they also visited some clients of the Bank in the city of Peja and Prizren, and at the same time they also visited the Bank's branch in Prizren. In addition, the members of the Supervisory Board of NLB d.d. also visited some of the historical monuments to learn more about the tradition and culture of the communities in Prizren.
  - Dividend payment: the Bank paid the dividends (second tranche) in the amount of 14.1 million.
  - The BoD appointed new CEO, Mr. Gazmend Kadriu, due to forthcoming retirement of current CEO Mr. Albert Lumezi.
  - The Kosovo Chamber of Commerce organized the event "The Best of Kosovo" with the private sector, as the main pillar for positive economic developments in Kosovo and the creation of prosperity in the country. NLB Banka was awarded " Taxpayer of the year 2022" during the event.
  - NLB Bank invests for the first time in Green T-Bills in support of ESG agenda in amount of EUR 6.5M in order to diversify our portfolio and to support the financing of environmentally friendly projects such as renewable energy, energy efficiency, sustainable agriculture, and clean transportation.

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Macroeconomic environment and market development

Kosovo **GDP** in 2022, has shown a significant slowdown of growth, despite robust of annual credit growth and remittances reaching pre-pandemic levels, which bodes well for consumption. However, this positive trend is offset against strong inflationary pressures, which have negatively impacted disposable incomes. The energy crisis and rising food prices have been further exacerbated by the economic impact of the war in Ukraine. This resulted in increased spending on electricity imports and social measures to support the economy, which have weighed on the fiscal accounts.

In terms of macroeconomic indicators, looking ahead to 2023 the World Bank estimates the GDP growth of 3.7%, slightly higher than the estimate from the IMF, which is 3.5%.

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 11.6%. The inflation rate remains high, and it is expected to slightly decrease to 7.5% in 2023. 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 rate, reaching 20.7% of the GDP as of December 2022 (2021: 21.5%), although this remains the lowest public debt in the region. However, it is expected to increase in the near future.

Unemployment rate – remains one of the major challenges that every Kosovo government faces. The unemployment level reaches the figure of 16.6%, as of March 2022 (latest data from ASK). Kosovo has the lowest employment rate in Europe. The public sector continues to dominate as the largest employment agency in the country. The number of registered private firms continues to increase, but the informal sector remains a significant source of employment. This creates challenges for the government in terms of collecting taxes and regulating the labor market.

Remittances, remain an important tool in the improvement of the well-being of many citizens in Kosovo and financing the economy by stimulating consumption and private investment. Remittances constitute the dominant component of the secondary income balance.

Below are key performance macroeconomic indicators and respective explanation.

	2022	2021
GPD (real growth v %)	3.6	10.70
Inflation - average of the year (in %)	11.6	3.4
Unemployment rate (in %) *	16.6	20.7
Public debt (% of GDP)	20.7	21.5

Source: CBK and ASK reports

* Latest data as of 31.3.2022.

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Banking system

As of December 2022, in the banking sector in Kosovo currently operate eleven (11) banks, offering a wide range of products and services to customers. Nine banks with foreign ownership continue to dominate the banking sector, and they manage 84.9% of total assets. As regards to the country of origin, Austria, Germany and Slovenia are represented with a single bank each, while Albania is represented with two and Turkey is represented by three banks and three are with Kosovan capital

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 200 branches and sub-branches and there are 3,781 employees in commercial banks.

The cumulative profit of banking sector as of December 2022 was EUR 140.3 million, representing a YoY increase of 19.4%. this result is a testament of the sound management of the banks, despite the challenges posed by increasing of inflation rate and constant increase of prices.

The capital adequacy ratio as of December 2022 was 14.8% (2021: 15.3%), indicating that Kosovo's banks are well capitalized. The ratio of loans to deposits was at 78.3% (2021: 76.5%), reflecting a balance between lending and deposits. The ratio of non-performing loans was 2.0% (2021: 2.3%) based on report from CBK, which is lower than the previous year and indicates that the banks are effectively managing their credit risk.

The average interest rate on loans was 6.3% as of December 2022 (2021 were 5.8%). On the other hand, the average interest rate on deposits increased to 2.4%, (2021 were 1.3%). The interest rate spread was 3.9%, (2021 was 4.5%).

Overall, the banking sector in Kosovo remains strong and profitable, with well-capitalized banks and effective risk management practices. As the economy continues to grow, we expect to see continued growth and innovation in the banking sector, as banks adapt to changing customer needs and market conditions.

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 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%
	2022	**6,495,187**	4,202,457	5,487,253	140,319	86,680	2.0%	20.6%	14.8%	36.5%	78.3%	3.9%
NLB Banka	2021	930,547	634,530	799,347	24,437	15,613	2.3%	22.4%	17.4%	32.4%	79.4%	4.1%
	2022	**1,083,638**	**740,776**	**934,667**	**32,400**	**15,705**	**2.0%**	**29.2%**	**15.7%**	**29.7%**	**82.8%**	**3.9%**

Source: KBA reports

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 16.7% (2021: 16.3%). Which ranks the bank in the second position in the market.
Net Loans to NBS, remains as the second largest bank in Kosovo and had a market share of 17.6% (2021: 17.6%). Similarly, the deposits from NBS, with a market share of 17.0% (2021: 16.7%) continues as the second largest bank in Kosovo. The bank emerged as the most profitable in the banking sector, owning 23.1% of total profit generated by the banking sector.
CIR –NLB Banka boasts an impressive CIR ratio that outperforms both its peer group and market average.
CAR – the Bank continued to have adequate and appropriate capital position at 15.7% (2021: 17.3%), better capitalized than Banking System average which was 14.8%. NLB Banka capital adequacy also surpasses the minimum requirements of 12% as set per local requirements.
LTD stands at 82.8%, surpassing the average of banking sector of 78.3%.
NPL (total loans to NBS) – was kept at 2.0%, (2021 was 2.3%) matching market average of also 2.0%, (2.3% as of December 31, 2021).
ROE a.t. of 29.2%, (2021 was 22.4%), places NLB Banka above the market average of 20.6%, demonstrating stable trends compared to market benchmark with higher fluctuations on year-to-year basis.

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Strategy

NLB Banka is in line with comprehensive strategy of the group, mirroring the nature of Kosovo's economy. Our primary objective is protecting and strengthening the market position, while actively participate in the growth and consolidation of the market in Kosovo, as further extensive digitalization of our operations, significant increase of client centricity, and optimize our cost efficiency measures. NLB Banka will pursue further its strategy with sustainable development, with focus on maintaining high quality of loan portfolio, ensuring financial stability, delivering consistently strong results and contributing to the society. The bank is dedicated in providing higher level of service quality while introducing innovative modern products meeting their needs. We will achieve these objectives by focusing and better understanding of 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 disbursement of dividends by the Bank will depend on several factors, including the Bank's capital structure, risk appetite, profits, financial condition, regulatory requirements, overall economic and business conditions, as well as forthcoming prospects. The Bank's dividend policy envisages annual distribution of dividends in an estimated amount of 70% of the Bank's result, whilst fulfilling all regulatory and risk appetite requirements.

Risk Factors

The Bank closely monitors the risk factors that might potentially impact its operations. Amongst many challenges that the Bank will face during the following years, there are certain main risk factors shall impact on business activity of the bank. These include: unfavorable low interest rate environment, lower interest margins, further deterioration of macroeconomic circumstances, and instability in financial markets. Additionally, the increasing digitalization of banking processes has increased also the need to invest in measures to protect the bank and our customers' data, as a response to cyber threats.

The bank is also prone to changes of regulatory, changes in regulations may affect significantly banks operations and profitability, by limiting the banks' ability to generate revenues. Furthermore, political and geopolitical instability could also impact banks investments and operations.

Outlook 2023

NLB Banka will advance further its strategy in 2023 prioritizing sustainable development, upholding high quality of loan portfolio, financial stability fostering resilience of the bank, while delivering continuously strong results and contributing positively to the society. Furthermore, NLB Banka anticipates expanding its business activity through the year and continuing to deliver exceptional financial performance.

It is expected that the year 2023 will have its challenges on:

- Geopolitical development and its consequences in international and national market
- Inflation
- Slower remittance inflows,
- Pressure on interest rates and margins,
- Regulatory changes impacting business activities in particular profitability (basic account packages),
- Migration.

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Overview of Financial Performance

Statement of profit or loss and other comprehensive income

(000 EUR)	2022	2021	Index compared to 2021
Total operating income	**48,392**	**41,832**	**16%**
Net interest income	**39,846**	**34,460**	**16%**
Interest income	43,333	38,083	14%
Interest expenses	-3,487	-3,623	-4%
Net non-interest income	**8,546**	**7,372**	**16%**
Net fee and commission income	**9,754**	**8,804**	**11%**
Fee and commission income	14,963	13,423	11%
Fee and commission expenses	-5,209	-4,619	13%
Other net operating profits/losses	-1,208	-1,432	-16%
Total Operating Costs	**-14,350**	**-13,545**	**6%**
Staff expenses	-7,450	-6,850	9%
General and administrative expenses	-4,684	-4,453	5%
Depreciation	-2,216	-2,242	-1%
Profit before impairments and tax	**34,042**	**28,287**	**20%**
Net Impairments and Provisions	2,051	-1,063	-293%
Profit before tax	**36,093**	**27,224**	**33%**
Tax	-3,693	-2,787	33%
Net profit	**32,400**	**24,437**	**33%**

Profit

In terms of the banks profit and loss statement, the positive growth trends have been consistent throughout the entire year, indicating the impressive performance of the bank. The growth of interest income has been attributable to the impressive volumes with responsive pricing. While, non-interest income has also experienced a remarkable growth trend, attributed to the systemic role of the bank in market.

Meanwhile, the net interest income was impacted by the increase in interest expenses, which resulted from increase in deposit, following self-funding strategy. On the other hand, the bank has faced tremendous pressure for price increases from its supplier as an inherent inflationary environment is prevailing. This has led to exceeding of budgeted costs for 2.1%, which though not insignificant, is still much lower than the inflation rate.

Despite these challenges, the cumulative net profit was EUR 32.4M, which represents an impressive YoY increase of 33%. The profit before impairments and tax was EUR 34M, a remarkable YoY increase of 20%, mainly driven by the abovementioned impressive revenue performance. The profitability indicators exceed both the market and budgeted results. The profitability trends have reached its peak performance ever, putting the bank in the first position in its industry.

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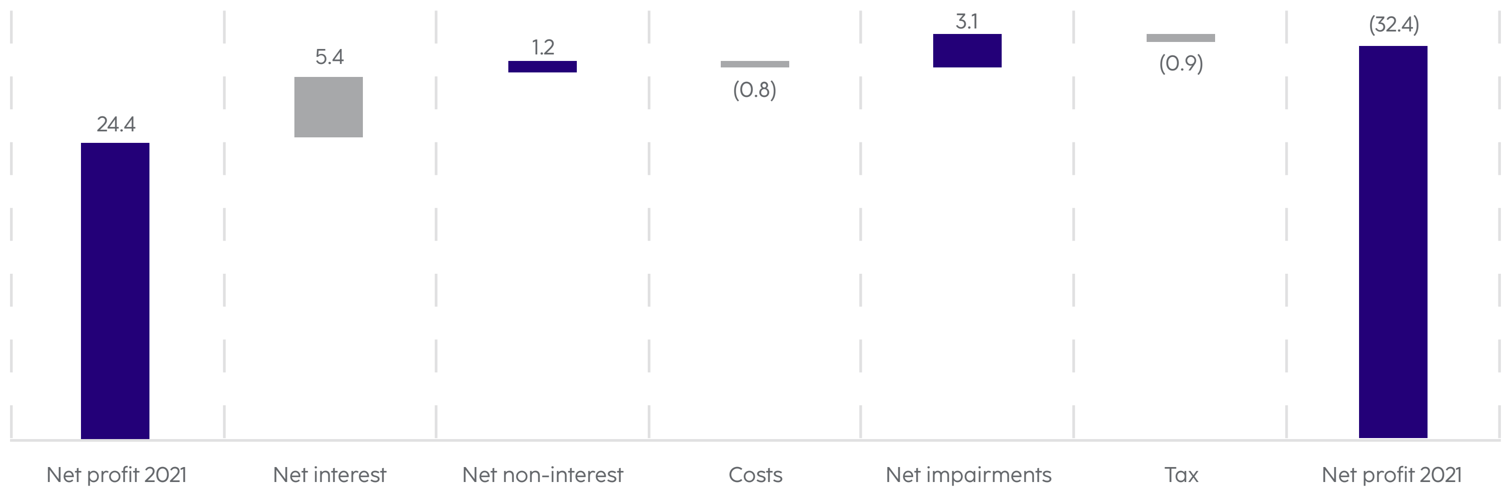
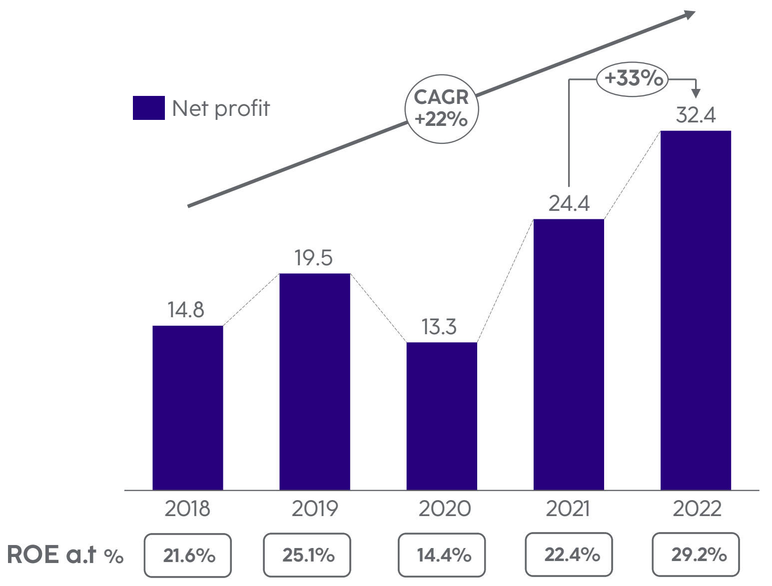
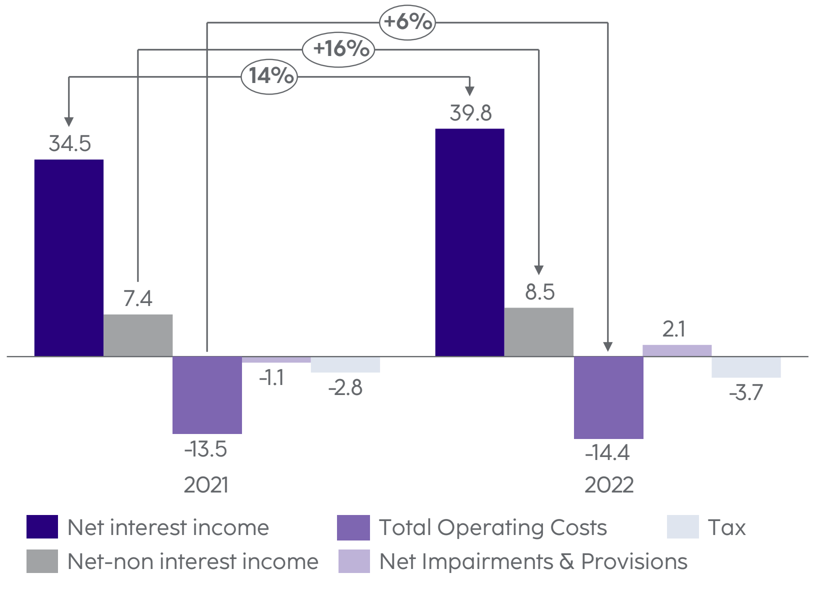
Net profit evolution YoY







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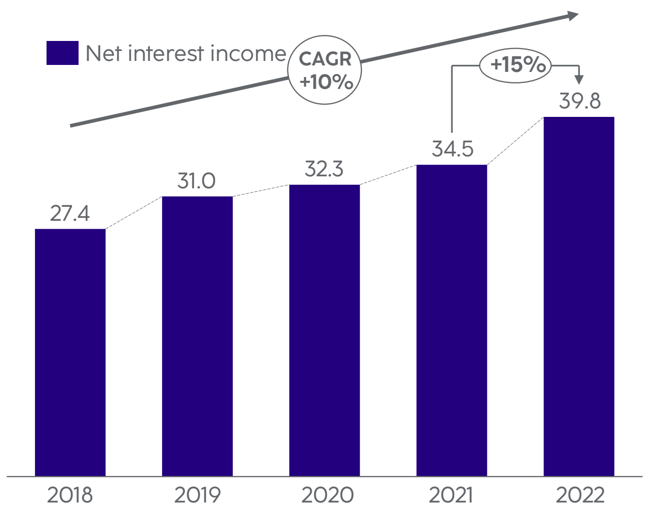
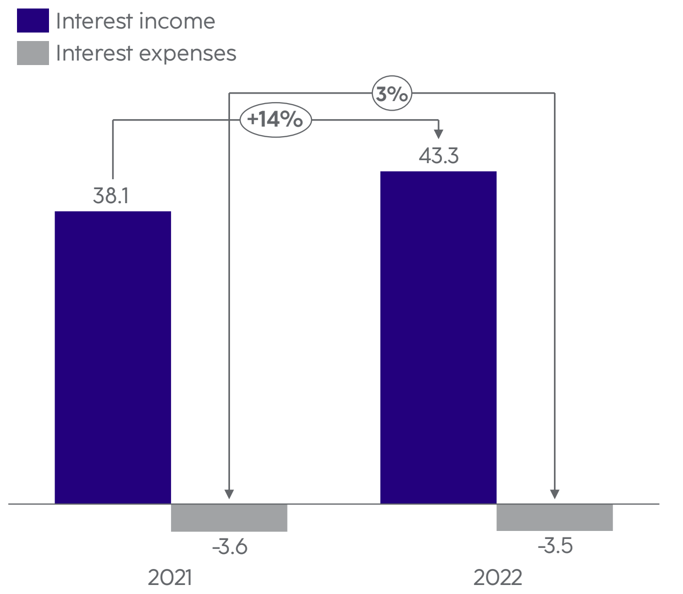
Net interest income

Net interest income reached EUR 39.8 million, compared to YoY increased by EUR 5.4 million or 16%. This growth can be attributed to the expansion of loan volumes, tied with our unwavering commitment to maintain a competitive interest margin, as well as continues repricing of deposits. There is a slight decrease in our net interest margin at 3.9% from 4.1% in 2021, a reduction of 2 basis points. However, we remain unyielding in our dedication to achieving financial excellence and overcoming every obstacle that may come our way.



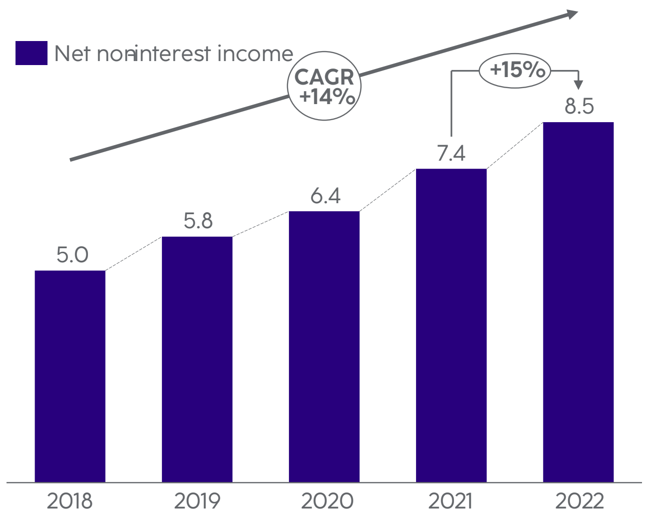


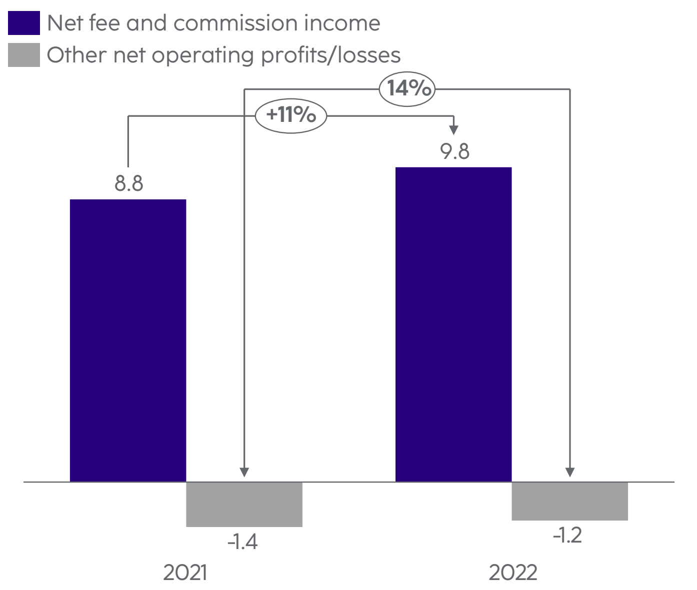
Net Non-interest income

Net noninterest income reached EUR 8.5 million, reflecting a substantial increase of EUR 1.2 million, or 16%, compared to the previous year. The increase can be attributed to the commendable growth economic activities and the remarkable increase in banking transaction volume.

Net non – interest income composes of:

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





Statement by the President of the Management Board
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Macroeconomic environment
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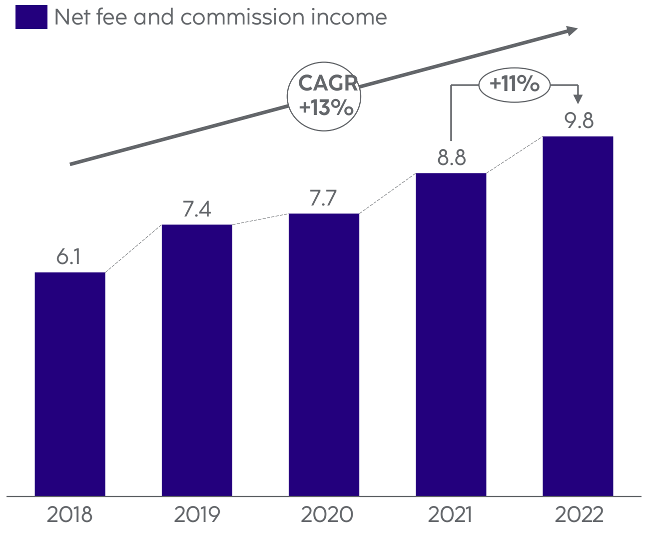
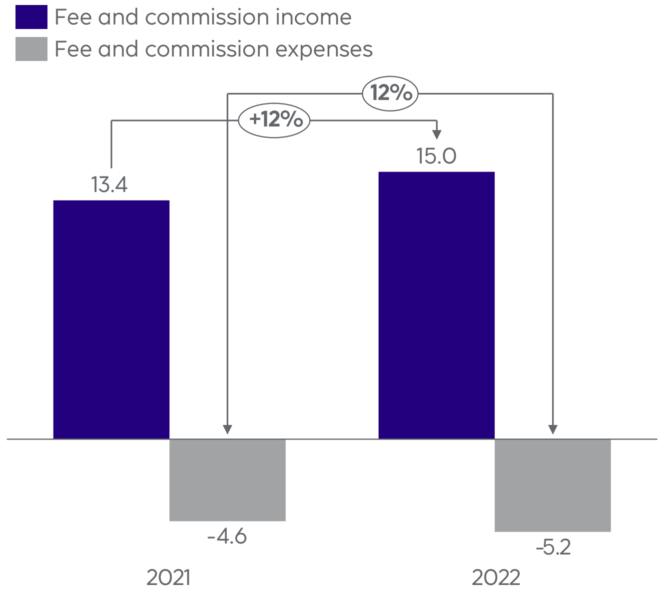
Net fees and commission's income

Net fees and commissions income for the fiscal year amounted to EUR 9.8 million, with an increase of EUR 1 million, or 11%, compared with the previous year. The increase was impacted from payment fee's, account maintenance fees, bank assurance, card business caused by diaspora visit, and overall increase in the size and number of transactions.





Costs

Total costs for the period ending on the current fiscal year amounted to EUR 14.4 million, reflecting an increase of EUR 0.8 million, or 6% compared to the previous year. This increase was impacted by the normalization of post covid operations and effected by the impact of a higher inflation rate.

As a structure, banks total cost composition consisted of 51% staff costs, 33% general and administrative costs and 17% depreciation and amortization costs.

Total costs resulted with an impressive CIR ratio of 29.7%, which is the lowest in banking sector. The bank remains committed to delivering exceptional value to its stakeholders while ensuring efficient management of costs.

Staff expenses amounted to EUR 7.5 million which are higher compared to the previous year by EUR 0.6 million or 9 %. This increase was primarily driven by the rise in staff remuneration package at the beginning of year of 2022 and increase of wages as consequence of high inflation rate.

General and administrative expenses amounted to EUR 4.7 million, representing an increase of EUR 0.2 million or 5% compared to the previous year. This increase was mainly driven by the rise in services costs.

Depreciation amounted to EUR 2.2 million, which are lower compared to the previous year by 1%

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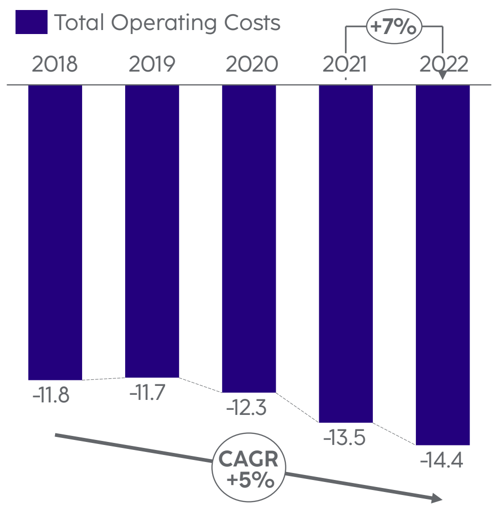
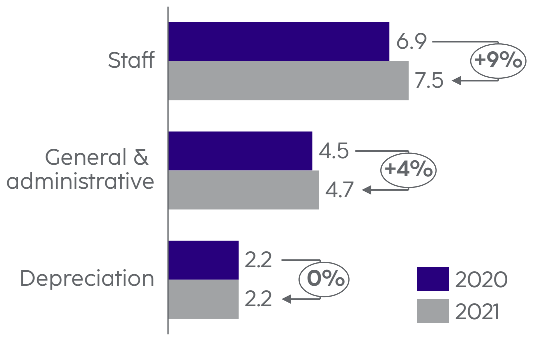
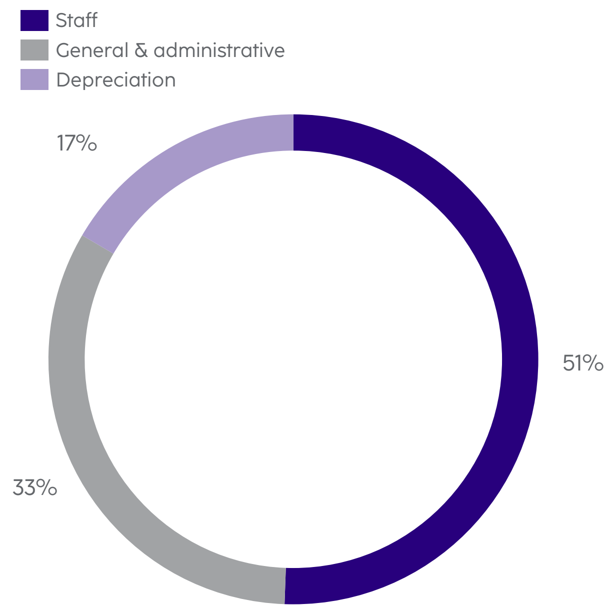




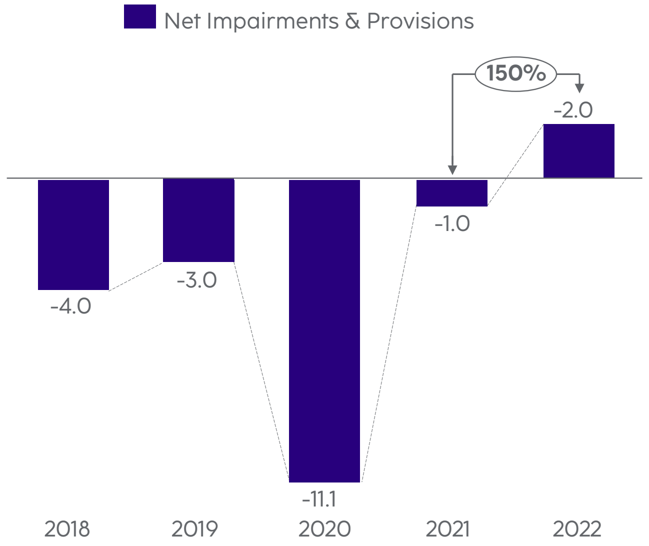


Provisions and Impairments

Provisions and Impairments for the year ended December 31, 2022 amounted release of EUR 2.1 million. This figure reflects sound structure of asset quality and consistent increase of our client's performance.

Despite the significant growth of our portfolio, the CoR continued to remain in negative trends, impacted by the positive performance of our client and the continuous review of our risk parameters, tending to mirror the actual macroeconomic environment, especially compared to the COVID period, and client's performance.

The bank has achieved to have sound quality structure of portfolio, with NPL ratio of 2.0% (last year 2.3%), a decrease of 3bps YoY. Net cost CoR is -40 bps, which is significantly below last year's of 5 bps. This impressive performance indicates our commitment to providing the highest level of service and protection to our clients.



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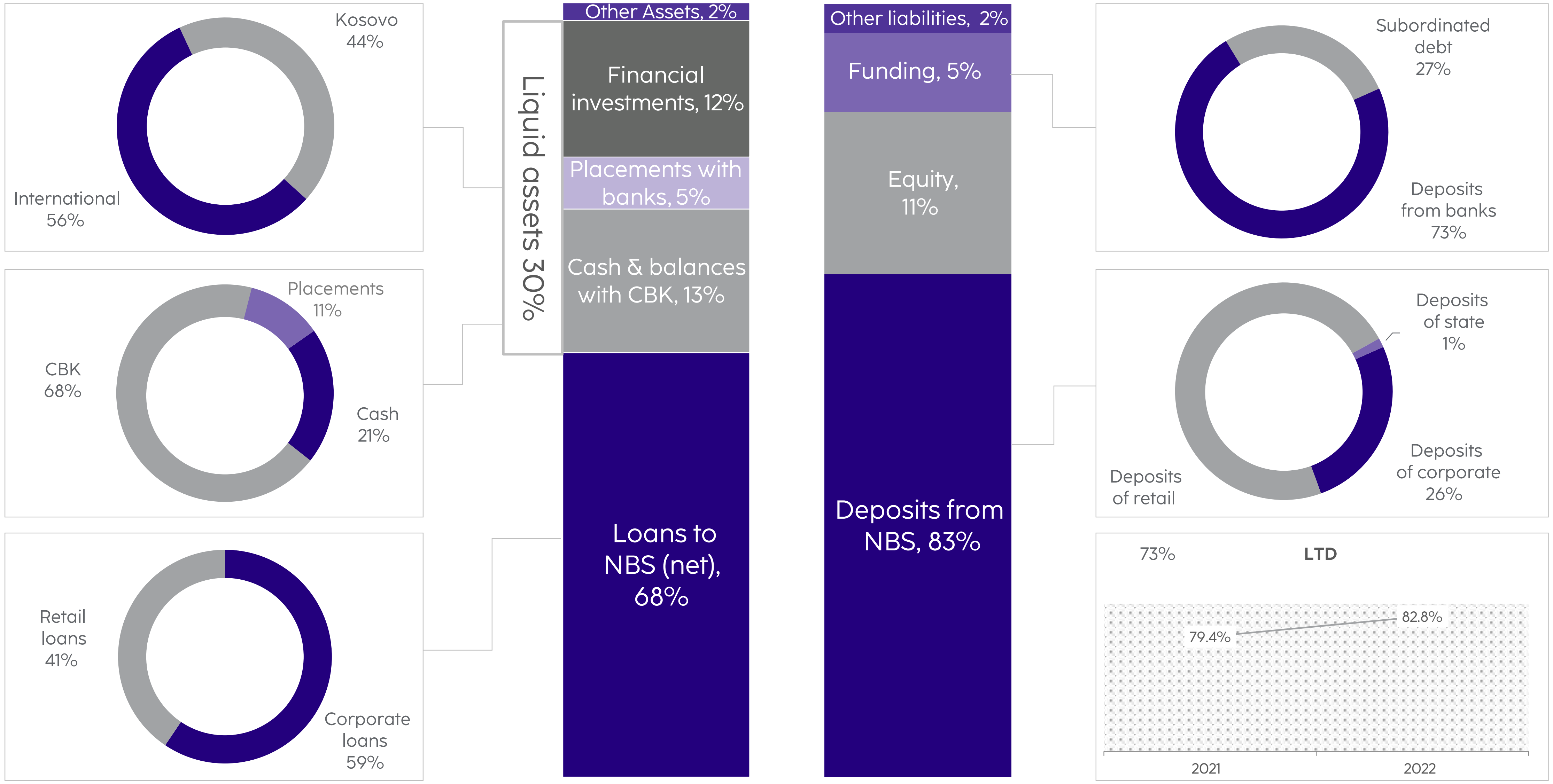
Statement of financial position

(000 EUR)	2022	2021	Index compared to 2021
Total Assets	**1,083,638**	**930,547**	**16%**
Cash and balances with central banks	140,850	134,038	5%
Placements to banks (net)	50,944	26,940	89%
Loans to non-banking sector (NBS)- gross	777,203	672,377	16%
Loan impairments to NBS	-36,427	-37,847	-4%
Loans to non-banking sector (net)	**740,776**	**634,530**	**17%**
Loans to corporate (net)	*440,296*	*379,994*	*16%*
Loans to retail (net)	*300,454*	*254,526*	*18%*
Loans to state (net)	*26*	*10*	160%
Securities	133,777	118,980	12%
Fixed assets	13,592	14,118	-4%
Other assets	3,699	1,941	91%
Total Liabilities and shareholders' equity	**1,083,638**	**930,547**	**16%**
Total Liabilities	**969,794**	**831,690**	**17%**
Deposits from banks	40,425	558	7145%
Borrowings (Leasing)	0	0	
Deposits from NBS	**894,242**	**798,789**	**12%**
Deposits from retail	*648,401*	*603,710*	*7%*
Deposits from corporate & state	*245,841*	*195,079*	*26%*
Subordinated debt	15,010	15,008	0%
Other liabilities	20,117	17,335	16%
Total equity	**113,844**	**98,857**	**15%**
Issued capital	51,287	51,287	0%
Retained earnings	29,023	21,691	34%
Other	1,134	1,442	-21%
Profit/loss for the period	32,400	24,437	33%
Off balance sheet main items	**43,551**	**49,012**	**-11%**
Guarantees and letters of credit	25,013	28,928	-14%
Written-off loans in off balance	18,538	20,084	-8%

Total assets increased by 16% from EUR 930 million to EUR 1,084 million in 2022, which is roughly 14% of GDP. This increase can be attributed to increases in the cash and balances with central banks, placements to banks (net), and loans to non-banking sector (NBS). We have continued to support our client's growth with a yearly new business of EUR 178 million in corporate and EUR 150 million on retail segment. This has resulted in a YoY NBS growth of EUR 105 million or 15.6%. (Corporate: EUR 58 million or 14% and retail: EUR 47 million, or an impressive 18% growth).

We have developed new products tailored to meet the evolving requirements of our clients, bringing banking services closer to them. Due to intensified credit growth volatilities on the liquidity position of the bank have taken place during the year which were mitigated and balanced primarily through self-funding, therefore upholding our reputation as the most trusted bank. We have utilized the beginning of the year over-liquidity to NBS sector, and we have achieved the growth in deposits amounting EUR 95 million.

Structure of financial position



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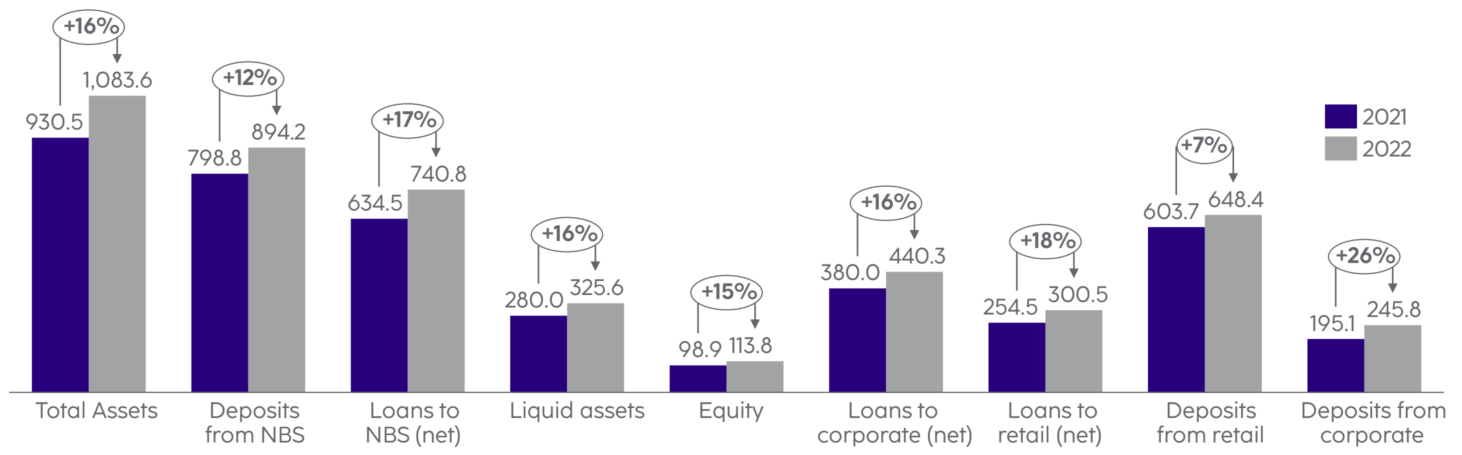


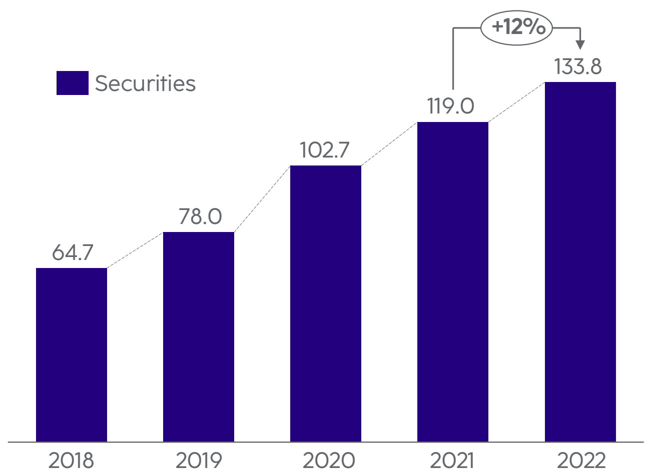
Cash and cash equivalents total amounted EUR 140.8 million in 2022 an increase of 5% from EUR 134.0 million in 2021, and mainly consist of:

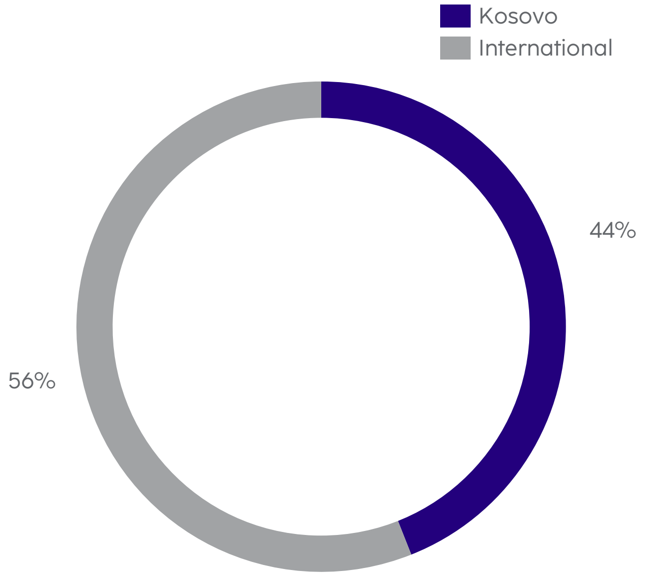
- CBK balances EUR 96.3 million or 68% (o/w: obligatory reserve EUR 73.7 million, cash EUR 22.6 million)
- Cash EUR 28.7 million or 20%,
- Sight deposits/placements to banks EUR 15.9 million or 11%.

Liquid assets compared to previous month increased for EUR 24.8 million as result of intra group overnight funding.

Placements to banks -amounted to EUR 50.9 million. Compared to end of the year 2021, the balance increased by EUR 24 million, or 89% as result from increase on source of funding.

Investments on Securities amounted EUR 133.8 million and compared to YoY it increased by EUR 14.8 million or 12%. The increase was impacted from funds utilization and for purpose of RWA management on group level. The structure of securities consists of 56% international T-Bills while 44% Kosovo T-Bills. In addition, the bank has held the Visa shares in amount of EUR 161 thousand.





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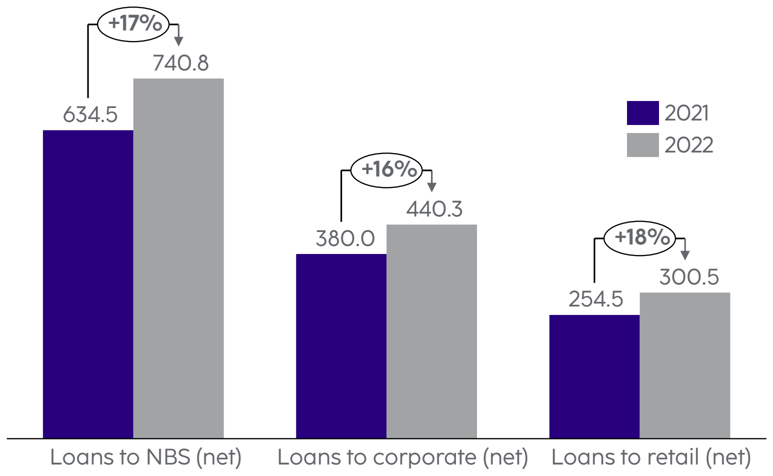
Total Gross NBS loans portfolio compared to end of the year 2021 has demonstrated a remarkable increase of EUR 104.8 million or 16%. On segment basis compared to YoY, corporate loan portfolio increased by EUR 58.1 million or 14%, while retail portfolio increased for EUR 46.8 million or 18%. On the other hand, loan impairments to NBS decreased by 4%, indicating a slightly improved credit quality.

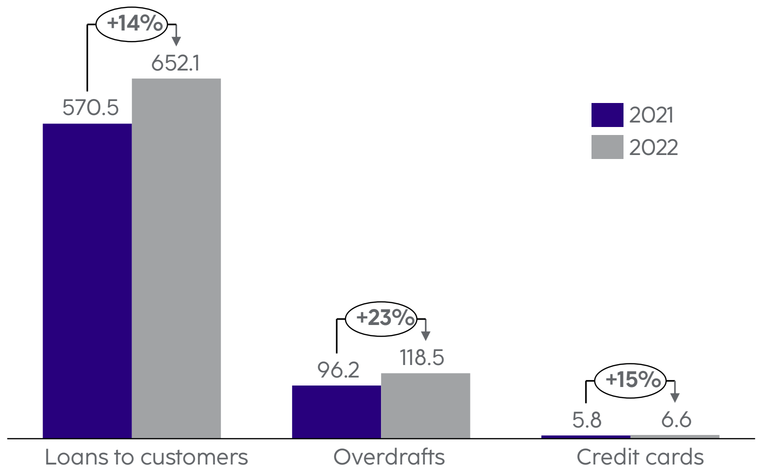
Despite being a retail-oriented bank, the composition of the portfolio comprises of 61% corporate vs 39% retail, thus remains to further work on balancing the structure.

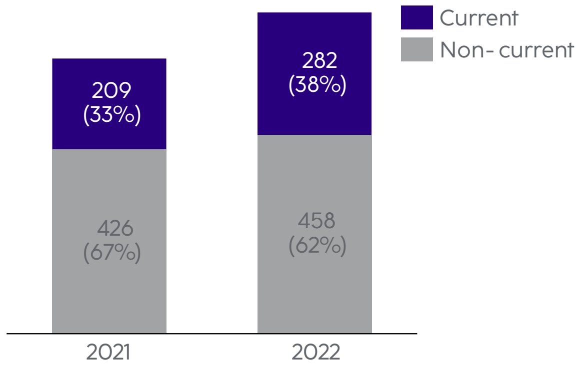
Even though the growth on portfolio, the bank has achieved to have the sound structure of quality portfolio with NPL of 2.0% (last year 2.1%). The structure of portfolio is classified in three stages, with: Stage 1: 86%; Stage 2: 12% and Stage 3: 2%.

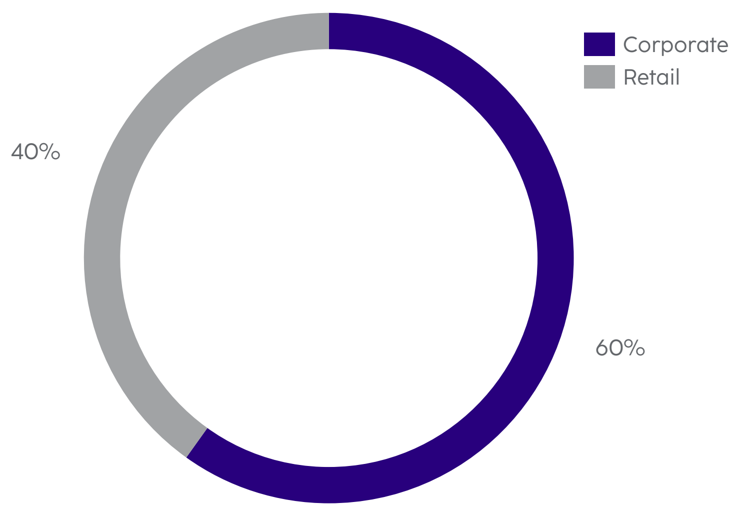
The total increase of NBS portfolio absorbs the increase of total deposits, with the remining part being financed through the structuring of balance sheet and utilization of liquid assets.

Besides the growth in NBS sector and on deposit side, the net LTD ratio has risen to 82.8% (last year 79.4%). Nonetheless, the structure of balance sheet remains optimal in terms of capital consumption on the group level.









Total liabilities increased by 17% from EUR 831.6 million in 2021 to EUR 969.7 million in 2022. This increase in liabilities is attributed mainly to the increase of deposits both in retail and corporate segment.

Deposits from banks increased significantly from EUR 0.5 million in 2021 to EUR 40.4 million in 2022. The increase was impacted from EUR 40 million borrowings from NLB d.d.

Total Deposits amounted to EUR 894.2 million, with increase of EUR 95.5 million or 12% compared to end of year 2021. The increase was driven by corporate segment in amount of EUR 50 million or 26% while in retail deposits increased for EUR 44.7 million or 7%. The structure of deposits consists of: retail deposits 73%, corporate deposits 26% and deposits from government 1%.

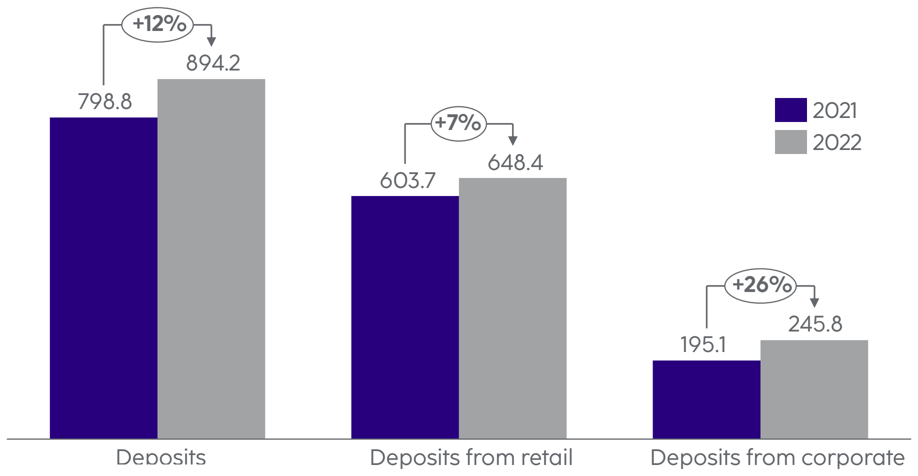
Subordinated debt remains at same level as in 2021 in amount of EUR 15.0 million, while other liabilities increased by 16%.

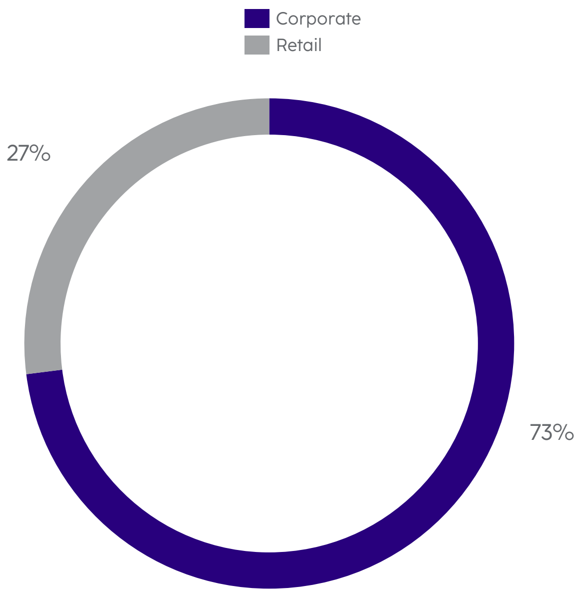
Shareholders` equity

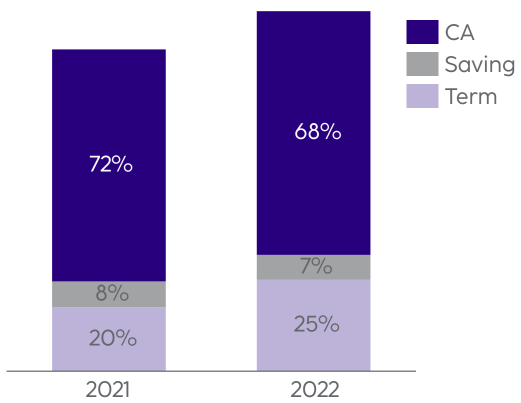
The total equity remains steadfastly consistent YoY, approximately EUR 113.8 million, representing a fulfillment of capital requirements internally and for regulatory purpose. Such consistency is achieved by increase of current year net profit and other equity instruments.

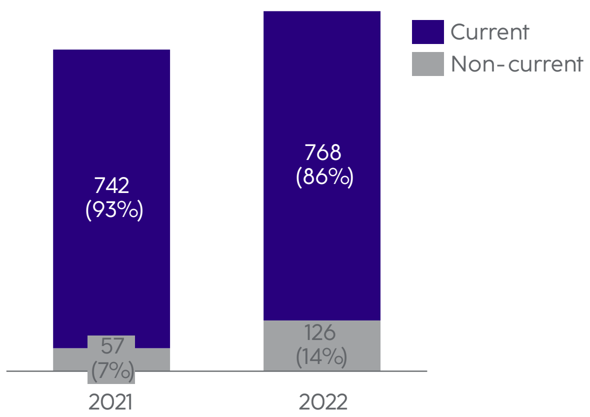
Furthermore, the capital structure of the bank remains stable, with CAR ratio of 15.7% (after capitalization of the first half current year profit and made necessary adjustments for dividend distribution after approval from CBK). CAR ratio remains not only above regulatory limit of 12%, but also surpasses our own internal risk appetite of 14.5%.

The bank has assessed its liquidity position and accordingly has distributed the dividend payment (70% of profit from the year of 2021) to its shareholders.









Activities by business segments

20,194
Clients or 5.2% more than 2021.

18,104
debit and credit cards to legal entities

16,573
e-banking and m-banking users

2,414
POS-es or 2.2% more than 2021.

Corporate Banking

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 execution of after COVID-19 measures for financing program sponsored by the Kosovo Government that provided subvention funds for legal entities, and we have conducted loans in the amount of EUR 11M to our clients related to this measure.

2022 has been a challenging year for many of our customers, while the social and economic consequences of COVID-19 continue to be felt, the Russian invasion of Ukraine in February added to the economic headwinds a huge disruption. Supply chain disruption, in addition to global fiscal and monetary stimulus has contributed to inflationary pressure as customers revert to pre-COVID-19 norms. Businesses face a combination of rising input costs, higher borrowing costs, a tight labor market and lower consumer demand.

We are continuing to adapt to customer trends. In the longer term, to meet customer expectations for seamless, personalized experiences, we continue to invest in our data and technology capabilities to be 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.

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.

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.

The digital acceleration experienced over the last two years as COVID-19 forced new behaviors has stabilized, with customer activity still strongly skewed towards digital channels. Consequently, customer expectations of convenient, personalized experiences through digital channels remain high.

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 20,194 companies in 33 branches and subbranches, 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.

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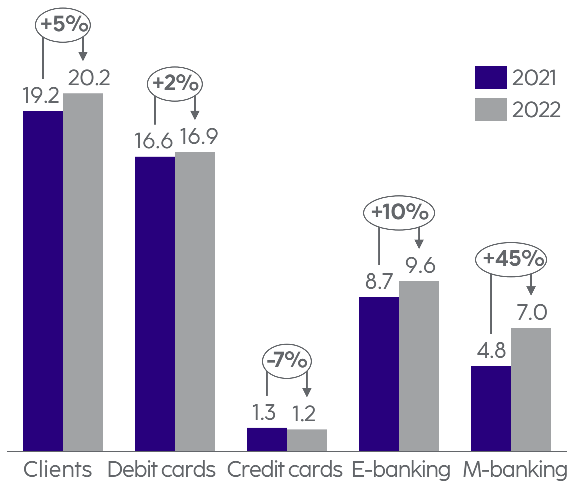
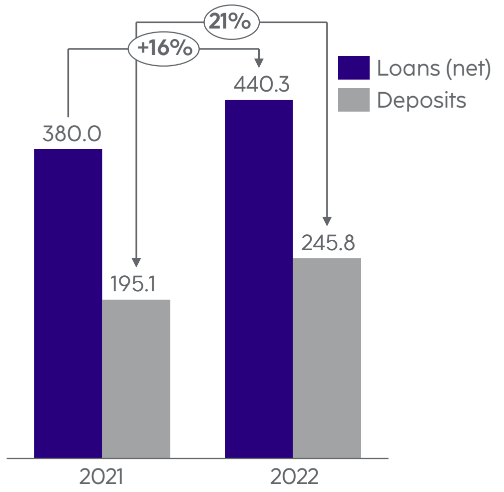
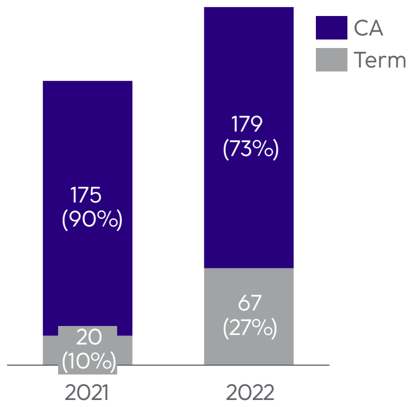
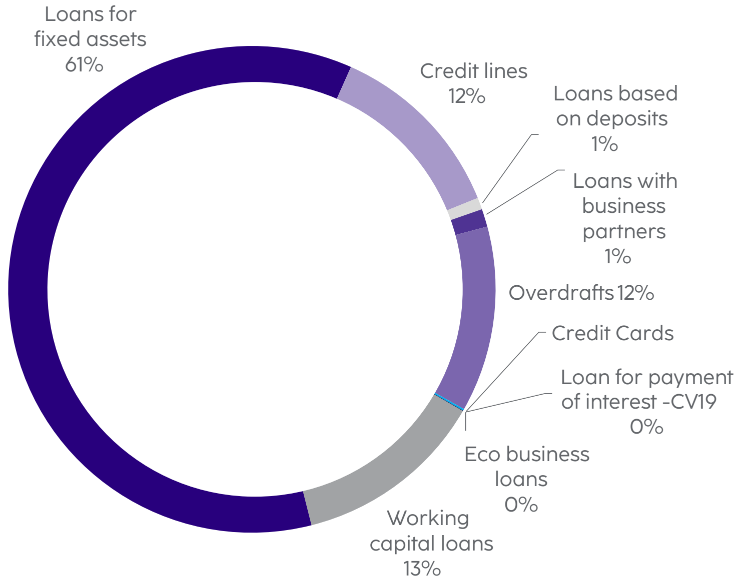
The main/key data on operations with corporate banking

000 EUR	2022	2021	Index compared to 2021
Amount of corporate loans (net)	440,296	379,994	16%
Amount of corporate & state deposits	245,841	195,079	26%
Number of clients	20,194	19,204	5%
Number of cards (debit)	16,870	16,621	1%
Number of cards (credit)	1,234	1,333	-7%
Number of E-banking	9,603	8,699	10%
Number of M-banking	6,970	4,818	45%









We believe all these efforts resonated with our clients and translated into our ability to increase our loan portfolio by 16% during 2022. This resulted in a total amount of € 440M in net loans. In addition, due to our business strategy changes regarding deposits, we achieved to increase corporate & state deposits for 47% compared to the end of year 2021

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 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 2022.
- 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 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.

321,178
Individual Clients

303,692
Debit and Credit cards

78,364
E-click and M-click individual users

33
Branches/sub-branches

Retail Banking

Despite the challenges encountered in 2022, our retail banking sector remained committed to its developmental trajectory, operating systematically in accordance with the bank's acquisition strategy and the NLB Group's highest standards. As a result, we secured our position as the second-largest bank in Kosovo and maintained our status as one of the top retail banks in the region, boasting an impressive 18.9% market share.

Apart from the customary sales activities associated with retail banking operations, our emphasis remains on executing our digitalization strategy and advancing various projects towards this objective. We enabled customer migration to digital channels by creating attractive packages that incentivize sales efficiency and enhance the customer experience. Moreover, financial advisory is a crucial component in supporting healthy growth and fostering long-term relationships

As a result of our persistent efforts and ongoing initiatives, we managed to maintain our retail client base throughout 2022, which was a crucial prerequisite for expanding our retail loan portfolio and supporting the investment plans of our retail customers. By doing so, we facilitated our retail clients' ability to purchase homes and increase their family assets. Furthermore, we implemented additional measures to improve the lending processes and support the growth of our consumer lending sector. Through streamlining our retail operations, we achieved heightened levels of client satisfaction, as confirmed by an independent client satisfaction survey conducted by an outsourcing company. Automated process in loan origination for consumer lending as MVP has positive impact on sales efficiency and improved customer satisfaction. Automated consumer loan process has supported process of loan application more efficiently resulted in faster loan approvals and disbursals.

In 2022 Retail has intensified sustainable behaviour through special design of Eco Loan and supporting environmentally friendly needs of customers for financing eco-friendly home investment and energy-efficient appliances.

Branch network:

NLB Banka sh.a. has physical presence in 9 major cities through 33 organization units placed strategically to reach a large customer base. Branch network provides a convenient and accessible way of customers to access products, services, and financial advising. Our branch network provides customers personalize support for their financial needs. Branch network plays crucial role by providing valuable market insights based on customers preferences which is constantly used to develop/improve products and services by the supportive Retail team in Head Office level. Moreover, presence of the bank is supported by 99 ATM's offering cash deposit option in more than 50% of ATM network as 24/7 service.

In 2022 branch network has been involved into paperless activities and their contribution has contributed positively to environmental impact, improving operational efficiency and enhancement of customer experience. The impact on costs with paper-based processes is reflection of measures implemented in compliance with regulations.

Integral part of sales effort are marketing campaigns that have enabled not only enhancement of brand visibility, 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.

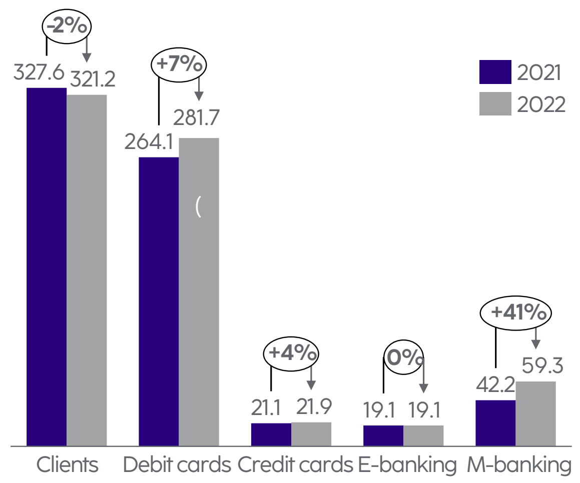
New products and services – main activities:

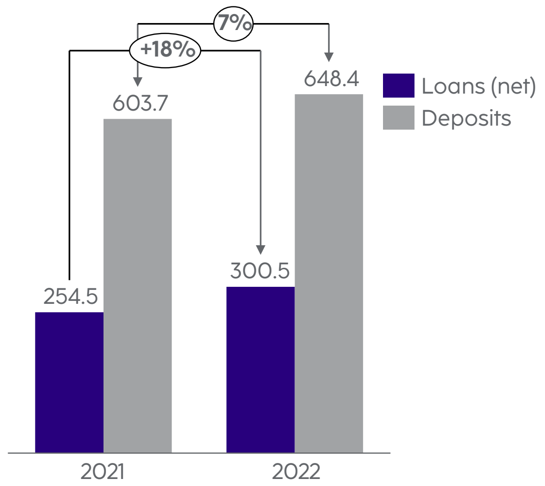
The Bank during 2022 has introduced new services such as:

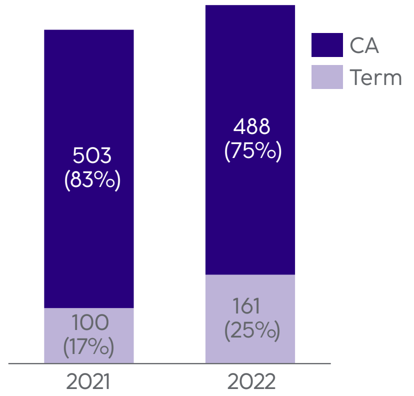
- eCommerce.

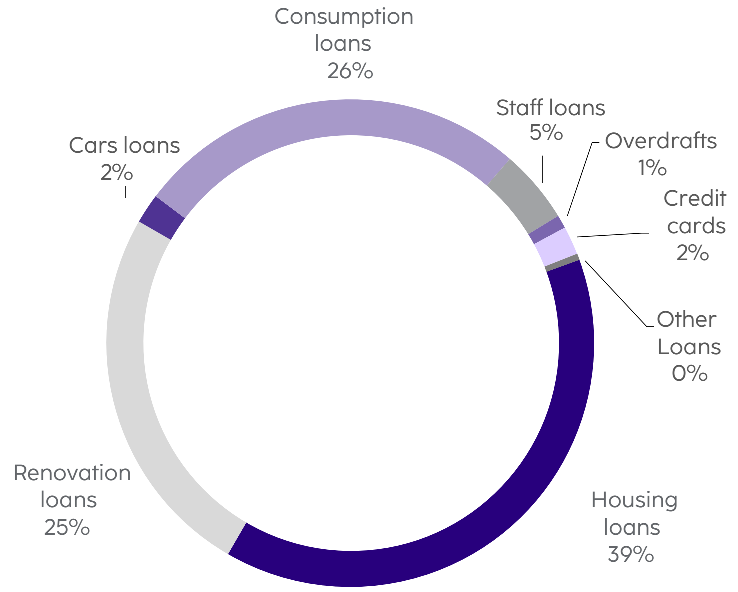
The main data on operations with retail banking

000 EUR	2022	2021	Index Compared to 2021
Amount of retail loans (net)	300,454	254,526	18%
Amount of retail deposits	648,401	603,710	7%
Number of clients	321,178	327,600	-2%
Number of cards (debit)	281,746	264,140	7%
Number of cards (credit)	21,946	21,135	4%
Number of E-banking	19,062	19,138	0%
Number of M-banking	59,302	42,160	41%









Modern distribution channels

- In 2022, the Bank prioritized leveraging its user base to promote modern payment channel products and services, aiming to transition as many cash and non-cash transactions as possible from physical branches to electronic channels.
- The continuous development of electronic channels has led to a significant increase in the number of transactions and turnover from clients utilizing modern distribution channels
  - **ATM Withdrawal** - have an increase of 10% in volume and 7% in number of transactions.
  - **ATM deposit** - also have an increase of in usage with following figures: 17% in number of deposit transaction and increase by 28% in volume of deposit transaction.
- **POS payments** – have increase in usage with following figures: 8% increase in number of transactions and 8% increase in volume of transactions.
- **e-Banking** - platform has decrease of -13% in number of transactions but an increase of 4% in the volume of transactions.
- **m-Banking** – platform has increase which is 61% in number of transactions and 57% 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 18% in number of transactions and increase of 24% in volume of transactions.

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Financial Markets and Payments Operations

Assets and Liabilities Management

Asset and liability management (ALM) is a crucial function of the bank that involves managing the bank's balance sheet, ensuring that its assets and liabilities are aligned to achieve the bank's financial goals while also managing risks effectively. ALM is critical to a bank's success, as it helps to ensure the bank's financial stability and profitability. The bank effective asset and liability management involved balancing the risks and rewards of various assets and liabilities, ensuring that the bank has sufficient liquidity to meet its obligations, and managing interest rate risk, credit risk, and other types of risk.

Through ALM which involved a range of activities, including setting risk and return targets for the bank's assets and liabilities, assessing the bank's liquidity needs and managing cash flows, conducting stress tests to assess the impact of adverse scenarios on the bank's balance sheet was monitored and managed properly.

During 2022, the bank has managed its assets and liabilities by conducting regular assessments of its balance sheet, including the risk and return profiles of its assets and liabilities, and taking actions to ensure they remain aligned with the bank's strategic goals. This may involve adjusting the composition of the bank's portfolio of loans, investments, and other assets to optimize its risk and return trade-offs.

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.

We require a strong and thorough asset and liability management, robust funding, and all indicators to be in compliance with risk management restrictions in order to offer our clients sustainable and secure financial services.

Liquidity Risk

Liquidity risk management is a critical function in a bank that involves ensuring that the bank has sufficient liquidity to meet its obligations as they come due. Liquidity refers to a bank's ability to generate sufficient cash flow from its assets or borrow from the market to meet its cash outflows, such as deposit withdrawals, loan disbursements, and other payment obligations.

NLB Bank objective it to have effective liquidity risk management by assessing the bank's liquidity needs under different scenarios, such as changes in market conditions, unexpected deposit withdrawals, or other events that could impact the bank's cash flow. The bank maintained a balance between the need to maintain adequate liquidity and the desire to maximize its returns on assets. Our objective was 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's liquidity position was also analyzed under different scenarios expected and stressed conditions, at the same time to maintain access to diverse funding sources where contingency plans are set by procedures to manage potential liquidity disruptions or crises, such as developing access to emergency funding facilities.

These practices of liquidity risk management allowed us to effectively manage the fluctuations from the rising interest rate environment, inflationary pressures and the changing macro environment.

The bank managed the main liquidity indicators above the minimum limits set, be that from regulators or from internal aspect which were way above the minimum required level of 25% for all currencies. 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.

Foreign Currency Risk

Exchange rate risk is the risk that changes in exchange rates between currencies will affect the value of a bank's assets, liabilities, or earnings. This risk arises from the bank's exposure to foreign currency-denominated assets or liabilities or from its foreign currency-denominated transactions. Currency risk arises from the change in price of one currency against in relation to another. Our 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 monitored, and they are reported to the management on a weekly basis.

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. By managing foreign currency risk effectively, we minimized the impact of exchange rate fluctuations on their financial performance and maintain the confidence of our stakeholders.

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

During 2022 the bank was mainly oriented towards developments in terms of technological aspects of adding new features towards making payments in a more enriched way.

NLB Bank is a member of SWIFT GPI which is a new standard for international payments, through this service we were able to transform this experience to be beneficial also for our clients. through development of GPI credit confirmation through e-mail notification for outgoing international payments they are able to receive the information for confirmation of credit as soon as the payment has been credited to the beneficiary account.

Electronic payments are at the epicenter of this transition, considering the central role digitalization plays in the financial life of an increasing number of people throughout the world.

Payments are becoming less cash-based, and the industry's role in supporting inclusivity has grown significantly.

During 2022 we have seen an increase of electronic payments in both national and international payments as a result of digitalization, and we expect that this number will further increase during 2023 which will have an impact of growth in terms of net non- interest income. We have continued to implement competitive pricing for payments through pricing committee by active revising of costs and fees on all payment's types, which corresponds to the market conditions and increasing volumes by strengthening cooperation with largest service providers companies.

In terms of international payments, if we compare the data of 2022vs2021, we have an increasing trend for outgoing

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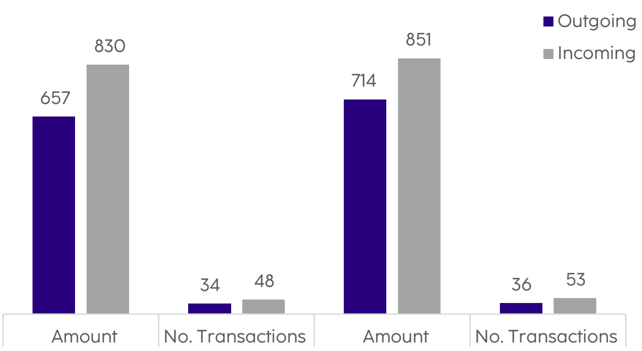
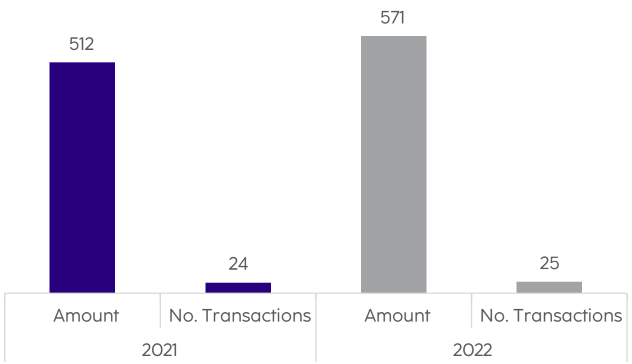
payments, where in the amount of payments we have an increase by 9%, whereas in the number of payments we have an increase by 5%. In terms of incoming payments we have an increase in the amount of payments by 2%, including in the number of incoming payments where we haven an increase by 11%.

International payments
(amounts in M EUR, no. transactions K EUR)

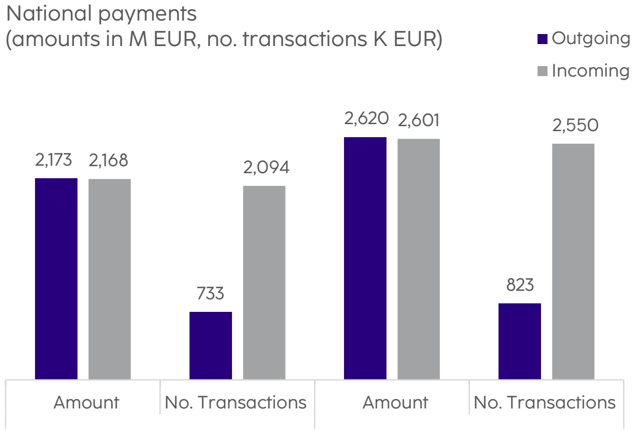


Furthermore, we see an increasing trend in e/m-baking in international outgoing payments, if we compare the data of 2022vs2021, we have an increase of volume of payments by 11% and 8% increase in the number of international outgoing



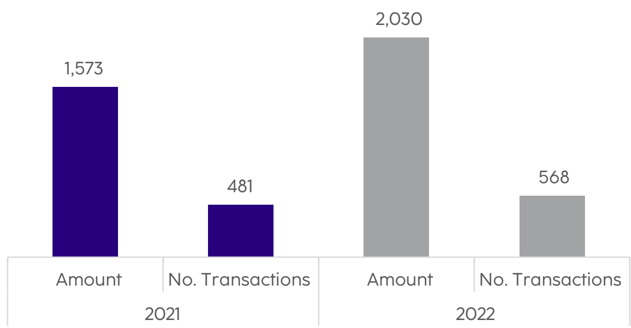
In terms of national payments if we compare the data of 2022vs.2021, we have an increasing trend for outgoing national payments in volume of payments by 21%, and at the same time an increase in the number of payments by 12%. In terms of incoming national payments if we compare the data of 2022vs.2021, we have an increase in the volume of payments by 20%, including in the number of incoming payments where we haven an increase of 22%.

National payments
(amounts in M EUR, no. transactions K EUR)



In addition, we see an increasing trend in e/m-banking also in national payments, if we compare the data of 2022vs.2021, we have an increase of national payments by 29% in amounts and 18% increase in the number of national payments through e/m-banking compared to last year.

Outgoing national payments through
e/m-banking (amounts in M EUR, no. transactions K EUR)



Trade Finance

NLB Banka continuously aims to connect the world through trade finance and to empower its clients to stay a step ahead in business. Mitigating the clients' risks in import and export transactions is one of the Bank key strengths. The excellent service delivery is at the heart of the product offering. Speed combined with safe transactional processing has the highest priority.

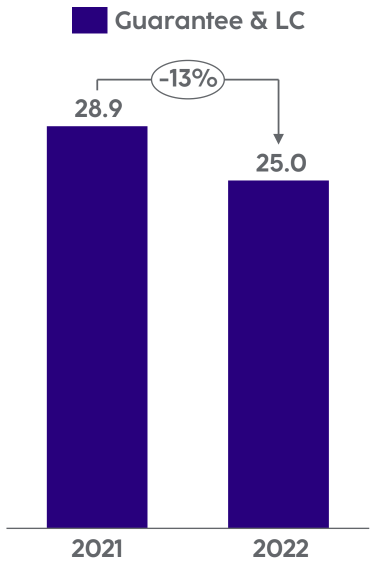
NLB Banka in the year 2022 was awarded for the sixth time, by European Bank for Reconstruction and Development - EBRD as the "Most Active Issuing Bank in Kosovo for 2021" for using the TFP (Trade Facilitation Program) of EBRD.

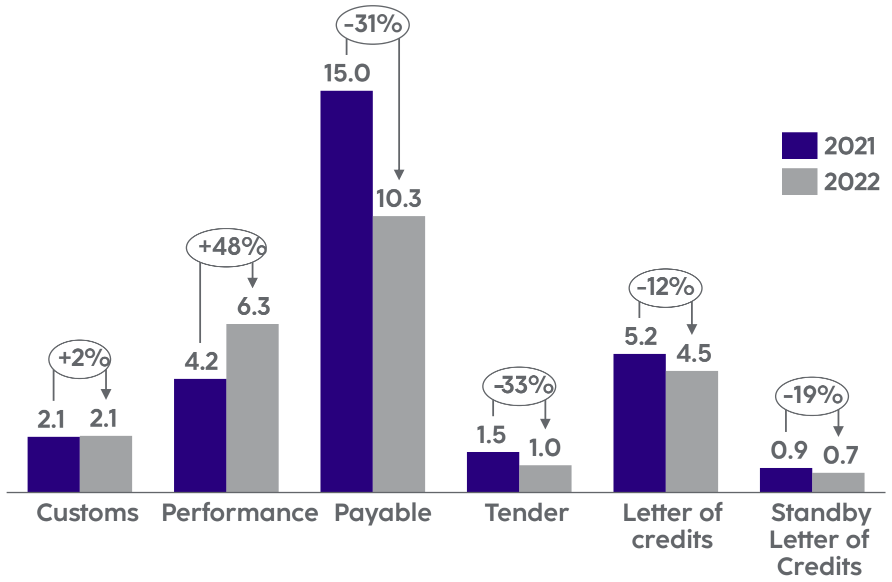
Under the EBRD Trade Facilitation Program, the Bank has strengthened the ability to support and raise the clients' access to the import and export trade.

The factoring product is introduced in 2022, and its solutions have a wide variety of different advantages from which the Bank clients can benefit depending on their business needs, models and the solution the Bank implements.

Being a part of NLB Group, as the leading banking and financial group in the region, enables the Bank to provide a better and faster alternative international trade finance solutions.

The Bank offers a wide range of trade services to its clients. In 2022 the Bank supported local and international trade for its clients by issuing trade finance instruments for the amount of 27 million euros. The Bank also kept supporting its clients in the role of exporters by acting as the intermediary and advising bank of the received transactions in their favor and also as an agent in the concluded escrow agreements.





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Information technology

IT continued with the implementation of strategic projects and activities aimed at optimisation of IT services and operations and strong support for efficient business operations. Several infrastructure and application projects have been implemented in IT field to ensure proper IT support for 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 on the field of IT security, productivity and business continuity.

In 2022, our Bank has completed migration of email infrastructure to Microsoft Exchange Online cloud service. With this migration, our Bank optimized costs for email service since the bank has already been subscribed to Exchange Online service. By this, the bank is fully compliant with industry regulations since Microsoft Office 365 services have been certified as compliant with ISO 27001 standards and other relevant industry standards. Along with migration to Exchange Online, our bank has implemented Intune for Mobile Device Management (MDM) which brings additional layer of security for access to corporate collaboration services such as Exchange Online and MS Teams from mobile devices.

The bank completed the implementation of Microsoft Information Protection (MIP) labeling solution. This service resides and is managed from Microsoft365 Cloud and enables securing data with sensitivity labels through MIP. With sensitivity labels, employees of the bank are forced to classify data and enforce protection settings based on that data like encryption or watermarks on labelled Office365 content across platforms and devices and even extension of sensitivity labeling in order to protect content in third-party applications and services (like PDF).

In 2022, the bank has implemented the latest Microsoft's remote access solution called Always On VPN (AoVPN). It provides consistent and seamless remote access with improved security, authentication, performance and management. For increased security, AoVPN has been combined with Azure AD for multifactor Authentication and use of device and user certificates issued by Internal PKI. In this way, IT has established a scalable platform for growing demand for secure remote access from business owners and employees of the bank.

In general, banking sector consistently ranks at the top when it comes to the most targeted sectors, and that's why strong, sustained investment in cybersecurity is critical. That's why the bank is making major investments in cybersecurity along with strong cyber governance practices. In 2022, in order to better protect its online services and internal IT infrastructure our bank has implemented Cloud WAF solution and on-premise DDoS protection from a reputable global provider of IT Security Solutions (Radware). This Cloud WAF Service provides enterprise-grade, continuously adaptive web application security protection. It provides full coverage of OWASP Top-10 threats and automatically adapts protections to evolving threats and protected assets. As a starting point, this protection was applied to the public web portal of the bank with plans to extend to other customer facing online applications.

For mitigation of DDoS attacks, the bank has implemented Radware DefensePro on-premise solution which provides automated DDoS protection from fast-moving, high-volume, encrypted or very-short-duration threats. It defends against IoT-based, Burst, DNS and TLS/SSL attacks to secure the bank against emerging network multi-vector attacks, ransom DDoS campaigns, IoT botnets, phantom floods, and other types of cyberattacks.

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 2022 the bank has implemented a new cloud-based Vulnerability Management which gives the bank immediate, global visibility into the vulnerability of IT systems to the latest Internet threats 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.

In 2022, our bank has replaced its anti-malware solution for endpoints with MS Defender for Endpoint (MDE) as its enterprise endpoint security platform with the purpose of having a more effective tool to help prevent, detect, investigate, and respond to advanced threats. It provides some key features like "Single pane of glass" for managing and viewing all security events on managed endpoints, endpoint behavioral sensors, attack detection that made it past all other defenses (post breach detection), provision of actionable, correlated alerts for known and unknown adversaries, threat intelligence, Endpoint Detection and Response (EDR) and many other features of a next-generation protection cloud platform.

Datacenter as a critical part of IT Infrastructure of the bank has undergone modernization of its network infrastructure by complete replacement of datacenter network equipment and installation of new Checkpoint Datacenter firewalls which turned datacenter to a more robust, scalable and above all secure IT environment providing strong grounds for support of secure business operations.

In 2022, IT completed with upgrade of the existing VOIP infrastructure, by fully virtualizing it. Along with upgrade of IP PBX (Cisco Call Manager) to the latest version, complete replacement of IP phones fleet was done.

In December 2022, the bank performed an integral BCP testing of end-user applications with production data under typical loads during normal working days which proved that business operations can run without interruptions even if the primary datacenter would have been unavailable in case of Disasters. To test recoverability of data and business operations in disaster scenarios that cannot be compensated by switching over to Disaster Recovery Site, in June 2022 full recovery of applications and data from tape backups was tested successfully.

During 2022, IT provided full support to business developments and projects through development of tools, applications, interfaces and cooperation with third parties in development activities and projects like LOPA, AML KYC, Robotics Process Automation (RPA), Digital Onboarding with video identification, PTB model, and delivery of new versions of core banking modules.

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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 topics for the Bank during 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. 2022 marks the year wherein the NLB Group has obtained its first ESG Rating, an ESG Risk Rating of 17.7 and was assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors, due to its medium exposure and strong management of material ESG issues. In addition, NLB's ESG Risk Rating places it among the best 15 % banks assessed by the company.

NLB Bank Prishtina for the first time in its history invested in Austria Green T-bills in amount of € 6.5M in order to diversify our portfolio and to support the financing environmentally friendly projects such as renewable energy, energy efficiency, sustainable agriculture, and clean transportation. We as NLB Bank are driven to support projects that are committed to sustainability and reducing their carbon footprint. By investing in green T-bills we contribute to the transition to a low carbon economy, which is critical to combating climate change. Green T-bills support projects that reduce greenhouse gas emissions and promote sustainable development.

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.

Sustainability

With the adoption of the NLB Group sustainability programme at the end of 2020, the Bank has moved from the raising awareness phase to the phase of actively implementing sustainability elements into the business model. The goal of this strategic, organization-wide initiative is to ensure sustainable financial performance of the bank by considering social and environmental risks and opportunities in its operations, and to actively contribute to a more balanced and inclusive economic and social system.

Three pillars of NLB Group sustainability

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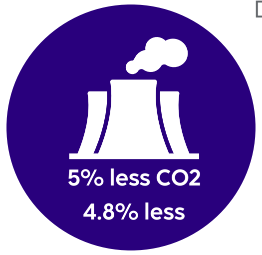

During 2022 the NLB Banka has completed its fourth consecutive year of measuring and reporting the CO2 emission deriving form its own operations. The carbon footprint measurement is carried out based on the three scopes:

Scope 1: Direct GHG Emissions
Scope 2: Electricity indirect GHG Emissions
Scope 3: Other indirect GHG Emissions.

The Bank has successfully, manage to decrease its CO2 emission by 5% during 2022, of which direct emission deriving from electricity decreased by 4.8%

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Statement by the President of the Management Board
Financial Highlights
Macroeconomic environment
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Sustainability
Corporate Governance
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Corporate social responsibility

NLB Banka perceives its responsibility to clients, employees, and society as a mission and strives to enhance its credibility, image, and brand through various activities.

NLB Group has integrated sustainability into its banking operations to improve the region for future generations. As part of the largest banking and financial group in South-Eastern Europe, NLB Banka aims to improve the quality of life through socially responsible projects aligned with UN Sustainable Development Goals. The bank prioritizes employee care, compliance and integrity, entrepreneurship promotion, mentorship, sports support, humanitarian activities, and environmental protection as the key pillars of socially responsible operations.

In 2022, NLB Banka remained committed to contributing to wider socio-economic development through Corporate Social Responsibility activities, supporting initiatives that promote good health and education, reduce inequalities and poverty, encourage decent work and economic growth, and protect the environment fully aligned with UN Principles for Responsible Banking

Activities undertaken in supporting of clients/ citizens

As digital banking, investment, and insurance services continue to advance, the Bank aims to forge closer relationships with clients by providing tailored digital services that complement their lifestyles. The Bank is expanding its product and service offerings to meet clients' complex needs, and its employees have extensive knowledge and experience to recommend appropriate services that align with their financial requirements.

After two highly successful #HelpFrame projects, prepared by the NLB Group in previous years to help companies during the pandemic, #HelpFrame was implemented for the third time in September 2022, this time in a revamped version. The focus of the project in 2022 was sustainability and therefore it provided an opportunity for companies to prioritize sustainable ideas for a better tomorrow. NLB Banka awarded 10 finalists - best sustainable entrepreneurial ideas or projects that ensure a better and brighter future for all of us, with bank benefits and communication support.

The #HelpFrame project finalists in the Kosovo market received a range of advantageous deals for products and services, such as Eco loans, business account packages, POS terminal installations, and preferential e-commerce terms, among others. Moreover, in addition to the benefits related to banking products and services, the finalists received media communication support and promotion, which amplified their visibility and outreach.

Social

During 2022, the Bank provided support for social and humanitarian initiatives in the following ways:

- NGO for the blind "Shoqata Ndërkomunale e të Verbërve Prishtinë" to complete monthly activities of the organization.
- NGO "You Can Do" - promotion of the book "Light of the soul" with essays written by people with special needs in four writing formats: Typical format, Braille, Acoustic and enlarged font
- Donation to the Embassy of Ukraine - In response to the ongoing situation in Ukraine, NLB Banka sh.a. joined the Group's initiative and made a donation to the Embassy of Ukraine in Podgorica.
- AMC – "Action for mothers and Children" – donation to support and provide medical equipment for mothers and premature babies.
- NGO "Action for Health" - Donation to support the purchase of medical equipment that would help children affected by cancer.
- NGO "Autizmi" – six (6) children with autism who cannot afford treatments are receiving support for their social needs, as well as therapeutic interventions aimed at improving their behavior and teaching them basic life skills, including cognitive abilities.
- "American Chamber of Commerce in Kosovo" - the annual Charity Gala received a donation from the Bank, which was aimed at raising funds for three causes. The first cause was the Scholarship Fund for KAEF, which was allocated 50% of the total funds. The second cause was the Scholarship Fund for SOS village children, which received 30% of the funds. Lastly, 20% of the funds were allocated to Lifeline, a Suicide Prevention Hotline.
- A donation has been made to facilitate the distribution of complimentary tickets for a theatrical production organized by the Ministry of Justice as part of the worldwide initiative "16 days of activism against gender-based violence."
- Pediatric Clinic (UCCU) - the Bank has donated an EEG device to the Pediatric Clinic to aid in the diagnosis of epilepsy in children and support their medical treatment. The therapy that these children will receive will be based on the results obtained from this device.
- Logopedic Cabinet (UCCU) - the Bank has donated didactic materials and necessary equipment to the Logopedic Cabinet, which are essential tools for treating children with communication disorders, cognitive impairments, voice issues, and swallowing difficulties.
- Rheumatology Clinic (UCCU) – the Bank has made a donation of a Capillaroscope device, which is used to measure and assess blood flow in small vessels throughout the body, specifically the capillaries. This measurement is crucial for autoimmune rheumatic diseases such as progressive systemic sclerosis, limited scleroderma, primary and secondary Raynaud's syndrome, primary and secondary vasculitis, and other autoimmune-related illnesses that affect the circulatory system.
- The Bank has donated wheelchairs to the University Clinical Center of Kosovo (UCCU) that will facilitate the transportation of patients who have limited mobility, as well as other patients who require assistance.
- Linja e Jetës - the national suicide prevention call center - the Bank provided support to national call center managed by the NGO "Center for Information and Social Improvement", which is dedicated to offering emergency services to individuals with suicidal tendencies who may be in high-risk situations. In addition, the organization focuses on breaking the stigma surrounding mental health and raising awareness through training and workshops.
- End of the year gifs for children with special needs – gifts to different organizations throughout Kosovo.

NLB Banka has also provided support for initiatives aimed at alleviating poverty and hunger by purchasing essential food items and distributing them to families in need.

Environmental

NLB Bank contributes to a range of activities and projects that seek to enhance the conditions of the environment in which we live and work.

The Bank places significant emphasis on the digitalization of its services, which has a positive impact on reducing paper usage and promoting environmental protection. By utilizing digital platforms, such as e-banking and m-banking, customers are equipped with electronic services, leading to a reduction in paper consumption and ultimately saving trees. The bank has continued its "To Love and Protect Nature" initiative by planting 76 trees on Rr. "Deshmoret e Kombit" in Prishtina this year. Through this initiative the Bank promotes the importance of saving the existing trees by conducting paperless banking operations and at the same time donating to the greening of public spaces.

In 2022, NLB Banka participated in the "Walk with Me" campaign, which was organized by SOS Children's Villages and STIKK to raise funds for children without parental care or who are at risk of abandonment, as well as to promote environmental protection by encouraging employees to walk, run, or use bicycles more. Employees took part in the campaign, and a mobile application measured green kilometers and carbon footprint. As a result, a friendly competition was established among bank employees to achieve as many green kilometers as possible.

The Bank has indirectly reduced our carbon footprint through our lending and investment practices, which involve abstaining from coal-related businesses and financing projects that promote a low-carbon economy.

Economy

The Economist Impact Conference for the Western Balkans is a crucial platform for discussing and shaping the economic, social, and political development of the region, highlighting its potential and opportunities, and facilitating constructive dialogues among leaders and stakeholders to drive positive impact and sustainable growth.

The Bank's sponsorship and participation in panel discussions at The Economist Impact Conference for the Western Balkans highlights its commitment to supporting the region's economic and social development and underscores the importance of fostering constructive dialogues and collaborations among stakeholders to drive positive impact, sustainable growth, and shared prosperity.

Culture

Culture plays a pivotal role in shaping a country's identity, fostering a sense of belonging among its citizens, and contributing to its economic and social development, making it a crucial component of a nation's collective heritage and global reputation.

The Bank's sponsorship for a documentary film dedicated to the SHKA "AGIMI" at Prizren highlights the importance of culture in preserving the heritage and history of a community, and underscores its commitment to supporting initiatives that promote and celebrate cultural diversity, social inclusion, and collective memory.

Education

Education is of paramount importance as it not only provides individuals with knowledge and skills, but also empowers them to make informed decisions, contributes to personal growth, and ultimately helps build a better society.

As a testament to the importance of education, NLB Banka offered 15 scholarships for professional trainings at Cactus Education for students in the field of information technology, Data Management.

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.
- The Bank maintained their long-standing support for FC Prishtina, the oldest football club in Kosovo, as they celebrated their 100th anniversary this year. By doing so, the Bank is fulfilling its promise to assist the community in which it operates, as well as promoting and supporting football at highest level. As part of the sponsorship, the players of FC Prishtina were involved in a sponsorship activation, where sports shirts were given as a donation to 6th grade children at the "Dardania" School in Prishtina.
- Sponsorship to Flutra Ibrahimi for expedition – UN SDG Amabsador
- She is the first Albanian woman to climb the highest peak of world-Everest and the first woman from The Balkans that has climbed the 6 highest peaks on earth. She is a UNSDG Ambassador, and the Bank supported her expedition on the next 8000 meters peak, Malaku 8485m, the 5th tallest mountain on earth.
- Basketball Club "KB Bashkimi", as a traditional sponsor.
- Female Handball Club "KHF Istogu" – sponsorship
- Chess Club "KSH Drejtësia" - Sponsorship of the chess memorial tournament dedicated to the former employee of the Bank "Mustafë Ibrahimi".

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Human Resources Management

Given that the Human Resources and Organizational Management and Development Strategy is based on today's needs and especially those of the future and given that it derives from the Bank's business strategy together with the vision, mission, goals, culture, values and development plan, the human resource's function has been and has continued to be a strategic function and as such, an important partner of the Bank's Management Board.

Extensive investment in the knowledge and well-being of employees is one of the pillars of our Bank. We believe that a satisfied and effective employee is one who can balance his or her personal and business life, and one who knows that his or her potential is recognized and shared in a meaningful way.

Keeping this in mind, we have continued to take great care to guide, develop and support our employees on their way, recognizing their needs and the needs of the Bank to build together our future success story.

YEAR 2022 - YEAR OF VALUES

More than 150 employees from across the NLB Group, with strong management support, have identified 3 core values and 15 behaviors that will help us achieve our goals. This is a new chapter of our journey and the story we are writing together. Values have no meaning without people.

The Bank's achievements are the result of the work, dedication, commitment and professionalism shown by all employees, where throughout the year the meanings of three values were reflected: Growing People, Encourage Entrepreneurship and improving lives.

Values for all that we are.

The employees within the NLB Group then took care to show their creativity to do the Value Visualizations.

The main focus for human resource management during 2022 is based on the four strategic HR processes, [Leadership, Organizational Culture, Organization and Competencies] as well as the eight supporting processes [Employees, Employee Development, Talent Management, Management of performance, Reward (bonus) and recognition, Health and safety, Internal and external relations and Data management and human resource systems].

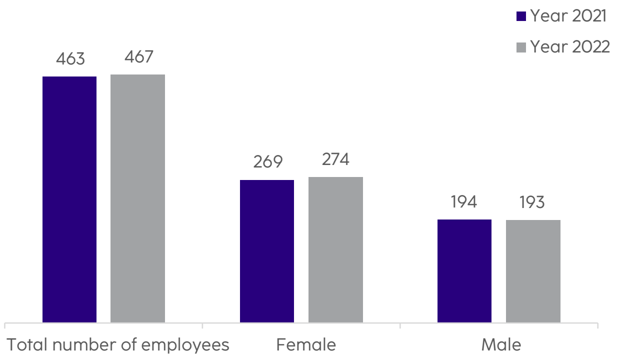
The team for everything you are!

For the purpose of training and development of employees, the Bank has signed an agreement with the prestigious American company Udemy Inc., for online training courses. Udemy for business offers the opportunity to attend 7000 programs-courses, online.

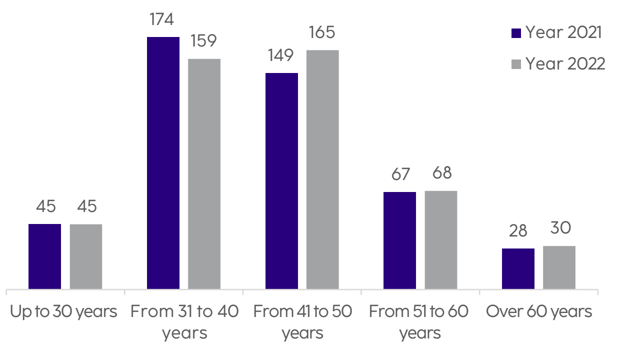
In addition to the activities that the Human Resources and Organization Section deals with every day, during 2022 the following main activities were also carried out:

- Evaluation of employee commitment, with the external company "Interpretacija" from Slovenia.
- Employer Brand survey conducted by the external company Aragon d.o.o. from Slovenia.
- Evaluation of the Bank's leadership competencies by the external company "Boyden" based in Vienna [Austria].
- Continuation of the contract with the company Scardian j.s.c. for voluntary health insurance for Bank employees.
- Organization of performance evaluation and distribution of bonuses.
- Organization of various activities with the Talent group, [mentoring, shadowing, training, project works, book club, focus groups, etc.
- Enrichment of the book corner, with 50 international bestsellers.

Number of employees by gender



Number of employees by age



Employee trainings

	2022
Internal trainings	2,791
External trainings	389
NLB Group trainings	29
CBK	15
Average training hours per employee	**30**

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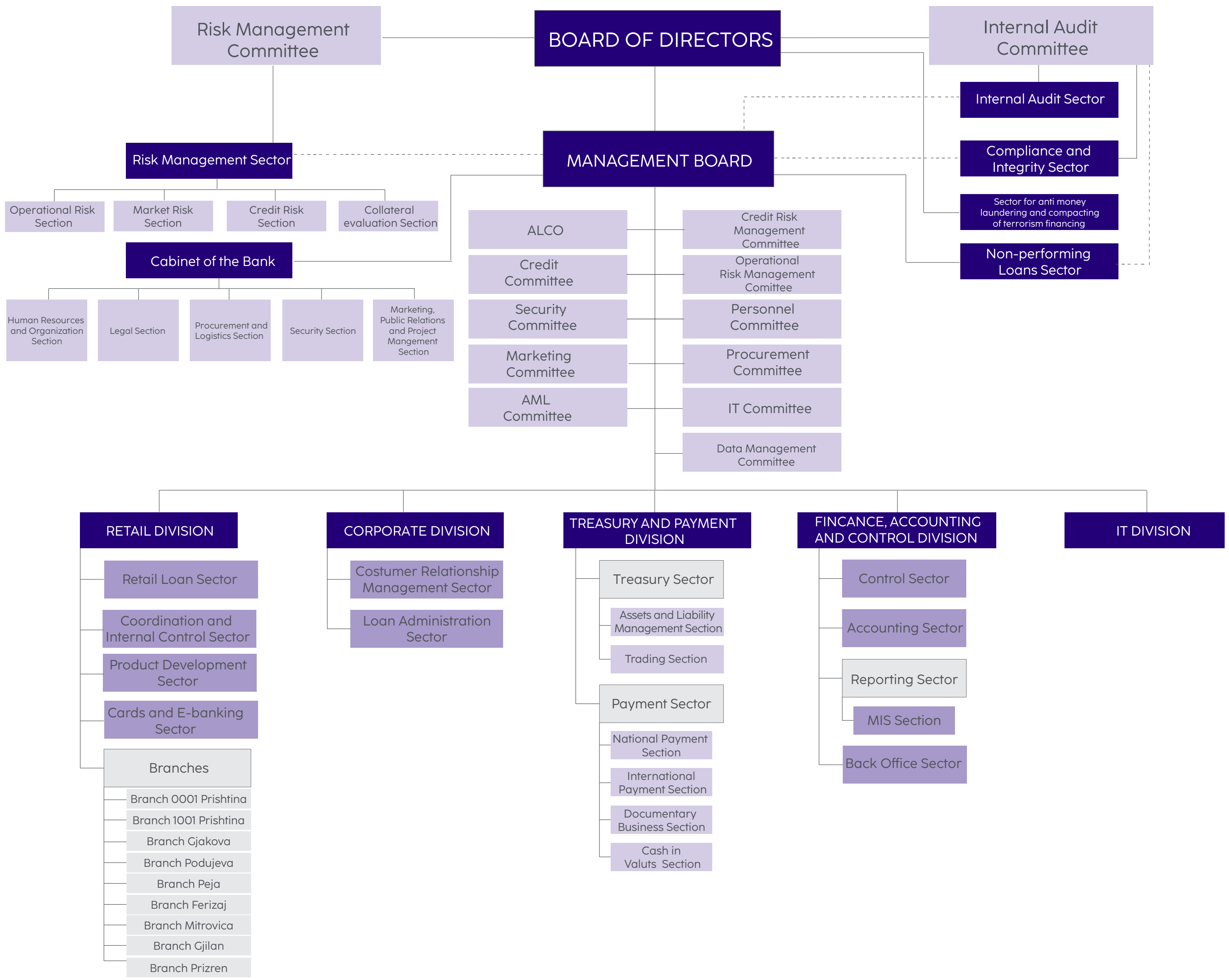
Corporate Governance

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.

Organizational Scheme of NLB Banka sh.a.



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

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 2022, General Meeting of Shareholders had one regular meeting. The regular meeting was held on March 24, 2022 whereas several documents have been approved, among which the following: External Auditors report for 2021, Business plan for the period 2022-2026, appointment of external auditor for the year 2022, supplements and amendments of the Statute and dividend distribution for the year 2021.

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 2022 had 5 meetings, 4 regular meetings and 1 extraordinary.

The structure of BoD of NLB Banka j.s.c. Prishtina as of December 31, 2022, 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, 2022 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 2022 in total four (5) Audit Committee sessions were held 4 regular and one extraordinary by correspondence.

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, 2022, 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 2022 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.

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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 five 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 2022, Internal Audit Sector performed 25 audit engagements in line with the audit plan 2022. 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 2022 the quality of the work of Internal Audit Sector was performed from independent big four company. The external assessor confirmed that: The internal audit of our bank is generally in compliance with internal audit standards, being independent, objective and effective, and overall addresses the needs and expectations of stakeholders.

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 CBK 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 2022, 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 2022:

- Enterprise compliance risk assessment (ECRA) – update for 2022, based on the Instructions for the Implementation of the Enterprise compliance risk assessment (August 2019).
- Compliance reviews on six areas and processes – FATCA regulatory compliance; Consumer protection in sales; review of secondary Internal Controls on Bank's sub-branches; Assessment of implementation of Outsourcing Policy; Review of management system of internal acts; Intensive Care List (annual monitoring). There are 39 recommendations issued with aim of improvement.
- Research (survey) on ethics and compliance 2022, with the purpose of establishing the employees' view (perception) on the situation in the Bank concerning compliance and ethics, their observations, experience, and attitude towards specific practices.
- 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.
- 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 2022 (as of 31.12.2022) 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 2022 the focus was on Customer Risk Rating Project (Siron KYC) and Client KYC Review. Besides daily activities such as monitoring and reporting of suspicious activity and sharing of information with law enforcement institutions, other important activities are:

- Quantitative and Qualitative AML Risk Assessment – Group methodology
- Implementation of Customer Risk Rating Project Plan - Siron KYC (testing phase reached)
- Approval of Money Laundering and Terrorist Financing Prevention Policy, 5th version
- Approval of Policy on the implementation of restrictive measures (financial sanctions and embargo), 2nd version
- Coordination and communication with AML Group regarding new sanctions as result of Russian invasion in Ukraine
- Design and implementation of second level controls
- KYC Review for high and medium risk clients
- Implementation of Group e-learning methodology
- E-learning training on sanctions and restrictive measures
- Training for the new staff and front office on the data quality during onboarding and KYC review
- Attendance of AML staff to trainings, business line meeting and AML conferences
- Prepared and issued numerous instruction and memos for front office

Disclaimer on Events after balance sheet date

Management Board of the Bank on March 2023 will propose to Board of Directors the distribution of 70% of the net profit for the year 2022.

The Board of Directors on its meeting held on December 14, 2022 has appointed new CEO with four-year mandate effective from April 01, 2023, which is linked with retirement date of actual CEO.

No other material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statements.

NLB Banka

NLB BANKA SH.A.

Financial statements prepared in accordance with the international financial reporting standards

For the year ended 31 December 2022

With independent auditor’s report thereon

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Statement of management's responsibility

To the Shareholders and Board of Directors of NLB Banka Sh.a.

The Management Board hereby confirms its responsibility for the preparation of the financial statements of the Bank for the year ended December 31, 2022, 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, 2022 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 applying 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, 2023

Management Board

Lavdim Koshutova
Member of the Management Board

Gem Maloku
Member of the Management Board

Albert Lumezi
President of the Management Board

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Independent auditor's report

GrantThornton

Independent Auditor's Report

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the 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 matter

The financial statements of NLB Banka Sh.a. as of and for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion in their report on 07 March 2022.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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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.

Grant Thornton LLC
Prishtina,
28 February 2023

Suzana Stavrikj
Statutory Auditor

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Statement of financial position

	Note	December 31, 2022	December 31, 2021
ASSETS			
Cash and balances with the Central Bank	4	140,850	134,038
Loans and advances to banks	5	50,944	26,940
Loans and advances to customers	6	740,776	634,530
Financial assets at fair value through OCI	7	133,777	118,980
Other assets	8	3,018	1,651
Repossessed assets	8.1	321	-
Prepaid current income tax	25	-	-
Property and equipment	9	10,068	10,405
Right of use assets	9.1	2,384	2,369
Intangible assets	10	1,140	1,344
Deferred tax asset	25	360	290
Total assets		**1,083,638**	**930,547**
LIABILITIES			
Due to banks	11	40,425	558
Due to customers	12	894,242	798,789
Other financial liabilities	13	13,540	10,296
Other financial liabilities at fair value through profit and loss	13.1	43	-
Provisions and other liabilities	14	5,493	6,344
Corporate tax payable	25	1,041	695
Borrowings and Subordinated debts	16	15,010	15,008
Total liabilities		**969,794**	**831,690**
SHAREHOLDERS' EQUITY			
Share capital	17	51,287	51,287
Revaluation reserve on AFS FVOCI securities	26	1,134	1,442
Retained earnings		61,423	46,128
Total shareholders' equity		**113,844**	**98,857**
Total liabilities and shareholders' equity		**1,083,638**	**930,547**

These financial statements have been approved by the Management Board on February 28, 2023 and signed on their behalf by:

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

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

Contents

Statement of profit or loss and other comprehensive income

		Year ended December 31, 2022	Year ended December 31, 2021
Interest and similar income	18	43,333	38,083
Interest and similar expense	19	(3,487)	(3,623)
Net interest income		**39,846**	**34,460**
Fee and commission income	20	14,963	13,423
Fee and commission expense	21	(5,209)	(4,619)
Net fee and commission income		**9,754**	**8,804**
Impairment losses on loans to customers	22	1,286	(2,267)
Net Operating Income		**50,886**	**40,997**
Other operating income	23	695	475
Other operating expenses	23	(1,903)	(1,907)
Other provisions	15	765	1,204
Personnel expenses	24	(7,450)	(6,850)
Depreciation and amortization	9,10	(2,216)	(2,242)
Administrative and other operating expenses	25	(4,684)	(4,453)
Profit before tax		**36,093**	**27,224**
Income tax expense	26	(3,693)	(2,787)
Net profit for the year		**32,400**	**24,437**
Other comprehensive income / (loss):			
Other comprehensive income that will not be reclassified to profit and loss statement			
Net (loss) / gain on equity instruments at fair value of FVOCI		(43)	54
Total items that will not be reclassified to the profit and loss statement		(43)	54
Other comprehensive income that will be reclassified to profit and loss statement			
Net (loss) on debt instruments at fair value of FVOCI		(265)	(365)
Total items that will be reclassified to the profit and loss statement			
Other comprehensive (loss)/income for the year	27	**(308)**	**(311)**
Total comprehensive income for the year		**32,092**	**24,126**
Basic and diluted earnings per share (EUR\share)	28	759	572

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Statement of changes in equity

	Share capital	Revaluation reserve for FVOCI securities	Retained earnings	Total
Balance as of January 1, 2021	**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 27)	-	(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**
Net profit for the year	-	-	32,400	32,400
Net change in fair value of financial instrument at FVOCI (Note 27)	-	(308)		(308)
Total comprehensive income loss for the year	**-**	**(308)**	**32,400**	**32,092**
Dividend paid	-	-	(17,105)	(17,105)
Balance as of December 31, 2022	**51,287**	**1,134**	**61,423**	**113,844**

Statement of cash flows

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
Cash flows from operating activities			
Profit for the year before taxation		**36,093**	**27,224**
Depreciation and amortization	9,10	2,216	2,242
Credit loss expenses	22	(1,286)	2,267
Loss from sale of PPE			-
Other impairment release/(losses) and provisions	15	(765)	(1,205)
Interest income	18	(43,333)	(38,083)
Interest expense	19	3,487	3,624
		(3,588)	**(3,931)**
Increase in mandatory reserve with CBK	4.1	(2,058)	(7,368)
Decrease in loans and advances to banks	5	1,032	1,854
Increase in loans and advances to customers	6	(105,191)	(77,555)
Decrease/(Increase)in other assets	8	(2,560)	129
(Increase)/Decrease in due to banks	11	39,867	(614)
Increase in due to customers	12	95,449	50,472
Increase/(Decrease) in other financial liabilities	13	3,205	1,603
Increase/(Decrease) in other liabilities	14	(27)	30
		26,129	**(35,380)**
Interest received		43,257	38,443
Interest paid		(3,154)	(3,972)
Income tax paid		(3,393)	(1,726)
Cash inflows generated from / (used in) operating activities		**62,839**	**(2,635)**
Cash flows from investing activities			
Purchases of property and equipment	9	(936)	(689)
Proceeds from sale of PPE		45	-
Purchases of intangible assets	10	(221)	(594)
Purchases of financial assets at FVOCI	7	(170,067)	(64,873)
Proceeds from maturity of financial assets at FVOCI		155,232	48,675
Net cash used in investing activities		**(15,947)**	**(17,481)**
Cash flows used in financing activities			
Repayments of borrowings	16	-	(5)
Payment of dividend		(17,105)	(23,604)
			-
Cash inflows used in financing activities		**(17,105)**	**(23,609)**
Increase in cash and cash equivalents		**29,787**	**(43,725)**
Cash and cash equivalents of January 1	4.1	86,583	130,308
Cash and cash equivalents of December 31	**4.1**	**116,370**	**86,583**

Notes to the IFRS 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, 2022 (2021: 82.38% 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, 2022, 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 Str. 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, 24 sub-branches.

The Bank as of December 31, 2022 had 467 employees. (December 31, 2021: 463).

The financial statements of the Bank for the year ended December 31, 2022 were approved by the Management Board on February 28, 2023.

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, 2022 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.

2.2.2 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.

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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.

2.7 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.

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'

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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.

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.
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 enforcement's 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
- 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.

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.

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%

2.14 Intangible assets

The Bank's intangible assets consist of computer software. Intangible assets acquired by the Bank are recognized 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-based payment transactions

Cash-settled share-based payment transactions
If certain conditions are met, members of the Management Board and employees performing special work (i.e., those who can significantly impact the risk profile of the Group in the scope of their tasks and activities) receive part of their variable remuneration in the form of financial instruments, whose value is linked to the value of NLB d.d. Ljubljana share. Upon expiration of legally prescribed period (up to five years), beneficiaries receive cash payments, depending on the value of NLB share.
In the statement of financial position, a liability is recognised in line 'Financial liabilities measured at fair value through profit or loss.' Its fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in the income statement line 'Gains less losses from financial liabilities measured at fair value through profit or loss'.

2.21 Share capital and revaluation reserves

Share capital represents the nominal value of issued shares.

Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by NLB Banka shareholders.

Equity reserves
Equity reserves are comprised of Fair value reserves and Retained earnings.

- The reserves recorded in OCI within the equity on the Bank's statement of financial position include: Fair value reserve which comprises changes in fair value of financial assets at fair value through other comprehensive income.
- Retained earnings include the cumulative non distributed earnings and are distributable according to Capital and Dividend Management policy of the Bank and upon approval of the Bank's General Shareholder Assembly and regulatory approval of the Central Bank.

2.22 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.
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.

2.23 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

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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

2.24 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.

2.25 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.

2.25 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, 2022 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.

2.27 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

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.

2.30 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.

Contents

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 following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2022:

- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16. The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.
- Reference to the Conceptual Framework – Amendments to IFRS 3. Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and to add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.
- Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37. The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.
- Annual Improvements to IFRS Standards 2018–2020.
- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The Bank did not negotiate any Covid related rent concessions with its lessors and has no impact from this amendment.

Management has assessed the amendments and there is no significant impact on these financial statements.

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:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1), effective from 1 January 2023.
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts, effective from 1 January 2023.
- Definition of Accounting Estimate (Amendments to IAS 8), effective from 1 January 2023.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2), effective from 1 January 2023.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12), effective from 1 January 2023.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

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.

4. Cash and balances with the central bank

	December 31, 2022	December 31,2021
Cash on hand	28,677	31,519
Cash at banks–current accounts with correspondent banks	15,925	16,293
Amounts held at the CBK	-	-
Current account	24,016	16,045
Statutory reserve account	72,355	70,297
Allowance for ECL	(123)	(116)
Cash and balances with the Central Bank	**140,850**	**134,038**

Movement in allowance for ECL for the years ended December 31, 2022 and 2021, charged to profit and loss is as following:

	December 31, 2022	December 31, 2021
Opening balances	116	179
Charge to profit and loss	7	(63)
Closing balance	**123**	**116**

During 2022, almost all correspondent banks applied negative interest rates until the end of Q3 2022 and then some of them started to apply more favorable rates, reducing the negative rates by 50BP. On a daily credit balance (very few over a certain threshold balance). The rates varied from -0.40% to 0.00% for the EUR currency, from -1.50% to -0.25% for the CHF and the avg.int. rates -0.35% for the other currencies (DKK, SEK), while for the USD we have the positive interest rate 0.0001%.
The minimum reserve base requirement increased during 2022 by EUR 2 million compared to 2021 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, securities and balances with the Central Bank.
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 2.10. 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, 2022	December 31, 2021
Cash and balances with the Central Bank	140,850	134,038
Less: Liquidity reserve	(72,355)	(70,297)
Deposits with original maturity with less than 3 months (note 5)	47,875	22,842
Cash and cash equivalents	**116,370**	**86,583**

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.

The movement in the allowance for ECL on cash and balances with Central Bank for the year ended December 31, 2022, based on IFRS 9 requirements, is as follows:

Contents

December 31, 2022	Balance at January 1, 2022	Transfer	(Increases)/ Decreases	Written offs	Repayments of written off receiv-ables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2022
Stage 1 - 12M expected credit losses	(116)	-	(7)	-	-	-	-	(123)
Cash and Cash equivalents`	(116)	-	(7)	-	-	-	-	(123)
Stage 2 – Lifetime ECL not credit impaired	-	-	-	-	-	-	-	-
Cash and Cash equivalents								-
Stage 3 Lifetime ECL - credit impaired	-	-	-	-	-	-	-	-
Cash and Cash equivalents								-
Total	**(116)**	**-**	**(7)**	**-**	**-**	**-**	**-**	**(123)**

December 31, 2021	Balance at January 1, 2021	Transfer	(Increases)/ Decreases	Written offs	Repayments of writ-ten 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)**

5. Loans and advances to banks

	December 31, 2022	December 31, 2021
Term deposits with maturity less than three months	47,883	22,845
Term deposits	3,049	4,114
Accrued interest	25	(8)
Allowance for ECL	(13)	(11)
Total loans and advances to banks	**50,944**	**26,940**
Current	**50,944**	**26,940**
Non-Current	-	-

As at December 31, 2022 included in the total term deposits are EUR 3,049 which are blocked funds for Trade Finance activities (2021: EUR 4,114).

Allowance for ECL movement for the years ended December 31, 2022 and 2021 is as following:

	December 31, 2022	December 31, 2021
Opening balances	11	13
Charge to profit and loss	2	(2)
Closing balance	**13**	**11**

The movement in the allowance for ECL on Loans and advances to Banks for the year ended December 31, 2022, based on IFRS 9 requirements, is as follows:

December 31, 2022	Balance at January1, 2022	Transfer	(Increases)/Decreases	Write offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2022
Stage 1 - 12M expected credit losses	**(11)**	-	**(2)**	-	-	-	-	**(13)**
Placements	(11)	-	(2)	-	-	-	-	(13)
Stage 2 Lifetime ECL not credit impaired	-	-	-	-	-	-	-	-
Placements	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	-	-	-	-	-	-	-	-
Placements	-	-	-	-	-	-	-	-
Total	**(11)**	**-**	**(2)**	**-**	**-**	**-**	**-**	**(13)**

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)**

6. Loans and advances to customers

Analysis by class of advance

	December 31, 2022	December 31, 2021
Loans to customers	652,105	570,470
Overdrafts	118,509	96,152
Credit cards	6,589	5,755
	777,203	**672,377**
Allowance for ECL	(36,427)	(37,847)
Total loans to customers	**740,776**	**634,530**

Current	282,428	209,021
Non-current	458,348	425,509

Loans and advances to customers include accrued interest in the amount of EUR 1,692 thousand (2021: EUR 1,536 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 2,083 thousand (2021: EUR 1,936 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, 2022	December 31, 2021
Loans to Corporate	470,726	412,089
Loans to Retail	305,579	258,825
Loans to Finance*	898	1,463
	777,203	**672,377**

Less: Allowance for ECL	December 31, 2022	December 31, 2021
Loans to Corporate	(31,289)	(33,536)
Loans to Retail	(5,125)	(4,299)
Loans to Finance*	(13)	(12)
	(36,427)	**(37,847)**

* 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.

The table below shows the credit quality and the maximum exposure to loans and advances to costumers as of December 31, 2022.

December 31, 2022 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.20% - 4.56%	359,185	2,856	-	-	**362,041**
Standard grade	3.33% - 26.22%	306,143	57,670	-	-	**363,813**
Sub-standard grade	14.41% - 50.90%	2,712	32,932	-	-	**35,644**
Low grade	100.00%	-	-	-	-	**-**
Non-performing						
Group impaired	100.00%	-	-	3,850		**3,850**
Individually impaired	100.00%	-	-	11,855	-	**11,855**
Total		**668,040**	**93,458**	**15,705**	**-**	**777,203**

The table below shows the credit quality and the maximum exposure to loans and advances to costumers on segment level as of December 31, 2022.

Corporate Lending

December 31, 2022 Internal rating grade	12-month Basel III PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.62% - 4.56%	64,761	370	-	-	**65,131**
Standard grade	3.33% - 18.72%	302,483	56,111	-	-	**358,594**
Sub-standard grade	14.41% - 50.90%	2,434	31,794	-	-	**34,228**
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	1,424	-	**1,424**
Individually impaired	100.00%	-	-	11,349	-	**11,349**
Total		**369,678**	**88,275**	**12,773**	**-**	**470,726**

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The table below shows the credit quality and the maximum exposure to loans and advances to finance lending as of December 31, 2022.

Finance Lending

31 December 2022	12-month Basel					
Internal rating grade	**III PD range**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing						
High grade	0.62% - 4.56%	39	-	-	-	**39**
Standard grade	3.33% - 18.72%	853	1	-	-	**854**
Sub-standard grade	14.41% - 50.90%	-	5	-	-	**5**
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	-	-	-
Individually impaired	100.00%	-	-	-	-	-
Total		**892**	**6**	**-**	**-**	**898**

The table below shows the credit quality and the maximum exposure to loans and advances to retail lending as of December 31, 2022.

Retail Lending

31 December 2022	12-month Basel					
Internal rating grade	**III PD range**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing						
High grade	0.20% - 1.63%	294,384	2,486	-	-	**296,870**
Standard grade	14.52% - 26.22%	2,806	1,559	-	-	**4,365**
Sub-standard grade	19.81% - 28.72%	279	1,133	-	-	**1,412**
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	2,426	-	**2,426**
Individually impaired	100.00%	-	-	506	-	**506**
Total		**297,469**	**5,178**	**2,932**	**-**	**305,579**

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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	12 month Basel					
Internal rating grade	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 corporate lending as of December 31, 2021.

Corporate Lending

December 31, 2021	12-month Basel					
Internal rating grade	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**

Contents

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

December 31, 2021	12-month Basel					
Internal rating grade	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**

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

December 31, 2021	12-month Basel					
Internal rating grade	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 tables below summarize the ageing of stage 2 and stage 3 as of December 31, 2022.
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, 2022	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than:	**8,559**	**850**	**4,210**	**3,431**	**12,769**	**4,282**
30 dpd	8,559	850	2,986	2,435	11,545	3,285
90 dpd	-	-	1,224	996	1,224	996
More than:	**652**	**223**	**5,905**	**5,852**	**6,557**	**6,075**
30 dpd	652	223	-	-	652	223
90 dpd	-	-	5,905	5,852	5,905	5,852
Total	**9,211**	**1,073**	**10,115**	**9,283**	**19,326**	**10,357**

The tables below summaries the ageing of stage 2 and stage 3 as of December 31, 2022 for corporate lending:

Corporate Lending	Stage 2		Stage 3		Total	
December 31, 2022	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than:	**7,686**	**714**	**3,128**	**2,488**	**10,814**	**3,202**
30 dpd	7,686	714	2,320	1,897	10,006	2,611
90 dpd	-	-	808	591	808	591
More than:	**241**	**57**	**4,824**	**4,817**	**5,065**	**4,873**
30 dpd	241	57	-	-	241	57
90 dpd	-	-	4,824	4,817	4,824	4,817
Total	**7,927**	**771**	**7,952**	**7,305**	**15,879**	**8,075**

The tables below summaries the ageing of stage 2 and stage 3 as of December 31, 2022 for retail lending:

Retail Landing	Stage 2		Stage 3		Total	
December 31, 2022	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than:	**867**	**133**	**1,081**	**944**	**1,949**	**1,077**
30 dpd	867	133	666	538	1,533	672
90 dpd	-	-	416	405	416	405
More than:	**410**	**166**	**1,081**	**1,035**	**1,491**	**1,201**
30 dpd	410	166	-	-	410	166
90 dpd	-	-	1,081	1,035	1,081	1,035
Total	**1,277**	**299**	**2,163**	**1,979**	**3,440**	**2,278**

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

(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:	**4,021**	**403**	**6,382**	**5,792**	**10,403**	**6,195**
30 dpd	4,021	403	3,933	3,589	7,953	3,992
90 dpd	-	-	2,449	2,203	2,449	2,203
More than:	**407**	**71**	**3,145**	**2,820**	**3,551**	**2,891**
30 dpd	407	71	-	-	407	71
90 dpd	-	-	3,145	2,820	3,145	2,820
Total	**4,428**	**474**	**9,527**	**8,612**	**13,954**	**9,086**

The tables below summarize 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**	**9,360**	**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**	**2,126**	**1,783**
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**	**7,171**

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 carrying amount	ECL
Less than:	**166**	**14**	**875**	**793**	**1,042**	**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**	**2,072**	**1,855**	**2,467**	**1,915**

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

	December 31, 2022	December 31, 2021
ECL (release) / charge for the year, net	(1,230)	2,074
Recovery of previously written of loans	(857)	(564)
Charge to profit and loss	**(2,087)**	**1,510**

Movement of allowance for ECL for loans and advances to customers

	December 31, 2022	December 31, 2021
Allowance for ECL for loans and advances to customers at January 1,	37,847	36,853
Charge during the year	22,143	29,524
Recoveries	(23,373)	(27,450)
ECL charge for the year, net	**(1,230)**	**2,074**
Written off loans	(365)	(895)
Accrued Interest for stage 3 loans	175	(185)
Provision for loan impairment at December 31,	**36,427**	**37,847**

The movement in the allowance for ECL on loans to customers for the year ended December 31, 2022 and 2021, based on IFRS 9 requirements, is as follows:

December 31, 2022	Balance at January 1, 2022	Transfer	(Increases)/ Decreases	Write offs	Change in model risk parameter	Foreign exchange and other movements	Balance at December 31, 2022
Stage 1 12 M expected credit losses	**(10,682)**	**(4,671)**	**3,061**	**-**	**303**	**-**	**(11,989)**
Loan and advances to individuals	(1,141)	(1,032)	589	-	(266)	-	(1,850)
Loan and advances to legal entities	(9,541)	(3,639)	2,472	-	569	-	(10,139)
Stage 2 Lifetime ECL not credit impaired	**(12,857)**	**2,652**	**(172)**	**-**	**(283)**	**-**	**(10,660)**
Loan and advances to individuals	(417)	160	(361)	-	(79)	-	(697)
Loan and advances to legal entities	(12,440)	2,492	189	-	(204)	-	(9,963)
Stage 3 Lifetime ECL - credit impaired	**(14,308)**	**2,019**	**(1,898)**	**365**	**44**	**-**	**(13,778)**
Loan and advances to individuals	(2,744)	871	(849)	109	31	-	(2,582)
Loan and advances to legal entities	(11,564)	1,148	(1,049)	256	13	-	(11,196)
Total	**(37,847)**	**-**	**991**	**365**	**64**	**-**	**(36,427)**

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December 31, 2021	Balance at January 1, 2021	Transfer	(Increases)/ Decreases	Write offs	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**	**(879)**	**895**	**(1,147)**	**-**	**(14,308)**
Loan and advances to individuals	(1,678)	(176)	(891)	89	(88)	-	(2,744)
Loan and advances to legal entities	(12,554)	1,231	12	806	(1,059)	-	(11,564)
Total	**(36,853)**	**-**	**(2,844)**	**895**	**955**	**-**	**(37,847)**

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7. Financial assets at fair value through other comprehensive income

	December 31, 2022	December 31, 2021
Treasury bonds and bills	133,035	118,200
Investment in shares	742	780
Total financial assets available for sale	**133,777**	**118,980**

Current	**87,303**	**75,327**
Non-current	**46,474**	**43,653**

Financial assets at fair value through OCI amounted to EUR 133.8 million and compared to end of the year 2021 it increased by EUR 14.8 million or 12.4%. The increase was affected from new investments due to utilization of funds. Structure of Financial assets at fair value through OCI are as follows:

- Kosovo Bonds EUR 58 million, (interest rates 0.87% to 4.5%) and maturity from 1- 6.5 years.
- US Bonds USD 7 million (EUR 6.563 million), (interest rate average of 3.56%) and maturity of 1 months.
- EU Bonds EUR 67.5 million, (interest rate average of 0.97%) and maturity of 1-3 months.
- CH Bonds CHF 1 million, (interest rate 0.80%) and maturity of 3 months.

The international bonds portfolio in the total amount of 75 million is mainly concentrated in US, CH and EU government securities. All financial assets are with fixed interest yield. As of December 31, 2022, 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.

Financial assets at fair value through OCI as of December 31, 2021 amounted to EUR 118.9 million. Structure of Financial assets at fair value through OCI are 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 table below shows the credit quality and the maximum exposure financial assets at fair value through other comprehensive income as of:

December 31, 2022	**12 month Basel**					
Internal rating grade	**III PD range**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing						
High grade	0.05% - 0.30%	75,001	-	-	-	**75,001**
Standard grade	0.60% - 2.40%	58,034	-	-	-	**58,034**
Sub-standard grade	4.80% - 19.20%	-	-	-	-	-
Low grade	100.00%	-	-	-	-	-
Non-performing						-
Group impaired	100.00%	-	-	-	-	-
Individually impaired	100.00%	-	-	-	-	-
Total		**133,035**	**-**	**-**	**-**	**133,035**

December 31, 2021	**12 month Basel**					
Internal rating grade	**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**

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

	December 31, 2022	December 31, 2021
Opening balances	880	1,022
Charge to profit and loss	(92)	(142)
Closing balance	**788**	**880**

Debt Securities: December 31, 2022	Balance at January 1, 2022	Transfer	Increases/Decreases	Write offs	Repayments of written off receivables	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2022
Stage 1 - 12 M expected credit losses	(881)	-	58	-	-	35	-	(788)
Stage 2 Lifetime ECL not credit impaired	-	-	-	-	-	-	-	-
Stage 3 Lifetime ECL - credit impaired	-	-	-	-	-	-	-	-
Total	**(881)**	**-**	**58**	**-**	**-**	**35**	**-**	**(788)**

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)**

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8. Other assets

	December 31, 2022	December 31, 2021
Prepaid expenses	947	283
Receivables from cards business	1,933	1,258
Inventories	30	28
Other financial assets	108	82
Total other assets	**3,018**	**1,651**
Current	**3,018**	**1,651**

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, 2022			December 31, 2021		
	Gross amount	ECL	Net amount	Gross amount	ECL	Net amount
Other financial assets	4,126	(4,018)	108	3,228	(3,146)	82
Total	**4,126**	**(4,018)**	**108**	**3,228**	**(3,146)**	**82**

Allowance for ECL movement for the years ended December 31, 2022 and 2021 is as following:

	December 31, 2022	December 31, 2021
Opening balances	3,146	2,183
Charge for the year	872	963
Closing balance	**4,018**	**3,146**

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

8.1. Repossessed assets

	December 31, 2022	December 31, 2021
Repossessed assets	321	-
Total Repossessed assets	**321**	**-**

These assets are repossessed following the foreclosure on loans that are in default. As of December 31, 2022 the repossessed assets represents the value of property.

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9. Property and equipment

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computers and related equipment	Motor vehicles	Total
Cost:						
As at January 1, 2021	**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**
Additions during the year	3	48	424	355	109	939
Transfer	-	-	-	-	-	-
Write offs/disposals	(117)	-	-	-	(70)	(187)
As at December 31, 2022	**10,534**	**1,007**	**3,666**	**5,610**	**814**	**21,631**
Accumulated depreciation:						
As at January 1, 2021	**2,367**	**837**	**2,333**	**3,116**	**634**	**9,287**
Charge for the year	320	26	225	621	36	1,228
Write offs			(5)		(36)	(41)
As at December 31, 2021	**2,687**	**863**	**2,553**	**3,737**	**634**	**10,474**
Charge for the year	315	35	223	578	41	1,192
Write offs/disposals	(33)	-	-	-	(70)	(103)
As at December 31, 2022	**2,969**	**898**	**2,776**	**4,315**	**605**	**11,563**
Net book value:						
As at December 31, 2021	**7,961**	**96**	**689**	**1,518**	**141**	**10,405**
As at December 31, 2022	**7,565**	**109**	**890**	**1,295**	**209**	**10,068**

As at 31 December 2022 and 2021 there are no property and equipment encumbered or pledged to secure Bank's liabilities.

9.1. Right of use of assets

The bank has adopted IFRS 16 as of January 1, 2019 and the table below represents the details for 2022 and 2021.

	Land and buildings at cost-lease	Furniture and equipment at cost-lease	Total
Cost:			
As of January 01, 2021	**3,107**	**612**	**3,719**
Additions during the year	740	99	839
Write offs/disposals	(599)	-	(599)
As of December 31, 2021	**3,248**	**711**	**3,959**
Additions during the year	513	101	614
Write offs/disposals	-	-	-
As of December 31, 2022	**3,761**	**812**	**4,573**
Accumulated depreciation:			
As of January 01, 2021	**1,000**	**204**	**1,204**
Charge for the year	525	101	626
Write offs	(240)	-	(240)
As of December 31, 2021	**1,285**	**305**	**1,590**
Charge for the year	497	102	599
Write offs	-	-	-
As of December 31, 2022	**1,782**	**407**	**2,189**
Net book value:			
As of December 31, 2021	**1,963**	**406**	**2,369**
As of December 31, 2022	**1,979**	**405**	**2,384**

9.1.1 Expenses recognized in Statement of Comprehensive Income

	December 31,2022	December 31,2021
Depreciation Expenses	599	626
Interest expense (included in finance cost)	59	60
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)	-	91
Total cash outflow for leases	**658**	**777**

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9.1.2 Lease Liability

	December 31, 2022	December 31, 2021
Lease Liability opening January 1,	2,384	2,521
Addition of Right of Use Assets	614	839
Write of/Disposal	-	(358)
-less Lease payment	(623)	(668)
	-	-
Net interest on Lease Liabilities	60	50
Total Lease Liability	**2,435**	**2,384**

9.1.3 Maturity Lease Liability

The present value of lease liabilities as at 31 December 2022 and 2021 is as follows:

	December 31, 2022	December 31, 2021
Up to 30 days	52	52
From 1 to 3 months	104	104
From 3 to 6 months	156	156
From 6 to 12 months	312	312
Over 12 months	1,811	1,760
Total	**2,435**	**2,384**

10. Intangible assets

Cost:	Software
As at January 1, 2021	4,521
Additions	594
As at December 31, 2021	**5,115**
Additions	221
As at December 31, 2022	**5,336**
Accumulated amortization:	
As at January 1, 2021	3,383
Charge for the year	388
As at December 31, 2021	**3,771**
Charge for the year	425
As at December 31, 2022	**4,196**
Net book value:	
As at December 31, 2021	**1,344**
As at December 31, 2022	**1,140**

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

11. Due to banks

	December 31, 2022	December 31, 2021
Current accounts	40,425	558
Total due to banks	**40,425**	**558**
Current	20,164	558
Non-current	20,261	-

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

12. Due to customers

Demand Deposits	December 31, 2022	December 31, 2021
Enterprises	171,334	167,580
Citizens	487,624	503,335
Governments	8,008	7,289
	666,966	**678,204**
Term Deposits		
Enterprises	62,241	15,996
Citizens	160,776	100,375
Governments	4,259	4,214
	227,276	**120,585**
Total due to customers	**894,242**	**798,789**
Current	768,251	741,621
Non-Current	125,991	57,168

Due to customers include accrued interest in the amount of EUR 968 thousand
(2021: EUR 635 thousand). The Current – Non Current classification is made on contractual basis.
Analysis by class of business for term deposits and current accounts is as follows:

	December 31, 2022	December 31, 2021
Sector	% of total due to customers	% of total due to customers
Citizens	73%	76%
Enterprises, governments and other legal entities	27%	24%
	100%	**100%**
	Amounts total due to customers	Amounts total due to customers
Citizens	648,401	603,710
Enterprises, governments and other legal entities	245,841	195,079
	894,242	**798,789**

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13. Other financial liabilities

	December 31, 2022	December 31, 2021
Pending client's transfers	6,842	4,701
Accrued expenses	1,121	1,020
Due to suppliers	315	436
Liabilities for bonuses	900	577
Liabilities on transfers for POS and for Master and Visa cards	1,631	886
Lease liabilities	2,435	2,384
Others	296	292
Total other financial liabilities	**13,540**	**10,296**

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 3,606 thousand (2021: EUR 4,025 thousand) payable to Customs Authorities, which was transferred on January 03, 2023 to the customs authorities' bank account. The remaining balance represents amounts payable to other recipients.

13.1. Other financial liabilities at fair value through profit or loss

	December 31, 2022	December 31, 2021
Non-trading financial instruments at fair value though profit or loss	43	-
Total other financial liabilities	43	-

14. Provisions and other liabilities

	December 31, 2022	December 31, 2021
Provisions for legal cases	4,135	4,195
Provisions for fines and penalties	22	22
Expected credit losses for guarantees	362	596
Expected credit losses for unused exposures	677	1,198
Other provisions	70	80
Total Provisions	**5,266**	**6,091**
Deferred income from guarantees	82	91
VAT and other tax payable	145	162
Total other liabilities	**227**	**253**
Total provisions and other liabilities	**5,493**	**6,344**

Movements on allowance for ECL on Guarantees and unused exposures as of December 31, 2022 and 2021 are as follows:

December 31, 2022	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2022	1,504	253	38	1,795
Transfer	150	(135)	(16)	(1)
(Increases)/Decreases	(803)	66	22	(715)
Write offs	-	-	-	-
Changed in models/risk parameters	(63)	24	-	(39)
Foreign exchange and on movements	-	-	-	-
Balance at December 31, 2022	**788**	**208**	**44**	**1,040**

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, 2021	**1,504**	**253**	**38**	**1,795**

15. Provision for legal cases – other provisions

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

	December 31, 2022	December 31,2021
Provisions for legal cases	(1)	13
Release of provisions from previous years	(10)	-
Provisions/Release for guarantees	(234)	(791)
Provisions /Release for unused exposures	(520)	(426)
Charge to profit and loss	**(765)**	**(1,204)**

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, 2022	December 31, 2021
Balance as at January 1, for legal cases	4,195	4,199
Charge of the year for provision for legal cases	-	23
Utilized during the year	(1)	(27)
Transfer of provision	(59)	-
Balance as at December 31, for legal cases (note 29, b)	**4,135**	**4,195**

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16. Borrowings and subordinated debts

	December 31, 2022	December 31, 2021
Current portion		
Leasing for vehicles	-	-
Interest payable for subordinated debt	10	8
Total current portion	**10**	**8**
Non-current portion		
Subordinated debt	15,000	15,000
Total non-current portion	**15,000**	**15,000**
Total borrowings	**15,010**	**15,008**

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%.

17. Share capital

As at December 31, 2022, the share capital amounted to EUR 51,287 thousand
(2021: 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.

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

Shareholders	Percentage ownership	December 31, 2022	Percentage ownership	December 31, 2021
Nova Ljubljanska Banka d.d	82.38%	42,249	82.38%	42,249
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	0.00%	462
Mr. Metush Deshishku	0.90%	323	0.90%	323
„Dardania - 2“ Sh.p.k.	0.63%	310	0.63%	310
Mr. Xhemajl Ismajli	0.60%	308	0.60%	308
NPTSh „Jehona“	0.60%	259	0.60%	259
Mrs. Blerina Ejupi	0.51%	223	0.51%	223
Mr. Elez Sylaj	0.44%	174	0.44%	174
Mr. Kadri Shalaku	0.34%	124	0.34%	124
„Raf II“ sh.p.k.	0.24%	116	0.24%	116
Others	1.27%	535	1.27%	535
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, 2022	Year ended December 31, 2021
Income from loans and advances to customers	42,140	36,936
Income from financial assets through OCI	1,021	1,146
Income on loans and advances to banks	172	1
Total interest income	**43,333**	**38,083**

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19. Interest and similar expenses

Analysis by class of liabilities:

	Year ended December 31, 2022	Year ended December 31, 2021
Interest to customers	2,156	2,357
Interest on borrowings	753	753
Interest on due to banks	438	126
Negative interest on loans and advances to banks	80	327
Interest expenses from IFRS 16	60	60
Total interest expense	**3,487**	**3,623**

20. Fee and commission income

Analysis of fee and commission income relating to activities:

	Year ended December 31, 2022	Year ended December 31, 2021
Card and ATM operations	5,292	4,786
Payment transfers and transactions	2,661	2,402
Account maintenance fee	5,369	4,867
Guarantees and letters of credit	522	555
Payments -account maintenance fee for retirees	421	431
Fee for repayment of loan before maturity	200	165
Others	498	217
Total fee and commission income	**14,963**	**13,423**

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, 2022	Year ended December 31,2021
Card and ATM operations	4,161	3,660
Payment transfers and transactions	317	278
Guarantees and Letters of Credit	62	79
Payments –CBK related fees	288	280
Other fees	381	322
Total fee and commission expenses	**5,209**	**4,619**

22. Impairment charges

The impairment charge for the year ended December 31, 2022 and December 31,
2021 is as follow:

	Year ended December 31, 2022	Year ended December 31,2021
Cash and balances with the Central Bank (Note 4)	7	(63)
Loans and advances to banks (Note 5)	2	(2)
Loans and advances to customers (Note 6)	(1,230)	2,074
Financial assets at fair value through OCI (Note 7)	(92)	(142)
Other assets (Note 8)	872	963
Other charges direct in P&L	12	-
Net Recovery of previously written of loans (Note 6)	(857)	(563)
Total impairment losses on financial assets	**(1,286)**	**2,267**

23. Other income/ expenses, net

	Year ended December 31, 2022	Year ended December 31,2021
Licensing expense	(633)	(604)
Deposit insurance expenses	(1,295)	(1,256)
Other expense	(132)	(76)
Other Income	151	29
Net Gains-debt securities mandatory at FV through P&L	6	-
Other operating income/expenses, net	**(1,903)**	**(1,907)**
Foreign exchange translation (loss)/gain	**86**	**16**
Foreign exchange trading income	1,001	645
Foreign exchange trading expense	(392)	(186)
Foreign exchange trading income	**609**	**459**
Net foreign exchange gain	**695**	**475**
Other operating income/expenses, net	**(1,208)**	**(1,432)**

24. Personnel expenses

	Year ended December 31, 2022	Year ended December 31, 2021
Salaries and wages	5,657	5,217
Mandatory staff pension contributions	309	280
Staff health insurance costs	180	183
Employee's food costs	343	223
Other staff costs	961	947
Total staff costs	**7,450**	**6,850**

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25. Administrative and other operating expenses

	Year ended December 31, 2022	Year ended December 31, 2021
Maintenance	1,661	1,680
Charge for professional services	722	554
Office supplies	466	432
Security and insurance costs	447	421
Telecommunications	268	287
Utilities	208	222
Marketing and sponsorship	255	200
Taxes and commissions	185	177
Operating lease expenses	173	175
Others	89	157
Cleaning expenses	74	77
Representation	66	59
Travel	70	12
Total Administrative and other operating expense	**4,684**	**4,453**

26. Income tax expense

	Year ended December 31, 2022	Year ended December 31, 2021
Current income tax expense	3,740	2,731
Deferred tax expense/(credit)	(47)	56
Tax expense	**3,693**	**2,787**

Detailed below is the calculation of current income tax expense.

	Year ended December 31, 2022	Year ended December 31, 2021
Profit for the year before taxation	**36,094**	**27,224**
Profit tax on profit at the rate of 10%	3,609	2,722
Net tax effect of adjustments for tax purposes	131	9
Tax expense	**3,740**	**2,731**

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, 2022	Year ended December 31, 2021
Current income tax receivable at January 1,	(695)	268
Income tax expense	(3,740)	(2,731)
Income tax expense paid during the year	3,393	1,726
Transfer to prepaid tax for previous years	-	42
Current income tax payable/ receivable	**(1,042)**	**(695)**

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

	Year ended December 31, 2022	Year ended December 31, 2021
Loan and guarantees impairment provision		-
Property and equipment and intangible assets	(2,242)	(1,833)
Interest expense on deposits	1,277	529
Provision for legal and other	4,953	4,825
Available for sale revaluation reserve	(382)	(623)
Total deductible temporary difference	**3,606**	**2,898**
Total net deferred tax asset @ 10%	**360**	**290**

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

	Year ended December 31, 2022	Year ended December 31, 2021
Deferred tax asset as at January 1,	290	327
Deferred tax income/ charge	47	(56)
Available for sale revaluation reserve (equity)	23	19
Deferred tax asset as at December 31,	**360**	**290**

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27. Other comprehensive income

	Year ended December 31, 2022	Year ended December 31, 2021
Losses on change of fair value of FVOCI securities	344	561
Credit/Debit to other comprehensive income	**344**	**561**

The movement in revaluation reserve is as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Market price as at January 1	561	731
Price change of financial instruments FVOCI	(241)	(189)
Deferred tax on FVOCI	24	19
Net as presented in other comprehensive income (a)	**(217)**	**(170)**
Market price as of December 31 (A)	**344**	**561**
Allowance for ECL of securities at FVOCI at January 1	(881)	(1,022)
Net as presented in profit or loss (b)	**91**	**141**
Allowance for ECL of securities at FVOCI at December 31 (B)	**(790)**	**(881)**
Revaluation Reserve as at December 31 (A-B)	**1,134**	**1,442**
Fair value change during the year (a-b)	**(308)**	**(311)**
Net losses on debt instruments at fair value of FVOCI securities	**(265)**	**(365)**
Net gain/losses on equity instruments at fair value of FVOCI securities	**(43)**	**54**
Net impact	**(308)**	**(311)**

28. 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, 2022	Year ended December 31, 2021
Net profit	32,400	24,384
Number of ordinary shares (in thousands)	42.7	42.7
Earnings per share	**758.7**	**571.1**

Dividends Declared And Paid

The General Assembly of Shareholder's on its extraordinary meeting held on March 24, 2022 approved the dividend distribution of net profit of 2021.

The bank declared and paid dividend per share of EUR 400.23 from net profit of 2021 totalling EUR 17,105 thousand, which represents 70% of realized of net profit of respective year

The majority of dividend was paid to shareholders on December 5, 2022.

29. 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, 2022 (2021: 82.38% 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.

The following table summarizes the scope of related party transactions, balances of assets and liabilities at December 31, 2022 and related income and expenses for the year then ended. These transactions are on contractual terms.

December 31, 2022	Parent Company	Sister companies	Key management personnel	Total
Receivables				
Loans and advances to banks	1,825	31	-	**1,856**
Loans and advances to customers	-	-	188	**188**
Securities	-	-	-	**-**
Other receivables	-	-	-	-
Total Receivables	**1,825**	**31**	**188**	**2,044**
Liabilities				
Deposits	40,345	-	1,351	**41,696**
Borrowings	-	-	-	**-**
Subordinated debt	15,010	-	-	**15,010**
Other liabilities	59	104	-	**163**
Total Liabilities	**55,414**	**104**	**1,351**	**56,869**
Net Receivables/(Liabilities)	**(53,589)**	**(73)**	**(1,163)**	**(54,825)**
Confirmed guarantees	-	100	**-**	**100**
Income				
Interest income	-	-	1	**1**
Fee income	-	**-**	**-**	**-**
Foreign exchange loss	30	**-**	**-**	**30**
Foreign exchange gain	617	**-**	**-**	**617**
Total Income	**647**	-	**1**	**648**
Expenses				
Interest expenses	(1,103)	-	(3)	**(1,106)**
Fee expenses	(32)	(1)	-	**(33)**
Foreign exchange loss	(372)	-	-	**(372)**
Salaries rents and other expenses	(126)	(177)	-	**(303)**
Total Expenses	**(1,633)**	**(178)**	**(3)**	**(1,814)**
Net income/(expense)	**(986)**	**(178)**	**(2)**	**(1,166)**

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.

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	-	-	1,417	**1,417**
Borrowings	-	-	-	**-**
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)	-	(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)**	**-**	**(974)**

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

	Year ended December 31, 2022	Year ended December 31, 2021
Salaries	309	309
Bonus	149	184
Total	**458**	**493**

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30. 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, 2022	Year ended December 31, 2021
Customs	2,115	2,081
Guarantees for payments	10,317	15,000
Public tenders guarantee	1,017	1,510
Letters of Credit	4,542	5,178
Standby letter of Credit	736	914
	18,727	**24,683**
Guarantees for completion of work	6,285	4,245
	25,012	**28,928**
Committed loans to customers not yet issued	59,468	75,430
Total	**84,480**	**104,358**

Guarantees:	Year ended December 31, 2022	Year ended December 31, 2021
Secured		
Secured by cash deposits	6,754	6,989
Secured by other collateral	17,412	20,515
	24,166	**27,504**
Unsecured	846	1,423
Total	**25,012**	**28,927**

The table below shows the credit quality and the maximum exposure of balance sheet commitments and contingencies as of December 31, 2022.

	12 month Basel					
Internal rating grade	**III PD range**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing						
High grade	0.62% - 4.56%	32,170	121	-	-	**32,291**
Standard grade	3.33% - 18.72%	45,685	5,306	-	-	**50,991**
Sub-standard grade	14.41% - 50.90%	341	688	-	-	**1,029**
Low grade	100.00%	-	-	149	-	**149**
Non-performing						
Group impaired	100.00%	-	-	-	-	**-**
Individually impaired	100.00%	-	-	20	-	**20**
Total		**78,196**	**6,115**	**169**	**-**	**84,480**

The table below shows the credit quality and the maximum ex-

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posure 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**

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, which has been recognized accordingly in financial statements as they incurred. The balance of provisions for legal cases as of December 31, 2022 are in the amount of EUR 4,135 thousand (note 14) (as at December 31, 2021 4,195 thousand). The nature of the most significant cases is as follows:

- Claimed from supplier of headquarter building in relation to the surface area 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, 2022 Bank has off balance sheet seized collateral on liquidated amount (bailiff valuation) of EUR 5,541 thousand (2021 EUR 5,773 thousand). The Bank has completed legal foreclosure procedures however it still is in the process of obtaining physical control of the properties.

31. 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;
(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, 2022	December 31, 2021
Share capital	51,287	51,287
Reserves	1,407	1,714
Eligible retained earnings	45,425	40,202
less: deductions from capital	(4,272)	(3,386)
Total qualifying Tier 1 capital	**93,847**	**89,817**
Tier 2 capital		
Subordinated liability	15,000	15,000
Provisions for loan losses (limited to 1.25% of RWA)	8,626	7,459
Total qualifying Tier 2 capital	**23,626**	**22,459**
Total regulatory capital	**117,473**	**112,276**
Risk-weighted assets:		
On-balance sheet	668,137	568,178
Off-balance sheet	21,910	28,520
Risk assets for operational risk	56,000	51,234
Total risk-weighted assets	**746,047**	**647,932**
Tier I capital to risk- weighted asset ratio	**12.6%**	**13.9%**
Total capital to risk-weighted asset ratio	**15.7%**	**17.3%**
Total equity to total assets	**10.5%**	**10.6%**

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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, 2022	December 31, 2021
Financial instruments at amortized cost		
Cash and balances with Central bank	140,850	134,038
Loans and advances to banks	50,944	26,940
Loans and advances to customers	740,776	634,530
Other financial assets	113	81
Financial instruments at FVOCI		
Financial assets at FVOCI	133,777	118,980
Total financial assets	**1,066,460**	**914,569**
Financial liabilities at amortized cost		
Due to banks	40,425	558
Due to customers	894,238	798,789
Other financial liabilities	13,540	10,293
Subordinated debt	15,010	15,009
Total financial liabilities	**963,213**	**824,649**

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
	2022	2022	2022	2021	2021	2021	
Assets							
Cash and balances with central banks	140,850	-	140,850	134,037	-	134,037	Interest rate FX
Due from banks	50,945	-	50,945	26,940	-	26,940	Interest rate FX
Debt instruments at FVOCI	133,035	-	133,035	118,200	118,200	-	Interest rate
Equity instruments at FVOCI	742	-	742	780	780	-	Traded risk
Loans and advances to customers	740,775	-	740,775	634,529	-	634,529	Interest rate
Total	**1,066,347**	**-**	**1,066,347**	**914,486**	**118,980**	**795,506**	
Liabilities							
Due to banks	40,425	-	40,425	557	-	557	Interest rate FX
Due to customers	894,242	-	894,242	798,790	-	798,790	Interest rate FX
Subordinated debt	15,010	-	15,010	15,008	-	15,008	Interest rate
Other liabilities	11,402	-	11,402	8,233	-	8,233	Interest rate FX
Total	**961,079**	**-**	**961,079**	**822,588**	**-**	**822,588**	

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, 2022 and 2021.

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 affected 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

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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	1,874	(1,874)
Liabilities:		
Impact on due to banks and customers	(1,865)	1,865
Net impact on profit and loss and equity	**9**	**(9)**

As at December 31, 2021		
	+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)**

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

	EURO	USD	CHF	Others	Total
Financial assets					
Cash and balances with CBK	133,663	1,913	4,886	388	**140,850**
Due from banks	45,568	-	3,047	2,330	**50,945**
Loans to customers – net	740,776	-	-	-	**740,776**
Financial assets at FVOCI	125,475	7,289	1,013	-	**133,777**
Other Financial assets	2,035	-	-	-	**2,035**
Total financial assets	**1,047,517**	**9,202**	**8,946**	**2,718**	**1,068,383**
Financial liabilities					
Due to banks	40	29	6	5	**80**
Due to customers	914,046	9,163	8,898	2,560	**934,667**
Subordinated Debts	15,010	-	-	-	**15,010**
Other financial liabilities	13,605	-	-	-	**13,605**
Total financial liabilities	**942,701**	**9,192**	**8,904**	**2,565**	**963,362**
Net currency position	**104,816**	**10**	**42**	**153**	**105,021**

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**

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

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

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.

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	**2022**	**2021**
Increase in basic points		
+200 bps parallel shift	(2,568)	(9,846)

Interest rate sensitivity	2022	2021
Decrease in basic points		
-200 bps parallel shift	2,200	8,057

Economic Value of Equity (EVE) results as at December 31, 2022 is -2.74% of capital (2021: -10.96%). As per interest rate risk management policy the maximum limit of EVE result is -12% of total capital.

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

December 31, 2022 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	140,850	39,818	-	-	-	101,032
Due from banks	50,945	48,396	1,665	884	-	-
Debt and equity instruments at FVOCI	133,777	78,493	8,098	46,444	-	742
Loans and advances to customers	740,775	78,395	204,033	343,755	114,592	-
Total financial assets	**1,066,347**	**245,102**	**213,796**	**391,083**	**114,592**	**101,774**
Liabilities						
Due to banks	40,425	10080	10,084	20,261	-	-
Due to customers	894,242	12,785	88,310	124,451	1,540	667,156
Debt issued and other borrowed funds	15,010	10	-	-	15,000	-
Total financial liabilities	**949,677**	**22,875**	**98,394**	**144,712**	**16,540**	**667,156**
Total interest sensitivity gap after risk management	**116,670**	**222,227**	**115,402**	**246,371**	**98,052**	**(565,382)**

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	-	553,793
Debt issued and other borrowed funds	15,008	-	8	-	15,000	-
Total financial liabilities	**814,355**	**136,120**	**51,731**	**57,154**	**15,000**	**554,351**
Total interest sensitivity gap after risk management	**99,353**	**95,772**	**126,072**	**289,733**	**106,494**	**(518,719)**

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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.

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

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, 2022	Net maximum exposure	Impairment
Cash, cash balances at central banks, and other demand deposits as banks	**140,850**	**(123)**
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	**133,035**	**(789)**
Financial assets at amortized cost	**791,720**	**(36,439)**
Debt securities	-	-
Loans to government	26	-
Loans to banks	50,945	(12)
Loans to financial organizations	884	(13)
Loans to individuals	300,453	(5,125)
Loans to other customers	**439,412**	**(31,289)**
Financial assets at fair value through OCI	-	-
Other financial assets	2,035	(4,024)
Total net financial assets	**1,067,640**	**(41,375)**
Guarantees	**19,734**	**-**
Financial guarantees	10,326	-
Non-financial guarantees	9,408	-
Loan commitments	59,468	-
Other potential liabilities	5,278	-
Total contingent liabilities	**84,480**	**-**
Total maximum exposure to credit risk	**1,152,120**	**(41,375)**

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December 31, 2021	Net maximum exposure	Impairment
Cash, cash balances at central banks, and other demand deposits as banks	**134,037**	**(116)**
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	118,200	(882)
Financial assets at amortized cost	**661,469**	**(37,858)**
Debt securities	-	-
Loans to government	10	-
Loans to banks	26,940	(11)
Loans to financial organizations	1,159	(11)
Loans to individuals	254,527	(4,296)
Loans to other customers	378,833	(33,540)
Financial assets at fair value through OCI	-	-
Other financial assets	1,342	(3,146)
Total net financial assets	**915,048**	**(42,002)**
Guarantees	**22,835**	**-**
Financial guarantees	15,001	-
Non-financial guarantees	7,834	-
Loan commitments	75,431	-
Other potential liabilities	6,091	-
Total contingent liabilities	**104,357**	**-**
Total maximum exposure to credit risk	**1,019,405**	**(42,002)**

h. Loans and advances

Financial assets measured at amortised cost as per Internal rating of Bank as of December 31, 2022

December 31, 2022	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	408,741	2,856	-	-	**411,597**
B	307,541	57,670	-	-	**365,211**
C	2,713	32,932	-	-	**35,645**
D and E	-	-	15,706	-	**15,706**
Loss allowance	**(12,002)**	**(10,661)**	**(13,776)**	**-**	**(36,439)**
Carrying amount	**706,993**	**82,797**	**1,930**	**-**	**791,720**

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	-	-	15,614	-	15,614
Loss allowance	**(10,693)**	**(12,860)**	**(14,305)**	**-**	**(37,858)**
Carrying amount	**574,329**	**85,831**	**1,309**	**-**	**661,469**

Debt instruments at fair value through other comprehensive income as per Internal rating of Bank as of December 31, 2022.

December 31, 2022	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	75,024	-	-	-	75,024
B	58,206	-	-	-	58,206
C	-	-	-	-	-
D and E	-	-	-	-	-
Loss allowance	**(789)**	**-**	**-**	**-**	**(789)**
Carrying amount	**132,441**	**-**	**-**	**-**	**132,441**

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 cred-it-impaired	POCI	Total
A	41,667	-	-	-	41,667
B	76,533	-	-	-	76,533
C	-	-	-	-	-
D and E	-	-	-	-	-
Loss allowance	**(882)**	**-**	**-**	**-**	**(882)**
Carrying amount	**117,318**	**-**	**-**	**-**	**117,318**

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Loan commitments and financial guarantee contracts as per Internal rating of Bank as of December 31, 2022 and 2021.

December 31, 2022	12-month expected credit losses	Life time ECL not credit-impaired	Life time ECL credit-impaired	POCI	Total
A	32,170	121	-	-	**32,291**
B	45,685	5,306	-	-	**50,991**
C	341	688	-	-	**1,029**
D and E	-	-	169	-	**169**
Loss allowance	**(789)**	**(208)**	**(42)**	**-**	**(1,039)**
Carrying amount	**77,407**	**5,907**	**127**	**-**	**83,441**
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**

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.

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

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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 337 thousand loan principal and EUR 29 thousand interests, (2021 EUR 793 thousand loan principal and EUR 102 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, 2022 and 2021.

The effect of collateral of financial assets that are credit impaired at December 31, 2022:

	Fully/over collateralized financial assets		Financial assets not or not fully covered with collateral	
December 31, 2022	**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	**1,851**	**40,346**	**78**	**283**
Debt securities	-	-	-	-
Loans to government	-	-	-	-
Loans to banks	-	-	-	-
Loans to financial organizations	-	-	-	-
Loans to individuals	**302**	**4,974**	**52**	**230**
Granted overdrafts	-	3	2	3
Loans for houses and flats	298	3,999	22	139
Consumer loans	4	970	21	88
Other loans	-	2	7	-
Loans to other customers	**1,549**	**35,372**	**27**	**54**
Loans to large corporate customers	-	-	-	-
Loans to small- and medium- sized enterprises	1,549	35,372	27	54
Other financial assets	-	-	-	-
Loans and advances	-	-	-	-
Total	**1,851**	**40,346**	**79**	**284**

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

December 31, 2021	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	**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- size enterprises	1,119	33,120	1	4
Other financial assets	-	-	-	-
Loans and advances	-	-	-	-
Total	**1,290**	**37,292**	**18**	**209**

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, 2022

Ratings	Financial assets at FVOCI	Total
AAA	7,561	7,561
AA	67,441	67,441
A+	742	742
Not-rated	58,033	58,033
Total	**133,777**	**133,777**

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**

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, 2022	December 31, 2021
Republic of Slovenia	1	-
Other European Union members	53,429	28,068
Serbia	48	179
Other countries	740,277	634,564
Total	**793,755**	**662,811**

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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, 2022, and 2021, an analysis of loans to customers and banks by industry sectors was as follows:

Industry concentration

	December 31, 2022				December 31, 2021			
Industry sector	**Gross loans and advances**	**Impairment provision**	**Net loans**	**%**	**Gross loans and advances**	**Impairment provision**	**Net loans**	**%**
Placements	-	-	-	-	-	-	-	-
Banks	50,958	(13)	50,944	6.4%	26,951	(11)	26,940	4.1%
Loans and advances to customers								
Citizens	305,577	(5,124)	300,453	37.9%	258,823	(4,296)	254,527	38.4%
Trade	165,867	(9,669)	156,198	19.7%	151,114	(11,456)	139,658	21.1%
Constructions	97,524	(8,005)	89,519	11.3%	86,540	(8,081)	78,459	11.8%
Industry	84,320	(4,649)	79,671	10.0%	73,311	(5,640)	67,671	10.2%
Services	58,305	(4,564)	53,741	6.8%	54,339	(3,722)	50,617	7.6%
Transport and communication	32,797	(1,487)	31,310	3.9%	22,928	(2,189)	20,739	3.1%
Mining	7,443	(1,102)	6,341	0.8%	7,291	(505)	6,786	1.0%
Education	5,054	(863)	4,191	0.5%	5,702	(920)	4,782	0.7%
Agriculture, silviculture and fishing	5,741	(453)	5,288	0.7%	5,653	(576)	5,077	0.8%
Other financial assets	6,060	(4,025)	2,035	0.3%	4,489	(3,147)	1,342	0.2%
Electricity, gas and water	2,630	(184)	2,446	0.3%	2,732	(334)	2,398	0.4%
Health service and social security	4,302	(129)	4,173	0.5%	2,721	(75)	2,646	0.4%
Finances	4,449	(95)	4,354	0.5%	1,170	(11)	1,159	0.2%
Government	3,194	(103)	3,091	0.4%	51	(41)	10	0.0%
Total	**834,221**	**(40,465)**	**793,755**	**100%**	**703,815**	**(41,004)**	**662,811**	**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.

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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 amounts disclosed in tables below are contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows. The required minimum liquidity ratio for local currency is 25% and the actual ratio as at December 31, 2022 is 39.33%. 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, 2022 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	68,495	-	-	-	72,355	**140,850**
Due from banks	47,875	500	1,665	905	-	**50,944**
Loans and advances to customers	36,100	42,295	204,033	343,755	114,592	**740,776**
Financial instruments held at FVOCI	52,024	26,469	8,098	46,444	742	**133,777**
Other financial assets	2,035	-	-	-	-	**2,035**
Total undiscounted financial assets	**206,529**	**69,264**	**213,796**	**391,104**	**187,689**	**1,068,382**
Financial liabilities						
Due to banks	80	10,000	10,084	20,261	-	**40,425**
Due to customers	673,688	6,253	88,310	124,451	1,540	**894,242**
Subordinated debt	10	-	-	-	15,000	**15,010**
Lease liabilities	64	128	957	1,286	-	**2,435**
Other financial liabilities	10,206	-	-	-	-	**10,206**
Total undiscounted financial liabilities	**684,048**	**16,381**	**99,351**	**145,998**	**16,540**	**962,318**
Net undiscounted financial assets/(liabilities)	**(477,519)**	**52,883**	**114,445**	**245,106**	**171,149**	**106,064**
Future contractual interests						
Financial Assets						
Contractual amounts receivables	3,880	7,188	27,343	74,335	15,304	**128,050**
	3,880	**7,188**	**27,343**	**74,335**	**15,304**	**128,050**
Financial liabilities						
Contractual amounts payable	-	-	(753)	(3,768)	(359)	(4,880)
Total net financial assets/(liabilities)	**(473,639)**	**60,071**	**141,035**	**315,673**	**186,094**	**229,234**

The required minimum liquidity ratio for local currency is 20% and the actual ratio as at December 31, 2021 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, 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	63,740	-	-	-	70,297	**134,037**
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	121,494	**634,529**
Financial instruments held at FVOCI	33,485	18,008	23,834	42,873	780	**118,980**
Other financial assets	1,342	-	-	-	-	**1,342**
Total undiscounted financial assets	**139,462**	**56,526**	**179,298**	**347,971**	**192,571**	**915,828**
Financial liabilities						
Due to banks	557	-	-	-	-	**557**
Due to customers	680,886	9,027	51,723	57,154	-	**798,790**
Subordinated debt	-	-	8	-	15,000	**15,008**
Lease liabilities	52	104	468	1,760	-	**2,384**
Other financial liabilities	7,403	-	-	-	-	**7,403**
Total undiscounted financial liabilities	**688,898**	**9,131**	**52,199**	**58,914**	**15,000**	**824,142**
Net undiscounted financial assets/(liabilities)	**(549,436)**	**47,395**	**127,099**	**289,057**	**177,571**	**91,686**
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)	**(546,122)**	**53,609**	**150,332**	**350,344**	**187,115**	**195,278**

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I. 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-22		31-Dec-21	
	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Loans to banks	**50,944**	**50,921**	**26,940**	**26,940**
Loans to government	**26**	**26**	**10**	**10**
Loans to financial organizations	**885**	**896**	**1,160**	**1,162**
Loans to individuals	**300,455**	**296,855**	**254,530**	**257,869**
Granted overdraft	2,678	2,120	2,577	2,165
Loans for houses and flats	208,580	205,211	184,320	187,653
Consumer loans	83,329	84,531	62,523	63,321
Other loans	5,868	4,993	5,110	4,730
Loans to other customers	**439,411**	**437,940**	**378,829**	**383,967**
Loans to large corporate customers	28,166	27,877	11,829	12,140
Loans to small and medium size enterprises	411,245	410,063	367,000	371,827
TOTAL LOANS	**791,721**	**786,638**	**661,469**	**669,948**
LIABILITIES				
Due from banks	80	80	557	557
Due to customers	**894,241**	**896,120**	**798,789**	**800,640**
TOTAL DEPOSITS AND BORROWINGS	**894,321**	**896,200**	**799,346**	**801,197**

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
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.

Subordinated loan
Long term subordinated loan has an estimated fair value approximately equal to its carrying amount because of its underlying floating interest rate.

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, 2022	Total Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Debt instruments	133,035	75,001	58,034	-
Equity instruments	742	-	742	-
Total financial instruments through other comprehensive income	**133,777**	**75,001**	**58,776**	**-**

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**	**-**

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.

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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, 2022			December 31, 2021		
Assets	**Within 12 months**	**After 12 months**	**Total**	**Within 12 months**	**After 12 months**	**Total**
Cash and balances with the Central Bank	140,850	-	**140,850**	134,037	-	**134,037**
Due from other banks	50,060	884	**50,944**	25,856	1,084	**26,940**
Loans to customers, net	282,429	458,347	**740,776**	209,022	425,508	**634,530**
Financial assets designated at FVOCI	86,591	47,186	**133,777**	75,327	43,653	**118,980**
Other assets	3,018	-	**3,018**	1,651	-	**1,651**
Tangible assets	-	12,452	**12,452**	-	12,774	**12,774**
Current Tax Asset tax asset	-	1,140	**1,140**	-	1,344	**1,344**
Deferred tax asset	360	-	**360**	289	-	**289**
Total assets	**563,629**	**520,009**	**1,083,638**	**446,182**	**484,363**	**930,545**
Liabilities						
Deposits from banks	20,164	20,261	**40,425**	557	-	**557**
Customer accounts	768,251	125,991	**894,242**	741,636	57,154	**798,790**
Other financial liabilities	10,206	0	**10,206**	7,403	-	**7,403**
Other non-financial liabilities	1,239	0	**1,239**	830	-	**830**
Provision and other Liabilities	4,586	610	**5,196**	4,949	1,073	**6,022**
Corporate tax payable	1041	0	**1,041**	695	-	**695**
Lease liabilities	1149	1286	**2,435**	624	1,760	**2,384**
Borrowings and Subordinated debts	10	15,000	**15,010**	8	15,000	**15,008**
Total liabilities	**806,646**	**163,148**	**969,794**	**756,702**	**74,987**	**831,689**
Net	**(243,017)**	**356,861**	**113,844**	**(310,520)**	**409,376**	**98,856**

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

Management Board of the Bank on March 2023 will propose to Board of Directors the distribution of 70% of the net profit for the year 2022.
The Board of Directors on its meeting held on December 14, 2022 has appointed new CEO with four-year mandate effective from April 01, 2023, which is linked with retirement date of actual CEO.

No other material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statements.