PriBank sh.a. Annual Report 2022

www.pribank-ks.com

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VISION

We aim to be most convenient bank and the first choice for individual and MSME customers.

As a bank with staff with long experience in domestic and international banks in Kosova, our commitment is to create added value for our customers through innovative services.

MISSION

The Bank's mission is to promote the country's sustainable economy by influencing better well-being for all, through financing that promotes growth and economic benefits.

PriBank is oriented towards individual and in particular towards MSME customers, offering innovative and convenient banking services. The bank adds value by offering short, medium and long-term financing in the form of loans and documentary business as a complement to other sources of financing.

A LETTER BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear valued customers and stakeholders,

On behalf of the Supervisory Board of PriBank, we would like to express our sincere gratitude for your continued trust and support. As a local bank established in Kosovo on Oct 22nd 2022, we are committed to serving our community with the highest level of integrity and professionalism.

We understand the importance of financial stability and security, especially during these challenging times. As such, we assure you that we are taking all necessary measures to ensure the safety of your funds and the stability of our operations.

We also recognize the evolving needs of our customers and are continuously striving to provide innovative solutions and personalized services that cater to your individual needs.

We believe that our success is a direct result of the trust and confidence that our customers and stakeholders have placed in us. We remain dedicated to upholding our core values and providing exceptional service to our community.

Dy fjale per stafin dhe Meanxhmentin e PriBank ne perpilimin e dokumentacionit per licencnimin e bankes dhe per fillimin e ndertimit te suksesshem dhe zgjerimin e bankes.
Thank you for choosing PriBank as your trusted financial partner.

Sincerely,
The Supervisory Board of PriBank

REPORT OF THE EXECUTIVE DIRECTOR

Dear stakeholders and esteemed Customers,

On behalf of the Executive Director of PriBank, I am pleased to present our annual report for the fiscal year 2022. As a local bank established in Kosovo on Oct 22nd 2022, we have made great strides in fulfilling our mission of providing quality financial services to our community.

Despite the challenges posed by the global pandemic, we have managed to maintain a stable and profitable operation, thanks to our strong risk management framework and a dedicated team of professionals.

We have also expanded our customer base by X%, a testament to our commitment to providing personalized and innovative solutions to meet the diverse needs of our Customers.

We have also invested in technology and digitalization to enhance our services and improve customer experience. Our new e/m-banking apps have been well-received by our Customers, with over X% of our customers using it for their banking needs.
At PriBank, we remain committed to upholding the highest standards of corporate governance and ethical business practices. We recognize our responsibility to our community and are committed to giving back through various corporate social responsibility initiatives.

In conclusion, we would like to thank our shareholders, supervisory board and customers for their continued support and trust in PriBank. We look forward to the opportunities and challenges that lie ahead and remain committed to delivering exceptional financial services to our community.

Sincerely,

Fatos Krasniqi
Executive Director
PriBank

PRIBANK SHAREHOLDER STRUCTURE

Nr	Shareholder	Number of Shares	Nominal value	EUR	%
1	Model Slovenia Invest ShPK	340	10,000	3,400,000	34%
2	Model Slovenia ShPK	330	10,000	3,300,000	33%
3	Prisig SHA Insurance Company.	330	10,000	3,300,000	33%
	Total	**1,000**	**10,000**	**10,000,000**	**100%**

At of the end of the reporting period of 2022, PriBank shareholder base was comprised of three major shareholders. The largest shareholder is Model Slovenia Invest SH.P.K., which holds 34.00% of shares in the bank. The second-largest shareholder is K.S. Prisig SH.A., which has 33.00% together with the third-largest shareholder, is Model Slovenia SH.P.K., which also holds 33.00% of the shares in the bank.

The shareholders are proactively involved in the bank's strategic decisions. Their participation in the bank's operations is crucial to the bank's success, and since the bank was in its establishing phase, we worked closely with the shareholders to ensure that their interests are aligned with those of the bank.

The bank has implemented a robust governance framework that ensures that decisions are made in the best interests of all stakeholders, including depositors, borrowers, and the broader community. The bank has also implemented measures to ensure transparency in its operations, such as regular reporting and disclosure requirements, to ensure that all stakeholders have access to information about the bank's operations.

GENERAL OVERVIEW

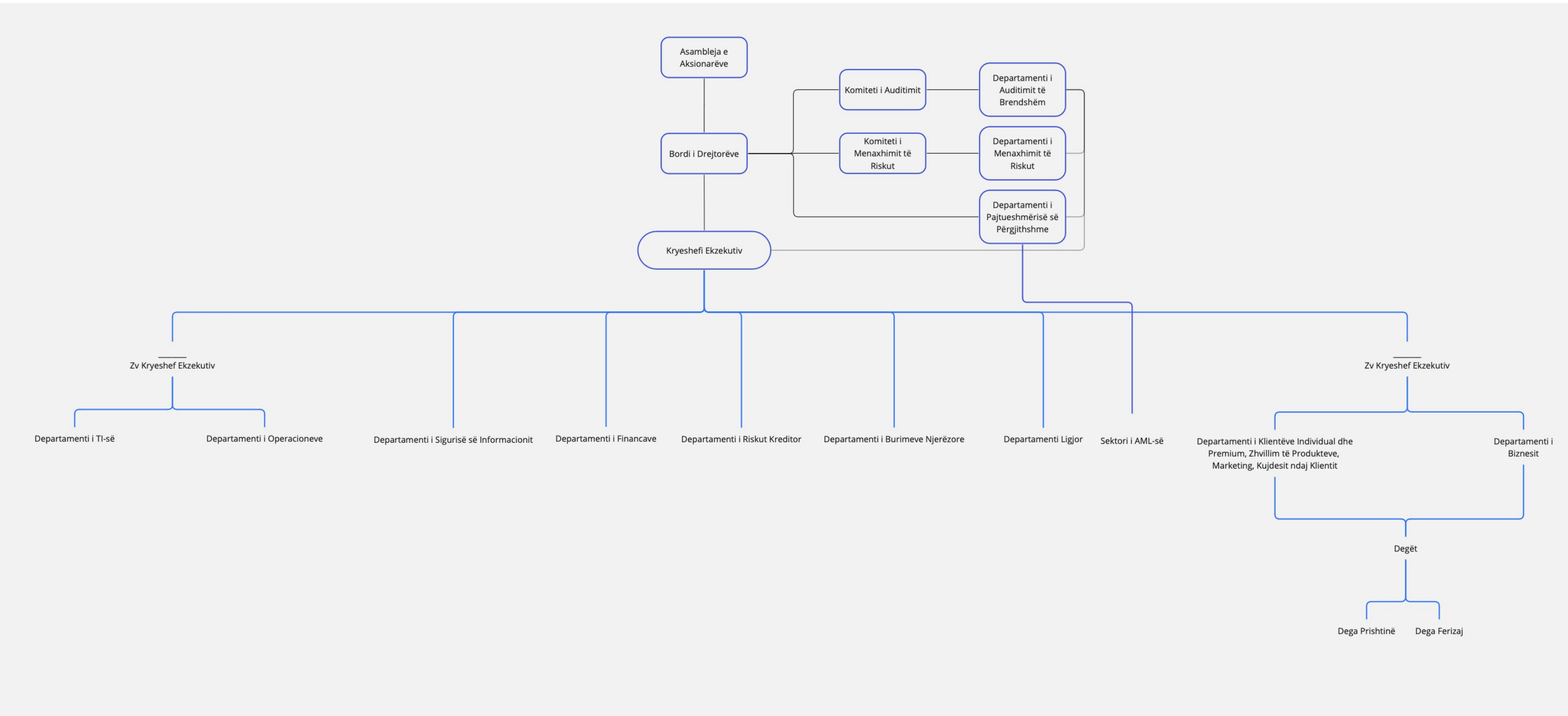
PriBank focused on preparing a business strategy and planning for new branch openings during the licensing phase with the Central Bank of Kosovo in Q2 and Q3 2022. The bank's strategy is centered on serving Individual, Micro, and SME customers, and all processes, services, and products are designed to meet their needs. PriBank aims to offer a wide range of services and products, allowing customers to bank through branches and electronic channels.

Since its official launch on October 31st, 2022, PriBank has offered various banking products and services, including current accounts, savings and term deposit accounts, loans, leasing, overdrafts, lines of credit, bank guarantees, national transfers, e-banking, online applications, and a contact center. Customers can access these services through branches and electronic channels, giving them 24/7 account access. PriBank's branches in Pristina and Ferizaj are staffed with experienced banking professionals.

PriBank has achieved a gross credit portfolio of EUR 7.98 Mio or 6.63% of the total growth of the credit portfolio of the sector in Q4 2022. The business credit portfolio was EUR 5,836 Mio or 8.34% of the total growth, and the credit portfolio of individual customers was EUR 2,12 Mio or 2.35% of the total growth in the banking sector. This increase in the credit portfolio has been accompanied by a significant increase in deposits, reaching a portfolio of deposits worth EUR 13,451 Mio at the end of 2022, or 4.6% of the total increase in deposits of the banking sector in Q4 2022, making the bank quite liquid with a Loan to Deposit ratio of 59%.

ANNUAL REPORT 2022

ORGANIZATIONAL CHART



BUSINESS AND INDIVIDUAL CUSTOMERS DEPARTMENT

During the licensing phase with the Central Bank of Kosovo in Q2 and Q3 2022, the Department of Business and the Department of Individual Customers focused on preparing the business strategy, establishing processes, services, and products, as well as planning for new branch openings.

The Department of Business played a critical role in shaping PriBank's strategy, which is focused on individual, micro, and SME customers. All processes, services, and products were designed to meet customer requirements and adapt to their needs. The aim was to be an innovative bank offering services and products that enable customers to bank through branches and electronic channels.

The Department of Individual Customers worked closely with the Department of Business to ensure that all services and products were designed with the individual customer in mind.

OPERATIONS DEPARTMENT

The Operations Department is responsible for creating critical sectors such as domestic transfers, shaping the card sector, and tracking security standards with regulatory requirements.

Domestic Transfers

The Operations Department has established core functions, including domestic transfers, and has adapted to all necessary criteria and standards required for processing payments. This ensures that our customers can make payments seamlessly.

Security

Ensuring the security of all transactions processed by our bank is a top priority for the Operations Department. Our systems and processes comply with the standards required by the Central Bank of Kosova. Moreover, we have invested in the latest technology to safeguard our customers' funds and personal information and established a robust risk management framework to identify and manage potential security threats.

The Operations Department is committed to providing innovative and secure banking services to our valued customers. We will continue to invest in our department to maintain our high standards of excellence and customer satisfaction.

FINANCE DEPARTMENT

The Finance Department at PriBank is responsible for managing the bank's financial resources and ensuring that the bank's financial reporting is accurate and timely. The Finance Department plays a critical role in supporting the bank's strategic goals and objectives, and in ensuring that the bank operates in a financially sustainable manner.

The Finance Department is responsible for a wide range of functions, including financial planning and analysis, budgeting, cash management, and financial reporting. It also oversees the bank's accounting systems and processes, ensuring that they are in compliance with relevant accounting standards and regulations.

The Finance Department and its professional staff are committed to maintaining the highest standards of professionalism, and to provide accurate and timely financial information to all shareholders, including senior management, the board of directors, regulators, and external auditors.

GENERAL COMPLIANCE AND AML/CFT DEPARTMENT

PriBank is committed to developing its activities in compliance with legal, regulatory requirements, standards, and good practices in order to grow and develop the bank on a sound basis.

PriBank since the beginning of its establishment has implemented the functions of Compliance (the Department of Compliance - regulatory and that of Compliance for the Prevention of Money Laundering and Financing of Terrorism) and have ensured their independence according to legal and regulatory requirements.

The Compliance and the AML/CFT Departments by function are responsible for ensuring that the bank complies with all relevant laws, regulations, and guidelines and that the bank's policies and procedures are reviewed on a regular basis and are effective.

To support its efforts for Compliance functions, PriBank has implemented several measures, including training programs for employees, regular compliance assessments and continuous monitoring of regulatory developments. The Bank has also implemented a comprehensive AML/CFT Compliance program that includes customer due diligence, continuous monitoring of customer accounts and reporting of suspicious activities to relevant authorities.

HUMAN RESOURCES DEPARTMENT

PriBank has a special focus on the Human Resources Department, considering it as an important factor in the development and realization of general business goals. PriBank has taken care to recruit employees with high intellectual, professional and moral integrity.
The Human Resources Department has prepared a training program for employees at all stages, and will keep them up to date.

PriBank is committed to the maximum to create a respectful working environment for all employees, and does not tolerate in any case any type of discrimination, harassment or unequal treatment, which contradicts the provisions of the Code of Ethics as well as the relevant legislation in force for protection from discrimination.

IT DEPARTMENT

The PriBank’s IT Department has been working to provide top-notch technological solutions for the bank's operations while ensuring the security of sensitive data. In 2022, IT Department made significant progress in various areas, resulting in improved efficiency, security, and customer experience.

One of the key accomplishments of the IT Department was the successful implementation of Core Banking System, which centralizes all banking operations such as deposit management, loan processing, and customer information management, resulting in increased operational efficiency and accuracy. The Core Banking System also enabled the bank to offer new products and services, enhancing the customer experience by providing seamless and real-time transaction processing.

Another significant achievement was the implementation of e-banking. The IT Department worked closely with external vendors to ensure the seamless integration of e-banking with the bank's systems, and also provided technical support during the implementation phase. This solution has provided customers with the convenience of banking on-the-go and reduced foot traffic in bank branches, thereby improving operational efficiency.

The IT department implemented various advanced security measures to protect the bank's data, including the deployment of advanced firewalls, intrusion detection and prevention systems, and other security solutions. These measures were aimed at preventing any potential data breaches and ensuring the confidentiality, integrity, and availability of the bank's data. As a result, the bank's data remained secure throughout the year.

Overall, the IT Department's efforts have been critical in making PriBank a more customer-centric, secure, and technologically advanced financial institution. The IT Department's achievements in 2022 have resulted in increased efficiency, improved customer experience, and ensured the safety of sensitive data.

INTERNAL AUDIT DEPARTMENT

The Internal Audit Department is independent from other functions at PriBank and as such it reports to the Board of Directors through the Audit Committee. The objective of the Internal Audit Department is to continuously monitor the internal control system, providing an independent assessment of the adequacy and compliance with the established policies and procedures of PriBank as well as the regulatory requirements and the legal framework in force.

The internal audit process is carried out through the annual audit planning where the objectives and general deadlines of the audits during a calendar year are determined according to the estimated level of risk of PriBank's processes/units. The annual audit plan may be revised to reflect changes in the internal control system and to integrate new lines of business. The audit plan is subject to approval by the Audit Committee.

The Audit Committee of Pribank consists of three (3) Members - two (2) Members of the Board of Directors and one (1) Independent External Member in the field of accounting or auditing. The main purpose of the Audit Committee is to provide oversight of the financial reporting process, the audit process, the company's internal control systems and compliance with applicable laws and regulations.

RISK MANAGEMENT DEPARTMENT

Credit Risk Management

Credit risk is a major risk for PriBank, given the economic conditions in Kosovo. Therefore, the bank has emphasized more advanced risk management practices in this area. The bank's lending activities are focused on Individual, Micro, SME customers, and the bank has implemented a robust credit risk management framework to ensure that its lending activities are conducted in a safe and sound manner.

The objective of credit risk management at PriBank is to achieve loan portfolio quality, minimize risk concentration, ensure appropriate collateral coverage, and provide for loan loss provision. The bank uses a range of approaches to manage the limit in credit risk and has defined its processes to identify customers' debt capacity and ensure that its lending activities are conducted in a responsible manner.

The bank, since the beginning of its operations, was compliant with IFRS-9 in all its credit risk processes and makes market analysis and economic sector assessments to ensure that its lending activities are conducted in a manner that is aligned with the broader economic conditions in Kosovo. Additionally, the bank has a well-managed loan portfolio that is diversified by geography, industry, and borrower type.

The Credit Risk Department has implemented an internal credit rating model from day one that is designed to facilitate the credit risk management process. This system will provide the bank with a more comprehensive and accurate assessment of the creditworthiness of its borrowers. By using a standardized rating methodology, the bank can evaluate the credit risk associated with different types of loans and borrowers more efficiently. With this information, the bank can make more informed lending decisions, which will ultimately help to reduce credit losses and improve the overall health of the bank's loan portfolio.

Monitoring customers is a critical aspect of the bank's credit risk management activities. The bank uses updated risk analysis techniques to monitor its customers and ensure that any emerging risks are identified and managed in a timely manner.

Counterparty Risk Management

Counterparty risk management is important in a critical component of managing credit risk, liquidity risk and operational risk. The bank does not engage in speculative investment, and the bank's investments are in consistency with its risk appetite and in line with its overall business strategy.

Liquidity and Funding Risk Management

PriBank recognizes that liquidity and funding risks are critical risks that need to be managed effectively. The bank's liquidity and funding risk management framework is designed to ensure that the bank has adequate liquidity and stable funding to meet its obligations and support its operations under both normal and stressed conditions.

The bank is committed to managing its liquidity and funding risks in a responsible and sustainable manner, and has implemented a number of measures to support this objective. These include maintaining appropriate levels of liquidity and funding buffers, diversifying funding sources, and ensuring that funding is available to support its operations in a range of market conditions.

The bank's liquidity and funding risk management framework is closely integrated with its overall risk management framework. The bank's risk management and treasury staff monitor the bank's liquidity and funding position on an ongoing basis.

Capital Adequacy

The bank’s capital adequacy is calculated on a regular basis and reported to the Board of Director and Management via the Risk Management Committee, along with forecasts. This ensures future compliance with regulatory requirements on capital adequacy. Management of capital adequacy is undertaken based on the Risk Management policies which are in compliance with Central Bank regulations.

Operational Risk Management

Operational risk management is a critical area of focus for PriBank, and the bank has implemented a robust framework to identify, measure, monitor and manage operational risks. The framework includes a range of tools and techniques, such as a risk event database, key risk indicators (KRIs), risk control self-assessment (RCSA), and the analysis of all new services and processes using the New Risk Approval (NRA) process.

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

For the year ended December 31, 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors

Opinion

We have audited the financial statements of PriBank (the "Bank"), which comprise the statement of financial position as at December 31, 2022, and the statement profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2022, and notes to the financial statements, including a summary of significant accounting policies. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2022, and its financial performance and its cash flows for the peroid from January 14, 2022 to December 31, 2022 (date of incorporation) in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other information in the Annual Report

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank in accordance with the requirements of the Law No. 04/L-093. The Annual Report of the Bank is expected to be made available to us after the date of our audit report. Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Sami Tahiraga
BDO Kosova L.L.C.
Engagement Partner
March 31,2023
Str. Ukshin Hoti, C 4/3, Entr.A, Floor II
Pristina, Kosovo

Statement of Financial Position

	Note	As at December 31, 2022
		(in EUR)
Assets		
Cash and cash equivalents	7	12,402,953
Loans and advances to customers	8	7,921,067
Property and equipment	10	609,196
Intangible assets	9	204,750
Right of use assets	11	247,839
Other assets	12	759,285
Total assets		**22,145,090**
Liabilities		
Due to customers	13	12,131,478
Lease liabilities	14	248,951
Other liabilities	15	274,440
Total liabilities		**12,654,869**
Equity		
Share capital	16	10,000,000
Loss for the year		(509,779)
Total Equity		**9,490,221**
Total liabilities and fund balance		**22,145,090**

These financial statements are authorized for issue by the management of Pribank sha, on March 31, 2023.

Mr. Fatos Krasniqi
Chief Executive Officer

Mr. Ardian Damoni
Head of Finance

Statement of Profit or Loss and Other Comprehensive Income

	Note	Period from January 14, 2022 to December 31, 2022 (in EUR)
Interest income	17	20,271
Interest expenses	18	(6,163)
Net interest income		**14,108**
Fee and commission income	19	1,949
Fee and commission expense	19	(3,267)
Fee and commission income, net		**(1,318)**
Total Operating income		**12,790**
Impairment losses on financial assets	8	(36,600)
Personnel expenses	20	(329,652)
General and administrative expenses	21	(211,485)
Loss before tax	22	**(564,947)**
Deferred tax income		55,168
Loss for the year		**(509,779)**
Other comprehensive income		-
Total comprehensive loss for the year		**(509,779)**

The accompanying notes from 1 to 25 form an integral part of these financial statements.

Statement of Changes in Equity

	Share capital (in EUR)	Accumulated loss (in EUR)	Total (in EUR)
Balance as of January 1, 2022	**-**	**-**	**-**
Contributions	10,000,000	-	10,000,000
Loss for the year	-	(509,779)	(509,779)
Other comprehensive income	-	-	-
Balance as of December 31, 2022	**10,000,000**	**(509,779)**	**9,490,221**

The accompanying notes from 1 to 25 form an integral part of these financial statements.

Notes to the Financial Statements

	Note	Period from January 14, 2022 to December 31, 2022 (in EUR)
Cash flows from operating activities		
Loss for the year before tax		(564,947)
Adjustments for:		
Amortization	9	3,344
Depreciation	10-11	51,735
Impairment losses on loans to customers	8	36,407
Provision for financial assets	7	193
Interest income	17	(20,271)
Interest expense	18	6,163
		(487,376)
Changes in:		
Loans and advances to customers	8	(7,943,625)
Restricted balance with CBK	7	(122,502)
Other assets	12	(24,117)
Due to customers	13	12,129,020
Other liabilities	15	274,440
Interest received		6,422
Interest paid		(3,705)
Cash generated from operations		**3,828,557**
Income tax paid		-
Cash flow used from operating activities		**3,828,557**
Cash flow from investing activities		
Acquisitions of property and equipment	10	(624,975)
Acquisitions of intangible assets	9	(208,094)
Cash flow used in investing activities		**(833,069)**

Notes to the Financial Statements

Cash flow from financing activities		
Increase in shares		9,320,000
Lease liabilities		(34,844)
Cash flow from financing activities		**9,285,156**
Net increase in cash and cash equivalents		**12,280,644**
Cash and cash equivalents at the beginning of the year		-
Cash and cash equivalents at the end of the year	7	**12,280,644**

The accompanying notes from 1 to 25 form an integral part of these financial statements.

1. General Information

PriBank J.S.C. (“the Bank”) has been established in Republic of Kosova at January 14th, 2022 as joint stock company.

On October 31th 2022, PriBank has been licensed to operate as bank in all bank’s activities according to Central Bank of Kosova regulations and is subject of law no. 04/L-093 “On Banks, Microfinance Institutions And Non-Bank Financial Institutions”. The Bank is a commercial bank offering services and products to small and medium companies as well as private individuals.

The Bank’s address is Sicilia st. Kalabria, Blloku A1, Lam A1/2, Nr.2. 10000 Prishtina, Republic of Kosova. The bank is operating with two branches located in Prishtina and Ferizaj. Total number of employees at year end 2022 was 48.

2. Basis of Preparation

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB) under the going concern assumption. The significant accounting policies applied in the preparation of these financial statements are set out below.

2.2 Functional and presentation currency

These financial statements are presented in Euro (“EUR”), which is the bank’s functional currency, the currency of the primary economic environment in which the bank operates.

2.3 Use of assessments and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 5 and 6.

2.4 Going concern

The Management of the Bank has made an assessment on the ability of going concern principle and thinks that there are sufficient resources to continue the activity for the foreseeable future. Also, management is unaware of any material uncertainties that may cast serious doubt on the bank's ability to pursue the principle of continuity.

3. Significant Accounting Policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the spot exchange rates on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rates at that date.

The foreign currency profit or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the prevailing foreign exchange rate at the date of the transaction.

3.2 Interest income and expenses

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 5 and 6.

3.3 Fees and commissions

The Management of the Bank has made an assessment on the ability of going concern principle and thinks that there are sufficient resources to continue the activity for the foreseeable future. Also, management is unaware of any material uncertainties that may cast serious doubt on the bank's ability to pursue the principle of continuity.

3.4 Leases

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognized where the Bank is contractually required to dismantle, remove or restore the leased asset.

Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Bank's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

After initial recognition lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.
When the Bank revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate.

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognized in profit or loss.

3.5 Income Tax

Income taxes have been provided for in the financial statements in accordance with legislation (Corporate Income Tax no. 06/L-105). Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the reporting date. The tax rate on corporate income is 10%. The income tax charge comprises current tax and deferred income tax and is recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current Tax

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

Deferred Tax

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse, or the tax loss carry forwards will be utilized. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

3.6 Financial assets and liabilities

Recognition

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

Classification and initial measurement of financial assets

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets are recognized in profit or loss.

Business model assessment

IFRS 9 identifies three types of business models: 'hold to collect', 'hold to collect and sell' and 'other'. The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios.

Hold to collect

The objective of the 'hold to collect' business model is to hold financial assets to collect their contractual cash flows, rather than with a view to selling the assets to generate cash flows. Only financial assets that meet the SPPI test and are held in a 'hold to collect' business model are classified at amortized cost.

Hold to collect and sell

Under the 'hold to collect and sell' business model, the objective is to both collect the contractual cash flows and sell the financial asset. In contrast to the 'hold to collect' business model, sales are integral rather than incidental, and consequently this business model typically involves a greater frequency and volume of sales.

Only financial assets that meet the SPPI test and are held in a 'hold to collect and sell' business model are classified at fair value through other comprehensive income for debt.

Other

Other business models are all those that do not meet the 'hold to collect' or 'hold to collect and sell' qualifying criteria. Financial assets within business models for which the primary objective is realizing cash flows through sale, or business models which are managed and performance evaluated on a fair value basis or held for trading and all non-equity financial assets falling into 'other' business models must be classified at fair value through profit or loss, irrespective of whether the SPPI test is passed.

Loans and advances to customers

Loans and advances to customers consist of various financing facilities such as Trade, Services, consumer, housing, and manufacturing. These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest. The fair value of the loans and advances to customers is not a critical aspect in the Bank's management of the portfolio.

The business model of the Bank under IFRS 9 is "HTC" and the loans and advances to customers shall be measured at amortized cost.

Classification - (comparative periods)

Financial assets are classified into the category 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and most of other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments. The category also contains an equity investment. In the current financial year, the fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Bank determined that in the current period the Fair Value of these investments approximates to their carrying amount. The Bank has no assets classified in this category.

Financial assets at fair value through other comprehensive income (FVOCI)

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:
-they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
-the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Any gains or losses recognized in other comprehensive income (OCI) will be recycled upon derecognition of the asset. The Bank has no assets classified in this category.

c) De-recognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

d) Offsetting

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses created from a group of transactions similar to those in the trading activity of the Bank.

e) Amortized cost measurement
The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment (for financial assets).

f) Fair value measurement

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

When available, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value by using a valuation technique. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. For these financial instruments, inputs into models are market observable.

g) Identification and measurement of impairment

The measurement of expected credit losses under IFRS 9 uses the information and approaches that the bank uses to manage credit risk. Credit losses are calculated using a three stages impairment model, based on whether there has been a significant increase in the credit risk of a financial asset since its initial recognition.

The key inputs into measurement for expected credit losses are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD), and
- Exposure at default (EAD).

Probability of Default ("PD") – this is an estimate of the likelihood of default over a given time horizon (either 12 months or lifetime).

Loss Given Default ("LGD") – this is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD (Loss exposed on the case of non-payment).

Exposure at Default ("EAD") – this is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

However, factors to be considered when determining whether credit risk has increased significantly for all loans, and hence determine the staging of the loans are listed below:

- Credit risk classification
- Rebuttable presumption
- General indicators of credit risk changes as defined by the standard
- Forward looking information

Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest in the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment of financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence for loans and advances of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In assessing the collective loan loss allowance, the Bank uses benchmarking data derived from banking sector statistical modelling of historical trends of probability of default, timing of recoveries and amount of loss incurred. The specific loan loss allowance is based on a loan's underlying collateral, evidence of cash flow for paying back the loan, management's judgment of current economic conditions, the value of underlying collateral, if any, and the credit rating of the loan portfolio. The management believes that these allowances are adequate for loan losses inherent in the loan portfolio.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate.

Losses are recognized in profit or loss and reflected in an allowance account against loans. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the profit or loss. The Bank writes off certain loans to customers when they are determined to be uncollectible.

Classification and measurement of financial liabilities

The Bank's financial liabilities include borrowings from banks and other financial institutions and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

3.7 Cash and cash equivalents

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

3.8 Equipment

(i) Recognition and measurement

Offices and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

(ii) Subsequent cost

The cost of replacing part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.

(iii) Impairment

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. An impairment loss recognized for an asset in prior years is reversed, if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

(iv) Depreciation

Depreciation on items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Office equipment and other	20%
Computers and IT Equipment	20%
Vehicles	20%

Right of use assets and leasehold improvements are depreciated over the shorter of the lease term and their useful lives. All right of use assets have 5 years terms to the maturity.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

3.9 Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortization and impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure 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.

(iii) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the intangible assets are 5 years.

3.10 Repossessed assets

Repossessed assets represent non-financial assets acquired by the Bank in the settlement of overdue loans and the Bank intends to sell them within a short period. The assets are initially recognized at the value at which are gained as inventories within other assets and are subsequently measured at the lower of cost and net realizable value and any reduction in their value is recognized as a loss.

3.11 Employee benefits

The local authorities are responsible for providing the legally set minimum threshold for pensions in Kosovo under a defined contribution pension plan. Obligations for compulsory contributions to that defined contribution pension plan are recognized as an expense in profit or loss when they are due.

3.12 Provisions

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

3.13 New standards, interpretations, and amendments not yet effective for the year ended December 31, 2022

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early.

The following amendments are effective for the period beginning January 1, 2023:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The following amendments are effective for the period beginning January 1, 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)

The Bank does not expect any standards issued by the IASB, but not yet effective, to have a material impact on the financial statements.

4. Financial Risk Management

4.1 Introduction and general overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies, and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board and management have set up various committees which are responsible for developing and monitoring risk policies as a whole.
The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

4.2 Credit risk

Credit risk is the risk that if a client or the counterparty to a financial instrument will fail to repay the obligation and cause the Bank to incur a loss. The Bank manages credit risk by approving exposures equal to 10% of Banks Regulatory Capital. The Bank's primary exposure to credit risk arises through its loans to customers.

Concentrations of credit risk (whether on or off-balance sheet) arise from the inability of customers to meet contractual obligations which might be affected by the operating environment or their business cycles. The Bank has no significant exposure to any individual customer or counterparty and typically lends no more than EUR 1,500,000 to any single customer.

The Bank also has exposure to banks in the form of bank accounts and deposits. The credit risk related to banks is managed through allocation of available funds to a number of retail banks operating in Kosovo.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Credit risk management

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. The credit department is required to implement credit policies and procedures and is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios. The Bank's policy is to require suitable collateral to be provided by the customers prior to the disbursement of approved loans. Collateral for loans is usually obtained in the form of vehicles/equipment and goods, or mortgages.

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are graded A+,A, A-,B+,B, B-,C+,C,C-,D+,D,D-in the Bank's internal credit risk grading system.

Based on the Bank's internal rating policy, the portfolio rating as at December 31, 2022 is as follows:

Bank's Credit Rating	December 31, 2022	% to Total Gross
A+	-	0%
A	-	0%
A-	300,053	3.76%
B+	618,758	7.75%
B	1,219,141	15.27%
B-	1,507,676	18.88%
C+	-	0%
C	1,378,243	17.26%
C-	500,114	6.26%
D+	-	0%
D	-	0%
D-	-	0%
Loans with credit rating	**5,523,985**	**69.17%**
Loans with no rating	2,461,982	30.83%
Total Gross Loan portfolio	**7,985,967**	**100.00%**

The table below shows the credit quality by class of asset for loans and advances to customers to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross carrying amount.

CBK Credit Classification	December 31, 2022	% to Total Gross
A	7,985,967	100%
B	-	0%
C	-	0%
D	-	0%
E	-	0%
Loans with credit classification	**7,985,967**	**100%**
Loans with no classification	-	0%
Total Gross Loan portfolio	**7,985,967**	**100%**

As at December 31, 2022, the Bank does not have past due and not impaired exposures for loans and advances to customers.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring until requirements are met regarding exit criteria according to the regulations in place.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes-off a loan balance (and any related allowances for impairment) when management determines that the loans are uncollectible. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient pay back the entire exposure. The Bank can also write-off a loan on the basis of a Board decision when all other measures taken to collect the loan have been unsuccessful.

Changes in the gross carrying amount of loans to customers at amortized cost:

	Phase 1	Phase 2	Phase 3	Total
Initial balance at December 31, 2021	-	-	-	-
Transfer to phase 1 (of 2 or 3)	-	-	-	-
Transfer to phase 2 (of 1 or 3)	-	-	-	-
Transfer to phase 3 (of 1 or 2)	-	-	-	-
Financial assets originated	7,985,967	-	-	7,985,967
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes due to modifications that do not result in non-recognition	-	-	-	-
Foreign exchange and other changes	-	-	-	-
Final balance at December 31, 2022	**7,985,967**	-	-	**7,985,967**

Changes in the ECL amount for loans to customers at amortized cost:

	Phase 1	Phase 2	Phase 3	Total
Initial balance at December 31, 2021	-	-	-	-
Transfer to phase 1 (of 2 or 3)	-	-	-	-
Transfer to phase 2 (of 1 or 3)	-	-	-	-
Transfer to phase 3 (of 1 or 2)	-	-	-	-
Financial assets originated	36,487	-	-	36,487
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes due to modifications that do not result in non-recognition	-	-	-	-
Foreign exchange and other changes	-	-	-	-
Final balance at December 31, 2022	**36,487**	-	-	**36,487**

Credit risk exposure

Maximum Credit Risk Exposure - Financial Instruments Subject to Impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which ECL assistance is recognized. The gross carrying amount of the financial assets below also represents the Bank's maximum exposure to credit risk for those assets before collateral and other credit improvements.

Collateral

The Bank holds collateral against loans to customers in the form of mortgages, vehicles and equipment. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. The collateral coverage is calculated when the loan is disbursed and is required at least 100% of the loan amount disbursed.

	Over-Collateralized		Under-Collateralized	
At 31 December 2022	Carrying value of the assets	Nominal Value of Collateral	Carrying value of the assets	Nominal Value of Collateral
Business	3,552,509	11,783,449	2,283,344	477,623
Private	404,063	560,440	1,746,050	400,019
Total Gross Loan portfolio	**3,956,572**	**12,343,889**	**4,029,394**	**877,642**

Credit Risk Concentration

The Bank monitors credit risk concentrations by segmentation and by geographical location. The analysis of the concentration of credit risk for loans and advances to gross customers at the reporting date is presented below.

Concentration by segment (gross):	As at December 31, 2022
Medium-sized enterprises	244,809
Small enterprises	2,533,401
Individuals	5,207,757
Total	**7,985,967**

Loans and advances to customers (gross)	December 31, 2022		
	Kosovo	Others	Total
Wholesale and retail trade	3,212,859	-	**3,212,859**
Household	2,303,918	-	**2,303,918**
Construction	998,338	-	**998,338**
Manufacturing	924,894	-	**924,894**
Accommodation and food service activities	242,290	-	**242,290**
Other service activities	198,611	-	**198,611**
Administrative and support service activities	50,022	-	**50,022**
Arts, entertainment, and recreation	30,030	-	**30,030**
Agriculture, forestry, and fishing	25,005	-	**25,005**
Total	**7,985,967**	-	**7,985,967**

4.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from financial liabilities.

Management of liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting short term obligations from its financial liabilities. The Bank is financed through demand deposits, and it is exposed to daily withdrawable from current and savings deposits. The liquidity risk is managed by the Management of the Bank. The Bank's approach to liquidity risk management is to ensure that, as far as possible, that it has sufficient liquidity to meet its obligations when necessary, under normal circumstances and under pressure, without incurring unreasonable losses or damage the reputation of the Bank.

Regulatory minimum reserve requirement held with the Central Bank is calculated as 10 per cent of the average liabilities due within one-year. The assets with which the bank can meet its demands for reserve are its deposits with the CBK and fifty per cent (50%) of the cash in its vaults. As at December 31, 2022, the overage of liquidity reserve is EUR 650,874.

The table below shows net carrying amounts of assets and liabilities as at December 31, 2022 and 2021 by their remaining contractual maturity.

Exposure to liquidity risk

The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals any targets set in terms of the overall Bank strategy. All financial assets and liabilities are reported based on the timing when liabilities become due and assets can be used as repayment source. The bank classifies current accounts as due on demand 25% of balance up to 1 month, whilst 75% of balance is considered as demand from 1 to 3 months. The following are the remaining maturities between the contractual and expected financial assets and liabilities at the reporting date.

As at December 31, 2022	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Assets						
Cash on hand and at banks	1,256,717	-	-	-	-	**1,256,717**
Balances with CBK	11,146,429	-	-	-	-	**11,146,429**
Loans to customers	77,673	322,600	456,186	930,643	6,745,316	**8,532,418**
Total	**12,480,819**	**322,600**	**456,186**	**930,643**	**6,745,316**	**20,935,564**
Liabilities						
Due to customers	2,010,012	6,099,011	-	3,687,417	335,038	**12,131,478**
Other liabilities	274,441	-	-	-	-	**274,441**
Total	**2,284,453**	**6,099,011**	**-**	**3,687,417**	**335,038**	**12,405,919**
Gap	**10,196,366**	**(5,776,411)**	**456,186**	**(2,756,774)**	**6,410,278**	**8,529,645**
Cumulative gap	**10,196,366**	**4,419,955**	**4,876,141**	**2,119,367**	**8,529,645**	**-**

4.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

ALCO is responsible for the overall management of market risks. The risk of foreign exchange positions is measured and reported by the Risk Management Department on a daily basis. The Bank manages this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. The Bank manages interest rate risk by conducting reprising gap analysis and profit margin analysis for each major currency. The Risk Management Department produces these reports on a monthly basis.

Exposure to foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The bank has no exposure to foreign exchange risk. The bank has no assets nor any liabilities denominated in foreign currency.

Exposure to interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank manages interest rate risk by monitoring market conditions and making appropriate pricing or reallocation decisions. All loans are at fixed rates and have maturities ranging between one month to five years.

The interest rate profile of the Bank's interest-bearing financial instruments is as follows:

Interest sensitivity Gap	Up to 1 Month	1 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total interest sensitive	Total non-interest sensitive
Assets								
Cash and deposits at central banks	12,164,941	-	-	-	-	-	-	12,164,941
Deposits in banks	238,012	-	-	-	-	-	-	238,012
Loans and advances to Customers (fixed)	77,673	778,786	930,643	1,829,893	3,383,591	1,531,832	8,532,418	-
Other assets	759,285	-	-	-	-	-	-	759,285
Total Assets	13,239,911	778,786	930,643	1,829,893	3,383,591	1,531,832	8,532,418	13,162,238
Liabilities								
Current accounts from customers	2,340,012	7,088,989	-	-	-	-	-	9,429,001
Term deposits (fixed)	-	-	3,685,000	-	335,041	-	4,020,041	-
Other liabilities	343,822	-	-	-	-	-	-	343,822
Total Liabilities	2,683,834	7,088,989	3,685,000	-	335,041	-	4,020,041	9,772,823
IR sensitivity gap	10,556,077	(6,310,203)	(2,754,357)	1,829,893	3,048,550	1,531,832	4,512,376	3,389,415

The Bank does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, and the Bank does not use derivatives (interest rate swaps) as hedging instruments. Therefore, a change in interest rates at the reporting date would not affect profit or loss for fixed rate instruments.

5. Determination of Fair Values

Where available, the fair value of loans is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses and interest rates. Homogeneous small loans are grouped into portfolios with similar characteristics.

Financial assets carried at amortized cost

The estimated fair value of cash and cash equivalents, which include deposits with no stated maturity, is the amount repayable on demand. For short-term deposits, their fair value is considered to approximate their carrying amount.

Loans to customers are net of allowances for impairment. The loan portfolio has an estimated fair value approximately equal to its book value due to either their short-term nature or underlying interest rates, which approximate market rates. The fair value of loans is estimated using discounted cash flow techniques, applying the rates that are offered for loans of similar terms.

Financial liabilities carried at amortized cost

Because no active market exists for borrowings and subordinated debt, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

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

As of December 31, 2022	Category	Carrying Value	Fair Value	Fair value hierarchy
Financial Assets				
Cash and cash equivalents	Amortized Cost	12,402,953	12,402,953	Level 1
Loans and advances to customers	Amortized Cost	7,921,067	7,921,067	Level 3
Total		**20,324,020**	**20,324,020**	
Financial Liabilities				
Deposits from customers	Amortized Cost	12,131,478	12,131,478	Level 3
Lease Liability	Amortized Cost	248,951	248,951	Level 3
Other liabilities	Amortized Cost	274,441	274,441	Level 3
Total		**12,654,870**	**12,654,870**	

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

The Bank started operating in the last quarter of the year ended in December 31, 2022. Most of its loans and deposits are issued/contracted close to the year end. There were no significant interest rate fluctuations during this short period and therefore fair values of loans and advances to Customers and term deposits approximates their carrying amounts.

6. Use of Professional Evaluation and Judgement

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending December 31, 2022 is included in the following notes.

(i) Allowances for impairment losses on loans and advances

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

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

(ii) Determination of fair values

A number of accounting policies and disclosures of the Bank require the measurement of fair values for financial assets and liabilities. In measuring the fair value of an asset or liability, the Bank uses observable market data as much as possible. Fair values are categorized at different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the bank can access at the measurement date.

Level 2: Other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability (unobservable data).

If the inputs used to measure the fair value of an asset or liability fall at different levels of the fair value hierarchy, then the fair value measurement is categorized entirely at the same level of the fair value hierarchy as the inputs of the lowest level that is relevant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

	As at December 31, 2022 (in EUR)
Cash on hand	1,018,512
Cash at banks	238,205
Balance at CBK	11,146,429
Total	**12,403,146**
Less: Loss allowance	(193)
Total	**12,402,953**

(ii) Determination of fair values

A number of accounting policies and disclosures of the Bank require the measurement of fair values for financial assets and liabilities. In measuring the fair value of an asset or liability, the Bank uses observable market data as much as possible. Fair values are categorized at different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the bank can access at the measurement date.

Level 2: Other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability (unobservable data).

If the inputs used to measure the fair value of an asset or liability fall at different levels of the fair value hierarchy, then the fair value measurement is categorized entirely at the same level of the fair value hierarchy as the inputs of the lowest level that is relevant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

7. Cash and Cash Equivalents

	As at December 31, 2022 (in EUR)
Cash on hand	1,018,512
Cash at banks	238,205
Balance at CBK	11,146,429
Total	**12,403,146**
Less: Loss allowance	(193)
Total	**12,402,953**

Movement in impairment for the year ended December 31,2022, charged to profit and loss is as following:

	As at December 31, 2022 (in EUR)
Opening balance on 1st of January	-
New financial assets originated	-
Release due to derecognition	-
Increase/decrease in impairment	193
Closing balance	**193**

In accordance with CBK regulation on Minimum reserve requirement, the bank should maintain the minimum required reserve ratio 10% of the following liabilities with maturity up to one year: deposits, borrowings and securities. The assets with which the bank can meet its demand for reserves are its deposits with CBK and 50% of the cash in vaults. However, deposits with CBK may not be less then half of the applicable minimum reserve.

8. Loans and Advances to Customers

	As at December 31, 2022 (in EUR)
Gross loans to customers	7,985,967
Accrued interest	13,849
Deferred fee	(42,342)
Total	**7,957,474**
Less: Allowance for impairment	(36,407)
Total	**7,921,067**

Movement in impairment for the year ended December 31,2022, charged to profit and loss is as following:

	As at December 31, 2022 (in EUR)
Opening balance on 1st of January	-
Net impairment charge	36,407
Payments from written off loans	-
Written off loans	-
Closing balance	**36,407**

	Software
Historical Cost:	**(in EUR)**
January 1, 2022	-
Additions during the year	208,094
December 31, 2022	**208,094**
Accumulated amortization:	
January 1, 2022	-
Amortization for the year	3,344
December 31, 2022	**3,344**
Assets net book value:	
As at December 31, 2022	**204,750**

9. Intangible Assets

	Software
Historical Cost:	**(in EUR)**
January 1, 2022	**-**
Additions during the year	208,094
December 31, 2022	**208,094**
Accumulated amortization:	
January 1, 2022	-
Amortization for the year	3,344
December 31, 2022	**3,344**
Assets net book value:	
As at December 31, 2022	**204,750**

10. Property and Equipment

Historical cost	Vehicles (in EUR)	Furniture and supplies (in EUR)	Computers and electronic equipment (in EUR)	Leasehold improvements (in EUR)	Total (in EUR)
January 1, 2022					
Additions during the year	65,500	127,540	319,610	112,325	**624,975**
December 31, 2022	**65,500**	**127,540**	**319,610**	**112,325**	**624,975**
Accumulated depreciation:					
January 1, 2021					
Depreciation for the year	3,267	3,798	4,970	3,744	**15,779**
December 31, 2022	**3,267**	**3,798**	**4,970**	**3,744**	**15,779**
Net book value:					
December 31, 2022	**62,233**	**123,742**	**314,640**	**108,581**	**609,196**

11. Right-of-use Assets

	As at December 31, 2022 (in EUR)
January 1,	
Additions	283,795
Total	**283,795**
Accumulated depreciation	
January 1,	
Depreciation for the year	35,956
As at December 31,	**35,956**
Total net value	**247,839**

12. Other Assets

	As at December 31, 2022 (in EUR)
Prepaid expenses	24,117
Deferred tax asset	55,168
Receivable from shareholder	680,000
Total	**759,285**

Deferred tax assets have been recognized in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered. The Bank operated at a taxable loss amounting to EUR 564,947 during the year ended December 31, 2022. These losses can be carried forwards up to 4 years. The directors believe that it is probable that the deferred tax assets will be recovered.

Receivables form shareholder is related to increase of share capital. The amount has been received on January 4, 2023.

13. Due to Customers

	As at December 31, 2022 (in EUR)
Current accounts	8,040,048
Saving accounts	68,972
Term deposits	4,020,000
Accrued interest	2,458
Total	**12,131,478**

14. Lease Liabilities

	As at December 31, 2022 (in EUR)
At January 1, 2022	
Additions	283,445
Interest expense	3,684
Lease payments	(38,178)
As at December 31, 2022	**248,951**
Short term lease liability	54,623
Long term lease liability	194,328

The bank leases properties on which the periodic rent is fixed over the lease term. The bank has leased 3 properties with a lease term of 5 years since inception. The incremental borrowing rate on commencement of the lease used to measure lease liabilities is 2.52%.

15. Other Liabilities

	As at December 31, 2022 (in EUR)
Payables to suppliers	223,876
Accrued expenses	38,000
Pension contribution payable to Kosovo Pension Fund	5,074
Withholding tax on employees' salaries	3,840
Other payables	3,650
Total	**274,440**

16. Share Capital

Share capital initially was fully paid in amount of EUR 8,000,000. Upon the shareholders meeting held on December 5, 2022 the share capital was increased to EUR 10,000,000. As of December 31, 2022, the share capital was fully paid by Model Slovenia Shpk and Prisig SHA Insurance company. The payment of remaining portion of share capital in amount of EUR 680,000 remained unpaid by Model Slovenia Invest Shpk as at December 31, 2022 and shown in other assets (see note 12). The unpaid share capital was paid on 4 January 2023.

Nr	Shareholder	Number of Shares	Nominal value	EUR	%
1	Model Slovenia Invest ShPK	340	10,000	3,400,000	34%
2	Model Slovenia ShPK	330	10,000	3,300,000	33%
3	Prisig SHA Insurance Company.	330	10,000	3,300,000	33%
	Total	**1,000**	**10,000**	**10,000,000**	**100%**

17. Interest Income

	Period from January 14, 2022 to December 31, 2022 (in EUR)
Loans and advances to customers	20,128
Leasing	143
Total	**20,271**

Interest income is recognized in statement of profit and loss in using effective interest rate.

18. Interest Expenses

	Period from January 14, 2022 to December 31, 2022 (in EUR)
Due to customers	2,479
Interest on lease liability	3,684
Total	**6,163**

19. Fee and Commission Income, NET

	Period from January 14, 2022 to December 31, 2022 (in EUR)
Fee and commission income	
Payment services	1,602
Other fees	347
Total fee and commission income	**1,949**
Fee and commission expense	
Transaction and account maintenance fee	(3,267)
Total fee and commission expense	**(3,267)**
Net fee and commission income	**(1,318)**

20. Personnel Expenses

	Period from January 14, 2022 to December 31, 2022 (in EUR)
Salaries	309,129
Pension contributions	15,698
Health insurance	4,825
Total	**329,652**

21. General and Administrative Expenses

	Period from January 14, 2022 to December 31, 2022
	(in EUR)
Licenses and tariffs	63,818
Depreciation and Amortization	55,078
Professional services	18,764
Office supply	15,538
Security	15,457
Advertising and marketing expenses	5,506
Insurance	5,267
Small equipment	4,375
Car fleet expenses	4,020
Communications	3,485
Utilities	3,188
Cleaning expenses	2,894
Repairs and maintenance	1,889
Fuel for generator	450
Other expenses	11,756
Total	**211,485**

22. Income Tax

	Period from January 14, 2022 to December 31, 2022
	(in EUR)
Current tax expense	-
Deferred tax income/ expense	55,168
Income tax expense	**55,168**

Current income tax is calculated based on the law nr. 06/L-105 on Corporate Income Tax of Kosovo. The corporate income tax is 10% (2021: 10%).

23. Related Party Transactions

Related parties include the shareholders of the Bank and key management. As of December 31, 2022, there are no loans and advances issued to bank's related parties.

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

Liabilities	**2022**
Due to customer (Shareholder)	5,197,500
Due to customer (Management)	13,872
Total	**5,211,372**

Expenses	**2022**
Key Management Remuneration	156,210
Remuneration to the Board	9,555
Total	**165,765**

24. Comittments and Contigencies

(i) Litigations
In the normal course of business, the Bank is presented with legal claims and litigation. The Bank currently has no legal events affecting the normal course of business.

(ii) Tax liabilities
Financial statements and the accounting records of the Bank have not been audited by the tax authorities since the beginning of operation. Hence, the Bank's tax liabilities may not be considered finalized. A provision for additional taxes and penalties, if any that may be levied cannot be determined with any reasonable accuracy at this stage.

25. Subsequent Events

There are no significant events after the reporting date that may require adjustment or additional disclosures in the financial statements.