UNION BANK SH.A.

Independent Auditor's Report
and Consolidated Financial Statements as at
and for the year ended 31 December 2019

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Building a better working world

Ernst & Young Certified Auditors
Albania Branch
NIUS: K61911012I
Rr. Ibrahim Rugova,
Sky Tower, 6th floor
1001,Tirana, Albania

Tel: +35542419575
ey.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Union Bank sh.a.

Opinion

We have audited the consolidated financial statements of Union Bank sh.a. (the "Bank" or "Group"), which comprise the consolidated statement of financial position as at December 31, 2019 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of Union Bank sh.a. as at December 31, 2019 and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Albania, 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.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young - Ekspertë Kontabël të Autorizuar
Dega në Shqipëri

Ernst & Young Certified Auditors

September 14, 2020
Tirana, Albania

ERNST & YOUNG - EKSPERTE KONTABEL TE AUTORIZUAR
NIPT: K61911012I
Tirane

Mario Vangjel
Certified Auditor

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in LEK '000

	Notes	As at December 31, 2019	As at December 31, 2018
Assets			
Cash and balances with Central Bank	8	6,949,157	5,492,154
Due from banks	9	5,089,091	3,804,835
Investment securities	10	22,802,199	18,423,282
Loans, advances to customers	11	28,491,376	22,152,898
Income tax receivable	32	25,086	-
Intangible assets	12	135,859	127,611
Property and equipment	13	430,963	265,640
Right-of-use assets	14	776,131	-
Investment property	15	419,395	396,458
Repossessed assets	16	391,146	289,486
Other assets	17	345,892	320,682
Deferred tax asset	32	22,790	30,085
Total assets		**65,879,085**	**51,303,131**
Liabilities			
Due to Central Bank	18	2,786,519	2,456,241
Due to banks and financial institutions	19	4,426,969	2,438,602
Due to customers	20	51,954,739	41,298,692
Lease Liabilities	14	868,759	-
Other liabilities	21	393,864	475,289
Income tax payable	32	-	31,456
Total liabilities		**60,430,850**	**46,700,280**
Shareholders' equity			
Share capital	22	2,717,813	2,717,813
Share premium		175,600	175,600
Legal and Other Reserve	22.1	610,613	280,405
Retained earnings		1,944,209	1,429,033
Total shareholders' equity		**5,448,235**	**4,602,851**
Total liabilities and shareholders' equity		**65,879,085**	**51,303,131**

These consolidated financial statements have been approved by Executive Management on 10 September 2020 and signed on its behalf by:

Flutura Veipi

Flutura Veipi
Chief Executive Officer

UNION BANK TIRANE

Arten Zikaj
Chief Financial Officer

The consolidated statement of financial position is to be read in conjunction with the notes set out on pages 5 to 81 integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in LEK '000

	Notes	For the year ended December 31, 2019	For the year ended December 31, 2018
Interest income	23	2,771,620	2,358,284
Interest expense	24	(553,645)	(377,964)
Net interest income		**2,217,975**	**1,980,320**
Fee and commission income	25	351,737	290,021
Fee and commission expenses	26	(65,049)	(53,507)
Net fee and commission income		**286,688**	**236,514**
Gain on the acquisition of the Subsidiary	7	116,883	-
Net impairment loss on financial assets	27	(179,925)	(104,279)
Gain from sale of financial assets at amortised cost	28	-	23,734
Net foreign exchange result	29	88,854	(144,277)
Change in fair value of investment property	15	34,240	(32,593)
Income from leased investment property	14.2	4,194	9,176
Other income, net		31,891	11,867
Write-down on net realizable value of repossessed collaterals		(21,622)	(5,364)
Other charges for provisions		(3,661)	-
Amortization of intangible assets	12	(32,513)	(30,914)
Depreciation of property and equipment	13	(64,154)	(44,295)
Depreciation of right-of-use assets	14.1	(169,395)	-
Personnel costs	30	(614,399)	(502,832)
Other operating expenses	31	(674,555)	(760,528)
Profit before tax		**1,020,501**	**636,529**
Income tax expense	32	(138,517)	(99,172)
Profit of the year		**881,984**	**537,357**
Other comprehensive income, net of tax		**-**	**-**
Total comprehensive income for the year		**881,984**	**537,357**

These consolidated financial statements have been approved by Executive Management on 10 September 2020.

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes set out on pages 5 to 81 integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in LEK '000

	Notes	Share capital	Share premium	Legal Reserve	Retained Earnings	Total
Balance at 1 January 2018		**2,717,813**	**175,600**	**280,405**	**891,676**	**4,065,494**
Total comprehensive income for the year						
Profit for the year		-	-	-	537,357	**537,357**
Other comprehensive income, net of income tax		-	-	-	-	**-**
Total comprehensive income for the year		**-**	**-**	**-**	**537,357**	**537,357**
Transactions with owners recorded directly in equity						
Increase in share capital		-	-	-	-	**-**
Dividends distributed	22	-	-	-	-	**-**
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2018		**2,717,813**	**175,600**	**280,405**	**1,429,033**	**4,602,851**
Total comprehensive income for the year						
Profit for the year					881,984	**881,984**
Other comprehensive income, net of income tax		-	-	-	-	**-**
Total comprehensive income for the year		**-**	**-**	**-**	**881,984**	**881,984**
Transactions with owners recorded directly in equity						
Increase in share capital of subsidiaries	22	-	-	90,665	(90,665)	**-**
Increase of legal reserves	22.1	-	-	239,543	(239,543)	**-**
Dividends distributed	22	-	-		(36,600)	**(36,600)**
Total contributions by and distributions to owners		**-**	**-**	**330,208**	**(366,808)**	**(36,600)**
Balance at 31 December 2019		**2,717,813**	**175,600**	**610,613**	**1,944,209**	**5,448,235**

These consolidated financial statements have been approved by Executive Management on 10 September 2020.
The consolidated statement of changes in equity is to be read in conjunction with the notes set out on pages 5 to 81 integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

in LEK '000

	Notes	For the year ended December 31, 2019	For the year ended December 31, 2018
Cash flows from operating activities			
Profit before tax		1,020,501	636,529
Adjustments for non-cash items:			
Interest income	23	(2,771,620)	(2,358,284)
Interest expense	24	553,645	377,964
Depreciation of property and equipment	13	64,154	44,295
Amortization of intangible assets	12	32,513	30,914
Depreciation of ROU assets	14	169,395	-
Gain from acquisition of subsidiary	7	(116,883)	-
Impairment loss on financial assets	27	179,925	104,279
Write-down on NRV of repossessed collaterals	16	16,899	2,940
Change in fair value of investment property	15	(34,240)	32,593
Impairment of assets held for sale	17	4,723	2,424
Other charges for provisions		3,661	-
Disposal of ROU assets		(10,955)	-
Revaluation effect of cash and cash equivalents		16,856	405,812
Other revaluation effects		(26,241)	(82,829)
Written off property and equipment		6,829	1,564
Net gain from sale of property and equipment		(13,040)	(265)
Net gain from sale of repossessed collaterals		191	(5,963)
		(903,687)	**(808,027)**
Changes in:			
Due with banks		(620,100)	(749,529)
Loans and advances to customers		(1,730,573)	(2,932,634)
Other assets		101,999	(61,291)
Due to banks and financial institutions		712,872	871,128
Due to customers		3,118,537	3,065,846
Due to Central Bank		234,859	81,749
Other liabilities		(177,915)	163,394
Interest received		2,709,555	2,335,988
Interest paid		(492,743)	(373,651)
Income tax paid		(169,327)	(98,123)
Net cash generated from operating activities		**2,783,477**	**1,494,850**
Cash flows from investing activities			
Acquisition of subsidiary		(1,054,129)	-
Purchases of intangible assets	12	(23,112)	(60,108)
Purchases of property and equipment	13	(30,682)	(82,776)
Proceeds from sale of property and equipment		33,781	1,823
Proceeds from sale of non-current assets held for sale		29,004	17,990
Purchases of investment securities		(1,018,329)	(1,666,724)
Recovery in net investment lease		474	-
Net cash used in investing activities		**(2,062,993)**	**(1,789,795)**
Cash flows from financing activities			
Dividends distributed		(36,600)	-
Repayment of lease liability		(136,980)	-
Net cash generated from financing activities		**(173,580)**	**-**
Net increase in cash and cash equivalents during the year		546,904	(294,945)
Revaluation effect of cash and cash equivalents		(18,053)	(405,812)
Cash and cash equivalents at the beginning of the year		**5,953,467**	**6,654,224**
Increase in cash and equivalents from acquisition of Subsidiary		1,166,829	-
Cash and cash equivalents at the end of the year	34	**7,649,147**	**5,953,467**

These consolidated financial statements have been approved by Executive Management on 10 September 2020.
The consolidated statement of cash flows is to be read in conjunction with the notes set out on pages 5 to 81 integral part of the consolidated financial statements.

(Amounts in LEK '000 unless otherwise stated)

1. INTRODUCTION

Union Bank Sh.a. (the "Bank") is a financial institution registered as a commercial bank on 9 January 2006 based on Decision no. 101, dated 28 December 2005, of the Supervisory Board of the Bank of Albania ("BoA"). The Bank's activity is subject to Law no. 8269 "On the Bank of Albania" dated 23 December 1997, Law No. 9662 "On Banks in the Republic of Albania" dated 18 December 2006 and all rules and regulations approved by the Supervisory Board of the BoA.

The Bank is a commercial bank, which provides banking services to individuals and enterprises in the Republic of Albania. The Bank is registered as a joint stock company, with the registration number 33563, dated 26 May 2005, on which date the Bank started its commercial activities. The Bank obtained its license for banking activities on 9 January 2006.

Based on the Sale and Purchase Agreement signed in September 2014, on 22 December 2014, the Bank acquired 100% of the shares in Landeslease Sh.a (the "Subsidiary" or "Landeslease"), and is the only shareholder of this financial institution. The Subsidiary is an Albanian leasing company that was registered as a joint stock company and started to operate on 5 April 2005.

On 1 November 2018, the Bank entered into a Sale Purchase Agreement (the 'SPA') with the shareholders of International Commercial Bank ("ICB") for the purchase of 100% of the shares of ICB, a Bank incorporated in Albania, licensed since 20 February 1997. The acquisition was finalized on 20 March 2019, after receiving the pre-approval from Bank of Albania on 18 March 2019. The registration of ICB shares in the National Business Centre took place on 27 March 2019. The legal and operational merge of the Bank with its newly acquired subsidiary bank took place on 1 August 2019 ('Merger Date').

The immediate parent of the Group is Union Financiar Tirane sh.a. and the ultimate controlling parents are Mr. Edmond Leka and Mr. Niko Leka.

These consolidated financial statements comprise the Bank and its Subsidiaries (collectively the 'Group').

The Headquarters of the Bank are located in Tirana, Albania.

Directors as at 31 December 2019

Board of Directors (Supervisory Board)

Edmond Leka	Chairman
Niko Leka	Vice-Chairman
Varuzhan Piranjani	Member
Melis Ekmen Tabojer	Member
Gazmend Kadriu	Member
Sokol Marishta	Member
Flutura Veipi	Member

Board of Directors of the Landeslease

Arten Zikaj	Chairman
Enkeleda Hasho	Member
Rezart Ferzaj	Member

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Group consolidated financial statements are prepared by the parent Company.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for investment property, which is measured at fair value and inventory of repossessed collaterals which is measured at the lower of cost and net realizable value.

2. BASIS OF PREPARATION (CONTINUED)

2.3 Functional and presentation currency

These consolidated financial statements are presented in Albanian Lek ("LEK"), which is the Group's functional currency. All financial information presented in LEK has been rounded to the nearest thousands, except when otherwise indicated.

2.4 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of 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 accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and that the consolidated financial statements therefore present the financial position and results fairly. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are described in note 5.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

3.1 New and amended standards and interpretations

In these financial statements, the Group has applied IFRS 16 Leases for the first time. The nature and effect of the change as a result of adoption of this new accounting standard are described in Note 3.1.1 below.

Several other amendments and interpretations apply for the first time in 2019, but do not have any impact on the Group's consolidated financial statements.

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2019, unless otherwise stated. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

3.1.1 IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has lease contracts for all its branches, IT equipments and several cars. Before the adoption of IFRS 16, the Group classified each of its leases at the inception date as either a finance lease or an operating lease. Refer to Note 4.22.4 for the accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Group applied a single recognition measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 4.22 for accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

(Amounts in LEK '000 unless otherwise stated)

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 New and amended standards and interpretations (continued)

3.1.1 IFRS 16- Leases (continued)

- Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short term leases and leases of low-value-assets. The right-of-use assets is recognised based on the amount equal to lease liability adjusted for any related prepaid or accrued lease payments. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients:

- ➢Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- ➢Relied on its assessment of whether leases are onerous immediately before the date of initial application
- ➢Applied the short term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- ➢Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- ➢Used hindsight in determining the leases term where the contract contained options to extend or terminate the lease

Based on above, as at 1 January 2019:

- ➢Right-of–use assets of LEK 818,155 thousand were recognised and presented in the consolidated statement of financial position as a separate item.
- ➢Lease liabilities of LEK 818,155 thousand were recognised and presented in the consolidated statement of financial position as a separate item.
- ➢The adoption of IFRS 16 had no impact on the Group's retained earnings

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Operating Lease commitment disclosed as at 31 December 2018	**130,728**
Vehicles not included in operating lease commitment	26,426
Lease payments not included in operating lease commitment	941,429
Operating Lease commitment as at 31 December 2018	**1,098,583**
Recognition exemptions:	
Lease commitments related to short term leases	(10,585)
Lease commitments related to low value assets	(19)
Undiscounted operating lease liability	**1,087,979**
Discounted using incremental borrowing rate	(269,824)
Total lease liabilities recognized under IFRS 16 at 1 January 2019	**818,155**

The average annual incremental borrowing rate used to discount the future lease payments for offices is 7.25%p.a. and for ATM's and vehicles is 8.5%p.a. The rate is based on the average rate some local leasing companies charge on similar assets, with similar risk and maturity.

4. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these financial statements, apart from the new standard, IFRS 16 Leases which has been implemented from 1 January 2019 using the modified retrospective approach the cumulative effect of the adoption of the standard being recognised on the retained earnings opening balances on 1 January 2019.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1. Basis of consolidation

4.1.1. Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any gain on a bargain purchase (the excess of the fair value of net assets acquired over the consideration paid) is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

4.1.2. Subsidiary

'Subsidiaries' are entities controlled by the Bank. Control is achieved when the Bank:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses weather it has control if there are changes to one or more elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Bank having power over the investee. The financial statements of the Subsidiary are included in the consolidated financial statements from the date on which control commences until the date in which control ceases.

4.1.3. Loss of control

When the Bank loses control over its subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when the control is lost.

4.1.4. Transactions eliminated on consolidation

Intra – group balances and transactions, and any unrealised income and expense (except for foreign currency transactions gains or losses) arising from intra – group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4.2. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency entities at the spot exchange rates at the date of the transactions. Monetary assets denominated in foreign currencies at the reporting date are retranslated to the functional at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. Net foreign exchange gains or losses include all foreign exchange differences related to spot transactions with settlement dates two business days after the trade date, although such transactions are recognised on the settlement date.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3. Interest

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded by using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost.

The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account transaction costs any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset or liability are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset or liability in the separate statement of financial position with an increase or reduction in interest income/expense, calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

Interest and similar income

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information. In its Interest income/expense calculated using the effective interest method; the Group only includes interest on those financial instruments that are set out in Note 4.3 above.

The Group calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired (as set out in Note 37.1.2.1) and is, therefore, regarded as 'Stage 3', the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures (as outlined in Note 37.1.2.1) and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets (as set out in Note 4.12.1), the Group calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset.

The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets. The Group does not hold any POCI financial assets as at 31 December 2019 and 2018.

4.4. Fees and commissions

The Group earns fee and commission income from a diverse range of services it provides to its customers.
Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commissions for which the Group undertakes the obligation to perform a service, or a performance obligation, towards the customers are recognised as banking revenues and accounted for under IFRS 15 Revenue from Contract with Customers. The Group's service terms and conditions (contracts) do not typically include multiple performance obligations bundled under one consideration, consequently there is no significant judgement in allocation of transaction price. In addition, banking services offered by the Group have a duration of less than one year or are renewed on annual basis (for example account maintenance).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4. Fees and commissions (continued)

Consequently, the Group has used the practical expedient of the standard and needs not to present information about the aggregate amount of the price related to the unsatisfied portion of performance obligations.

The performance obligations are satisfied either at a point in time where by commission revenue is recognised when the service has been executed and transferred to the customer, or over time where by the Bank performs the service over an agreed period and the customer consumes it as the service is being performed, and revenue is recognised over the said period. Accordingly, fee and commission income is recognised as:

- Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission account servicing fees, card and E-banking maintenance fees commissions for letters of credit or bank guarantees issued to clients.

- Fee income from providing financial services and earned on the execution of a transaction

These fees and commission include fees from payment and transfer orders of the customers, and other banking services offered. These fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

4.5. Net loss on de-recognition of financial assets measured at amortised cost

Net loss on de-recognition of financial assets measured at amortised cost includes loss (or income) recognised on sale or de-recognition of financial assets measured at amortised costs calculated as the difference between the book value (including impairment) and the proceeds received.

4.6. Dividend income

Dividend income is recognised when the right to received payment is established.

4.7. Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

4.7.1. Current tax

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

4.7.2. Deferred tax

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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

Additional taxes that arise from the distribution of dividends by the Group are recognised at the same time as the liability to pay the related dividend is recognised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7. Tax expense (continued)

4.7.3. Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

4.8. Financial instruments– Initial recognition

4.8.1. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on trade date, i.e., the date the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to customers when funds are transferred to the Group.

4.8.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 4.9.1.1. Financial instruments are initially measured at fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

4.8.3. Day 1 profit or loss

When the fair value of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and the fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

4.8.4. Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at amortised cost (see Notes 4.19, 4.20 and 4.21).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL.

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

The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

The Group classifies its financial liabilities, other than loan commitments and financial guaranties, as measured at amortised cost explained in Notes 4.11.2.2.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9. Financial assets and liabilities

4.9.1. Due from banks, Loans and advances to customers, Financial investments at amortised cost

The Group measures Due from banks, Loans and advances to customers and other financial investments at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The details of these conditions are outlined below.

4.9.1.1. Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.
The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

4.9.1.2. The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de-minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Financial liabilities, other than loan commitments and financial guaranties, are measured at amortised cost, see Note 4.17.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10. Reclassification of financial assets and liabilities

If the business model under which the Group holds its financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in the business model that result in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in business model under which the Group holds its financial assets and therefore no reclassifications were made.

Financial liabilities are never reclassified.

4.11. Derecognition of financial assets and liabilities

4.11.1. Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

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

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

4.11.2. Derecognition other than for substantial modification

4.11.2.1. Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11. Derecognition of financial assets and liabilities (continued)

4.11.2. Derecognition other than for substantial modification (continued)

4.11.2.1. Financial assets (continued)

In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase.

4.11.2.2. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

4.12. Impairment of financial assets

4.12.1. Overview of the ECL principles

The Group records an allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 4.12.2. The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 37.1.2.2.

With the exception of POCI financial assets (which are considered below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12- month ECL, i.e. lifetime ECL that result from those default events on the financial instruments that are possible within 12 months after the reporting date; or
- LTECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12. Impairment of financial assets (continued)

4.12.1 Overview of the ECL principles (continued)

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

- Investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not significantly increased since their initial recognition.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 37.1.2.3.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 37.1.2.2.

Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 37.1.2.1).The Group records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

The Group has classified all credit impaired assets acquired in business combinations in the same classification and not as POCI since the Group has acquired and subsequently merged, a business as a whole.

4.12.2. The calculation of ECLs

The Group calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD - *The Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 37.1.3.1.1.
- EAD - *The Exposure at Default* 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, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 37.1.3.1.3.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12. Impairment of financial assets (continued)

4.12.2 The calculation ECL (continued)

- LGD - *The Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 37.1.3.1.4.

These parameters are derived from internally developed statistical models and other historical data. They are adjusted to reflect forward looking information as described in Note 37.1.3.1.2.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probability is applied to a forecast EAD and multiplied by the expected LGD.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired (as defined in Note 37.1.2.1), the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%. This calculation is made for three scenarios (a base case, an upside and a downside).
- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Group only recognises the cumulative changes in lifetime ECLs since initial recognition, discounted by the credit adjusted EIR.
- Loan commitments and letters of credit: When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

  For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.
- Financial guarantee contracts: The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by an approximation to the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

4.12.3. Forward looking information

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Inflation

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 37.1.3.1.2.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12. Impairment of financial assets (continued)

4.12.4. Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the asset;
- Loan commitments and financial guarantee contracts: generally as a provision;
- Where a financial instrument includes both a drawn down and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn down component.

4.13. Credit enhancements: collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables and inventories.

Collateral, unless repossessed, is not recorded on the Group's statement of financial position.

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and depending on the type of it, re-assessed on a year or three- yearly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. Details of the impact of the Group's various credit enhancements are disclosed in Note 37.1.5.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

4.14. Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk, as set out in Note 37.1.2.2.The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period.

Details of forborne assets are disclosed in Note 37.1.5.

If modifications are substantial, the loan is derecognised, as explained in Note 4.11.1.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15. Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

4.16. Write offs

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

4.17. Amortised cost measurement

The amortised 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 amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

4.18. 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 Group has access at that date.

In order to show how fair value have been derived, financial instruments are reclassified based on a hierarchy of valuation techniques, as summarised below:

- Level 1: Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Group has access to at the measurement date.
- Level 2: This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for 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.
- Level 3: This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could 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.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The estimation of the fair value is disclosed in Note 38.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18. Fair value measurement (continued)

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at the bid price and liabilities and short positions at the ask price. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

4.19. Cash and cash equivalents

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

4.20. Due from banks and Loans and advances to customers

"Due from banks" and "Loans and advances" in the statement of financial position, includes loans and advances measured at amortised cost (Note 4.8.4). They are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

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

4.21. Investment securities

Investment securities includes debt investment securities measured at amortised cost (see Note 4.8.4). Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

4.22. Leases

Policy applicable from 1 January 2019 (IFRS 16)

The Group 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.

4.22.1. Group as a lessee

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

4.22.1.1. Right-of-use assets

The Group recognises 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 recognised, 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 14.1.1.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.22. Leases (continued)

4.22.1. Group as Lessee (continued)

4.22.1.2. Lease liabilities

At the commencement date of the lease, the Group recognises 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 Group 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 recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Lease liability is presented as a separate line in the Group's consolidated statement of financial position and are disclosed on Note 14.1.2.

4.22.1.3. Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of certain branches (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipments that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

4.22.2. The Group as a lessor

The Group as lessor is required to classify its leases as either an operating lease or a finance lease. The classification is based on the extent to which the lease transfers the risks and rewards incidental to ownership of an underlying asset.

4.22.2.1. Finance lease

Finance Lease are leases in which the Group transfers substantially all the risk and rewards incidental to ownership of the underlying asset. At the commencement date, the Group recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease.

The net investment in the lease is initially measured as the sum of: the present value of both the lease payments and the present value of the unguaranteed residual asset, both discounted using the interest rate implicit in the lease. Any selling profit or loss is measured as the difference between the fair value of the underlying asset or the lease receivable, if lower, and the carrying amount of the underlying asset, net of any unguaranteed residual asset.

After the commencement date, net investment in the lease is increased to reflect the accretion of interest and reduced for the lease payments received. At each assessment date, an impairment amount is recognised as described in Note 4.12.

Leases in which the Group is a lessor of a financial lease are disclosed in Note 11.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.22. Leases (continued)

4.22.2. The Group as a lessor (continued)

4.22.2.2. Operating lease

Leases in which the Group 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 recognised as revenue in the period in which they are earned.

4.22.3. Sublease

The Group in some cases is a sub-lessor (intermediate lessor) of the right-of-use assets. As an intermediate lessor, the Group classifies the sublease as a finance lease or an operating lease as follows:

- if the head lease is a short-term lease that the Group, as a lessee, has accounted for, the sublease is classified as an operating lease,
- otherwise, the sublease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. A lease is classified as a finance lease if it transfers substantially all the risks and rewards from the right-of-use asset resulting from the head lease; otherwise, it is classified as an operating lease.

For subleases classified as finance lease, the Group derecognises the Right-of-use asset relating to the head lease that is transfers to the sublessee and recognises the Net investment in the sublease; any difference between the Right-of-use assets and the Net investment in the finance sublease is recognised in profit or loss. At the commencement date, Net investment in the finance lease is measured at an amount equal to the present value of the lease payments for the underlying Right-of-use assets during the lease term.

Net investment lease is presented under "Other Assets" on the consolidated statement of the financial position.

For subleases classified as operating lease, the Group recognises the lease income from operating leases on a straight-line basis over the lease term. The respective leased asset is included in the statement of financial position based on its nature.

Policy applicable before 1 January 2019

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

4.22.4. Group as a lessee (Policy applicable before 1 January 2019)

Leases that do not transfer to the Group substantially the entire risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

4.22.5. Group as a lessor (Policy applicable before 1 January 2019)

Leases where the Group does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases 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 recognised as revenue in the period in which they are earned.

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.23. Property and equipment

4.23.1. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income/loss in profit or loss of the period.

4.23.2. Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

4.23.3. Depreciation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the assets are completed and ready for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values over their estimated useful lives. Depreciation is recognised in profit or loss.

Depreciation is calculated using the reducing balance method at the following annual rates:

	Rate per annum
Computers	25%
Office furniture	20%
Electronic equipment	20%
Fixtures and fittings	20%

Leasehold improvements are depreciated using the straight-line basis over the shorter of the lease term and their useful lives. The estimated useful lives of the leasehold improvements range from 3 to 15 years. Work in progress is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4.24. Intangible assets

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss over the estimated useful life of the asset, from the date that it is available for use. Work in progress is not amortised.

Software is amortised using the reducing balance method with an annual amortization rate of 25%, while other intangible assets, including licenses and fees paid for access to electronic systems and services used by the Group, are amortized using the straight line method with an annual rate of 15%.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.25. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for use in the production or supply of goods or services or for administrative purposes. The Group holds investment property as a consequence of acquisition through the enforcement of security over loans and advances. Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within other income.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When the use of a property changes such that it is reclassified as property and equipment or non-current assets held for sale, its fair value at the date of reclassification becomes its cost or carrying amount for subsequent accounting.

4.26. Inventories and repossessed assets (collaterals)

Inventories and repossessed collaterals are initially measured at cost, and subsequently at the lower of cost and net realisable value (NRV). Cost comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
Inventories are included in other assets in the consolidated statement of financial position.
The Group holds inventories in the form of consumption inventories. Consumption inventories are materials bought in order to be consumed in the rendering of services.

Repossessed collaterals are properties acquired through enforcement of security over loans and advances to customers. For a transfer from investment property carried at fair value to inventories, the property's deemed cost for subsequent accounting shall be its fair value at the date of change in use.

Any write-down to NRV is recognised as an expense in the period in which write-down occurs. Any reversal is recognised in profit and loss statement in the period in which reversal occurs.

4.27. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

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

Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.28. Deposits, repurchase agreements, and subordinated liabilities

Deposits, repurchase agreements and subordinated liabilities are the Group's sources of debt funding.

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

4.29. Provisions

A provision is recognised if, as a result of a past event, the Group 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. The unwinding of the discount is recognised as finance cost.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.30. Financial Guarantees, letters of credit and undrawn loan commitments

In the ordinary course of the business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance as set out in Note 36.

The premium received is recognised in the income statement in Fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 36.

4.31. Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Group makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4.32. Adoption of new or revised standards and interpretations

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period, but their adoption has not led to any changes in the Group's accounting policies:

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IFRS 9 "Financial Instruments" -** Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement -** accounting when a plan amendment, curtailment or settlement occurs during a reporting period (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures" -** Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.33. Impact of standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- **IFRS 17 Insurance contracts,** effective on or after 1 January 2023.

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows). A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (i.e., coverage period). Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.

- **Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use,** effective on or after 1 January 2022

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.
The amendment must be applied retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- **AIP IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities**, effective on or after 1 January 2022

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

- **Amendment to IFRS 16: Covid-19-Related Rent Concessions,** effective on or after 1 June 2020

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.
The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2021 and increased lease payments that extend beyond 30 June 2021).
- There is no substantive change to other terms and conditions of the lease.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.33 Impact of standards issued but not yet effective (Continued)

Lessees will apply the practical expedient retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the amendment is first applied.

- **Amendments to IAS 1: Classification of Liabilities as Current or Non-current,** effective on or after 1 January 2022

Right to defer settlement

If an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance.

- **Amendments to IFRS 3: Definition of a Business,** effective on or after 1 January 2020.
- **Amendments to IFRS 3: Reference to the Conceptual Framework,** effective on or after 1 January 2022.
- **Amendments to IAS 37: Onerous Contracts - Costs of Fulfilling a Contract,** effective on or after 1 January 2022.
- **AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a firsttime adopter,** effective on or after 1 January 2022.
- **AIP IAS 41 Agriculture - Taxation in fair value measurements,** effective on or after 1 January 2022.
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28.**

5. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses and the accompanying disclosures, as well as the disclosure of contingent liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur.

Management discusses with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed below.

These disclosures supplement the commentary on financial risk management (see Note 37).

5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

5.1. Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the asset is evaluated and their performance measured, the risk that affect the performance of the assets and how these are managed and how the managers of the asset are compensated. The Group monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason of their disposal and whether the reasons are consistent with the objective of the business for which the asset is held.

Incidental sales of financial assets measured at amortised cost close to their maturity are not considered as a change to this business model. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held, continues to be appropriate and if it is not appropriate whether there has been a change in business model and so prospectively change to the classification of those assets.

5.2. Impairment

The measurement of impairment losses under IFRS 9 across all categories of financial assets 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 Group'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 Group'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 GDP levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios to derive the economic inputs into the ECL models

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

5.3. Fair value

5.3.1. Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under the current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair value of financial assets and financial liabilities recorded in 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 valuation models as described in Note 4.18. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(Amounts in LEK '000 unless otherwise stated)

5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

5.3 Fair value of financial instruments (Continued)

5.3.2. Fair value of non financial assets

The fair value of investment property and the Net Realisable Value of repossessed collaterals are determined by external or internal property valuers, having the appropriate recognised professional qualifications and needed knowledge of the location and the category of the property being valued. The fair vale measurement for all properties in these categories are categorised as Level 3 fair vale based on the valuation technique used (Note 4.18). Apart the valuation of the property certain estimations are made to determine the possibility of the sale of the assets being under repossessed collateral category.

5.4. Going concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group.

5.5. Determination of the lease term for lease contracts with renewal and termination options (Group as a lessee)

The Group 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 Group has several lease contracts that include extension and termination options. The Group 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 Group 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 customisation of the leased asset).

5.6. Estimating the incremental borrowing rate

The Group 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 Group 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 IBR therefore reflects what the Group '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 Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments.

6. CONSOLIDATION

The table below shows Bank's and Subsidiaries' main figures before consolidation:

			As at 31 December 2019		As at 31 December 2018
	Bank	**Landeslease**	**ICB**	**Bank**	**Subsidiary**
Total assets	66,015,977	1,566,344	-	51,374,187	1,669,500
Total liabilities	60,613,859	1,266,675	-	46,924,441	1,357,593
Shareholder's equity	5,402,118	299,669	-	4,449,746	311,907
Total banking income	2,519,407	91,426	109,031*	2,090,772	79,073
Profit before tax	878,942	52,835	29,026*	650,505	38,651

* for the period from acquisition date on March 30, 2019 to merger date on August 1, 2019.

(Amounts in LEK '000 unless otherwise stated)

7. ACQIUSITION OF INTERNATIONAL COMMERCIAL BANK

On 1 November 2018, the Bank entered into a Sale Purchase Agreement (the 'SPA') with the shareholders of International Commercial Bank ('ICB') for the purchase of 100% of the shares of ICB, a Bank incorporated in Albania, licensed since 20 February 1997. The acquisition was finalized on 20 March 2019 ("Date of Acquisition"), after receiving the pre-approval from Bank of Albania on 18 March 2019. The registration of ICB shares in the National Business Centre took place on 27 March 2019.

After receiving the pre-approval for legal merger from Bank of Albania on 3 July 2019, the legal and operational merge of the two banks took place on 1 August 2019 ('Merger Date').

The acquisition has been accounted for using the acquisition method. The fair values of identifiable assets and liabilities have been measured with the assistance of independent professional valuators.

Generally accepted methods like Market approach, Income approach and Asset-based approach were used by valuators to estimate the fair value of assets and liabilities. No fair vale adjustments have been applied to whenever the differences form booked value were immaterial or inexistent.

From the Date of Acquisition to the Date of Merger, ICB continued its operation as a fully owned Subsidiary of the Bank.

Assets acquired and liabilities assumed

The carrying amount of identifiable assets and liabilities of ICB measured at the fair value as of the date of acquisition, when materially different from the book value, were as follows:

	Fair value recognized on acquisition
ASSETS	
Cash and balances with Central Bank (Note 8)	949,859
Investment securities (Note 10)	3,293,387
Loans and advances to banks(Note 9)	646,522
Loans and advances to customers, net (Note 11)	4,809,998
Property and equipment (Note 12)	226,159
Intangible assets (Note 13)	17,858
Right-of-use assets (Note 14.1.1)	97,293
Other assets	132,380
Total Assets	**10,173,456**
LIABILITIES	
Due to banks	1,359,616
Due to customers	7,488,994
Lease liabilities (Note 14.1.2)	97,199
Other liabilities	56,635
Total Liabilities	**9,002,444**
Net identifiable net assets transferred	1,171,012
Investment in subsidiary at cost of the consideration transferred	**1,054,129**
Bargain Gain (22.1)	**116,883**

The business combination resulted in a bargain purchase which is in line with market conditions and similar recent transactions in the banking sector in Albania.

(Amounts in LEK '000 unless otherwise stated)

8. CASH AND BALANCES WITH CENTRAL BANK

Cash and balances with the Central Bank are detailed as following:

	As at December 31, 2019	As at December 31, 2018
Cash on hand	1,567,522	1,295,036
Central Bank:		
Current account	1,189,860	953,209
Compulsory reserves	4,192,891	3,247,864
Accrued interest	225	163
Allowance for impairment losses	(1,341)	(4,118)
Total	**6,949,157**	**5,492,154**

Compulsory reserve represents a minimum reserve deposit held in accordance with the Bank of Albania's requirement. This reserve is not available for use in the Bank's day to day operations, however according to the applicable regulations, the Bank can make use of up to 70% (2018: 70%) of the compulsory reserve in LEK, provided that the average of the reserve balance on the last day of the maintenance period does not fall below the required reserve level. This reserve is calculated as a percentage over the customer deposits. The reserve ratio is different depending on maturity of the liability and the currency (previously was as 10% of its customer deposits with an initial maturity up to 24 months). Since 24 July 2018, the reserve ratio is:

- 7.5% for customer deposits in LEK with an initial maturity term up to 12 months
- 5.0% for customer deposits in LEK with an initial maturity over 12 months and up to 2 years
- 12.5% for customer deposits in foreign currencies, when the ratio of "customer deposits denominated in foreign currencies over the total customer deposits" is up to 50%
- 20% for customer deposits in foreign currencies, when the ratio of "customer deposits denominated in foreign currencies over the total customer deposits" is higher than 50%.

An analysis of changes in gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	5,496,272	-	-	5,496,272
Balances from purchase of ICB (Note 7)	950,421			950,421
New assets originated or purchased	1,473,608	-	-	1,473,608
Assets de-recognised or repaid	(918,192)	-	-	(918,192)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(51,611)	-	-	(51,611)
Total	**6,950,498**	**-**	**-**	**6,950,498**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019 under IFRS 9	4,118	-	-	4,118
Balances from purchase of ICB (Note 7)	562			562
New assets originated or purchased	2	-	-	2
Assets de-recognised or repaid	(3,051)	-	-	(3,051)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	(281)	-	-	(281)
Amounts written off	-	-	-	-
Foreign exchange adjustments	(9)	-	-	(9)
Total	**1,341**	**-**	**-**	**1,341**

(Amounts in LEK '000 unless otherwise stated)

9. DUE FROM BANKS

Due from banks are detailed as follows:

	As at December 31, 2019	As at December 31, 2018
Current accounts:		
Resident	40,843	36,638
Non-resident	4,620,795	3,298,324
	4,661,638	**3,334,962**
Deposits:		
Resident	230,410	370,260
	230,410	**370,260**
Other accounts	213,254	107,931
Accrued interest	23	43
Allowance for impairment losses	(16,234)	(8,361)
Total	**5,089,091**	**3,804,835**

Deposits with resident banks mature in the range of 6 to 79 days (2018: 3 to 78 days) and bear interest in the range of 0.15%p.a. to 1.6%p.a. (2018: 0.1%p.a. to 0.2%p.a.).

An analysis of changes in gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	3,813,196	-	-	3,813,196
Balances from purchase of ICB (Note 7)	647,257			647,257
New assets originated or purchased	1,082,974	-	-	1,082,974
Assets de-recognised or repaid	(414,849)	-	-	(414,849)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(23,253)	-	-	(23,253)
Total	**5,105,325**	**-**	**-**	**5,105,325**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019 under IFRS 9	8,361	-	-	8,361
Balances from purchase of ICB (Note 7)	735			735
New assets originated or purchased	7,628	-	-	7,628
Assets de-recognised or repaid	(394)	-	-	(394)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(96)	-	-	(96)
Total	**16,234**	**-**	**-**	**16,234**

(Amounts in LEK ‘000 unless otherwise stated)

10. INVESTMENT SECURITIES

Below is an analysis of the Group’s investment in securities portfolio.

	As at December 31, 2019	As at December 31, 2018
Debt instruments at amortised cost:		
Albanian Treasury Bills	1,343,468	1,258,095
Albanian Government Bonds	20,848,044	16,578,464
Foreign Governments Bonds	260,663	328,841
Corporate Bonds	376,673	312,844
Allowance for impairment losses	(26,649)	(54,962)
Total Debt instruments at amortised cost	**22,802,199**	**18,423,282**
Total investment securities	**22,802,199**	**18,423,282**

The Bank has pledged some of its Albanian Treasury bonds as collateral for repurchase agreements with Central Bank amounting at LEK 1,947,000 thousand (2018: LEK 2,560,000 thousand).

T-Bills are issued by the Albanian Government and by original maturity are presented as follows. The book value is the amortized cost.

	31 December 2019			31 December 2018		
	Nominal value	**Unamortized discount**	**Book Value**	**Nominal value**	**Unamortized discount**	**Book Value**
12 months	1,352,610	(9,142)	1,343,468	1,269,690	(11,595)	1,258,095
Total	**1,352,610**	**(9,142)**	**1,343,468**	**1,269,690**	**(11,595)**	**1,258,095**

Bonds at amortized cost are shown below according to their issuing bodies. The interest is paid semi-annually.

				31 December 2019
	Nominal value	**Remaining (premium) /discount**	**Accrued interest**	**Book Value**
Albanian Government	20,457,505	109,031	281,508	20,848,044
Foreign Governments	236,975	23,431	257	260,663
Corporate Bonds	371,367	2,507	2,799	376,673
Total	**21,065,847**	**134,969**	**284,564**	**21,485,380**

				31 December 2018
	Nominal value	**Remaining (premium) /discount**	**Accrued interest**	**Book Value**
Albanian Government	16,331,135	13,785	233,544	16,578,464
Foreign Governments	323,460	1,847	3,534	328,841
Corporate Bonds	305,223	2,427	5,194	312,844
Total	**16,959,818**	**18,059**	**242,272**	**17,220,149**

(Amounts in LEK '000 unless otherwise stated)

10. INVESTMENT SECURITIES (CONTINUED)

Bonds at amortised cost are rated as follows:

Moody's Ratings or equivalents	As at December 31, 2019	As at December 31, 2018
Albanian Government		
Rated B+	1,709,570	1,332,332
Not rated	20,481,942	16,504,227
Foreign Governments		
Rated Aaa	57,941	108,691
Rated Aa2	-	55,509
Rated Aa3	-	55,397
Rated A1	-	54,319
Rated A3	-	54,925
Rated Baa1	32,162	-
Rated Baa3	34,693	-
Rated Ba3	70,614	-
Rated B1	65,254	-
Corporate Bonds		
Rated Aa2	77,211	76,534
Rated Aa3	43,139	-
Rated A1	-	63,329
Rated A2	-	62,927
Rated A3	176,553	79,142
Rated Baa1	49,274	-
Not rated	30,496	30,912
Total	**22,828,848**	**18,478,244**

An analysis of changes in gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	18,478,244	-	-	18,478,244
Balances from purchase of ICB (Note 7)	3,299,200			3,299,200
New assets originated or purchased	5,740,812	-	-	5,740,812
Assets de-recognised or repaid	(4,668,024)	-	-	(4,668,024)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(21,384)	-	-	(21,384)
Total	**22,828,848**	**-**	**-**	**22,828,848**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019 under IFRS 9	54,962	-	-	54,962
Balances from purchase of ICB (Note 7)	5,813			5,813
New assets originated or purchased	6,751	-	-	6,751
Assets de-recognised or repaid	(11,605)	-	-	(11,605)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	(29,099)	-	-	(29,099)
Amounts written off	-	-	-	-
Foreign exchange adjustments	(173)	-	-	(173)
Total	**26,649**	**-**	**-**	**26,649**

(Amounts in LEK '000 unless otherwise stated)

11. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are detailed as follows:

	As at December 31, 2019	As at December 31, 2018
Loans and advances at amortised cost	29,327,585	22,606,845
Finance Leases	1,165,712	1,095,654
Allowance for Impairment	(2,001,921)	(1,549,601)
Total	**28,491,376**	**22,152,898**

Loans and advances at amortised cost by type of customer and product wise are presented as follows:

			As at December 31,2019
	Gross carrying amount	**ECL amount**	**Carrying amount**
Retail customers			
Mortgage Lending	7,521,988	(163,504)	7,358,484
Personal loans	4,702,738	(323,355)	4,379,383
Overdrafts and credit cards	353,669	(68,038)	285,631
Retail lending	**12,578,395**	**(554,897)**	**12,023,498**
Lending to businesses	**16,749,190**	**(1,416,141)**	**15,333,049**
Finance Leases	**1,165,712**	**(30,883)**	**1,134,829**
Total	**30,493,297**	**(2,001,921)**	**28,491,376**

			As at December 31,2018
	Gross carrying amount	**ECL amount**	**Carrying amount**
Retail customers			
Mortgage Lending	6,115,908	(75,169)	6,040,739
Personal loans	3,191,343	(216,920)	2,974,423
Overdrafts and credit cards	318,574	(49,151)	269,423
Retail lending	**9,625,825**	**(341,240)**	**9,284,585**
Lending to businesses	**12,981,020**	**(1,170,379)**	**11,810,641**
Finance Leases	**1,095,654**	**(37,982)**	**1,057,672**
Total	**23,702,499**	**(1,549,601)**	**22,152,898**

Loans and advances to customers earn interest as follows:

Currency	As at December 31, 2019	As at December 31, 2018
LEK	2.60% - 20.0% p.a.	2.10% - 20.0% p.a.
EUR	1.20% - 19.0% p.a.	1.20% - 15.0% p.a.
USD	1.80% - 10.0% p.a.	2.35% - 9.01% p.a.

The Group has granted loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Group, and are covered by cash collaterals.

The outstanding amount of Loans and advances given to Group's personnel as at 31 December 2019 is LEK 461,652 thousand (2018: LEK 355,593 thousand) and bear interest rates that are 1% p.a. to 1.8% below the rates given to usual customers.

(Amounts in LEK '000 unless otherwise stated)

11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Expected cash flows to be reimbursed for finance lease receivables for leases of equipment where the Group is the lessor are as follows:

	As at December 31, 2019	As at December 31, 2018
Less than one year	108,847	86,586
Between one and five years	1,202,534	1,145,951
Unearned future finance income	(145,669)	(136,883)
Net investment in finance lease	**1,165,712**	**1,095,654**
Less impairment allowance	(30,883)	(37,982)
Total	**1,134,829**	**1,057,672**

Interest rates of the finance lease portfolio vary from 5.5% p.a. to 9% p.a.(2018: 7.5% p.a. to 8.2% p.a.)

11.1. Impairment allowance for loans and advances to customers

The tables below show an analysis of changes in gross carrying amount and the corresponding ECL allowances for each of the above categories is as follows:

Mortgage lending

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	5,538,132	355,848	221,928	6,115,908
Balances from purchase of ICB (Note 7)	314,325	242,690	138,175	695,190
New assets originated or purchased	1,965,754	-	-	1,965,754
Assets de-recognised or repaid	(887,390)	(221,814)	(68,061)	(1,177,265)
Transfers to Stage 1	206,558	(185,777)	(20,781)	-
Transfers to Stage 2	(291,044)	324,507	(33,463)	-
Transfers to Stage 3	(119,087)	(54,991)	174,078	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(63,328)	(9,154)	(5,117)	(77,599)
Total	**6,663,920**	**451,309**	**406,759**	**7,521,988**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	46,018	1,811	27,340	75,169
Balances from purchase of ICB (Note 7)	1,709	1,375	40,941	44,025
New assets originated or purchased	24,581	-	-	24,581
Assets de-recognised or repaid	(2,450)	(997)	(3,939)	(7,386)
Transfers to Stage 1	3,794	(1,019)	(2,775)	-
Transfers to Stage 2	(2,208)	3,122	(914)	-
Transfers to Stage 3	(10,715)	-	10,715	-
Net re-measurement of ECL	(8,664)	3,148	34,591	29,075
Amounts written off	-	-	-	-
Foreign exchange adjustments	(586)	(63)	(1,311)	(1,960)
Total	**51,479**	**7,377**	**104,648**	**163,504**

(Amounts in LEK '000 unless otherwise stated)

11. LOANS ADVANCES TO CUSTOMERS (CONTINUED)

11.1 Impairment allowance for loans and advances to customers (continued)

Consumer loans

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	2,767,607	170,539	253,197	3,191,343
Balances from purchase of ICB (Note 7)	593,518	405,699	122,153	1,121,370
New assets originated or purchased	2,047,698	-	-	2,047,698
Assets de-recognised or repaid	(1,303,381)	(130,858)	(180,940)	(1,615,179)
Transfers to Stage 1	388,432	(380,646)	(7,786)	-
Transfers to Stage 2	(253,100)	261,437	(8,337)	-
Transfers to Stage 3	(180,810)	(73,617)	254,427	-
Amounts written off	-	-	(14,069)	(14,069)
Foreign exchange adjustments	(15,562)	(10,799)	(2,064)	(28,425)
Total	**4,044,402**	**241,755**	**416,581**	**4,702,738**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	45,328	17,875	153,717	216,920
Balances from purchase of ICB (Note 7)	16,530	5,107	37,037	58,674
New assets originated or purchased	71,281	-	-	71,281
Assets de-recognised or repaid	(20,948)	(3,833)	(25,302)	(50,083)
Transfers to Stage 1	12,550	(8,174)	(4,376)	-
Transfers to Stage 2	(10,344)	13,502	(3,158)	-
Transfers to Stage 3	(34,986)	(6,435)	41,421	-
Net re-measurement of ECL	(12,842)	7,988	46,487	41,633
Amounts written off	-	-	(14,069)	(14,069)
Foreign exchange adjustments	(294)	(60)	(647)	(1,001)
Total	**66,275**	**25,970**	**231,110**	**323,355**

Overdrafts and credit cards

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	234,103	28,069	56,402	318,574
Balances from purchase of ICB (Note 7)	6,340	388	4,473	11,201
New assets originated or purchased	70,262	-	-	70,262
Assets de-recognised or repaid	(32,825)	(6,592)	(3,151)	(42,568)
Transfers to Stage 1	12,165	(10,882)	(1,283)	-
Transfers to Stage 2	(23,099)	23,782	(683)	-
Transfers to Stage 3	(14,954)	(5,637)	20,591	-
Amounts written off	-	-	(2,222)	(2,222)
Foreign exchange adjustments	(1,256)	(114)	(208)	(1,578)
Total	**250,736**	**29,014**	**73,919**	**353,669**

(Amounts in LEK '000 unless otherwise stated)

11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

11.1 Impairment allowance for loans and advances to customers (continued)

Overdrafts and credit cards (continued)

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	4,791	6,345	38,015	49,151
Balances from purchase of ICB (Note 7)	224	26	4,450	4,700
New assets originated or purchased	4,551	-	-	4,551
Assets de-recognised or repaid	(771)	(1,072)	(8,052)	(9,895)
Transfers to Stage 1	3,299	(2,729)	(570)	-
Transfers to Stage 2	(1,910)	2,192	(282)	-
Transfers to Stage 3	(1,579)	(1,149)	2,728	-
Net re-measurement of ECL	(1,973)	5,112	18,792	21,931
Amounts written off	-	-	(2,222)	(2,222)
Foreign exchange adjustments	(46)	(21)	(111)	(178)
Total	**6,586**	**8,704**	**52,748**	**68,038**

Business lending

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	10,054,974	1,016,076	1,909,970	12,981,020
Balances from purchase of ICB (Note 7)	1,494,254	1,409,490	431,815	3,335,559
New assets originated or purchased	6,801,659	-	-	6,801,659
Assets de-recognised or repaid	(4,979,829)	(696,908)	(461,148)	(6,137,885)
Transfers to Stage 1	1,042,927	(1,014,353)	(28,574)	-
Transfers to Stage 2	(445,500)	579,288	(133,788)	-
Transfers to Stage 3	(304,242)	(440,179)	744,421	-
Amounts written off	-	-	(42,699)	(42,699)
Foreign exchange adjustments	(139,007)	(27,661)	(21,796)	(188,464)
Total	**13,525,236**	**825,753**	**2,398,201**	**16,749,190**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	149,416	22,336	998,627	1,170,379
Balances from purchase of ICB (Note 7)	16,116	13,986	215,821	245,923
New assets originated or purchased	141,023	-	-	141,023
Assets de-recognised or repaid	(40,642)	(3,614)	(93,368)	(137,624)
Transfers to Stage 1	25,684	(24,939)	(745)	-
Transfers to Stage 2	(6,180)	11,421	(5,241)	-
Transfers to Stage 3	(65,344)	(3,737)	69,081	-
Net re-measurement of ECL	(32,346)	11,836	73,649	53,139
Amounts written off	-	-	(42,699)	(42,699)
Foreign exchange adjustments	(1,981)	(346)	(11,673)	(14,000)
Total	**185,746**	**26,943**	**1,203,452**	**1,416,141**

(Amounts in LEK '000 unless otherwise stated)

11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

11.1 Impairment allowance for loans and advances to customers (continued)

Financial Leases

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	699,014	322,161	74,479	1,095,654
New assets originated or purchased	580,268	-	-	580,268
Assets de-recognised or repaid	(242,509)	(125,623)	(127,129)	(495,261)
Transfers to Stage 1	12,383	(12,383)	-	-
Transfers to Stage 2	(173,964)	181,247	(7,283)	-
Transfers to Stage 3	(116,625)	(34,383)	151,008	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(9,521)	(4,398)	(1,030)	(14,949)
Total	**749,046**	**326,621**	**90,045**	**1,165,712**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019 under IFRS 9	1,593	1,477	34,912	37,982
New assets originated or purchased	3,468	-	-	3,468
Assets de-recognised or repaid	(133)	(471)	(16,425)	(17,029)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(975)	907	68	-
Transfers to Stage 3	(941)	3,386	(2,445)	-
Net re-measurement of ECL	249	(3,378)	10,098	6,969
Amounts written off	-	-	-	-
Foreign exchange adjustments	(20)	(19)	(468)	(507)
Total	**3,241**	**1,902**	**25,740**	**30,883**

(Amounts in LEK '000 unless otherwise stated)

12. INTANGIBLE ASSETS

	Software	Other intangible assets	Intangible assets in progress	Total
Cost				
At 1 January 2018	**267,547**	**67,084**	**13,894**	**348,525**
Additions	40,964	9,549	9,594	60,107
Transfer	-	-	-	-
At 31 December 2018	**308,511**	**76,633**	**23,488**	**408,632**
Additions	11,646	7,328	4,138	23,112
Additions due to purchase of ICB (Note 7)	11,025	6,816	17	17,858
Disposals	(61)	(209)	-	(270)
At 31 December 2019	**331,121**	**90,568**	**27,643**	**449,332**
Accumulated amortization				
At 1 January 2018	**(208,861)**	**(41,246)**	**-**	**(250,107)**
Amortization charge	(23,870)	(7,044)	-	(30,914)
At 31 December 2018	**(232,731)**	**(48,290)**	**-**	**(281,021)**
Amortization charge	(22,689)	(9,824)	-	(32,513)
Amortization charge for disposals	61	-	-	61
At 31 December 2019	**(255,359)**	**(58,114)**	**-**	**(313,473)**
Net book amount				
At 1 January 2018	**58,686**	**25,838**	**13,894**	**98,418**
At 31 December 2018	**75,780**	**28,343**	**23,488**	**127,611**
At 31 December 2019	**75,762**	**32,454**	**27,643**	**135,859**

Other intangible assets include payments for upgrade of Oracle Flex Direct Banking, POS implementation service and depositor ATM implementation fees.

(Amounts in LEK '000 unless otherwise stated)

13. PROPERTY AND EQUIPMENT

	Buildings	Computers	Electronic equipment	Office Furniture	Other	Fixed assets in progress	Leasehold improvements	Total
Cost								
At 1 January 2018	**-**	**174,158**	**140,223**	**68,219**	**4,443**	**27,164**	**225,677**	**639,884**
Additions	-	34,919	10,114	6,482	17,137	(5,800)	19,926	82,778
Adjustments	-	(9,128)	(7,902)	(2,259)	-	-	-	(19,289)
At 31 December 2018	**-**	**199,949**	**142,435**	**72,442**	**21,580**	**21,364**	**245,603**	**703,373**
Additions	-	7,501	8,583	352	5,712	(10,411)	18,945	30,682
Additions from acquisition of ICB (Note 7)	185,405	9,637	9,724	3,109	3,355	3,605	11,324	226,159
Disposals	(20,200)	-	(1,457)	(605)	(2,826)	(6,621)	-	(31,709)
At 31 December 2019	**165,205**	**217,087**	**159,285**	**75,298**	**27,821**	**7,937**	**275,872**	**928,505**
Accumulated depreciation								
At 1 January 2018	**-**	**(128,207)**	**(94,838)**	**(45,198)**	**(2,278)**	**-**	**(139,084)**	**(409,605)**
Depreciation charge	-	(15,846)	(9,618)	(5,348)	(217)	-	(13,266)	(44,295)
Depreciation charge for disposals	-	8,780	5,387	2,000	-	-	-	16,167
Year ended December 2018	**-**	**(135,273)**	**(99,069)**	**(48,546)**	**(2,495)**	**-**	**(152,350)**	**(437,733)**
Depreciation charge	(6,083)	(20,169)	(10,782)	(5,327)	(5,083)	-	(16,710)	(64,154)
Depreciation charge for disposals	253	-	1,323	605	2,164	-	-	4,345
Year ended December 2019	**(5,830)**	**(155,442)**	**(108,528)**	**(53,268)**	**(5,414)**	**-**	**(169,060)**	**(497,542)**
Net book amount								
At 1 January 2018	**-**	**45,951**	**45,385**	**23,021**	**2,165**	**27,164**	**86,593**	**230,279**
Year ended December 2018	**-**	**64,676**	**43,366**	**23,896**	**19,085**	**21,364**	**93,253**	**265,640**
Year ended December 2019	**159,375**	**61,645**	**50,757**	**22,030**	**22,407**	**7,937**	**106,812**	**430,963**

Leasehold improvements relate to expenditures made by the Group for the reconstruction of leased premises used for the branches and Head Office. There are no assets pledged as collateral as at 31 December 2019 (2018: none).

(Amounts in LEK '000 unless otherwise stated)

14. LEASES

Group as a Lessee

The Group has lease contracts for all its premises (branches and Head office), several IT equipments and several vehicles. Leases of offices generally have lease terms between 5 and 17 years, while ATM's and vehicles generally have lease terms between 3 and 7 years.

The Group has certain leases of offices that at the time of firs reassessment were with remaining lease terms of 12 months or less and some other lease considered to be with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

14.1. Amounts recognised in the statement of financial position

14.1.1. Right-of-use Asset

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Right-of-use assets			
	Buildings	**Computer equipment**	**Other tangible assets**	**Total**
Cost				
At 1 January 2019	**765,422**	**35,250**	**17,483**	**818,155**
Acquired through acquisition of ICB (Note7)	97,293	-	-	97,293
Additions	98,585	-	4,026	102,611
Disposal/Transfer	(72,533)	-	-	(72,533)
At 31 December 2019	**888,767**	**35,250**	**21,509**	**945,526**
Accumulated Depreciation				
At 1 January 2019	-	-	-	-
Depreciation charge	148,355	15,667	5,373	169,395
Depreciation charge for disposals	-	-	-	-
At 31 December 2019	**148,355**	**15,667**	**5,373**	**169,395**
Net book amount				
At 1 January 2019 (Note 3.1.1)	**765,422**	**35,250**	**17,483**	**818,155**
Year ended December 2019	**740,412**	**19,583**	**16,136**	**776,131**

14.1.2. Lease Liability

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2019
At 1 January 2019 (Note 3.1.1)	**818,155**
Acquired through the acquisition of ICB (Note 7)	97,199
Additions	102,611
Accretion of interest (Note 24)	62,508
Lease payment	(199,488)
Revaluation effect	(12,226)
At 31 December 2019	**868,759**
Current	150,826
Non-current	717,933

The maturity analysis of lease liabilities is disclosed in Note 33.

(Amounts in LEK '000 unless otherwise stated)

14. LEASES (CONTINUED)

14.1. Amounts recognized in the statement of financial position (continued)

14.1.3. Net investment lease

The Group is an intermediate lessor for some office space. The sublease of the offices is for the same period as head lease (10 years) and is classified as finance lease. The Group entered in a sublease contract with one of its related parties to sublease some office space previously used by ex-ICB head offices during December 2019. So, the Group derecognised the Right-of-use asset relating to the head lease that is transferred to the sub-lessee and recognises the Net investment in the sublease. The difference between the Right-of-use assets and the Net investment in the finance sublease of LEK 10,955 thousand is recognised in profit or loss under "Other income, net".

The Group recognises finance income over the lease term, using the same rate as the one used for head lease, 7.25% p.a.

The Net investment lease is shown under "Other assets" (Note 17) and the movements during the period are disclosed below:

	2019
At 1 December 2019 (date of first assessment)	**83,488**
Lease payments	(977)
Interest Income (Note 23)	503
Revaluation effect	(510)
At 31 December 2019	**82,504**

14.2. Amounts related to leases recognized during the reporting period

The following amounts are recognized in profit or loss:

	2019
Depreciation expense of right-of-use assets (Note 14.1.1)	169,395
Interest expense on lease liabilities (Note 14.1.2) (Note 24)	62,508
Expense relating to short-term leases (included in administrative expenses) (Note 31)	32,399
Total expenses related to leases	**264,302**

	2019
Gain from disposal of Right-of-use asset	10,955
Interest income on Investment lease (sublease) (Note 23)	503
Income on operational lease	4,194
Total income related to leases	**15,652**

The Group had total cash outflows for leases of LEK 231,887 thousand in 2019 (2018: LEK 208,973 thousand).

(Amounts in LEK '000 unless otherwise stated)

15. INVESTMENT PROPERTY

The Group holds investment property as a consequence of the acquisitions through enforcement of security over loans and advances. These assets bear no restrictions or other obligations related to their use, transfer, or maintenance.

Total income from leased investment property in 2019 was LEK 4,194 thousand (2018: LEK 9,176 thousand). There were no expenses incurred during the years with respect to investment properties.

Measurement of fair value - Fair value hierarchy

The fair value of investment property was determined by property valuers, having professional qualifications and recent experience in the location and category of the property being valued. The valuers provide the fair value of the Bank's investment property portfolio every year.

The fair values of the Bank's investment property are categorized into Level 3 of the fair value hierarchy.

Level 3 fair value

The following table shows a reconciliation from the beginning balances to the closing balances for the fair value measurements of the Bank's investment property.

	2019	2018
Balance at 1 January	**396,458**	**358,977**
Transferred from repossessed collaterals (Note 16)	144,323	7,738
Acquired during the year	22,926	65,906
Transferred to repossessed collaterals (Note 16)	(178,552)	(3,570)
Net changes in fair value	34,240	(32,593)
Balance at 31 December	**419,395**	**396,458**

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Reference to the current market: The valuation model uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business)	Market prices were modified to reflect the following: • The level of market transactions when the market activity is low or the price for an identical property is difficult to obtain • Specific condition of each property (construction, position etc.)

16. REPOSSESSED COLLATERALS

Repossessed collaterals are properties acquired through enforcement of security over loans and advances to customers. The Bank intends and is taking steps to sell them for the best offer. Whenever there is a change in use of repossessed collateral at every assessment date, there is a transfer to or from repossessed collaterals from or to investment property.

The following table shows a reconciliation from the beginning balances to the closing balances for the Bank's repossessed collaterals.

	2019	2018
Balance at 1 January	**289,486**	**303,319**
Transferred from investment property (Note 15)	178,552	3,570
Acquired through the acquisition of ICB (Note 7)	98,179	-
Acquired during the year	15,346	5,302
Transferred to investment property (Note 15)	(144,323)	(7,738)
Assets sold during the year	(29,195)	(12,027)
Net write-down of NRV for the year	(16,899)	(2,940)
Balance at 31 December	**391,146**	**289,486**

(Amounts in LEK '000 unless otherwise stated)

17. OTHER ASSETS

Other assets are detailed as follows:

	As at December 31, 2019	As at December 31, 2018
Net Investment lease	82,504	-
Vat receivable	64,985	89,620
Consumption Inventory	42,524	124,938
Other	41,172	2,330
Sundry debtors, net	40,723	41,173
Prepayments	24,632	24,304
Assets held for sale	22,079	4,248
Clients' receivables	14,728	16,408
Accrued income	11,103	10,724
Payment in transit	1,442	6,937
Total	**345,892**	**320,682**

Assets held for sale are properties acquired through enforcement of security over leased assets of the Subsidiary.

The following table shows a reconciliation from the beginning balances to the closing balances for the Assets held for sale.

	2019	2018
Balance at 1 January	**4,248**	**648**
Repossessed during the year	28,259	3,205
Assets sold during the year	(6,252)	-
Impairment of assets held for sale	(4,723)	(2,424)
Translation differences	547	2,819
Balance at 31 December	**22,079**	**4,248**

Monetary values in transit represent cash sold with correspondent banks with agreed settlement date in the first days of the subsequent year.

Sundry debtors mainly consist of amounts receivable under legal dispute procedures with customers and other parties. Their gross carrying amount and impairment losses are as follows:

	As at December 31, 2019	As at December 31, 2018
Sundry debtors, gross	152,764	124,814
ECL	(112,041)	(83,641)
Sundry debtors, net	**40,723**	**41,173**

	2018
Impairment allowance as at 31 December 2018	**83,641**
Balances due to acquisition of ICB (Note 7)	25,962
Impairment charge for the year (ECL) (Note 27)	13,108
Amounts written off	(10,250)
Foreign exchange adjustments	(420)
Total impairment losses as at 31 December 2019	**112,041**

(Amounts in LEK '000 unless otherwise stated)

18. DUE TO CENTRAL BANK

Amounts due to central bank are detailed as follows:

	As at December 31, 2019	As at December 31, 2018
Borrowings	1,250,000	-
Treasury bills sold under repurchase agreements	1,534,705	2,453,930
Accrued interest	1,814	2,311
Total	**2,786,519**	**2,456,241**

Treasury bills sold under repurchase agreements "Repos" are short term liquidity management instruments issued by the Central Bank to inject liquidity in the banking system. Repos at the end of 2018 bear interest at market rates ranging from 1.07% p.a. to 1.08% p.a. (2018: 1.17% p.a. to 1.22% p.a.) and are denominated in LEK.

Borrowings from Central Bank are denominated in LEK and have an initial maturity of 6 days and interest rate of 1.9% p.a.

19. DUE TO BANKS AND FINANCIAL INSTITUTIONS

Amounts due to banks and financial institutions are detailed as follows:

	As at December 31, 2019	As at December 31, 2018
Current accounts		
Resident	1,020,420	1,082,498
Non-resident	747,315	367,611
	1,767,735	**1,450,109**
Term deposits		
Resident	1,699,136	928,007
Non-resident	17,048	40,034
	1,716,184	**968,041**
Borrowings		
Resident	800,000	-
Non-resident	104,374	-
	904,374	**-**
Other accounts		
Resident	14,626	10,992
	14,626	**10,992**
Accrued interest	24,050	9,460
Total	**4,426,969**	**2,438,602**

Current accounts from resident financial institutions include LEK 499 million (2018: LEK 581 million) deposited by Unioni Financiar Tirane ('UFT'), out of which LEK 91.3 million (2018: LEK 92.6 million) represent collateral for loans issued by the Bank to related parties.

Current accounts from non-resident financial institutions include balances deposited from 'Union of Financial Corners' and 'Unioni Financiar Prishtine', both related parties, of LEK 672.4 million (2018: LEK 336.7 million).

Term deposits form resident financial institutions include deposits from UFT of LEK 127 million (2018: LEK 128 million), are placed as collateral for loans issued by the Bank.

Term deposits from non-resident financial institutions include annual deposits from 'Union of Financial Corners', a related party, of LEK 17,048 thousand (2018: LEK 40,033 thousand), which are held as collateral for loans issued by the Bank, and bear interest at rates 0.25% p.a. (2018: 0.3% p.a.).

Borrowings from resident banks have a maturity up to 7 days and interest rates that vary from 1% to 1.02%p.a.

(Amounts in LEK '000 unless otherwise stated)

19. DUE TO BANKS AND FINANCIAL INSTITUTIONS (CONTINUED)

Borrowings from non-resident banks represent loans received by the Bank from EBRD as per Green Economy Financing Facility ('GEFF'). As per this agreement, the total commitment is scheduled to be received in 3 yearly tranches of 2 million EUR each. Commitment fee is 0.5% p.a. and is calculated and paid over the undrawn part of each tranche. Minimum disbursement amount in every tranche is 1 million EUR. Loan disbursed under this agreement has an outstanding balance of LEK 104,374 thousand, with an interest rate of 2.5% p.a. and an initial maturity of 3 years.

20. DUE TO CUSTOMERS

Customer accounts for enterprises, private entrepreneurs and individuals consisted of current and deposit accounts as follows:

	As at December 31, 2019	As at December 31, 2018
Government and public administration:		
Local currency	229,869	652,048
Foreign currency	65,788	282,947
	295,657	**934,995**
Current accounts:		
Local currency	3,688,186	3,326,030
Foreign currency	6,173,755	4,784,893
	9,861,941	**8,110,923**
Saving accounts:		
Local currency	1,789,078	1,661,220
Foreign currency	5,712,228	4,937,621
	7,501,306	**6,598,841**
Term deposits:		
Local currency	18,575,671	13,974,208
Foreign currency	14,911,188	11,135,837
	33,486,859	**25,110,045**
Other customer accounts:		
Local currency	121,081	74,126
Foreign currency	325,294	248,994
	446,375	**323,120**
Subtotal	**51,592,138**	**41,077,924**
Prepaid interest on customer deposits	-	(3)
Accrued interest	362,601	220,771
Total	**51,954,739**	**41,298,692**

Current and saving accounts bear interest in the range of 0.05% p.a. to 0.4% p.a. (2018: 0.1%p.a. to 0.5%p.a.) and term deposits bear interest as follows:

Currency	**2019**	**2018**
LEK	0.20% p.a. to 6.10% p.a.	0.60% p.a. to 4.90% p.a.
EUR	0.05% p.a. to 3.50% p.a.	0.05% p.a. to 2.50% p.a.
USD	0.20% p.a. to 2.00% p.a.	0.20% p.a. to 1.10% p.a.
GBP	0.10% p.a. to 0.35% p.a.	0.10% p.a. to 0.45% p.a.

Other customer accounts represent blocked accounts for tender or contract guarantees, other bank guarantees and initial capital blocked by customers in the process of registration of their businesses.

(Amounts in LEK '000 unless otherwise stated)

20. DUE TO CUSTOMERS (CONTINUED)

Customer accounts and deposits could be further analyzed by products as follows:

	As at December 31, 2019			As at December 31, 2018		
	LEK	**Foreign currency**	**Total**	**LEK**	**Foreign currency**	**Total**
Government and admin accounts						
On demand	209,869	65,788	275,657	633,048	282,947	915,995
Three months	-	-	-	19,000	-	19,000
Twelve months	20,000	-	20,000	-	-	-
Total government and admin accounts	**229,869**	**65,788**	**295,657**	**652,048**	**282,947**	**934,995**
Current accounts	**3,688,186**	**6,173,755**	**9,861,941**	**3,326,030**	**4,784,893**	**8,110,923**
Saving accounts	**1,789,078**	**5,712,228**	**7,501,306**	**1,661,220**	**4,937,621**	**6,598,841**
Term deposits:						
One month	23,076	62,853	85,929	-	-	-
Three months	296,891	821,369	1,118,260	218,485	496,812	715,297
Six months	520,028	612,783	1,132,811	467,026	522,485	989,511
Twelve months	5,195,499	6,465,231	11,660,730	4,116,296	4,984,078	9,100,374
Fourteen months	1,591,973	1,355,909	2,947,882	1,336,863	1,123,079	2,459,942
Twenty-five months	1,861,995	1,341,735	3,203,730	1,024,270	754,165	1,778,435
Thirty-five months	4,392,998	2,593,838	6,986,836	3,121,876	1,660,550	4,782,426
Sixty months	4,604,879	1,612,660	6,217,539	3,598,896	1,583,784	5,182,680
Other deposits	88,332	44,810	133,142	90,496	10,884	101,380
Total deposits	**18,575,671**	**14,911,188**	**33,486,859**	**13,974,208**	**11,135,837**	**25,110,045**
Other customer accounts:						
On demand	14,599	21,654	36,253	9,191	13,404	22,595
Twelve months	21,400	68,518	89,918	27,021	76,540	103,561
Other	85,082	235,122	320,204	37,914	159,050	196,964
Total other customer accounts	**121,081**	**325,294**	**446,375**	**74,126**	**248,994**	**323,120**
Total	**24,403,885**	**27,188,253**	**51,592,138**	**19,687,632**	**21,390,292**	**41,077,924**

"Other deposits" includes deposits with initial maturities of 10 months, 11 months and 24 months.

"Other" includes accounts of notary offices that are used to perform transactions with Mortgage Office.

(Amounts in LEK '000 unless otherwise stated)

21. OTHER LIABILITIES

Other liabilities are comprised of the following:

	As at December 31, 2019	As at December 31, 2018
Payments in transit	202,396	267,325
Other payables	71,074	47,377
Invoices to be received	37,129	40,647
Deferred income and accrued expenses	15,458	14,981
Advances from clients	30,923	71,523
Other provisions for risk and expenses	19,514	12,703
Loans from government	17,370	20,733
Total	**393,864**	**475,289**

Payments in transit represent outbound international money transfers with agreed settlement dates in the first days of the subsequent year.

The Bank, as part of the "Programme for Development of the Albanian Private Sector" received funds as a loan from Ministry of Economy for the purpose of financing projects of SME's in Albania. The amount under "Loans from government" represents the outstanding balance of such loans. This loan has an initial maturity of 5 years and bears interest of 0.5% p.a.

Provisions are held in respect of:

	As at December 31, 2019	As at December 31, 2018
Financial guarantee contract issued	12,861	10,471
Letters of credit	2,031	1,271
Provisions for risk and expenses	4,622	961
Total	**19,514**	**12,703**

The amount in respect of financial guarantee contract issued represent:

- As at 31 December 2019 the sum of: ECL provision of LEK 4,361 thousand and of LEK 8,500 thousand as a provision raised for a customer related to collateral of the guarantee issued.
- As at 31 December 2018 the sum of : ECL provision of LEK 1,971 thousand and of LEK 8,500 thousand as a provision raised for a customer related to collateral of the guarantee issued.

The amount in respect of letters of credit issued represents ECL provisions raised for these instruments.

Provisions for risk and expenses are recognized for possible losses arising from a legal process.

22. SHARE CAPITAL

At 31 December 2017, the subscribed capital of the Bank was divided into 2,097,143 shares (2018: 2,097,143 shares) with a nominal value of EUR 10 each, while the movements in the paid up share capital in 2019 and 2018 were as follows:

	31 December 2019		31 December 2018	
	No. of shares	Value of shares	No. of shares	Value of shares
Balance at the beginning of the year	2,097,143	2,717,813	2,097,143	2,717,813
Capital increase	-	-	-	-
Paid-up share capital	**2,097,143**	**2,717,813**	**2,097,143**	**2,717,813**

Group's share capital represents the paid in capital of the parent company of the group, the Bank. Share capital of subsidiaries, not eliminated upon consolidation is included in Legal and other Reserves.

(Amounts in LEK '000 unless otherwise stated)

22. SHARE CAPITAL (CONTINUED)

On 17 April 2019, Unioni Financiar Tirane ('UFT') and European Bank for Reconstruction and Development ('EBRD'), signed an agreement for the sale and purchase of the shares of EBRD by UFT. According to this agreement, the transfer of the said shares will be done in 6 tranches and is expected to be completed on 7 December 2021.

On 7 June 2019 and 12 December 2019, the sales and transfer agreements of the first and second tranche for the transfer of 70,714 shares from EBRD to UFT were signed (each tranche of 35,357 shares) and the structure of the subscribed capital changed as follows:

The structure of subscribed capital is as follows:

	2019	2018
Unioni Financiar Tirane (UFT) Sh.p.k	89.72%	86.34%
European Bank for Reconstruction and Development (EBRD)	6.74%	10.12%
Edmond Leka	1.77%	1.77%
Niko Leka	1.77%	1.77%

Paid-up share capital represents ordinary share capital and has no preferences or restrictions attached thereto.

Based on Shareholders' Decision of the Bank dated 5 July 2019 and of the Subsidiary dated 27 June 2019, during 2019 the following allocation of profit was made:

- The amount of LEK 230,477 thousand from the profit of 2018 of the Bank was allocated to the general reserve
- The amount of LEK 9,066 thousand from the profit of the Subsidiary was allocated to legal reserve
- The amount of LEK 90,665 thousand from the retained earnings of the Subsidiary was used to increase the contribution on share capital
- The amount of LEK 36,600 thousand was distributed as dividends.
- The remaining amount of this profit was decided to be retained for investments.

Based on Shareholders' Decision dated 28 June 2018, the profit of the year 2017 was decided to be retained to be used for investment purposes.

22.1. LEGAL AND OTHER RESERVE

Legal and other reserve is made of:

- The Legal reserve of LEK 289,471 thousand is created based on the Albanian law "On entrepreneurs and companies", and was calculated as at least 5% of the Group's earnings until the level of 10% of the basic capital was reached. The decisions to create these reserves were taken by the respective Shareholders of the Bank and the Subsidiary when allocating the profits of years 2014 and 2015 and 2018.
- General reserve, in the amount of LEK 230,477 thousand, was created through the 2018 profit allocation (as mentioned above), based on the Bank of Albania regulation on "Regulatory Capital". This reserve is required to be from 1.25% up to 2% of risk weighted assets of the Bank, is created by appropriation of 1/5 of yearly profit of the Bank and it can be used by the Bank for any unidentified risk in its activity. General reserve of the Bank was calculated as 1/5 of the profits of the years 2017 and 2018.
- Other reserves also include share capital of subsidiaries created from capitalization of their retained earnings, which becomes restricted for distribution after the legal increase in capital.

(Amounts in LEK '000 unless otherwise stated)

23. INTEREST INCOME

Interest income calculated using EIR was earned on the following assets:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Loans and advances to customers	1,821,847	1,474,487
Investment securities	930,413	871,336
Due from banks	18,857	12,461
Investment lease (Note 14.1.3)	503	-
Total	**2,771,620**	**2,358,284**

24. INTEREST EXPENSE

Interest expense calculated using EIR was incurred on the following liabilities:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Due to customers	428,015	328,914
Due to banks and financial institutions	32,290	17,103
Repurchase agreements	30,793	31,901
Lease liability (Note 14.1.2)	62,508	-
Other	39	46
Total	**553,645**	**377,964**

25. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Fee income earned from services that are provided over a certain period of time		
Account maintenance fees	68,452	56,660
Cards and E-banking maintenance fees	11,571	10,701
Letters of credit and bank guarantees	5,352	3,711
Fee income earned at a point of time		
Transfer and payment orders	154,288	136,082
Other banking services	85,916	72,318
Lending fees not part of effective interest rate	26,158	10,549
Total	**351,737**	**290,021**

26. FEE AND COMMISSION EXPENSES

Fees and commissions expense were comprised as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Banking services	44,361	37,251
Treasury operations	7,664	4,734
Other	13,024	11,522
Total	**65,049**	**53,507**

(Amounts in LEK '000 unless otherwise stated)

27. NET IMPAIRMENT LOSS OF FINANCIAL ASSETS

The table below summarizes the charge for ECL allowance for the year ended:

	Note	For the year ended December 31, 2019	For the year ended December 31, 2018
Charges for ECL on cash and Central Bank	8	(3,331)	962
Reversal of ECL on Due to Banks	9	7,234	(1,929)
Charges for ECL/Impairment loss on loans and advances to customers	11	193,641	63,371
Charges for ECL on investment securities	10	(33,952)	9,612
Charges for ECL on other financial assets	17	13,108	31,969
Charges for ECL on Guarantees and Letters of credit	36	3,225	294
Total		**179,925**	**104,279**

28. GAIN FROM SALE OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

On September 2018, the Group sold a small part of the bond portfolio issued by Albanian Government, in Eur (the "Note"), held at amortized cost with maturity on November 2020. The reason for such decision was to secure additional liquidity to acquire a larger portion of the new Note intended to be held for the full maturity. The Group satisfied the criteria to enjoy the Priority in Allocation set from Albanian Government through an offer (the "Offer") when issuing the new Eurobond (New Note) on October 2018, that was "A Noteholder that wishes to subscribe for New Notes in addition to tendering Notes for purchase pursuant to the Offer may request and receive priority in the allocation of the New Notes".

The carrying amount of the derecognized bond held at amortized cost was of LEK 315,085 thousand and the gain from that de-recognition was of LEK 23,734 thousand.

No such sale happened in 2019.

29. NET FOREIGN EXCHANGE RESULT

Net foreign exchange gain includes gains less losses from trading activities and foreign currency differences arising on open position revaluation. Net foreign exchange result in 2019 is gain of LEK 88,854 thousand (2018: loss of LEK 144,277 thousand). The effect of the open position revaluation at the year-end for the paid-up share capital (denominated in EUR) was loss of LEK 36,960 thousand (2018: loss of LEK 213,472 thousand).

30. PERSONNEL COSTS

	For the year ended December 31, 2019	For the year ended December 31, 2018
Salaries and other compensations	550,797	450,931
Social insurance	63,602	51,901
Total	**614,399**	**502,832**

As at 31 December 2019 the Group had 437 employees (2018: 384).

(Amounts in LEK '000 unless otherwise stated)

31. OTHER OPERATING EXPENSES

Other operating expenses were comprised as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Rent for short-term leases (Note 14.2)	32,399	208,973
Other external services	176,800	148,669
Premium insurance of deposits	169,059	132,976
Software maintenance	47,130	45,890
Security services	54,409	42,059
Marketing	42,484	36,684
Communication expenses	37,578	32,799
Consulting and Legal fees	19,670	33,261
Utilities energy, water etc.	27,214	23,842
Maintenance and repairs	23,973	13,495
Office supplies	12,917	12,280
Transportation and business trip expense	10,177	12,123
Insurance	11,902	9,092
Board remuneration	5,015	4,280
Representation	2,438	2,379
Trainings	1,390	1,726
Total	**674,555**	**760,528**

Other external services include expenses made for services related to debit and credit cards offered by MasteCard Europe SA, expenses for customization of cards, expenses made for local taxes, expenses made for personalized printing etc.

Rent expenses in 2019 relate to lease contract that did not meet the definition of a Right of use asset, while in 2018 rent expenses are relate to operational leases accounted under the previous lease standard.

The remuneration of the statutory auditor for the year ended December 31, 2019 was LEK 5,512 thousand inclusive of VAT and relates only to statutory audit and other audit related services, included in Consulting and Legal fees.

32. INCOME TAX

	For the year ended December 31, 2019	For the year ended December 31, 2018
Current tax expense	131,222	115,513
Deferred tax expense/(income)	7,295	(16,341)
Total tax expense	**138,517**	**99,172**

Income tax in Albania is assessed at the rate of 15% (2018: 15%) of taxable income.

The following represents a reconciliation of the accounting profit to the income tax:

	Effective Tax rate	2019	Effective Tax rate	2018
Profit before tax		**903,618**		**636,529**
Income tax at 15%	15.00%	135,543	15.00%	95,479
Non-deductible expenses	0.84%	7,576	0.64%	4,085
Income exempted from income tax	-0.51%	(4,602)	-0.06%	(392)
Income tax expense	**15.33%**	**138,517**	**15.58%**	**99,172**

(Amounts in LEK '000 unless otherwise stated)

32. INCOME TAX (continued)

The movement in deferred tax assets and liabilities is presented as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Deferred tax asset at the beginning of the year	30,085	19,794
Impact of adopting IFRS9- ECL on bonds	-	6,844
Recognized in profit or loss	(7,295)	3,447
Deferred tax asset at the end of the year	**22,790**	**30,085**
Deferred tax liability at the beginning of the year	-	-
Impact of adopting IFRS9- ECL on loans	-	12,894
Recognized in profit or loss	-	(12,894)
Deferred tax liability at the end of the year	**-**	**-**

Deferred tax assets and liabilities are attributable to the following items:

	2019	Recognized in Profit or loss	2018	Recognized in Profit or loss
Deferred tax asset:				
Effect of IFRS 16	1,388	1,388	-	-
Repossessed collateral	17,341	8,082	9,259	(348)
Investment property	1,598	(12,452)	14,050	5,469
ECL on bonds	424	(4,409)	4,833	(2,011)
Finance lease receivable	2,039	96	1,943	337
	22,790	**(7,295)**	**30,085**	**3,447**
Deferred tax liability:				
ECL on loans	-	-	-	(12,894)
	-	**-**	**-**	**(12,894)**

Based on the local accounting law, starting from 1 January 2008 the Group must report in accordance with IFRS. In addition, Law No. 10364, dated 16.12.2010 provides for certain amendments (effective as of 24 January 2011). Based on these amendments, the impairment allowances on loans and advances charged by banks in accordance with IFRS shall be considered as tax deductible expenses, provided that they are certified by the external auditors.

Income tax is prepaid to Albanian tax office in monthly installments. Due to application of elimination of double taxation treatment, income tax resulted from transactions with non-residents (foreign tax credit) is prepaid to nonresident authorities and is held from nonresidents in monthly installments. The table below shows the total amount due to tax authorities for income tax after taking into consideration the amount of it paid in respective years.

	2019	2018
Income tax payable as at 1 January	**31,456**	**14,066**
Income tax paid (due as at the end of previous year)	(31,959)	(14,066)
Income tax prepaid to Albanian tax office	(137,368)	(84,046)
Income tax prepaid by ICB before acquisition (Note 7)	(18,437)	-
Income tax prepaid to nonresidents (due to elimination of double taxation)	-	(11)
Current tax	131,222	115,513
Income tax (receivable)/payable as at 31 December	**(25,086)**	**31,456**

(Amounts in LEK '000 unless otherwise stated)

33. 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.

31 December 2019	Within 12 months	After 12 months	Total
Assets			
Cash and balances with Central Bank	6,949,157	-	6,949,157
Due from banks	4,875,990	213,101	5,089,091
Investment securities	5,806,302	16,995,897	22,802,199
Loans and advances to customers	9,650,132	18,841,244	28,491,376
Income tax receivable	25,086	-	25,086
Intangible assets	-	135,859	135,859
Property and equipment	-	430,963	430,963
Right-of-use asset	-	776,131	776,131
Investment property	-	419,395	419,395
Repossessed assets	6,490	384,656	391,146
Other assets	268,681	77,211	345,892
Deferred tax	-	22,790	22,790
Total assets	**27,581,838**	**38,297,247**	**65,879,085**
Liabilities			
Due to Central Bank	2,786,519	-	2,786,519
Due to banks and financial institutions	1,652,289	2,774,680	4,426,969
Due to customers	10,684,204	41,270,535	51,954,739
Lease liabilities	150,826	717,933	868,759
Other liabilities	369,346	24,518	393,864
Total liabilities	**15,643,184**	**44,787,666**	**60,430,850**
Net	**11,938,654**	**(6,490,419)**	**5,448,235**

31 December 2018	Within 12 months	After 12 months	Total
Assets			
Cash and balances with Central Bank	5,492,154	-	5,492,154
Due from banks	3,771,132	33,703	3,804,835
Investment securities	4,488,358	13,934,924	18,423,282
Loans and advances to customers	7,843,803	14,309,095	22,152,898
Intangible assets	-	127,611	127,611
Property and equipment	-	265,640	265,640
Investment property	-	396,458	396,458
Repossessed assets	29,195	260,291	289,486
Other assets	293,490	27,192	320,682
Deferred tax	-	30,085	30,085
Total assets	**21,918,132**	**29,384,999**	**51,303,131**
Liabilities			
Due to Central Bank	2,456,241	-	2,456,241
Due to banks and financial institutions	653,814	1,784,788	2,438,602
Due to customers	8,620,794	32,677,898	41,298,692
Other liabilities	443,824	31,465	475,289
Income tax payable	31,456	-	31,456
Total liabilities	**12,206,129**	**34,494,151**	**46,700,280**
Net	**9,712,003**	**(5,109,152)**	**4,602,851**

(Amounts in LEK '000 unless otherwise stated)

34. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	As at December 31, 2019	As at December 31, 2018
Cash on hand	1,567,522	1,295,036
Accounts with Central Bank	1,189,860	953,209
Financial instruments with maturity of 3 months or less	4,891,765	3,705,222
Total	**7,649,147**	**5,953,467**

35. RELATED PARTIES

Parties are considered to be related if one of them has the ability to control the other or exercise significant influence over the one making financial and operating decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not the merely to the legal form.

The Group has related party relationships with its shareholders and affiliates, directors and executive officers. The shareholding structure of the Group as at 31 December 2019 and 2018 is presented in Note 22. Unioni Financiar Tirane (UFT) Sh.p.k is the ultimate parent of the Group.

As at each reporting date the Group has the following balances with its related parties:

	As at December 31, 2019	As at December 31, 2018
Assets:		
Loans and advances to customers:		
Other Shareholders	8,016	6,060
Related entities	1,891,472	1,549,482
Key management personnel of the entity and their relatives	67,517	61,516
Other Assets:		
Parent company	121	151
Other Shareholders	4,797	2
Related entities	10,970	101
Key management personnel of the entity and their relatives	1	-
Liabilities:		
Due to banks and financial institutions:		
Parent company	625,925	709,600
Related entities	689,474	376,832
Other Shareholders	105,418	-
Due to customers:		
Other Shareholders	25,043	32,051
Related entities	456,216	422,194
Key management personnel of the entity and their relatives	268,399	239,071
Other Liabilities:		
Parent company	-	4
Other Shareholders	235	-
Related entities	23,278	15,593
Key management personnel of the entity and their relatives	-	116

(Amounts in LEK '000 unless otherwise stated)

35. RELATED PARTY TRANSACTIONS (CONTINUED)

Below is disclosed an information on ECL/ impairment allowances for loans and advances given to related parties:

	As at December 31, 2019	As at December 31, 2018
ECL/ Impairment allowance:		
Other Shareholders	93	73
Related entities	3,441	3,524
Key management personnel of the entity and their relatives	9,161	690

Loans to related entities in the amount of LEK 1,891,472 thousand (2018: LEK 1,549,482 thousand) are covered by cash collateral of LEK 1,286,235 thousand (2018: LEK 896,486 thousand) and the remaining balance is covered by other collaterals provided by the parent company and related entities.

The Group has entered into the following transactions with related parties:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Interest income:		
Parent company	-	-
Other Shareholders	179	123
Related entities	59,395	53,475
Key management personnel of the entity and their relatives	2,505	3,301
Interest expense:		
Parent company	383	11
Other Shareholders	4,461	302
Related entities	632	1,053
Key management personnel of the entity and their relatives	931	798
Fee and commission income:		
Parent company	1,072	2,033
Other Shareholders	122	169
Related entities	11,811	5,449
Key management personnel of the entity and their relatives	485	439
Operating income:		
Parent company	792	-
Related entities	1,216	1,074
Operating expense:		
Parent company	-	-
Other Shareholders	3,242	3,924
Related entities	161,257	154,971
Key management personnel of the entity and their relatives	94,760	88,564
Sale of Fixed assets:		
Related entities	-	1,816
Purchase of Fixed assets:		
Related entities	9,364	42,942

(Amounts in LEK '000 unless otherwise stated)

35. RELATED PARTY TRANSACTIONS (CONTINUED)

Off balance sheet commitments	As at December 31, 2019	As at December 31, 2018
Un-drawn credit facilities from the Bank:		
Other Shareholders	6,417	8,607
Related entities	36,486	64,432
Key management personnel of the entity and their relatives	7,839	11,453
Commitment received:		
Other Shareholders	121,770	246,840
Guarantees received:		
Parent company	217,988	220,942
Other Shareholders	30,446	43,049
Related entities	2,383,526	2,019,071
Key management personnel of the entity and their relatives	178,059	235,460
Guarantees given:		
Parent company	20	20
Related entities	87,200	4,142

36. COMMITTMENTS AND CONTINGENCIES

Commitments and contingencies include the following:

	2019	2018
Un-drawn credit facilities	1,212,707	1,263,451
Guarantees given in favor of customers	495,942	247,636
Commitments for LC	127,041	75,475
Allowance for impairment losses	(6,392)	(3,242)

Impairment losses above relate to guarantees and letters of credit. Provisions for undrawn credit facilitates are part of the provisions for loans and advances to customers as discussed in note 4.12.4.

Guarantees and commitments

The Group issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted.

An analysis of changes in gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	247,636	-	-	247,636
New assets originated or purchased	406,187	-	-	406,187
Assets de-recognised or repaid	(155,864)	-	-	(155,864)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(2,017)	-	-	(2,017)
Total	**495,942**	**-**	**-**	**495,942**

(Amounts in LEK '000 unless otherwise stated)

36. COMMITMENTS AND CONTIGENCIES (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019 under IFRS 9	1,971	-	-	1,971
New assets originated or purchased	4,077	-	-	4,077
Assets de-recognised or repaid	(1,637)	-	-	(1,637)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(50)	-	-	(50)
Total	**4,361**	**-**	**-**	**4,361**

An analysis of changes in gross carrying amount and the corresponding ECL allowances for Commitments for Letters of Credit given to customers is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	75,475	-	-	75,475
New assets originated or purchased	127,040	-	-	127,040
Assets de-recognised or repaid	(74,466)	-	-	(74,466)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(1,008)	-	-	(1,008)
Total	**127,041**	**-**	**-**	**127,041**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019 under IFRS 9	1,271	-	-	1,271
New assets originated or purchased	2,052	-	-	2,052
Assets de-recognised or repaid	(1,267)	-	-	(1,267)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(25)	-	-	(25)
Total	**2,031**	**-**	**-**	**2,031**

Commitments for un-drawn credit facilities represent the undrawn balances of loans, overdraft and card limits granted to the customers.

Legal

The Group was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2019. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Group's management is of the opinion that no material losses will be incurred in relation to legal claims.

36. COMMITMENTS AND CONTIGENCIES (CONTINUED)

Operating lease commitments

As at the end of 2018 the Group has entered into non-cancelable lease commitments. Such commitments were composed as follows:

	2018
Not later than one year	113,702
Between one and five years	12,198
More than five years	4,828
Total	**130,728**

37. FINANCIAL RISK

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

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems.

The most important types of risk are discussed further.

37.1. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Each of the Group entities manages the Credit risk based on the policies approved by the respective Board of Directors. The Bank Credit Committee and the Lease Committee for the Subsidiary are responsible for the management of the Group's entities credit risk. Credit risk is operationally managed and monitored by the respective entities credit risk departments. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Each business unit is required to implement credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Department and Credit Committee or Subsidiary Lease Committee, based on the respective Credit Policies. Each business unit has a responsible officer who reports on all credit related matters to heads of departments and the Bank Credit Committee or Subsidiary Lease Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval, as well as de-centralized loans.

The Group entities have established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. The credit quality review process aims to allow the Group entities to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Based on the policies approved by the Board of Directors, the Bank's Assets and Liabilities Management Committee ("ALCO") is responsible for the management of the credit risk related to investments in securities. In addition, the Treasury Department, Reporting to the Bank Chief Financial Officer and a separate Bank Risk Management Department, reporting to the Bank Chief Executive Officer are also responsible for monitoring of the Bank's credit risk related to investments in securities.

In addition, regular annual audits of business units and Group entities credit processes, and the Bank treasury department are undertaken by Internal Audit.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.1. Credit related commitments risk

The Group makes available to its customers guarantees that may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

37.1.2. Impairment assessment

37.1.2.1. Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Significant financial difficulties of the obligor/guarantor or information in relation to the probability of a bankruptcy or other financial re-organization;
- Legal actions started for the borrower from the state authorities, etc.;
- The disappearance of an active market where the borrower had a market share because of financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of customers with the same characteristics, although the decrease cannot yet be identified with any individual customer in such group;
- Counterparty rating category (for International Banks & Sovereigns): Default rating;
- Restructured/ Forborne during the first 12 months of the restructuring period, being in underperforming status (up to 90 DPDs).

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on a set of criteria, at the time of the cure.

37.1.2.2. Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition.

The Group considers both quantitative and qualitative criteria in order to assess whether significant increase in credit risk has occurred, for staging purposes. The Group defines criteria that are indicative of a significant increase in credit risk. The Group has set different indicators to demonstrate the priority of indicators used to assess whether significant increase in credit risk has occurred, such indicators/criteria address the significant increase of credit risk for loans (divided in business and retails) and investment in securities (divided in sovereign and corporate). Despite their priority, all criteria have the same weight in the assessment process for significant increase in credit risk.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.2.2 Significant increase in credit risk (continued)

Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

37.1.2.3. Individual vs. Collective

As explained in Note 4.12.1 dependant on the factors below, the Group calculates ECLs either on a collective or an individual basis.

Assets classes where the Group calculates ECL on individual basis include:

- All Stage 3 assets, regardless the class of financial asset
- Loan business customers being in Stage 3, with an aggregate exposure above 50 thousand Eur
- Loans given to individuals being in Stage 3, with an exposure above 50 thousand Eur
- The treasury and interbank relationships (such as Due from Banks, Investment securities)
- Exposures that have been classified as POCI when the original loan was de-recognised and a new loan was recognised as a result of a credit driven debt restructuring

Asset classes where the Group calculates ECL on a collective basis include:

- Stage 1 and 2 categories of lending;
- Stage 3 loans, with the o/s exposure below 50k Euro;
- Purchased POCI exposures managed on a collective basis

The Group groups these exposures into smaller homogeneous portfolios based on exposure value per business lending and on product type for lending to individuals.

37.1.3. Impairment model

37.1.3.1. Expected loss parameters

37.1.3.1.1. PD estimation

PDs for loan exposure to customers are calculated from the transition matrices, which are built based on the past behavior of a specified portfolio (i.e. portfolios that share credit risk characteristics). Transition matrices are calculated at "customer level" for business' exposures (considering the worse status among different loan accounts) and at "product level" for individuals' exposure (specific product approach). Considering homogeneity of the exposures and concentration factors, calculations have been made based on amount level for business customers' exposures and on account level for individuals' ones.

For Stage 1 exposures PD is calculated as the portion of the portfolio falling under default definition over a defined period of time (one year).

Lifetime cumulative unadjusted PD is derived by utilizing Markov Chain assumption to power 1 year relative transition matrix as many time as the maximum remaining maturity of the loans in the respective classes that share the same credit risk.

Marginal lifetime PDs (used in Stage 2 portfolios) are calculated as a difference of the two consecutive cumulative PDs.

For treasury exposures, the Bank's risk department analyses publicly available information such as financial information and other external data, e.g., the rating of Good Rating Agency, and assigns the internal rating.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.3 Impairment model (continued)

37.1.3.1 Expected loss parameters (continued)

37.1.3.1.2. Forward looking adjustment of lifetime marginal PD

IFRS 9 requires considering forward-looking elements; forecast of future economic conditions that are relevant to estimating PD and ECL. The future economic conditions are captured through forecasts of macroeconomic data available in the Group or through publicly available data sources.

In order to apply a forward looking perspective and potential effect on life-time PDs, a statistical exercise has been performed measuring the relationship among different macroeconomic parameters based on Albanian available data. The macroeconomic indicators available being considered in the model are GDP, inflation rate and unemployment rate. The above indicators are modeled against the total banking system Non Performing Loans ('NPL') rate (%). Each of the relationship had been modeled through linear regression, specifically NPL – GDP, NPL – Inflation rate, NPL – Unemployment rate. The correlations among parameters have been calculated. Considering the above linear regression model among NPLs and different variables, only GDP resulted statistically important. By weighting the impact of the Baseline, Downturn and Upturn scenarios, the Group calculated the weighted forward-looking effect. So the Group determined a forecasted correction factor for marginal PD, based in which the PD curve should be adjusted, and the number of years after which the forecasted marginal PD curve will converge to the original (unadjusted) curve.

37.1.3.1.3. Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. The Group's modeling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles and changes in utilization of undrawn commitments.

37.1.3.1.4. Loss Given Default

Loss Given Default (LGD) represents the estimated of the loss arising on a default event. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including flows from any collateral.

For loans to customers, for each of the defined categories of loans the Group calculates LGD based on this formula LGD = 1 – RR (where RR = "Recovery Rate") which includes Cash Payment Rate and Collateral consideration.

Cash Payment Rate is the percentage of the loans repaid in cash from customers on each year after entering into the default zone, calculated over the outstanding exposure in default at the year they entered into default. For each category of loans, an average yearly recovery rate is calculated. These yearly average rates are then used in LGDs as per specific Stage.

The Group takes into consideration only real estate properties while calculating the ECLs of the respective portfolios. To come to the recovery rates by types of collaterals, the Group has analyzed the time and realization value of collaterals repossessed for the loans once being in default zone. These "recoveries" are then discounted to find out PV of collateral held as pledge.

The Group calculates LGDs for exposures on securities, with Bank of Albania and money market placements, using the same publications of Good Rating Agencies.

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.4. Analysis of credit quality

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed. Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 4.8.7.1.

	As at 31 December 2019					As at 31 December 2018
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Cash and Central Bank						
Low- fair risk	6,950,498	-	-	-	6,950,498	5,496,272
Less: allowance	(1,341)	-	-	-	(1,341)	(4,118)
Carrying amount	**6,949,157**	**-**	**-**	**-**	**6,949,157**	**5,492,154**

	As at 31 December 2019					As at 31 December 2018
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Due from banks						
Low- fair risk	5,105,325	-	-	-	5,105,325	3,813,196
Less: allowance	(16,234)	-	-	-	(16,234)	(8,361)
Carrying amount	**5,089,091**	**-**	**-**	**-**	**5,089,091**	**3,804,835**

	As at 31 December 2019					As at 31 December 2018
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Investment securities						
Low- fair risk	354,844	-	-	-	354,844	610,773
Monitoring	22,474,004				22,474,004	17,867,471
Less: allowance	(26,649)	-	-	-	(26,649)	(54,962)
Carrying amount	**22,802,199**	**-**	**-**	**-**	**22,802,199**	**18,423,282**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.4. Analysis of credit quality (continued)

					As at 31 December 2019	As at 31 December 2018
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Loans and advances						
Low- fair risk	25,030,133	654,764	65,006	-	25,749,903	20,167,785
Monitoring	203,208	893,067	276,358	-	1,372,633	1,421,757
Substandard	-	326,626	767,317	-	1,093,943	324,437
Doubtful	-	-	575,543	-	575,543	537,001
Lost	-	-	1,701,275	-	1,701,275	1,251,519
Less: allowance	(313,323)	(70,898)	(1,617,700)	-	(2,001,921)	(1,549,601)
Carrying amount	**24,920,018**	**1,803,559**	**1,767,799**	**-**	**28,491,376**	**22,152,898**

					As at 31 December 2019	As at 31 December 2018
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Financial guarantees and other commitments						
Low- fair risk	1,835,690	-	-	-	1,835,690	1,586,561
Less: allowance	(6,392)	-	-	-	(6,392)	(3,242)
Carrying amount	**1,829,298**	**-**	**-**	**-**	**1,829,298**	**1,583,319**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.5. Analysis of risk concentrations

The following table shows the risk concentration by industry for the components of the statement of financial position, before collateral held or other credit enhancements and net of impairment:

As at 31 December 2019	Financial services	Government	Consumers	Retail and wholesale	Construction	Services	Agriculture and processing industries	Total
Cash on hand and Central Bank	6,949,157	-	-	-	-	-	-	6,949,157
Due from banks	5,089,091	-	-	-	-	-	-	5,089,091
Investment securities	268,383	22,426,054	-	-	-	107,762	-	22,802,199
Loans and advances to customers								
Lending to businesses	*1,302,599*	-	-	3,817,967	3,133,595	5,736,528	1,342,360	*15,333,049*
Consumer lending	-	-	*4,379,383*	-	-	-	-	*4,379,383*
Overdrafts and credit cards	-	-	*285,631*					*285,631*
Mortgage Lending	-	-	*7,358,484*	-	-	-	-	*7,358,484*
Financial Lease	-	-	*110,349*	*277,551*	*71,169*	*577,216*	*98,544*	*1,134,829*
Total Loans and advances to customers	1,302,599	-	12,133,847	4,095,518	3,204,764	6,313,744	1,440,904	28,491,376
	13,609,230	**22,426,054**	**12,133,847**	**4,095,518**	**3,204,764**	**6,421,506**	**1,440,904**	**63,331,823**
Financial guarantees	1,237	-	1,750	107,687	144,000	236,655	252	491,581
Standby letters of credit	-	-	-	-	66,431	-	58,579	125,010
Commitments to extend credit	117,808	-	500,378	221,088	112,199	220,658	40,576	1,212,707
	119,045	**-**	**502,128**	**328,775**	**322,630**	**457,313**	**99,407**	**1,829,298**
Total	**13,728,275**	**22,426,054**	**12,635,975**	**4,424,293**	**3,527,394**	**6,878,819**	**1,540,311**	**65,161,121**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.5. Analysis of risk concentrations (continued)

As at 31 December 2018	Financial services	Government	Consumers	Retail and wholesale	Construction	Services	Agriculture and processing industries	Total
Cash on hand and Central Bank	5,492,154	-	-	-	-	-	-	5,492,154
Due from banks	3,804,835	-	-	-	-	-	-	3,804,835
Investment securities	248,132	18,002,322	-	63,309	-	109,519	-	18,423,282
Loans and advances to customers								
Lending to businesses	*837,613*	-	-	*3,642,751*	*2,526,182*	*3,999,620*	*804,475*	*11,810,641*
Consumer lending	-	-	*2,974,423*	-	-	-	-	*2,974,423*
Overdrafts and credit cards	-	-	*269,423*					*269,423*
Mortgage Lending	-	-	*6,040,739*	-	-	-	-	*6,040,739*
Financial Lease	*4,471*	-	*113,099*	*274,770*	*82,746*	*513,973*	*68,613*	*1,057,672*
Total Loans and advances to customers	842,084	-	9,397,684	3,917,521	2,608,928	4,513,593	873,088	22,152,898
	10,387,205	**18,002,322**	**9,397,684**	**3,980,830**	**2,608,928**	**4,623,112**	**873,088**	**49,873,169**
Financial guarantees	1,254	-	1,450	26,357	65,645	150,928	31	245,665
Standby letters of credit	-	-	-	-	-	-	74,203	74,203
Commitments to extend credit	162,313	-	503,948	225,363	184,262	121,726	65,839	1,263,451
	163,567	**-**	**505,398**	**251,720**	**249,907**	**272,654**	**140,073**	**1,583,319**
Total	**10,550,772**	**18,002,322**	**9,903,082**	**4,232,550**	**2,858,835**	**4,895,766**	**1,013,161**	**51,456,488**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.5. Analysis of risk concentrations (continued)

Exposure to credit risk is also managed in part by obtaining collateral and guarantees. The principal collateral types are:

- Mortgage over residential properties
- Pledges over business assets and inventories
- Deposits and accounts placed (cash collateral)
- Personal guarantee for the loan

In addition to the term loans and business overdrafts that are secured by the above type of collateral, overdrafts on payroll accounts are extended to individuals as well. No pledges are taken for these advances as the monthly salary offsets the used part of the limit given. Financial guarantees and stand-by letters of credit are collateralized by mortgage over residential properties and cash collateral.

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Group 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 agreement(s).

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security, collateral available and / or the stage of collection of amounts owed to the Group.

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 Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independently from eventual satisfactory performance after restructuring.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. It consists in the specific loss component that relates to individually significant exposures.

Credit impaired loans and advances

The credit impaired loans and advances before taking into consideration the cash flows from collateral held is LEK 2,441,497 thousand (2018: LEK 2,515,971 thousand).

The breakdown of the gross book value of the individually impaired loans and advances by class, along with the fair value of the collateral held by the Bank as security, are as follows:

31 December 2019	**Over-collateralized portfolio**		**Under-collateralized portfolio**	
	Credit impaired loans	**Fair value of collateral**	**Credit impaired loans**	**Fair value of collateral**
Mortgage Lending	398,675	943,817	8,085	-
Personal loans	172,642	618,765	243,940	8,891
Overdrafts and credit cards	24,625	238,346	49,294	632
Loans to businesses	1,590,556	4,120,318	807,644	48,975
Financial Lease	90,045	215,809	-	-
Total	**2,276,543**	**6,137,055**	**1,108,963**	**58,498**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.5. Analysis of risk concentrations (continued)

31 December 2018	Over-collateralized portfolio		Under-collateralized portfolio	
	Credit impaired loans	Fair value of collateral	Credit impaired loans	Fair value of collateral
Mortgage Lending	202,620	704,692	19,308	11,162
Personal loans	73,867	415,501	179,330	6,531
Overdrafts and credit cards	308	357	56,094	386
Loans to businesses	984,992	3,814,395	924,978	174,184
Financial Lease	74,479	74,479	-	-
Total	**1,336,266**	**5,009,424**	**1,179,710**	**192,263**

Loans and advances renegotiated

Restructuring activities include extended payment agreements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with other similar accounts. The total restructured portfolio during 2019 is LEK 340,448 thousand (2018: LEK 374,911 thousand). In recent years, management decided to increasingly use loan restructuring for certain borrowers that are facing financial difficulties with negative impact in their cash flows, when the restructuring is deemed to increase the probability that the borrower will be able to repay the credit exposure and the new payment plan is in line with the actual and expected future payment capacity of the borrower.

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Risk Committee determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The total amount written off during 2019 is LEK 58,991 thousand (2018: LEK 21,166 thousand).

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The collateral structure of loans in different stages is presented below.

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Property	46,935,028	3,607,927	4,956,909	55,499,864
Pledge	10,325,446	549,680	1,232,372	12,107,498
Cash	2,792,748	26,678	6,272	2,825,698
Total	**60,053,222**	**4,184,285**	**6,195,553**	**70,433,060**

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Property	34,105,499	3,556,577	4,764,106	42,426,182
Pledge	7,446,038	1,397,057	431,425	9,274,520
Cash	1,853,229	14,548	6,151	1,873,928
Total	**43,404,766**	**4,968,182**	**5,201,682**	**53,574,630**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1.5. Analysis of risk concentrations (continued)

The table below shows the breakdown of the carrying amount of loans and advances given to customers and financial institution by ranges of their collateral coverage:

31 December 2019	Over-collateralized portfolio		Under-collateralized portfolio	
	Carrying amount of portfolio	Fair value of collateral	Carrying amount of portfolio	Fair value of collateral
Mortgage Lending	6,507,675	17,514,387	1,014,313	510,891
Personal loans	2,279,244	6,122,201	2,423,494	80,521
Overdrafts and credit cards	44,468	270,004	309,201	921
Loans to businesses	13,407,532	42,841,745	3,341,658	1,524,503
Financial Lease	1,165,712	1,567,887	-	-
Total	**23,404,631**	**68,316,224**	**7,088,666**	**2,116,836**

31 December 2018	Over-collateralized portfolio		Under-collateralized portfolio	
	Carrying amount of portfolio	Fair value of collateral	Carrying amount of portfolio	Fair value of collateral
Mortgage Lending	5,203,025	14,534,542	912,883	389,740
Personal loans	1,244,071	4,043,894	1,947,272	78,014
Overdrafts and credit cards	20,295	67,453	298,279	824
Loans to businesses	10,244,907	32,852,683	2,736,113	353,829
Financial Lease	1,095,654	1,253,651	-	-
Total	**17,807,952**	**52,752,223**	**5,894,547**	**822,407**

37.2. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments, and, in general to retain continuity of its core business lines.

For the Bank

On an operational basis, the Bank monitors the performance of its customer deposits, and on that basis adjusts the balance of its current assets' access to funding, in order to maintain a satisfactory payment capability. On a more strategic level, the Bank through its Asset and Liability Committee ("ALCO") manages this risk by continually monitoring expected cash flows from financial instruments and adjusting its investments to match the timing of payments and receipts.

When an operating branch is subject to a liquidity limit imposed, the branch is responsible for managing its overall liquidity within regulatory limit in co-ordination with Bank's Treasury Department. Treasury Department monitors compliance for all operating branches with limits set on daily basis.

All liquidity policies and procedures are subject to annual review and approval by Board and ALCO respectively. Daily reports cover the liquidity position of both the Bank and operating branches.

The Bank relies on deposits from customer and banks, Repos and short term borrowings as its primary source of funding. The short term nature of this source of funding increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

One of the key measures used by the Bank for managing liquidity risk is the ratio of liquid assets to short term liabilities. This ratio was within the limits set by Central Bank in each and all currencies converted for the period.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.2 Liquidity risk (continued)

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

The monitoring and control function for the Bank's investments are performed by ALCO. Bank's ALCO policy includes sets of daily, weekly and monthly reports to be prepared and analyzed. Daily report, "Liquidity Position Report", controls respectively daily inflows/outflows of liquidity till 1-year maturity, under business usual scenario. Monthly reports include ratio, gap and simulated gap analyses under separate bank specific and market crisis scenarios. Reports are produced for each single currency LEK, USD and EUR and for the total assets and liabilities as well. Specific limits are set and monthly monitored on liquidity and simulated maturity gap result.

For the Subsidiary

The Subsidiary approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Subsidiary and Group reputation.

One of the key measures used by the Subsidiary for managing liquidity risk is the ratio of liquid assets to short term liabilities. In addition, the Subsidiary have in place approved credit lines and overdrafts from the Bank, to ensure the raise of the funds when needed.

The Supervisory Board reviews the liquidity situation of the Subsidiary frequently and makes appropriate recommendations.

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.2 Liquidity risk (continued)

An analysis of the maturity profile of the remaining undiscounted contractual cash flows of the Group's financial assets and liabilities is as follows:

31 December 2019	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with Central Bank	3,476,677	-	-	-	-	-	**3,476,677**
Due from banks	4,770,028	121,817	98,192	24,548	-	34,804	**5,049,389**
Investment securities	294,839	1,205,001	2,008,487	3,038,385	13,791,347	6,422,550	**26,760,609**
Loans and advances to customers	2,482,462	1,644,665	2,635,973	5,012,380	15,391,881	9,242,932	**36,410,293**
Income tax receivable	26,310	-	-	-	-	-	**26,310**
Other assets	174,717	1,948	2,922	5,845	46,760	58,084	**290,276**
Total undiscounted financial assets	**11,225,033**	**2,973,431**	**4,745,574**	**8,081,158**	**29,229,988**	**15,758,370**	**72,013,554**
Liabilities							
Due to Central Bank	1,623,497	1,165,353	-	-	-	-	**2,788,850**
Due to banks and Financial institutions	2,700,674	634,289	272,052	584,524	250,584	-	**4,442,123**
Due to customers	19,752,561	3,334,088	3,442,012	12,874,481	13,352,976	-	**52,756,118**
Lease liability	17,471	34,927	52,377	104,663	672,310	198,929	**1,080,677**
Other liabilities	341,522	771	771	804	12,405	2,722	**358,995**
Total undiscounted financial liabilities	**24,435,725**	**5,169,428**	**3,767,212**	**13,564,472**	**14,288,275**	**201,651**	**61,426,763**
Net undiscounted financial assets/liabilities	**(13,210,692)**	**(2,195,997)**	**978,362**	**(5,483,314)**	**14,941,713**	**15,556,719**	**10,586,791**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.2 Liquidity risk (continued)

31 December 2018	Up to 1 month	1 to 3 months	3 to 6 Months	6 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with Central Bank	3,298,102	-	-	-	-	-	**3,298,102**
Due from banks	3,581,837	123,482	74,052	-	-	33,879	**3,813,250**
Investment securities	897,462	841,887	1,106,586	2,091,451	9,783,281	7,385,155	**22,105,822**
Loans and advances to customers	2,443,458	1,212,408	1,711,506	3,939,934	11,627,770	7,177,405	**28,112,481**
Other assets	269,434	-	-	-	-	665	**270,099**
Total undiscounted financial assets	**10,490,293**	**2,177,777**	**2,892,144**	**6,031,385**	**21,411,051**	**14,597,104**	**57,599,754**
Liabilities							
Due to Central Bank	845,304	1,615,988	-	-	-	-	**2,461,292**
Due to banks and Financial institutions	1,648,130	-	109,950	382,690	312,121	-	**2,452,891**
Due to customers	17,009,413	2,085,360	2,597,019	9,250,115	11,147,690	-	**42,089,597**
Other liabilities	426,872	1,915	791	1,582	11,813	5,900	**448,873**
Income tax payable	-	31,456	-	-	-	-	**31,456**
Total undiscounted financial liabilities	**19,929,719**	**3,734,719**	**2,707,760**	**9,634,387**	**11,471,624**	**5,900**	**47,484,109**
Net undiscounted financial assets/liabilities	**(9,439,426)**	**(1,556,942)**	**184,384**	**(3,603,002)**	**9,939,427**	**14,591,204**	**10,115,645**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.2 Liquidity risk (continued)

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

31 December 2019	Up to 1 month	1 to 3 months	3 to 6 Months	6 to 12 months	1 to 5 years	Over 5 years	Total
Financial Guarantees	5,480	127,786	118,277	145,014	99,062	323	**495,942**
Letters of credit	12,392	31,209	83,440	-	-	-	**127,041**
Other undrawn commitments to lend	43,866	118,192	79,628	858,124	112,897	-	**1,212,707**
Total Commitments and guarantees	**61,738**	**277,187**	**281,345**	**1,003,138**	**211,959**	**323**	**1,835,690**

31 December 2018	Up to 1 month	1 to 3 months	3 to 6 Months	6 to 12 months	1 to 5 years	Over 5 years	Total
Financial Guarantees	18,078	16,078	97,167	17,563	98,725	25	**247,636**
Letters of credit	45,044	30,431	-	-	-	-	**75,475**
Other undrawn commitments to lend	104,020	26,074	74,832	922,935	135,590	-	**1,263,451**
Total Commitments and guarantees	**167,142**	**72,583**	**171,999**	**940,498**	**234,315**	**25**	**1,586,562**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3. Market risk

The Group is exposed to the market risk whenever the fair value or future cash flows of a financial instrument fluctuates due to changes in market prices. Market risks arise from open positions in interest rates and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. As the currency in which the Group presents its consolidated financial statements is the LEK, the Group's consolidated financial statements are affected by movements in the exchange rates between the LEK and other currencies.

The Group's transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of profit or loss and other comprehensive income. The monitoring and control function for the Bank's currency risk are performed by CFO and Risk Management Department on a daily basis and part of ALCO responsibilities. Bank's ALCO policy includes sets of daily reports that are prepared and analyzed. The Bank has set internal open foreign currency limits which are way below the regulatory limits. Such limits are daily monitored and respected.

These exposures comprise the monetary assets and liabilities of the Group that are not denominated in the measurement currency of the Group. The applicable exchange rates for the principal currencies are as follows:

	2019	**2018**
EUR:LEK	121.77	123.42
USD:LEK	108.64	107.82

The analysis of monetary assets and liabilities as at 31 December 2019 and 2018 by the foreign currencies in which they were denominated is shown below:

31 December 2019	**LEK**	**USD**	**EUR**	**Other**	**Total**
Assets					
Cash and balances with Central Bank	1,600,446	373,051	4,577,163	398,497	6,949,157
Due from banks	7,946	1,352,620	3,139,307	589,218	5,089,091
Investment securities	20,458,492	268,680	1,988,922	86,105	22,802,199
Loans and advances to customers	8,176,922	368,723	19,945,731	-	28,491,376
Income tax receivable	25,086	-	-	-	25,086
Other assets	103,478	1,473	151,608	98	256,657
Total	**30,372,370**	**2,364,547**	**29,802,731**	**1,073,918**	**63,613,566**
Liabilities					
Due to Central Bank	2,786,519	-	-	-	2,786,519
Due to banks and financial institutions	1,848,977	103,804	2,460,985	13,203	4,426,969
Due to customers	24,713,660	1,857,356	24,452,939	930,784	51,954,739
Lease liability	37,914	16,335	814,510	-	868,759
Other liabilities	116,306	42,193	191,795	8,598	358,892
Total	**29,503,376**	**2,019,688**	**27,920,229**	**952,585**	**60,395,878**
Net commitments and Foreign Exchange Spot	162,862	277,074	(221,185)	(123,862)	**94,889**
Net Position	**1,031,856**	**621,933**	**1,661,317**	**(2,529)**	**3,312,577**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Market risks (continued)

Currency risk (continued)

31 December 2018	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with Central Bank	1,939,700	253,865	3,139,965	158,624	**5,492,154**
Due from banks	2,464	559,519	2,627,452	615,400	**3,804,835**
Investment securities	16,459,304	484,493	1,479,485	-	**18,423,282**
Loans and advances to customers	5,672,374	79,871	16,400,653	-	**22,152,898**
Other assets	123,820	454	42,848	70	**167,192**
Total	**24,197,662**	**1,378,202**	**23,690,403**	**774,094**	**50,040,361**
Liabilities					
Due to Central Bank	2,456,241	-	-	-	**2,456,241**
Due to banks and financial institutions	956,297.44	45,400	1,416,483	20,422	**2,438,602**
Due to customers	19,872,896	1,392,062	19,292,655	741,078	**41,298,691**
Other liabilities	184,666	12,518	258,838	4,286	**460,308**
Income tax payable	31,456	-	-	-	**31,456**
Total	**23,501,556**	**1,449,980**	**20,967,976**	**765,786**	**46,685,298**
Net commitments and Foreign Exchange Spot	105,479	269,261	(127,330)	(12,277)	**235,133**
Net Position	**801,585**	**197,483**	**2,595,097**	**(3,969)**	**3,590,196**

Interest rate risk

Interest rate risk ("IRR") is defined as the sensitivity of the Group's earnings and equity to changes in the market interest rates. IRR in the banking book refers to the current or prospective risk to the Group's capital and earnings from adverse movements in interest rates that affect the Group's banking book position. When interest change, the present value and timing of future cash flows change.

The Group attempts to mitigate this risk by maintaining the Repricing Gap fully matched, so that both its assets and liabilities mature and re-price simultaneously. This limits the risk of the Group becoming over-sensitive to interest rate changes.

The Group's interest rate gap as at 31 December 2019 is analyzed below. As at 31 December 2019, majority of the Group's short-term financial assets and liabilities, except for the loan portfolio, carry fixed interest rates.

i. Interest rate information

The weighted average interest rates of significant categories of financial assets and liabilities of the Group were as follows:

	Weighted average interest rate							
	LEK		**USD**		**EUR**		**Other**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Assets:								
Statutory reserves	0.70%	0.70%	N/A	N/A	-0.40%	-0.40%	N/A	N/A
Due from banks	N/A	N/A	N/A	N/A	0.15%	0.15%	N/A	N/A
Investment securities	4.64%	5.06%	3.35%	3.69%	4.23%	4.29%	1.38%	N/A
Loans to customers	8.14%	8.65%	5.43%	6.63%	4.99%	5.14%	N/A	N/A
Liabilities:								
Due to banks	1.67%	2.06%	0.98%	N/A	0.53%	0.30%	N/A	N/A
Due to customers	2.18%	2.04%	1.01%	0.8%	0.55%	0.49%	0.32%	0.31%
T-Bills under Repos	1.45%	1.2%	N/A	N/A	N/A	N/A	N/A	N/A

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Market risks (continued)

Interest rate risk (continued)

ii. Interest rate repricing analysis

The following table presents the interest rate repricing dates for the Group's assets and liabilities. Variable-rate assets have been reported according to their next rate revision date. Fixed-rate assets and liabilities have been reported according to their scheduled principal repayment dates.

31 December 2019	Up to 1 month	1-3 Month	3-6 Months	6-12 Months	Over 1 year	Non-interest bearing	Total
Assets							
Cash and balances with Central Bank	5,098,364	-	-	-	-	1,850,793	**6,949,157**
Due with banks	844,628	121,770	-	-	-	4,122,693	**5,089,091**
Investment securities	302,237	1,299,754	1,976,392	3,797,983	15,105,526	320,307	**22,802,199**
Loans and advances to customers	1,434,667	3,104,409	5,468,126	11,511,684	9,074,902	(2,102,412)	**28,491,376**
Income tax receivable	-	-	-	-	-	25,086	**25,086**
Other assets	476	960	1,462	3,004	76,602	174,153	**256,657**
Total	**7,680,372**	**4,526,893**	**7,445,980**	**15,312,671**	**24,257,030**	**4,390,620**	**63,613,566**
Liabilities							
Due to Central Bank	1,622,482	1,162,224	-	-	-	1,813	**2,786,519**
Due to banks and financial institutions	905,271	632,677	254,190	509,242	343,486	1,782,103	**4,426,969**
Due to customers	5,392,258	3,637,035	3,961,032	13,760,287	21,051,998	4,152,129	**51,954,739**
Lease liability	12,353	24,539	37,368	76,757	717,742	-	**868,759**
Other liabilities	-	771	771	771	15,057	341,522	**358,892**
Total	**7,932,364**	**5,457,246**	**4,253,361**	**14,347,057**	**22,128,283**	**6,277,567**	**60,395,878**
Gap	**(251,992)**	**(930,353)**	**3,192,619**	**965,614**	**2,128,747**	**(1,886,947)**	**3,217,688**
Cumulative gap	**(251,992)**	**(1,182,345)**	**2,010,274**	**2,975,888**	**5,104,635**	**3,217,688**	**-**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Market risks (continued)

Interest rate risk (continued)

31 December 2018	**Up to 1 month**	**1-3 Month**	**3-6 Months**	**6-12 Months**	**Over 1 year**	**Non-interest bearing**	**Total**
Assets							
Cash and balances with Central Bank	3,378,895	-	-	-	-	2,113,259	**5,492,154**
Due with banks	3,545,188	123,438	-	-	-	136,209	**3,804,835**
Investment securities	811,716	877,695	943,426	2,075,282	13,527,853	187,310	**18,423,282**
Loans and advances to customers	5,043,362	1,932,744	3,307,590	5,938,293	7,589,087	(1,658,178)	**22,152,898**
Other assets	-	-	-	-	-	167,192	**167,192**
Total	**12,779,161**	**2,933,877**	**4,251,016**	**8,013,575**	**21,116,940**	**945,792**	**50,040,361**
Liabilities							
Due to Central Bank	842,790	1,611,139	-	-	-	2,312	**2,456,241**
Due to banks and financial institutions	187,831	-	109,444	378,310	293,800	1,469,217	**2,438,602**
Due to customers	12,814,086	2,013,742	2,604,638	9,100,697	10,478,686	4,286,843	**41,298,692**
Other liabilities	-	781	781	1,563	17,608	426,872	**447,605**
Income tax payable	-	-	-	-	-	31,456	**31,456**
Total	**13,844,707**	**3,625,662**	**2,714,863**	**9,480,570**	**10,790,094**	**6,216,700**	**46,672,596**
Gap	**(1,065,546)**	**(691,785)**	**1,536,153**	**(1,466,995)**	**10,326,846**	**(5,270,908)**	**3,367,765**
Cumulative gap	**(1,065,546)**	**(1,757,331)**	**(221,178)**	**(1,688,173)**	**8,638,673**	**3,367,765**	**-**

(Amounts in LEK '000 unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Market risks (continued)

Sensitivity analyses

The sensitivity analysis below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The following is a stipulation of effects of changes in interest rate in the net profit, assuming all the other variables are held constant:

	31 December 2019	31 December 2018
Interest rate increases by 2%	102,093	172,773
Interest rate increases by 1.5%	76,570	129,580
Interest rate increases by 1%	51,046	86,387
Interest rate decreases by 1%	(51,046)	(86,387)
Interest rate decreases by 1.5%	(76,570)	(129,580)
Interest rate decreases by 2%	(102,093)	(172,773)

The sensitivity rate, used when reporting foreign currency risk internally to key management personnel, represents management's assessment of the reasonably possible change in foreign exchange rates based on information available after the balance sheet date. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the change in exchange rates as described above.

Below is a stipulation of effects of changes in exchange rates in the net profit, assuming that all the other variables are held constant:

	31 December 2019	31 December 2018
LEK depreciates against USD by 5%	31,097	9,874
LEK appreciates against USD by 5%	(31,097)	(9,874)
LEK depreciates against EUR by 5%	83,066	129,755
LEK appreciates against EUR by 5%	(83,066)	(129,755)
LEK depreciates against other ccys by 5%	(126)	(199)
LEK appreciates against other ccys by 5%	126	199

37.4. Operational risk

The operational risk is incurred on the delivery of all of the Group's products and services and arises on a daily basis as transactions are being processed. It may occur also as a result of inadequate information systems, technology failures, breaks of internal controls, and fraud or unforeseen catastrophes.

To cover for operational risk, the Group has established a framework that incorporates clear definitions of operational risk throughout the organization, and a philosophy of business processes self-assessment. It has also developed, and is actively monitoring, the performance of key risk indicators. Operational risk events are carefully analysed and monitored in terms of exposures toward unforeseen risks or potential failure of controls.

The Bank's Operational Risk Committee (ORC) is periodically monitoring the occurrences of operational losses and has assigned responsibilities for mitigating losses and providing back-up solutions and risk coverage for activities subject to operational risk.

Provisions for operational risk are included in Provisions for risk and expenses under Other Liabilities.

(Amounts in LEK '000 unless otherwise stated)

38. DISCLOSURE AND ESTIMATION OF FAIR VALUE

Fair value estimates are based on existing financial instruments on the Group's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Financial instruments not measured at fair value – fair value hierarchy

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 at 31 December 2019
	Carrying amount	**Fair value Level 1**	**Fair value Level 2**	**Fair value Level 3**
Financial assets				
Due from banks	**5,089,091**	-	-	5,089,091
Investment securities	**22,802,199**	2,406,643	22,965,450	-
Loans and advances to customers	**28,491,376**	**-**	-	29,865,438
Financial liabilities				
Due to Central Bank	**2,786,519**	-	2,786,519	-
Due to banks and financial institutions	**4,426,969**	-	-	4,355,208
Due to customers	**51,954,739**	-	-	51,652,859
Due to government	**17,370**	-	-	15,635
Lease liability	**868,759**	-	-	868,759

				As at 31 December 2018
	Carrying amount	**Fair value Level 1**	**Fair value Level 2**	**Fair value Level 3**
Financial assets				
Due from banks	**3,804,835**	-	-	3,804,835
Investment securities	**18,423,282**	1,949,640	16,786,870	-
Loans and advances to customers	**22,152,898**	**-**	-	19,129,279
Financial liabilities				
Due to Central Bank	**2,456,241**	-	2,456,241	-
Due to banks and financial institutions	**2,438,602**	-	-	2,431,666
Due to customers	**41,298,691**	-	-	40,906,464
Due to government	**20,733**	-	-	18,257

Due from banks

Due from other banks include inter-bank placements and items in the course of collection. As loans, advances and overnight deposits are short term and at floating rates, their fair value is considered to equate to their carrying amount.

Loans and advances to customers and to financial institutions

The fair value of loans and advances to customers and to financial institutions is estimated using discounted cash flow techniques, applying the rates that are offered for loans of similar maturities and terms and customer or product wise. The fair value of overdraft balances is approximately equal to its book value.

38. DISCLOSURE AND ESTIMATION OF FAIR VALUE (CONTINUED)

Investment securities

Treasury Bills include treasury bills issued by Government which are bought with the intention to hold till maturity. Since no active market exists for treasury bills, 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.

Bonds include treasury bonds issued by Albanian Government in LEK, bonds issued by Albanian and foreign Governments in EUR and Corporate bonds issued in EUR which are bought with the intention to hold till maturity. Quoted prices in active markets were not available for securities issued in LEK. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs. Therefore, whenever the quoted prices exist, the securities are included in the Level 1 of the fair value hierarchy, whereas those securities that observable market inputs were used to determine their fair value were transferred to Level 2 of the fair value hierarchy.

Due to banks, financial institutions and customers

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.

39. CAPITAL MANAGEMENT

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 8365 date 02.07.1998 "Banking Law of the Republic of Albania".

Capital Adequacy Ratio

Starting from 1 April 2015, the Capital Adequacy Ratio ("CAR") is the proportion of the regulatory capital to total risk weighted exposures, expressed as a percentage. The minimum required Capital Adequacy Ratio is 12%.

Risk-Weighted Exposures (RWEs)

Risk- weighted exposures are calculated as a sum of the followings:

- risk weighted exposures due to credit and counterparty risk where the balance and off balance sheet exposures are weighted according to standardized approach of the BOA regulation on 'Capital Adequacy Ratio'. According to this method all exposures and possible exposures are grouped on certain exposure categories and within each of them into smaller groups according to risk associated to them.
- capital requirement to cover market risk
- capital requirement to cover operational risk, using the basic indicator approach

Based on amendments to the regulation effective up to May 2018, the risk-weighted exposures were adjusted with the increase of balances due from/ (to) nonresident banks, net during the two years period from the reporting period. From May 2018 this is not applicable.

The Bank's policy is to maintain an optimal capital base so as to sustain future development of the business and to maintain market confidence. The impact of the level of capital on future shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing within regulatory and prudential limits and the advantages and security afforded by a sound capital position. The Bank monitors all externally imposed capital requirements throughout the period and anticipates future needs on an ongoing basis. The Bank has complied with the minimum capital requirements during 2019 and 2018 and as at the end of respective years these ratio were 13.59% and 14.84%.

40. EVENTS AFTER THE REPORTING DATE

After the reporting date, due to the COVID-19, the "pandemic state" is declared.

Even though certain events did occur before 31 December 2019, the announcement by the World Heal Organisation ("WHO") that the coronavirus was a global health emergency was made on January 2020, i.e. after the end of 31 December 2019 reporting period, while the initial cases in Albania appear in March 2020. After that, within the country it is declared the natural disaster state, followed by actions related to the lock down of the majority of the treading and commercial activities and drastic limitation to the movements and social distance over the entire population. As the result, for 31 December 2019 financial statements, the financial reporting of the COVID-19 outbreak are generally/materially non-adjusting events.

At the day of the approval of the financial statements, the majority of country is out of the "lock down" and the economic activities are reopened to a wide extent. The expected negative effects for the Group are mainly related to a possible deterioration of the quality of the loans portfolio, for a certain clients and economic sectors that are mostly impacted from the pandemic. The influencing factors to that regard are diverse and interact to each other's' and may include the duration of the activity suspension, exposure to the foreign trades, the effect on the chain production-suppliers-clients, the unemployment level, consumption, etc. The multiple factors and their correlation makes difficult a reliable estimation of any potential effect in the near future, especially when the impact is extended globally and to a relatively high number of economic sectors. The supporting measures taken by the government, including a moratorium of deferral of repayments extended up to September 2020, in addition to the endurance for the health treatment impact of the pandemic, are expected to diminish to a considerable extent the negative impact to both businesses and individuals.

From their side, the Group has taken several measures to support its clients in facing such situation. At the early stage and onwards, it was put maximum efforts to insure the continuity of the banking services, including the measures related to health protections for the staff and the clients, continuous support with liquidity and cash on ATM, offering on-line banking facilities and offering several facilities related to loan obligations payments, including the postponement of the scheduled payments without penalties, loan repayment restructuring options, etc. The estimations of the pandemic possible effects are presented and discussed in the last board meeting of the Bank and it is not expected breaches of the regulatory limits, including the ones related to the liquidity or capital adequacy ratios.

With regard to Landeslease, it was put maximum efforts to insure the continuity of the activity, including the measures related to health protections for the staff and the clients, and offering several facilities related to loan obligations payments, including the postponement of the scheduled payments without penalties, lease repayment restructuring options, etc. The estimations of the pandemic possible effects are presented and discussed in the last board meeting of the Landeslease and it is not expected breaches of the regulatory limits, or any liquidity and solvency problems.

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