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ANNUAL **REPORT** 2018

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1. MESSAGE FROM THE BOARD OF DIRECTORS CHAIRMAN

It is a great pleasure for me to present the Annual Report of Union Bank for the year 2018. This Annual Report will be giving you a full spectrum of operational and financial developments of the year altogether with the spirit that the Bank operates, the ways it is doing business with integrity and in compliance with legal and regulatory requirements.



The year 2018 was a very good year for the Bank. Union Bank continued its double digit annual growth in assets and ROE. The Bank performed much better than the average of Banking System in Albania without dropping its high demand for excellent customer service, responsible risk culture and clear internal operational procedures.

During 2018 Union Bank signed with ICB Financial Group Holdings the agreement for the purchase of 100% shares of International Commercial Bank. The agreement will be finalised during 2019.

We are looking forward for another successful year in 2019. Other than the natural growth expected from the work with customers, during 2019 Union Bank will grow from the absorption of ICB. Our confidence for 2019 is based on the trust of our customers. They trust Union Bank because of the great work and care that Bank's staff invests in everyday interactions with them.

On behalf of the Union Bank Board of Directors, I wholeheartedly thank our customers, and our staff across the bank, for their ongoing trust and contribution.

Edmond LEKA

Chairman of the Board of Directors

2. Who we are

Our Vision

To make Union Bank a sound, sustainable and a profitable bank, for our shareholders, clients and employees.

Our Strategic Goal

Our strategic goal is to become key player in the banking sector through organic growth, but also opportunities that may come from the process of banking system consolidation in Albania.

Our Core Values

We take a long term view of our relationships with our customers
...provide them with products and services at competitive prices
...and are innovative and proactive with them.

We develop professional, highly trained, motivated people
...working in teams
...with honest two-way communication at all levels.

We operate with integrity in all our dealings.

3. WE DO NOT

- Deceive our customers;
- Disrespect our employees;
- Infringe the law.

3. THE BANK AND ITS SHAREHOLDERS

3.1. History of Union Bank

Union Bank received its license from the Bank of Albania in January 2006.

The Bank is registered as a joint stock company and provides universal banking services almost exclusively to and for individuals and enterprises in the Republic of Albania. Since 2014, the Bank owns 100% of the shares of a leasing company operating in Albania since 2005.

Main Developments

2006

- The Bank obtained its license for banking activities on January 9, 2006.
- Seven branches are opened; the bank starts its operational activities in Tirana, Durrës, Elbasan, Fushë Krujë and Fier.
- The Bank offers a full range of deposit, credit and payment services.

2007

- Thirteen new branches open in Tirana, Kukës, Berat, Korçë, Shkodër, Pogradec, Lezhë, Lushnjë, Laç and Rrogozhinë.

2008

- Launch of Maestro Debit Card product. Issued of first Mastercard credit card.
- Launch of the UB-Online Internet banking product
- Bank's total assets exceed EUR 100 million.
- EBRD joins as second largest shareholder (12.5% stake).
- Six new branches are opened, including two new cities – Divjaka and Poliçan.

2009

- Institutional Building Plan (IBP) starts as a two-year technical support program from EBRD with a purpose of further strengthening the Bank.
- With Kavaja and Vlora followed by 2 more new branches in Tirana, the branch network reaches 30 branches and 39 ATMs.
- The Bank achieved its first annual profit.

2010

- The Bank activates credit line agreement with EBRD to support lending to SMEs.
- The new organization structure and new performance evaluation process took place to

2011

- Steady growth in total assets despite the financial crisis.
- Third consecutive year realizing profits.

2012

- Bank's total assets increased by 20% reaching EUR 200 million.

2013

- Bank's profitability increased by five times more than 2012.
- Bank started the final phase of the new Upgrade of the Core Banking System Software implementation.

2014

- Bank purchased 100% of the shares of the Landeslease sh.a. a leasing company operating in Albania since 2005.
- Bank's total assets increased by 10% reaching EUR 256 million.

2015

- Steady growth continued. Bank was ranked the 8th bank in the country amongst 16 other banks, living behind two other banks in terms of total assets.
- Bank's profitability stabilized above 11 RoE (post-tax) for the second consecutive year.

2016

- Growth of Funding and Lending is more than double of the systems growth parameters.
- A strategic branch in Bllok area is opened bringing the no of outlets in 30;
- The 10 years' strategic review process has started as a guide for the future.

2017

- Union Bank continued its double digit annual growth in assets and in ROE.
- The Bank is ranked in top six banks of the country for loan portfolio increase and in top three banks in Albania for customer funds increase.
- Union Bank receives a 5 million finance line from EBRD's Trade Facilitation Programme.

2018

- Union Bank succeeded to acquire 100% of the shares of the "International Commercial Bank Sh.a".
- Bank's total assets exceeding EUR 415 million.
- Union Bank continued its double digit annual growth in assets and in ROE.
- Union Bank signed with EBRD the agreement for a 6 million € line of credit in support of GEFF project in Albania.

3.2.BANK'S SHAREHOLDERS

The shareholding of Union Bank comprises financial institutions and successful entrepreneurs, acting as major supporters of the successful activity of the Bank.

Financial Union Tirana ("UFT")

UFT as the main shareholder is one of the most successful non-banking financial institutions in the region, representing Western Union in Albania, Kosovo, Macedonia and Switzerland. UFT provides simple, fast, and modern money transfer services to a large mass of clients.

The European Bank for Reconstruction and Development ("EBRD")

The EBRD is the second largest shareholder in Union Bank. The EBRD invests in over 30 countries stretching from Estonia to Egypt and Morocco to Mongolia. The EBRD is supporting the development of the private sector and market-based economies. The Bank has also been a pioneer in green financing with the development of financing facilities and investments in renewables. Today the EBRD is owned by 67 countries, the European Union and the European Investment Bank. The EBRD's investment in Union Bank supports high corporate governance standards and helps Union Bank to achieve its goal of becoming one of the leading financial organisations in Albania. The EBRD is represented in Union Bank's general assembly and appoints one member of its board of directors.

Mr. Edmond Leka

Mr. Leka brings an extensive experience in various financial activities. Since March 1995 he is the President and Chief Executive Officer of Financial Union Tirana and since 2006 is Chairman of the Board of Union Bank. From September 2000 until 2008 Mr. Leka was the Vice - President of American Chamber of Commerce in Albania, and previously Chairman of the Board of Directors of Albanian Mobile Communications. He also has been Chairman of the Board of Directors of the Italian - Albanian Bank, from March 1996 to February 2002 and Chairman of the Board of Open Society Foundation Albania (Soros Foundation) from January 2002 to March 2005.



Mr. Niko Leka

Mr. Leka has a well-established and long term experience in the financial, management and business activity. Currently, he serves with the capacity of the Executive Director of Financial Union Tirana and for three years, 2014 - 2017, Mr Leka served like Chairman of the Landeslease Board of Directors. Previously, Mr. Leka has been a consultant and member of various management and financial organizations. In addition, Mr. Leka has been the Director of Urban Credit Department (Microfinance Institution) during 1994 -1995 within the Albanian Development Fund and has served as a Board Executive Member of the "Besa" Fund (Micro credit Financing Foundation) during 1999-2002.



Board of Directors



3.3. BOARD OF DIRECTORS

Edmond LEKA

(Chairman of the Board)

Niko LEKA

(Vice Chairman of the Board)

Varuzhan PIRANJANI

Mr. Varuzhan Piranjani has been a member of the Union Bank Board since 2005 and the Head of its Audit Committee since 2007. He brings forward a long-time and accomplished experience in business, finance, banking and insurance matters. His early work relates to managerial positions in the accounting field with several enterprises.

From 1992-2006, Mr. Piranjani has been in the insurance industry in the capacity of the Deputy CEO and later as the CEO of the Insurance Institute of Albania (INSIG).

Mr. Piranjani presently serves as a Board Member of Union Group and of Financial Union Tirana ("UFT").



Melis Ekmen TABOJER

Mrs. Ekmen Tabojer is a member of the Union Bank Board since December 2017. She is a Senior Banker and Business Leader for Financial Institutions at the European Bank for Reconstruction and Development, based in London.

Mrs. Ekmen Tabojer has over 18 years of experience in banking, finance and investments in different regions of the world including Latin America, Europe, and the Middle East.

Prior to EBRD she has worked for Morgan Stanley, London, Standard Chartered Bank London and Garanti Bank Istanbul.



Sokol MARISHTA

Mr. Sokol Marishta has been a member of the Union Group Board since 2015. He is a Senior Leader at Amundi Asset Management, the 9th largest asset manager in world and #1 in Europe with 1.4 trillion of Asset Under Management, headquartered in Paris.

Mr. Marishta's has worked over twenty plus years in financial, and high tech industry. From 2000-2009 he was Vice President and later Senior Vice President at Bank of America Merrill Lynch. During that time Sokol was based in Chicago, USA.

From 2009-2013 based in New York, USA and being Senior Vice President of Bank of America Merrill Lynch, Investment Banking, Sokol worked on high frequency trading platforms that were used on the sell-side for trading a multitude of financial instruments (derivative, fixed income, equities, etc, etc.) and collocated in Wall Street and London exchanges.

From 2014 - 2017, Sokol joined Pioneer Investments as Global Head of Development and was based in Boston and later in Dublin, where he moved in 2014.

From 2017 to present, he is leading globally the Amundi - Pioneer core platform integration (after the acquisition of Pioneer Investment of €3.5 billions) and is the International Head of Development.

Prior to that, Mr. Marishta worked in successful start-ups, which were based in Chicago, Boulder Colorado, Santa Clara, USA.

Mr. Marishta holds a Master Degree in Computer Science from University of Illinois Chicago and a Bachelor Degree in Geodesy from University of Tirana. Mr. Marishta is currently based in Dublin, Ireland.



Flutura VEIPI

Mrs. Veipi is currently a consultant and managing partner in Arché Consulting which focuses on company restructuring, strategy building, implementation and strengthening of finance department and more. She brings to the table an experience of the executive caliber that goes over twenty years in banking, finance, investments and projects on strategic managements and leadership. She has worked from 2000-2014 with the bank of ProCredit Holding Group (a German based entity) and held several key directing positions including that of the Deputy of CEO and as Member and Spokesperson of the Management Board

In addition, Mrs. Veipi's other involvements and expertise includes, but not limited to, honorable and important positions such as Member of the Board of the American Chamber of Commerce in Albania during 2012 - April 2014, Head of the Committee "Woman Active in Business" during 2012 - April 2014, and as a Member of the Executive Council of the Albanian Association of Banks during 2011-2013

Mrs Veipi graduated from the University of Tirana with a Bachelor Degree in Finance and Accounting in 2000, and has completed an MBA with the University of Roehampton, London

Gazmend KADRIU (CEO)



Union Bank's Board meets typically 5 times per year for setting the overall strategy and direction of the Bank, for major organizational decisions, important credit decisions and for effectively monitor the management of the Bank. In addition, the Board is expected and it does consider, review and approval, on annual basis, of all key operating policies of the Bank.

The Board has established the Audit Committee and the Human Resource Management Committee.

1) The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities for the financial reporting process and monitoring compliance with laws and regulations. The main duties of the Audit Committee are to assist the Board of Directors in supervising:

- The integrity of the bank financial statements.
- Bank compliance with laws and regulations,
- The selection process and the performance of external auditors,
- The performance of internal audit unit.

2) The purpose of the HR Committee (HRC) is to assist and support the BoD of the Union Bank in their responsibilities for issues related to HR Management such as:

- Establishing and reviewing the UB's remuneration policy in areas like employees' benefits and compensations;
- HR policies and Procedures related to Employment hiring/dismissal of high level management of the Bank;
- Examining and reviewing significant developments in such areas as Code of Conduct, Bank organizational structure,
- Policies assisting in the attraction, retention, succession planning and development of UB employees.

SENIOR MANAGEMENT

Mr. Gazmend Kadriu, CEO

Tetovo, Macedonia, 1969

Mr. Kadriu serves in the capacity of CEO and Board Member of Union Bank since the beginning of building the bank in 2005. Mr. Kadriu has a comprehensive and wide-spread experience as a banker, bank regulator and auditor, and has gained an extensive and thorough professional banking and financial experience in three countries in the region (Macedonia, Kosovo, Albania). Mr. Kadriu holds a degree in Economics from the University St. Ciril and Metodius – Skopje. His experience includes five years in Supervision Department of the National Bank of Macedonia, 1993 – 1998, from which the last two as Head of the Department, then as Audit Manager in Ernst & Young, Skopje from 2001 to 2004. He continued his career as the CEO and Board Member of the New Bank of Kosovo. Mr. Kadriu has been a member of the Board of Directors and Risk Management Committee of Tutunska Banka a.d. Skopje during December 2000 - June 2006 and Board of Trustee Member and Vice-Chairman of Macedonian Enterprise Development Foundation, Skopje, during December 1998 - March 2006.

Mrs. Suela Bokshi, Chief Operations Officer

Tirana, 1973

Mrs. Bokshi serves in the capacity of Chief Operations Officer in Union Bank since July 2005. Mrs. Bokshi has a long term experience in banking. She graduated in Finance and Banking, in the University of Tirana and continued a Master in Banking and Finance for Eastern European



Countries in “Giordano Del’ Amore Foundation” and CARIPLO Bank, Milan, Italy. Mrs. Bokshi started her career in the National Commercial Bank in 1995. In 1997 she worked in the Bank of Albania in the capacity of Head of Payments Department. In 2000 she joined ProCredit Bank holding the positions of Head of Payments and Treasury and then Chief Operations Officer.

Mr. Ardian Petollari, Chief Business Officer
Korça, 1970

Mr. Petollari serves in the capacity of Chief Business Officer in Union Bank since August 2007, and brings a diverse experience including banking, business activity, academic experience etc. Mr. Petollari graduated in Economy from the University of Tirana. After almost five years of academic and business experience he started his banking career in National Bank of Greece in Korça, holding the positions of Deputy and the Branch Manager for more than four years. Afterwards Mr Petollari had important positions in state institutions like Deputy Director and then Director of the General Director of Taxes during 2002 – 2005, Deputy Minister in the Ministry of Economy, 2005.

Mr. Arten Zikaj, Chief Finance Officer
Tirana, 1975

Mr. Zikaj serves in the capacity of Chief Finance Officer in Union Bank since March 2011. He is also a member of the Board of Directors of the leasing subsidiary of the Bank, and since December 2017 Chairman of the Board of Landeslease sh.a. Mr. Zikaj has an extensive experience in financial accounting, reporting and financial



analysis, international and local audit on financial institution, insurance and other commercial companies, IFRS expertise, risk management, treasury operations, etc. He has also served for several years as a part time lecturer in University of Tirana, Economic Faculty. Mr. Zikaj graduated in Business Management from the Faculty of Economics of Tirana University. For 7 years he worked in auditing, as a Manager at KPMG, in charge for auditing and financial advisory services for several industries in Albania and Kosovo. In 2004 he held the position of Deputy Chief Financial Officer in Procredit Bank of Albania and from 2007 to 2010 he served in the capacity of Deputy Executive Director at KEP Trust, a MFI in Kosovo.

Mrs Enkeleda Hasho, Chief Credit Officer
Berati, 1975

Mrs. Hasho serves in the capacity as Chief Credit Officer and joined the executive team in 2012. Since December 2017 Mrs Hasho is also member of the Board of Directors of the leasing subsidiary of the Bank. Mrs Hasho’s experience comes from a long and solid finance and banking background. Prior to being the Head of Credit for Union Bank, Mrs. Hasho has worked as the Head of the Credit Department for International Commercial Bank (ICB) from 2000-2005. Mrs. Hasho also brings a valuable expertise in the process of credit commercial strategy development based on the credit products. Mrs. Hasho graduated in Business Management from Faculty of Economics of Tirana University and she also holds an MBA degree from Universitas Fabrefacta Optime (UFO) University, in Tirana. Mrs. Hasho is a Member of Credit Committee and Bank Administrator since 2006.



4.BANKING SYSTEM IN ALBANIA

During the year 2018, the Albanian Banking System, in general, has portrayed a solid and satisfactory performance. It has operated in a zone where financial markets have shown a relative normality and the average volume of transactions increased. The phenomena of the country's currency appreciation, ALL toward Eur currency continued, while it slightly depreciated toward the \$US currency. Nevertheless, in regards to these exchange rates, during the second part of the year the rhythms were much slower compared to the first half of the year.

At the end of Dec'18 the weight of the Banking System within the total figure of GDP, accounted for 96.8% versus 99.4% at the end of 2017. Total assets at the end of 2018 reached the amount of Lek 1,453.3Billion reflecting a low increase rate of approximately 0.6% against the previous year of 4.0% and 6.8% in 2016. The Bank of Albania has taken further steps to strengthen the national currency and at the same time, it has created and finalized a system of indicators to prevent and face potential negative consequences from any set of systemic risks. All other mechanisms applied have also proven to work in favorable ways for the entire system.

By and large, the liquidity situation has been at agreeable parameters and the capitalization level has experienced a general increase. Profitability of the period increased while the financial activity remained stable. A notable increase was seen from the credit positions of individuals, while another visible characteristic was the increase of savings in foreign currency (for individuals and business).

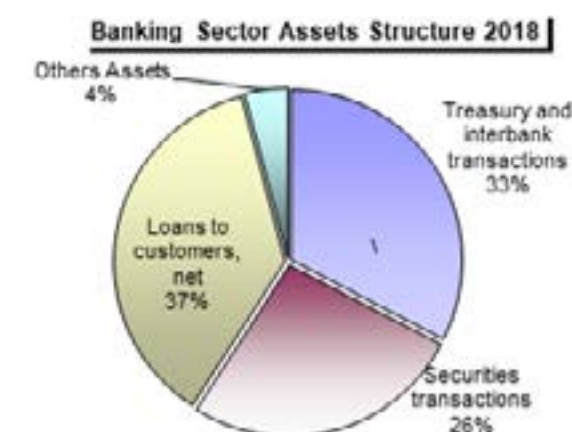
The Bank of Albania decided to lower the base rate of interest at from 1.25% in 1.00% in June 2018

Assets:

The total value reached a figure of Lek 1,453 billion, where the largest increase came from investments in Securities and other Obligations, parallel with the reduction of the Provision Fund value by 9mil during the second half. Loans increased at 581.8Billion (interest excluded) which marks a yearly decrease of ~3.4% or Lek 20 Billion. The process of written-off assets continued. The highest increase rate in Loans continues to come from in retail in Lcy while Business loans, in lcy and fcy, decreased while causing shrinkage to the entire portfolio

The value of NPL reflecting the quality of the portfolio experienced further reduction went down to 11.1% from 13.2% in 2017, following a significant reduction from 18.3% in 2016, while the absolute amount of NPL reduced to Lek 64 Billion derived from the biggest banks.

Security Transactions volume at the level of Lek 385 Billion showing for a yearly increase of 7.8%, while continuing to portray some of the lowest historical investments yields.

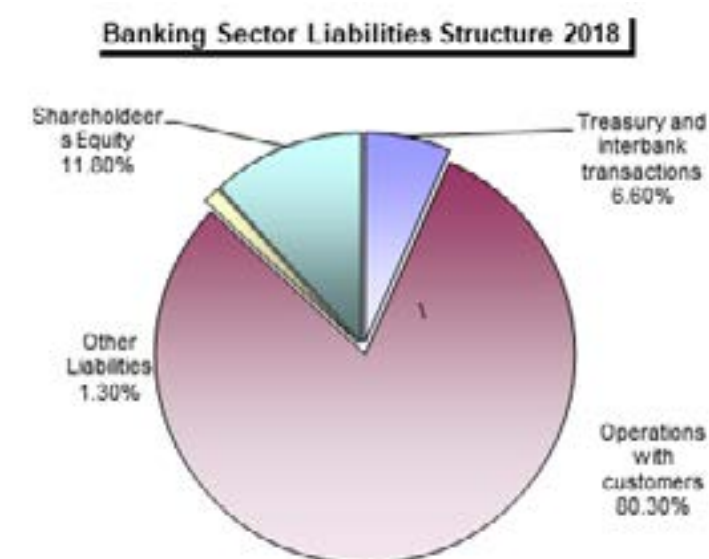


Liabilities:

Customer Funds make up for approximately ~81% of total assets, reaching a figure near Lek 1,16.8 Billion or an addition by 64.5Mil or 5.9%, much higher than ~ 1.0% of the prior year. The higher rate of increase is supported mostly by the highest-growth segment in foreign currency and a tendency toward the current and saving accounts.

Shareholders Equity is near 171.5 Billion¹ showing for a yearly increase of 16.7% versus 7.3% in 2017 of total Assets. The Coefficient of the Adequate Capital at the end of 2018 is by 18.2 %.

The yearly profit of the Banking system came to about Lek 18.4 Billion, Lek 3.7 Billion lower than that of last year's but still at an acceptable level when compared to the figures of the last decade.

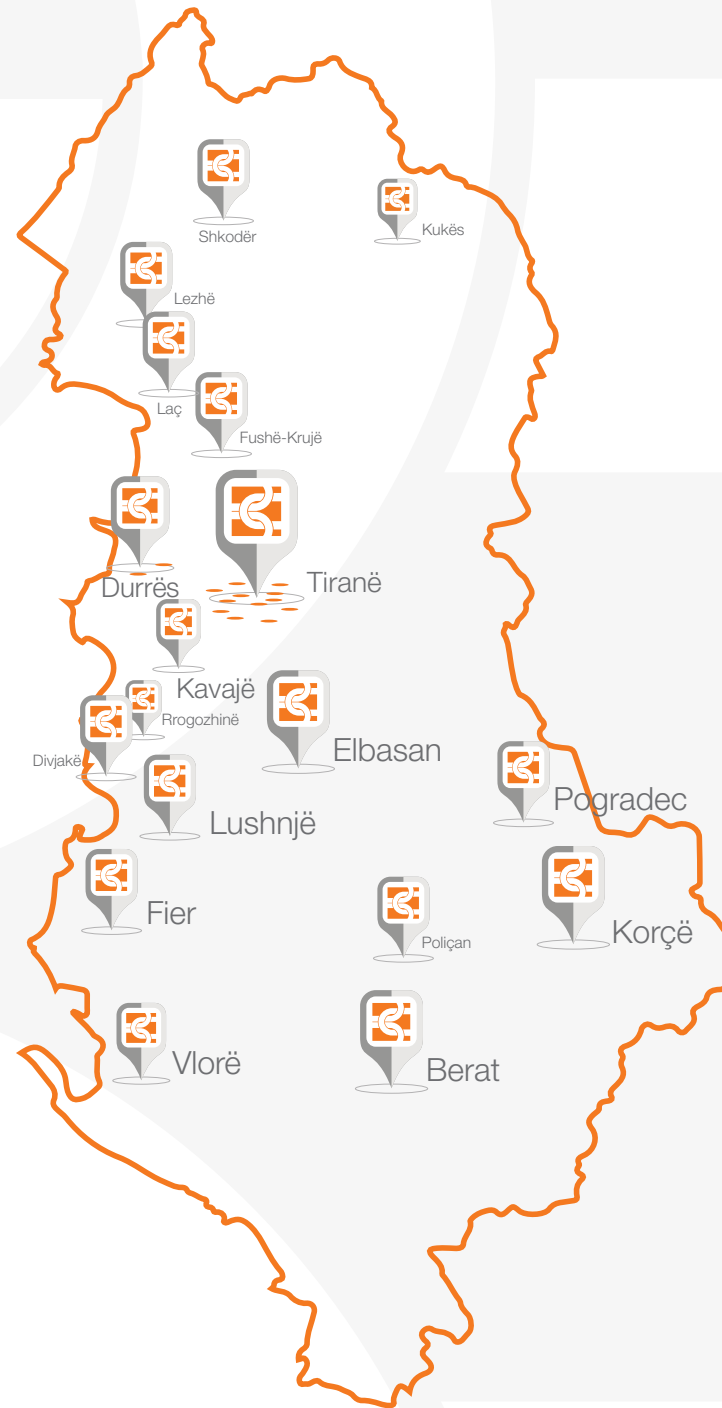


¹ Data extracted from the Association of Albanian Bank (AAB)

5.BANK NETWORK DEVELOPMENT

Union Bank's network during year 2018 consisted in 30 physical branches and 39 ATM outlets. Union Bank uses also other electronic channels.

The network represents the core strategic channel of the Bank. It allows clients to have access to banking services through basic channels such as over-the-counter operations and traditional retail banking. Branches of Union Bank are located in the Tirana region (11) as well as in the central, north and south parts of the country.



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LEZHË BRANCH

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DEGA LUSHNJË

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DEGA FIER

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AGJENCIA POLIÇAN

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DEGA VLORË

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DEGA POGRADEC

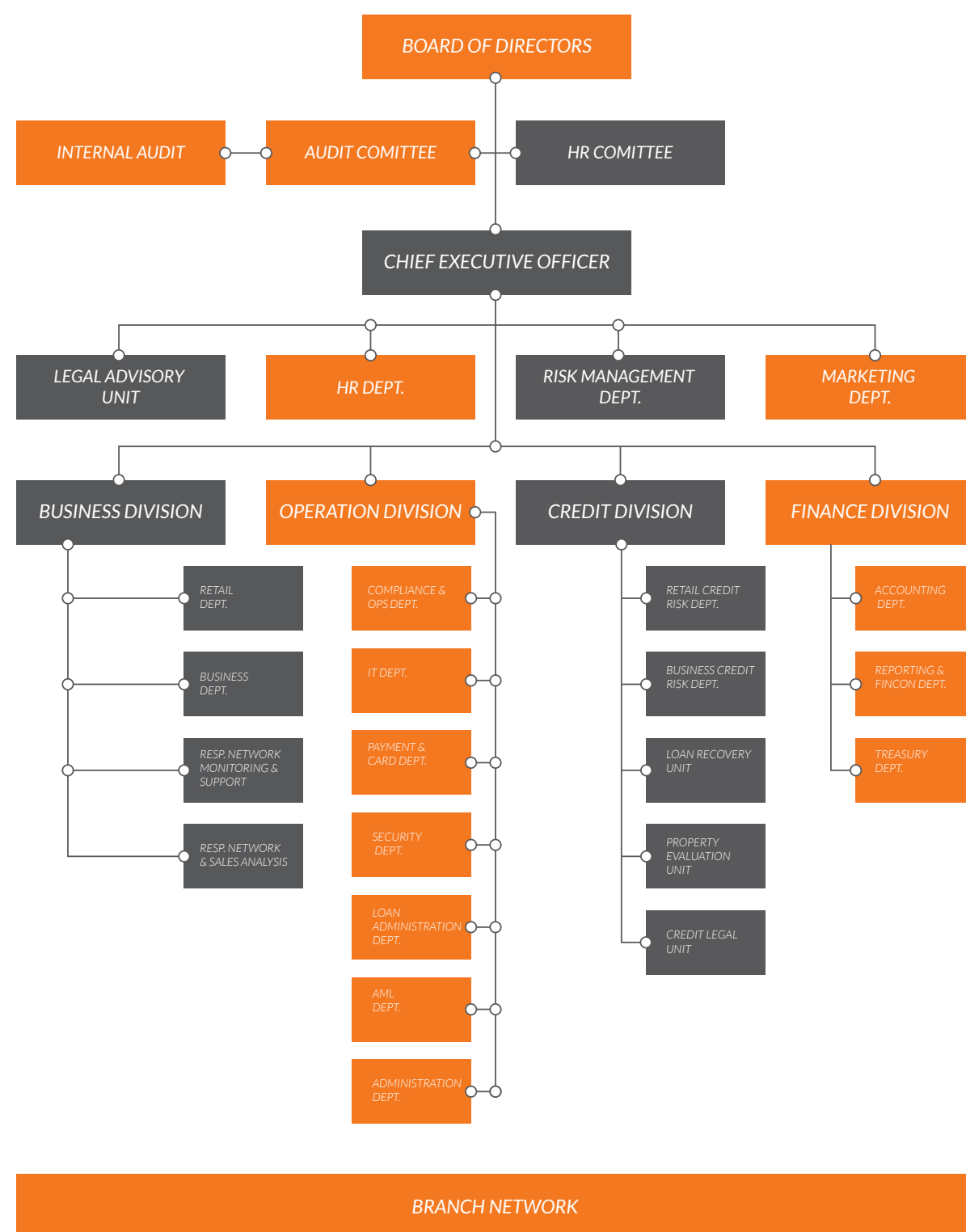
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6. ORGANIZATION STRUCTURE AND HUMAN RESOURCES DEVELOPMENTS

6.1. ORGANIZATIONAL STRUCTURE



6.2. HUMAN RESOURCES DEVELOPMENT

In relation to the process of selection, recruiting and promoting, HR practices are in full compliance with current labor laws, government guidelines and regulations. All its policies and their applications are fair, non-discriminatory as well as open and giving equal opportunity to everyone. All full-time employees enjoy a complete packet which includes social, health, disability and pension benefits, vacations and holidays as well as other perks. These policies reflect the bank's overall business activity aligned with its main strategy and mission statement. Strategic staff planning is structured so it encourages existing members of the organization to try and maximize their efforts to explore the next step in their career path, provided that they successfully fulfill and go above their current duties.

The organization of Union Bank, at the end of 2018 reached a total number of 374 members, with a composition of 145 employees in Head Office and 229 employees in the Branch Network.

Promotion from within is one of the main priorities in HR hiring policies. Approximately 40 employees were promoted in higher positions within their branch/region or department, including replacements. The turnover rate for 2018 was at 13.8%.

6.3. TRAINING AND HIGHER LEARNING

During 2018, approximately 50 training sessions were organized; 16 internal and 34 with external interaction. They covered several technical areas for Head Office employees, as well as Sales Force Efficiency and Success, Customer Service and Operations, Financial Analysis, Management and Leadership, Security, Compliance and Anti Money-Laundering. With respect to training and continuous education, there are pre-hand and on-the-job instructions and training to all employees from the time that they start, and it continues with day-to-day operations and activities thus benefiting from the established procedures and the existing expertise.

The organization culture of the Bank maintains a transparent and proactive approach in regards to professional and ethical standards, by presenting them throughout the whole work environment. In terms of hiring and training developments, the Bank sustains an efficient and appropriate attitude by keeping a priority on the business objectives, but at the same time taking into consideration the difficulties and the barriers that go along with the process. Their aim focuses in sales' abilities for the branch staff, communication and feedback, multitasking, problem solving and the increase of managerial and leadership capacity in all Head Office departments.

6.4.REMUNERATION POLICY

The Human Resources Committee (HRC) is regulated by the HRC charter and approved by the Board, and it also approves the compensation plan as part of the HR policy.

The Bank regards this aspect to be highly important and one that has a significant impact on employee engagement, commitment and behavior. The Bank implements salary reviews, such as the initial review, the promotion review, annual performance review, with the main focus in the performance review in order to reward the best ones. All performance compensation actions result from the overall performance of Union Bank, the individual business unit performance as measured by level of achievement of business targets and individual staff performance as measured by the appraisal process and standards.

As one part of a total reward and recognition package that includes the base pay, bonuses, and benefits for employees, compensation serves as a crucial factor. In addition to the base salary, as the fixed component, the Bank applies several bonuses, as a form of the variable component, the main ones related to the reach of the business targets and outstanding sales performance. The bonus is determined according to the financial situation of the Bank, its overall, individual business units' performance, as well as individual performance. The key bonuses applied are the annual performance bonus, quarterly sales, monthly categorization bonus and New Year bonus.

Members of the Board of Directors are paid a fixed amount per meeting participation. Remuneration for Executive Management is composed of the fixed and variable components, based on the financial situation of the Bank, as well as the individual performance of each division.

6.5.SAFETY AND SECURITY

Union Bank values and appreciates the safety of its employees and makes it a priority to ensure that the bank is a secure place to work and interact with clients. There is a constant effort and show of responsibility into making the bank's environments safer by always increasing controls that protect the customers' information.

One of the primary bank's purposes is to ensure the health, wellbeing and safety of its employees on the job, although it does not end there. In terms of benefits, Health Insurance provided by Sigma InterAlbanian VIG is renewed every year for almost the entire staff offering some of the best schemes which covers medical

treatments with reputational clinics and hospitals.

7.RISK MANAGEMENT

In its business activities, the Bank strives to achieve an optimum and prudent balance between the risks taken and returns realized.

To enable this, the Bank has established a comprehensive framework for effectively managing all the risks, by identifying, measuring, controlling, monitoring, and mitigating the potential events that could result in losses or potentially impair the ability of the Bank to generate stable and sustainable financial results. Annual reviews of the risk profile and the related policies and procedures are already on place.

The Bank's primary defense against losses from any risk is reflected in its internal controls structure and operational model. The Bank has defined adequate policies and procedures for managing all the risks inherent in every business line in which it operates. In this context, all the business processes have been designed to reduce the negative impact from any risk, respecting the Bank risk appetite and relevant tolerance level. Every employee and specially process owners bear the primary responsibility of managing the risks and consequently maintaining the relevant controls and vigilance at appropriate levels.

However, in addition to the above, the Bank has established a risk management function which serves as a center of excellence for promoting a proactive risk culture across all business lines. The Department presents independent reports to the Audit Committee and Board of Director's meetings, in parallel to the management reports. The function is represented also on several Bank Committees (Asset-Liability Committee and Operational Risk Committee) providing an independent opinion in the respective areas. It coordinates the update and maintenance of adequate risk policies, risk parameters and methodologies in accordance with the Bank's risk appetite, regulatory framework and best practices. The Department has close and frequent collaboration with all business units and Executives, and develops innovative, practical and effective risk management processes, tools and controls, as well as proper risk reports.

Considering its business profile and characteristics, the Bank's main risk exposure areas are Credit Risk, Liquidity Risk, Interest Rate Risk, Counterparty Risk, Foreign Exchange Risk, and Operational Risk. While the performance of each of these risks is explained under the Auditor's report on Financial Statements, in the section below we are providing main policies with regards to risk control and mitigation.

Risk Management Policy

The policy defines the main risks the Bank is exposed to, as well as the main principles of risk management process and organizational scheme.

Credit Policy

The Credit Policy is the primary document defining the credit risk management principles. Credit risk is mitigated by cash-flow oriented lending, adequate collateral as second-tier protection, appropriate risk-based pricing, effective loan portfolio structuring and diversification, adequate bank-wide controls etc. A very important part of the process is continuous monitoring and adequate reserve levels assigned for credit losses.

Asset and Liabilities Management Policy

ALM Policy is the main document governing the Bank assets and liabilities management activities, including all funding transactions, investment of liquid resources and managing the risk in the balance sheet. The main areas being covered by this policy are liquidity management, interest risk management, foreign exchange risk management etc.

The Bank's ALCO has developed rules, procedures, instruments and control mechanisms to properly manage all risks. Regulatory and internal limits are defined and regularly monitored.

Investment Policy

Investment Policy defines the ground and main criteria to responsibly manage the Bank's financial investments in accordance with its business strategy. The policy defines the eligible list of investments taking into consideration all potential inherent risks. The Bank had also developed other policies referring to investments and risk limits.

Counterparty Risk Policy

The counterparty exposure risk is treated very much like credit risk and specifically addressed in the case of banks and financial institutions. In such case, the counterparty's creditworthiness and relevant limits are individually being evaluated based on predefined criteria and methodology.

Operational Risk Policy

Operational risk is incurred on the delivery of all of the Bank'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, fraud or unforeseen events etc.

The Bank's operational risk framework (policies and procedures) incorporates clear definition of operational risk throughout the organization and a philosophy of business process self-assessment and management. It includes active reporting

and monitoring on the performance of key risk indicators, root cause analysis of operational risk events, proactive response to incidents, a regular and frequent self-assessment program, and careful maintenance and updated business continuity programs.

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.

8. FINANCIAL KEY HIGHLIGHTS

Financial Main Results of the Year

	in Lek '000	in Lek '000	in Eur '000	in Eur '000	Change	
	2018	2017	2018	2017	2018	2017
Balance Sheet						
Total assets	51,303,131	46,538,628	415,679	350,046	10.2%	11.8%
Gross loan portfolio	23,702,499	20,615,908	192,047	155,065	15.0%	13.4%
Investments in securities	18,423,282	16,784,123	149,273	126,244	9.8%	7.8%
Placements with banks	3,804,835	3,960,261	30,828	29,788	-3.9%	35.3%
Customer accounts	41,298,692	38,236,823	334,619	287,603	8.0%	12.2%
Paid in capital	2,717,813	2,717,813	22,021	20,442	0.0%	0.0%
Profit and Loss						
Net interest income	1,980,320	1,810,416	16,045	13,617	9.4%	10.4%
Net fee and commission income	236,514	207,314	1,916	1,559	14.1%	5.9%
Other operating income	(99,500)	15,144	(806)	114	-757.0%	-53.1%
Operating income	2,117,334	2,032,874	17,156	15,291	4.2%	8.9%
Total operating expenses, LLP included	(1,480,805)	(1,582,124)	(11,998)	(11,900)	-6.4%	-2.5%
Net Profit before taxes	636,529	450,750	5,157	3,390	41.2%	83.7%
Statistics						
Numbers of staff	384	386			-0.5%	4.0%
Number of outlets	30	30			0.0%	0.0%
Number of Loans outstanding	21,162	18,701			13.2%	10.9%
Number of Clients	123,427	118,630			4.0%	8.0%
Key ratios						
Return on Equity	12.4%	9.7%			2.7%	4.1%
Cost to Banking Income Ratio	63.2%	60.4%			2.8%	-0.3%
Loans, gros to Deposits	57.4%	53.9%			3.5%	0.6%
Assets Growth Rate	10.2%	11.8%			-1.6%	2.8%
Customer Deposit Growth Rate	8.0%	12.2%			-4.1%	4.3%
Loans Growth Rate	15.0%	13.4%			1.6%	6.5%
LLP to Loan portfolio	6.5%	8.1%			-1.5%	-0.6%
Net Interest Margin	4.5%	4.5%			0.0%	-0.1%
Capital Adequacy ratio	14.84%	14.81%			0.0%	0.0%
Asset to Employee Ratio	133,602	120,566			10.8%	7.5%
Assets to Branch ratio	1,710,104	1,551,288			10.2%	11.8%

Union Bank's assets at the end of Y2018 reached the value of Lek 51.3 Billion reflecting a yearly increase of more than Lek 4.8 Billion which is 10.2% higher than 2017. Bank's assets structure continued to support and upkeep healthy ratios for important indicators such as Loans to Assets, and Investments to Assets.

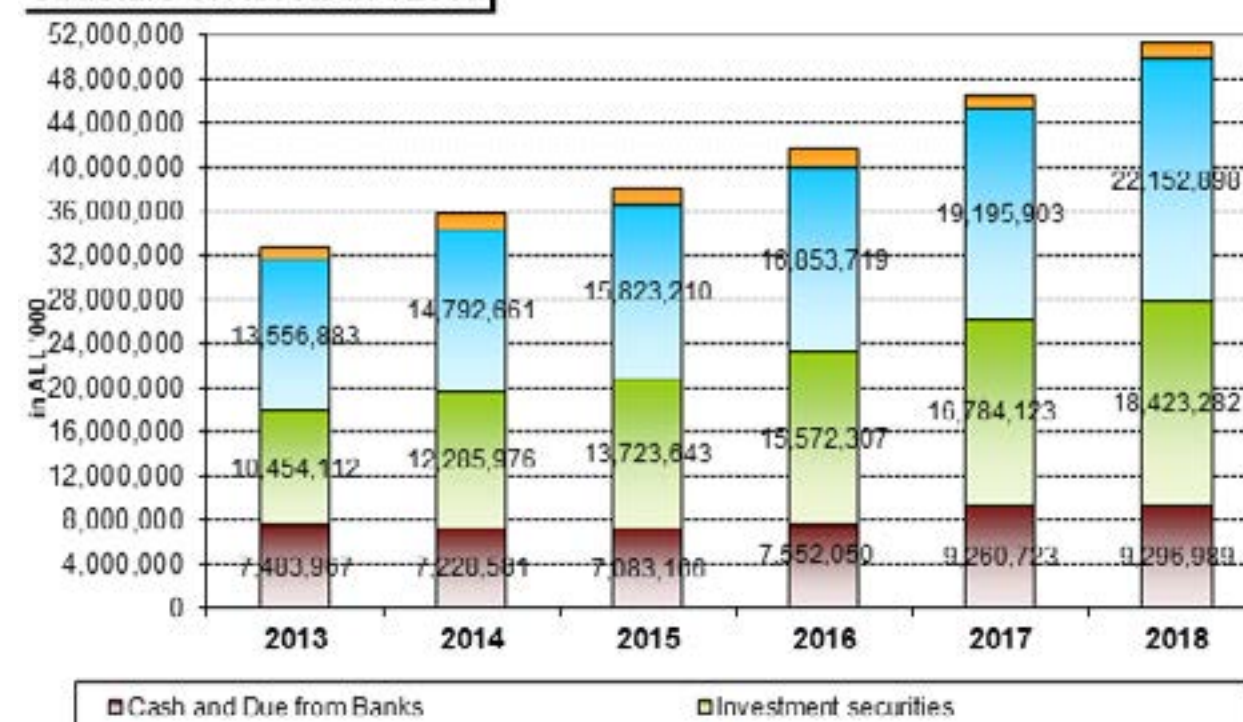
Loans and Advances to Customers and Financial Institutions, - 43.2%, (41.2% in Y2017);

Investment Securities - 35.9%, (36.1% in 2017). In Investment Securities are included Treasury Bills, Albanian Government Bonds, few foreign Corporate/Government bonds.

Cash and Due from Banks 18.1% (2017: 19.9%).

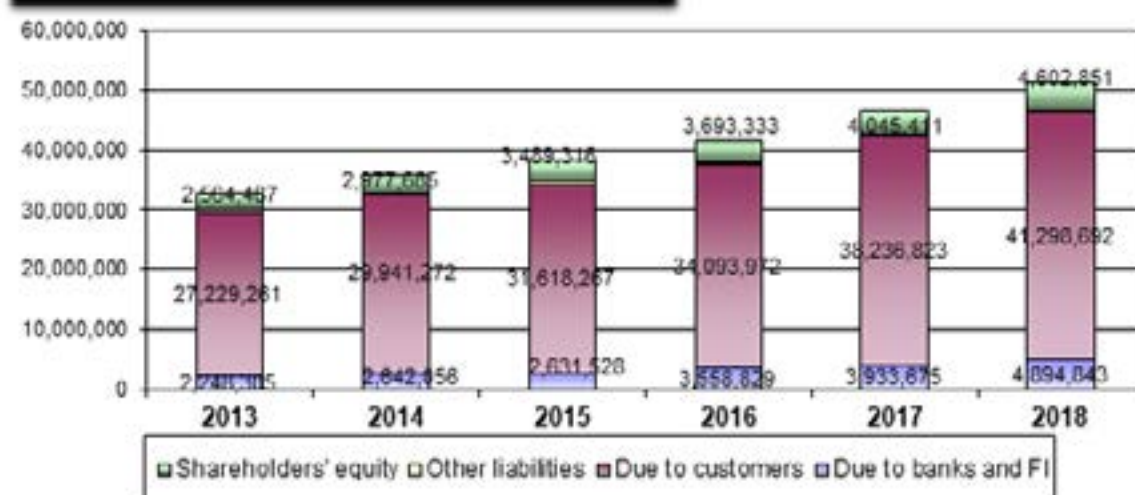
Fixed and other assets are approximately 3% of the total assets.

Structure of Assets in Y2018

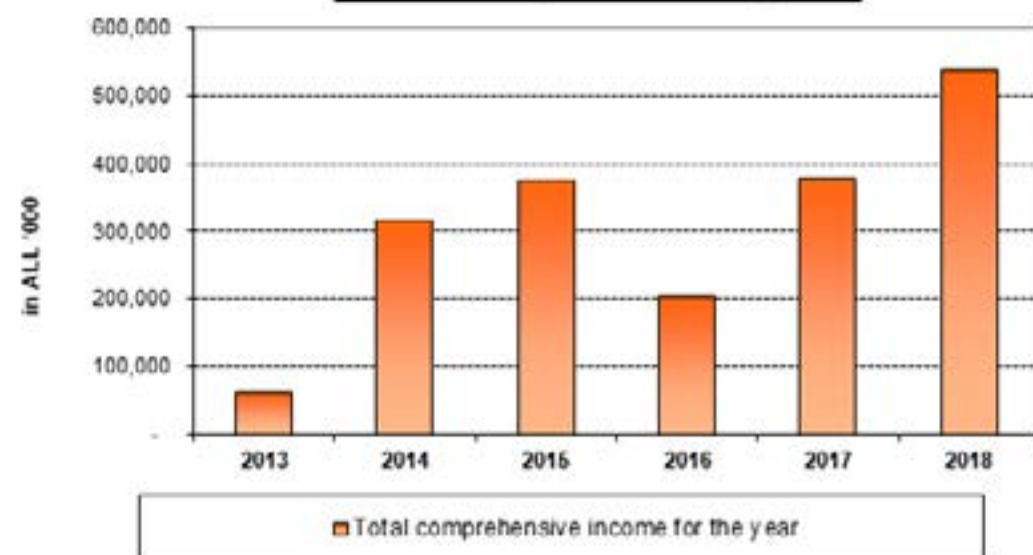


Union Bank's liabilities at the end of 2018 are reported to be Lek 46.7 Billion (42.5 Billion in 2017), showing an annual increase of 9.9% in Lek equal to 4.2 Billion. The growth of liabilities went according to the plan: liabilities structure remained relatively similar to previous year with a small decrease in Customer Funds; 80.5% at the end of 2018 versus 82.2% of the year 2017 compensated with a slight increase in Due to Banks and other Financial Institutions from 8.5% to 9.5%.

Shareholders Equity grew by Lek 557 Million reaching Lek 4.6 Billion or 13.8% higher than the previous year. It makes up 9.0% of total assets of the Bank versus 8.7% that was in year 2017.

Structure of Liabilities and Equity in Y2018

Union Bank's Profit in 2018 reached the amount of Lek 537.4 Million as a combination of the Operating Income of Lek 2.1 Billion and Total Expenses of Lek 1.5 Billion. Net Interest Income of 2018 was nearly 2 Billion Lek. That is 170 Million Lek more or 9.4% higher than that of 2017. During 2018 Net Fees Income also increased by 29.2 Million Lek or 14.1%. Compared with 2017 Total Operating Income increased by Lek 84.5 Million or 4.2% while the Operational Costs decreased by Lek 101 Million or 6.4% (LLP included).

Profit development line in years

9. PRODUCTS AND SERVICES

9.1. Products of Retail and Commercial Banking

Union Bank offers to a large number of individual and business clients a completed package of services and products in order to satisfy every need related to commercial banking. The main Bank focus remain to maintaining and improving the superior customer service it aims to offer to its Clientele accompanied with a very high level of transparency.

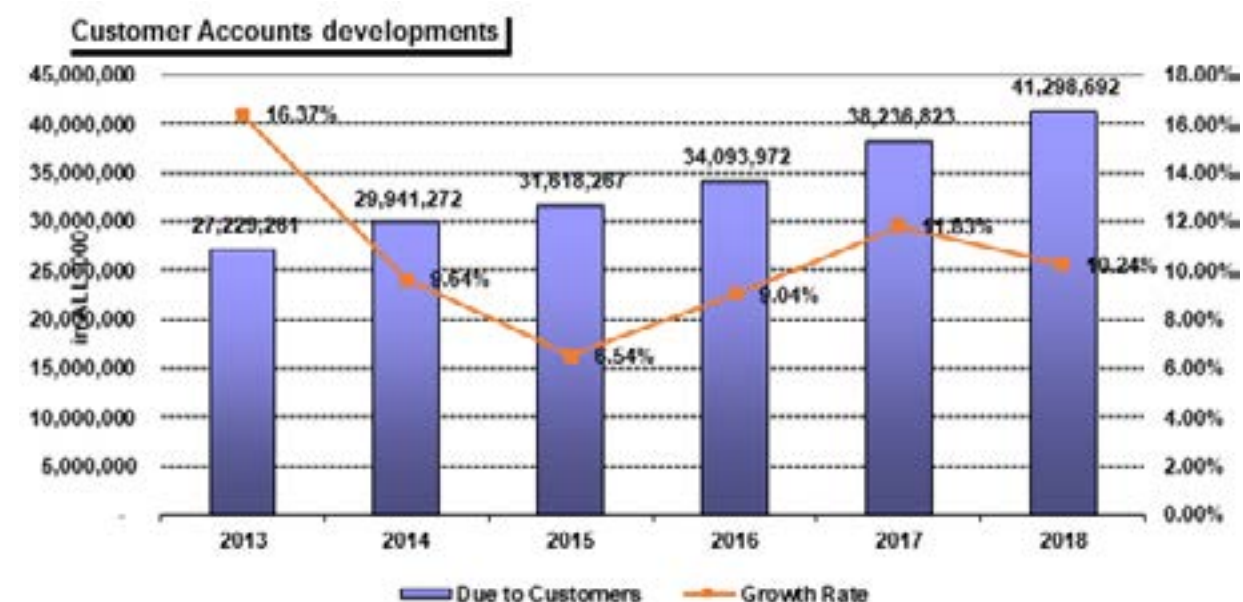
Based on its policies Union Bank aims to continue to expand by taking the right precautions for a steady growth. The bank among other products is offering to customers: various types of loans, lines of credit, credit and debit card services international and domestic transfers, payments, bank guaranties, utility payments, retirement or insurance payments, student tuitions, local and business tax payments, and many other products.

The multichannel platform offer to the customers an easy and convenient way to access their accounts 24 hours a day 7 days a week. The payments and transaction executed through this channel are as well offered in reduced commissions.

9.2. Customer Funds

Customer Funds during 2018 reached the amount of Lek 41.3 Billion. That was an increase of 3.1 Billion Lek or 8%. In Customer Funds the Bank succeeded to maintain 3.5% of market share and the number 9 in Albanian banks ranking. As it will be further analyzed, growth in customer funds was realized in all products, including time deposit and saving accounts that represent 77% of Customers Fund.

Customers Accounts Structure 2018

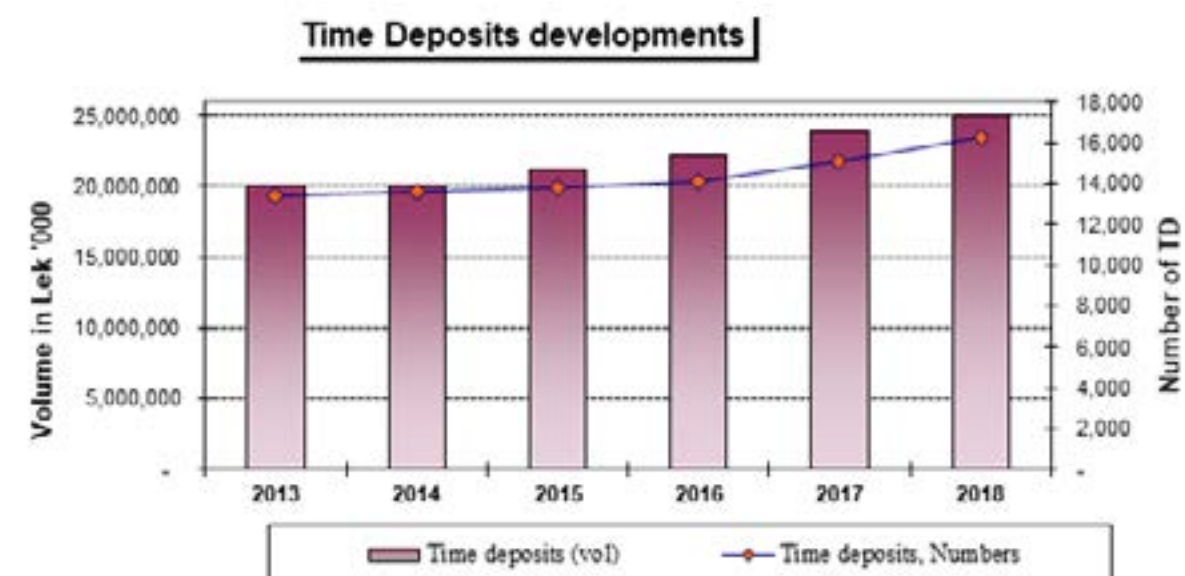


Customers Funds make up 90% of Liabilities. All main elements of Customers Funds had grown in 2018 in accordance with Bank's strategy, drawn by taking in consideration all-around national and international tendency of low interest rate. Our followed strategy succeeded to balance their growth because of business developments by growth of lending and by using limited investments alternatives to tackle some high levels of liquidity created during 2018. At the end the Bank succeeded in maintaining the same level of its overall net interest margin.

Long-term funds were growing faster in Euro (volume and numbers) than on Lek. In answer to that tendency the Bank adjusted interest rates combining both customers' needs and the optimization of its investment target. Current Accounts grew by 11.1%.

Saving Deposits continued to show an upward trend-line reflected by a yearly increase of 14.1%. These changed the structure of funds (Term, Savings and Current Accounts), in favor of Saving Accounts that compared to 2017, gained 2 percentage points going from 15% to 17%.

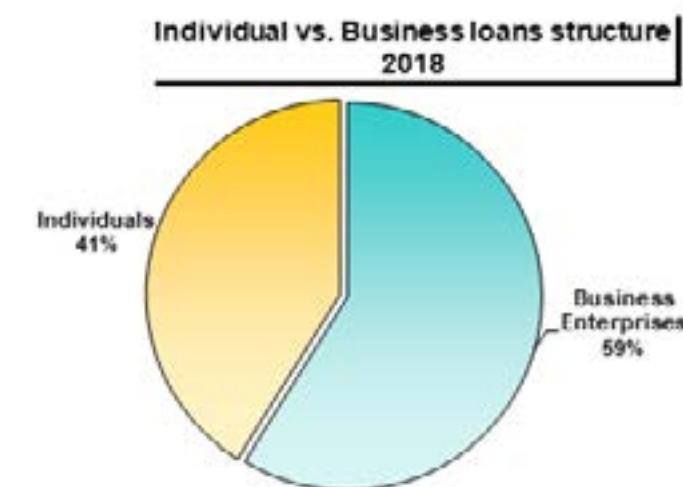
Time Deposits continue to be the key source of funds for the Bank. Despite the overall decreasing trend of Albanian Banking Systems, Time Deposits continued to grow in Union Bank, both in Lcy and Fcy. Anyway compared to 2017 Time Deposits show a decrease of their portion in total of funds from 65% to 63%. During 2018 Time Deposits grew by 5.2%, in combination with a 7.9% increase in the number of customers having TD with the Bank.

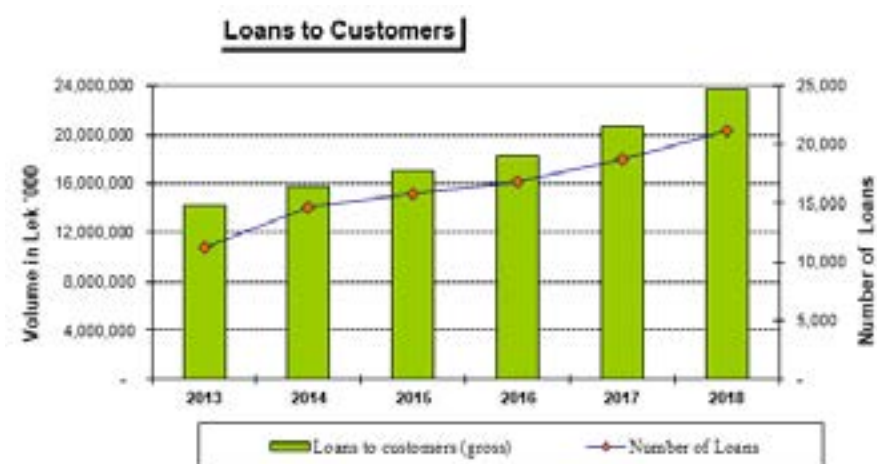


Lending Activity

Union Bank's loan portfolio reached a value of Lek 23.7 Billion, reflecting a yearly increase of Lek 3.1 Billion or 13.4%. With 15% annual increase of its loan portfolio. Union Bank realized a much better growth rate than Albanian banking system which was stagnant during 2018.

During the year the Albanian credit system experienced a series of concerns and a considerable level of vulnerability, as well as direct and indirect risks. Union Bank's goal was to increase its loan portfolio regardless of market challenges. And the Bank succeeded to grow constantly with no changes on NPL which remains quite below the average value.





The overall number of loans (business loans plus individual including credit cards) grew by 13.2% during 2018.

Very successful house loans sale busted individual loans during 2018. Competitive interest rates combined with accelerated and more easy process was offered to customers. In addition to mortgage loans customers enjoyed also consumer loans and lines of credit for their financial needs.

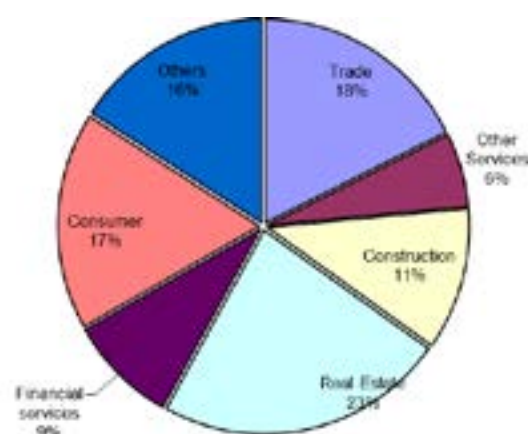
Business loans at Network grew with Lek 1.9 Billion, or plus 15.8%. The growth was mainly realized in SME segment, which represents the main focus of the bank for business loans.

While the growth of the entire portfolio remained an ultimate goal, the Bank stressed the need for further increase of retail lending and SME business loans. At the end of 2018 the portion of the retail loans was equal to 41% of the entire portfolio.

The structure of the Union Bank Loan Portfolio supports many economic and industry sectors nationwide and it does not have extreme/unusual concentrations in any of the industries.

During 2018, there was no significant change on sector concentration of this portfolio.

Portfolio Quality



The management of the portfolio in terms of quality remains top priority for the Bank. It is considered to be an essential issue of lending process. A close monitoring process is applied to both business and retail lending.

During 2018 the Bank managed to keep an average level of NPL lower than 10% (end of 2017 10.6%) with a level of 8.5 % at year end. This percentage was lower than the NPL of the whole banking system that was 11% at yearend 2018.

The Bank's Loan Loss Provisions fund went down from 8.7% to 7.7% of the total portfolio. In mean time the NPL of leasing at the end of 2018 remained below 5%.

Cards and E-banking Products and Services

Payments sector, bank services and products are becoming more and more digital these days. Banks are offering to customers various payment alternatives. This approach was in focus of Union Bank for the year 2018.

Cards, year 2018 was a very dynamic year and with various campaigns:

- The information about Union Bank's cards was spread out to a wider audience of consumers exceeding bank's clientele.
- Cards usage beyond the basic cash withdrawal was the focus of another campaign
- Building partnerships with merchants so Union Banks cardholders can earn discounts, was a third one.

POS-s, Union Bank is a new player/actor in the POS business. Still it is trying to increase the presence in the market as an opportunity to further increase card transactions.

Internet banking, and other services that enable accessing the bank without the necessity to visit a branch were also in focus:

Answers to frequently asked questions and tutorials were prepared. Support in real time how to perform a transaction or a payment was provided. Bank fees and commissions were reduced or zeroed for transactions performed online. In accordance to this during 2018 the staff of branches was trained about the best sales and communication techniques. The motto of year 2018 was "Fast and Easy". And the results were quite positive: there was an increase of 36% in number of cards and volume of cards transactions and an increase of 66% in the volume of transaction performed online.

Transfers and Payments

The total number of transfers and payments (in and out) reached an amount close to 48,800 representing a yearly growth rate of 28.4%. Furthermore, when viewed in seasonal terms and based on the quarterly and yearly average figures, the development line of these products also stands at higher levels showing positive increments for all elements when compared to those of previous years.

We are also proud to mention that in regards to these services' fees, our bank offers some of the most competitive prices in the market at most convenience conditions. The continuing growing number of the clientele base and the escalation of cross-sale attempts directly affect the number of these transfers and their related income fees by further increasing the penetration rate on these products. The revenues from this segment surpassed the revenues from last year's with about 24%.

Operations' Internal Developments and Customer Service

The Bank is determined to deliver effective and efficient customer service, and a set of standardized measures and follow-up procedures to further improve the overall activity. It understands that the recent developments and demands in the business environment have increased the standards for the entire banking industry as well.

The Bank has implemented a set of internal controls in order to assure that all the branch network works in compliance with internal and external regulations.

As a general work ethic, the Bank realizes that all the organization members should possess a set of certain skills, which they have to master when they are dealing with the customers and third parties. It always strives to obtain and share its customer's view and also respond to their opinions, suggestions and requests but most of all, being patient and knowledgeable about products and showing willingness to listen and to learn. Keeping in mind that the market is a social relationship, besides daily interactions with its clients, there are also leaflets and survey forms placed inside branches and clients are encouraged to fill out them about the service and the banking products.

Events and Social Responsibility

Union Bank receives a 6 million finance line from EBRD to boost green energy investments in Albania.



Union Bank is an EBRD client since 2008 and successfully implemented several projects with EBRD. Through this additional loan from GEFF, Union Bank will be able to support investments in energy efficiency projects in privately owned houses. Expanding residential energy lending in Albania will help Union Bank to promote further its social and environmental objectives.

Sponsorship, Sporting and other events

UB the Official Sponsor of Albanian National Soccer Team

Union Bank has been the sponsor of Albanian's National Football Team for another year. The Bank is proud of supporting the team in all its challenges and competitions involved. In the Bank we believe that sports are playing an important role in promoting Union Bank's image.

Also for a healthy and wealthy life with physical activities Union Bank supported the participation of its staff teams in the amateur volleyball and soccer championships.

Donations and Sponsorship Programs

Besides long-lasting sponsorship of sportive activities, Union Bank also is very active and takes part in numerous donation events, charity, beneficiary programs and fundraiser to help communities and be more socially responsible. The Bank supports social responsibility initiatives not only with monetary support but also with the encouragement of its employees to be active in voluntary initiatives.

Main CSR activities

Little Bankers in Union Bank

On 13 March 2018, Union Bank welcomed bank staff's children of school age, at the premises of Bank's Main Branch, as part of the event "Little Bankers in Union Bank". This education activity was organized in the framework of the Money Week and ended with the distribution of symbolic gifts from the bank, including the Union Bank saving house, thus conveying the important message that saving and managing money is a responsibility for everyone.

Donation of 40 computers in Kukës

In the occasion of 7th March Union Bank upon the initiative of its branch in Kukës, Union Bank donated 40 computers to Kukës Education Department to be distributed to all district schools.

Supporting Kukës City Hospital

Union Bank supported Kukës City Hospital by financing the purchase of some equipment for hospital pediatrician and reception benches for the common facilities of the hospital complex.

"Sow your tree" in Elbasan city

Union Bank supported the action launched on April in the city of Elbasan "Sow your tree", contributing to increasing the number of new trees in "Qemal Stafa" main boulevard. The Elbasan branch and the marketing team of Union Bank along with representatives of the municipality planted new "Magnolia" trees.

Collaboration with Motherhood Child Hospital foundation

During the End of Year Holidays, Union Bank chose to wish its clients and partners through greeting cards, prepared by the Motherhood Child Hospital foundation.

Energy Expo & Forum 2018

On October 5-6th, the second edition of "Energy Expo & Forum 2018" Fair was held in Tirana. It focused on renewable energy and energy efficiency. Union Bank was the only bank participating in this fair.



Kredia për shtëpi

SHTËPI
DHE GJITHÇKA TJETËR



UNIONBANK
Banka që dua

Kredi me këste të ulëta mujore, për një jetë pa kufizime.

Interes duke filluar nga 2.2% dhe financim deri në 100% të vlerës së pronës.

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Depozita e Verës

Dyfish është më mirë



UNIONBANK
Banka që dua

Depozito për 1 vit dhe fito interes sa për 2 vite!

...ose merr depozitën 35 mujore dhe përfito edhe më shumë interes. Ofertë e vlefshme për depozita në Lek dhe Euro.

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Kredia për shtëpi

SHTËPI
DHE GJITHÇKA TJETËR



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PASION, PËRKUSHTIM, KRENARI



UNIONBANK
Banka që dua

Mbështesim ëndrrën e Kombëtares Shqiptare të Futbollit!

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economic environment which is

Plans for 2019

After more than a decade of successful banking business, Union Bank is actually ranked the bank number eight in banking sector in Albania. Year 2019 is going to note more progressive and ambitious achievements on all aspects of the bank's business, given the fact that the Bank successfully completed the acquisition of International Commercial Bank ("ICB"). While the main focus is going to be on the merge of the banks, it is also projected organic growth, with clear financial and business projections. Union Bank will not compromise the quality of its entire work philosophy and will be the prudent on every step.

The acquisition of ICB and the growth intends to widen customers' base, to increase the market share, to increase the profitability and to consolidate and enhance the asset's foundation while controlling all risk factors.

The Bank's management will follow strategies and technical plans in order to achieve the objectives in an

constantly moving. The Bank will evaluate also market opportunities created in the country from ongoing banking sector restructuring that is expected to end up with 12 banks, due to the acquisitions, from 16 this was the number of banks in 2017.

Asset's growth

Considering the merge with ICB, the total assets of the banks are expected to grow by approximately 30% during 2019. The main target intentions are on one side to improve the balance sheet structure toward interest bearing assets, loans to deposit ratios and net interest margins, keeping on the other side the liquidity level and supporting budgeted Lending and Securities growth.

On the other side during 2019 there will be many substantial projects that aim to expend hardware and software assets of the Bank, including the upgrade of the core banking system. IT projects are going to serve and support the business plans and help to automatize and modernize most of major bank operations in the Head Office and throughout the branch

network. Main focus will get the

completion of the new Digital Experience solution that aims to be introduced to the customers within 2019.

Lending

For 2019 Union Bank has forecasted an annual increase of more than 30% for its Loan Portfolio, as a combination of ICB acquired portfolio and above 9% organic growth from the Bank network. The target figure intends to solidify existing portfolio while keeping healthy parameters of it and go ahead by adding up to its value with special focus to the increase in consumer segment and SME. At the same time, the Bank will firmly consider and regularly monitor all exposures and risk issues by trying to keep up the good quality of the loan portfolio. Lower concentration and risk and maintenance of the yield are also going to be put affront with the BoA policy of the gradual de-eurozation of the market.

For the Bank network only, the Retail lending in 2019 is targeted to increase by more than 9%. Marketing campaigns will put maximum efforts

to support these goals especially

toward the segments of mortgage loans. Retail Consumer is planned to have a 16% yearly increase.

Business lending in 2019 is budgeted to increase by more than 9%. The segment that is planned to have the largest increase rate is that of SME. The lending process here will continue to support all sectors of the economy, facilitating mainly small and medium businesses by increasing the cross-sell efforts. In the same time, it will fulfill the necessary requirements for credit growth combined with parameters for better loan monitoring and quality improvements of this segment.

We expect to increase the market share of the bank approximately to 5% by the end of the year.

Funding

For 2019 Union Bank network plans to increase Customer Funds more than 12%. However, considering the ICB factor, the yearly growth for customer accounts is expected to be in the level of 30%. The segments that is going to experience the largest increase is that of time deposits, with approximately half of

the total growth. The currency

structure of funds will be also watched very carefully since the impact of exchange rates and foreign currencies fluctuating, in particular Euro,

might have a direct impact on Albanian deposits. However, the majority of the growth is expected to be in foreign currency.

The product pricing strategy is closely related to the main goals of the Bank for growth, for its customer base and market share increase. Product pricing is strictly monitored in order to maintain a net interest margin that sustains the profitability. Campaigns and efforts that will take place during 2019 for the implementation of these strategies will firstly consist in supporting the main product range, and then improving and finding ways for creation of new or hybrid product characteristics.

We expect to increase the market share of the bank approximately to 4.5% by the end of the year.

Key Marketing and Networking Projects for 2019

For 2019 the Bank will have important marketing projects that

will help the Bank to grow in its customer base and market share. That will be realized through promoting smart products and the brand of the Bank. Quick and easy access for clients in branches or through other channels will also be promoted.

Based on the experience of previous years and in support of the realization of business targets of the Bank, Marketing Department has budgeted some campaigns. Some of them are listed below:

Business Package it's a package designed for SME and small businesses. The campaign planned to be implemented in spring time and will be a multichannel campaign that will communicate with business people through classic and digital channels like TV, radio and branch banking and different social media component.

Kursim+ is the product loan offered by Union Bank in frame of GEFF Program by EBRD (Western Balkans Green Economy Financing Facility). The product will be launched officially during spring period and will be able to support investments

in energy efficiency projects in privately owned houses.	relocation of one of the branches and the replacements of interior
--	--

Summer 2019 funds' campaign, which will be based on seasonal TD renewal and new funds coming in Albania through Albanians visiting the country during summer time.	and exterior assets on some other agencies. In addition, 3 more branches will be added from the merge with ICB and one new branch is projected to be opened in Tirana, to better cover the city.
--	--

During 2019 Union Bank will continue to support sports in Albania. In the Bank we are proud for the consistent support given to the Albanian national football team since the establishment of the Bank. Other than supporting national football the Bank is decided to promote sports and social activities in communities inside and outside of the Bank.

In order to fulfill its social responsibilities Union Bank plans to continue to be active and encourage its staff to volunteer for blood donation, to collect and donate food and clothing packages for persons and families in difficulties.

Branches Network

During 2019 the management of Union Bank will continue to implement projects for existing branch upgrades. There are several projects in Tirana which include

UNION BANK SH.A.
Independent Auditor’s Report
and Consolidated Financial Statements
as at and for the year ended 31 December 2018

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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, 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the 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 financial position of Union Bank sh.a. as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Matter

The consolidated financial statements of Union Bank sh.a. as at and for the year ending on 31 December 2017 were audited by another auditor, who issued an unqualified opinion on March 30, 2018.

Other Information Included in Union Bank 2018 Annual Report

Other information consists of the information that will be included in Bank's 2018 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the 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.

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 Auditor
 April 12, 2019
 Tirana, Albania



Mario Vangjel
 Certified Auditor



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in LEK '000

	Notes	As at December 31, 2018	As at December 31, 2017
Assets			
Cash and balances with Central Bank	8	5,492,154	5,300,462
Due from banks	9	3,804,835	3,960,261
Investment securities	10	18,423,282	-
Treasury Bills held-to-maturity	10	-	1,051,668
Bonds held-to-maturity	10	-	15,732,455
Loans and advances to customers	11	22,152,898	19,195,903
Intangible assets	12	127,611	98,418
Property and equipment	13	265,640	230,279
Investment property	14	396,458	358,977
Other assets	15	610,168	590,411
Deferred tax asset	30	30,085	19,794
Total assets		51,303,131	46,538,628
Liabilities			
Due to Central Bank	16	2,456,241	2,374,465
Due to banks and financial institutions	17	2,438,602	1,559,210
Due to customers	18	41,298,692	38,236,823
Other liabilities	19	475,289	308,653
Income tax payable	30	31,456	14,066
Total liabilities		46,700,280	42,493,217
Shareholders' equity			
Share capital	20	2,717,813	2,717,813
Share premium		175,600	175,600
Legal Reserve	20.1	280,405	280,405
Retained earnings		1,429,033	871,593
Total shareholders' equity		4,602,851	4,045,411
Total liabilities and shareholders' equity		51,303,131	46,538,628

These consolidated financial statements have been approved by Executive Management on 25 March 2019 and signed on its behalf by:


Gazmend Kadriu
Chief Executive Officer




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 76 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, 2018	For the year ended December 31, 2017
Interest income	21	2,358,284	2,155,638
Interest expense	22	(377,964)	(345,222)
Net interest income		1,980,320	1,810,416
Fee and commission income	23	290,021	254,229
Fee and commission expenses	24	(53,507)	(46,915)
Net fee and commission income		236,514	207,314
Net impairment loss on financial assets	25	(104,279)	(277,098)
Net gain/(loss) from de-recognition of financial assets measured at amortised cost	26	23,734	-
Net foreign exchange result	27	(144,277)	14,008
Change in fair value of investment property	14	(32,593)	(22,095)
Income from leased investment property	14	9,176	5,213
Other income, net		11,867	(4,077)
Write-down on net realizable value of repossessed collaterals	15	(5,364)	(54,178)
Other charges for provisions		-	(1,308)
Amortization of intangible assets	12	(30,914)	(24,488)
Depreciation of property and equipment	13	(44,295)	(41,598)
Personnel costs	28	(502,832)	(479,205)
Other operating expenses	29	(760,528)	(682,154)
Profit before tax		636,529	450,750
Income tax expense	30	(99,172)	(73,584)
Profit of the year		537,357	377,166
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year		537,357	377,166

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 76 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 2017		2,717,813	175,600	280,405	519,515	3,693,333
Transactions with owners recorded directly in equity						
Increase in share capital		-	-	-	-	-
Dividends distributed	20	-	-	-	(25,088)	(25,088)
Total contributions by and distributions to owners		-	-	-	(25,088)	(25,088)
Total comprehensive income for the year						
Profit for the year		-	-	-	377,166	377,166
Other comprehensive income, net of income tax		-	-	-	-	-
Total comprehensive income for the year		-	-	-	377,166	377,166
Balance at 31 December 2017		2,717,813	175,600	280,405	871,593	4,045,411
Restated opening balance under IFRS9						
Impact of adopting IFRS9	7	-	-	-	20,083	20,083
Restated opening balance under IFRS9		2,717,813	175,600	280,405	891,676	4,065,494
Transactions with owners recorded directly in equity						
Increase in share capital		-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-
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
Balance at 31 December 2018		2,717,813	175,600	280,405	1,429,033	4,602,851

The consolidated statement of changes in equity is to be read in conjunction with the notes set out on pages 5 to 76 integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS**IN LEK '000**

	Notes	For the year ended December 31, 2018	For the year ended December 31, 2017
Cash flows from operating activities			
Profit before tax		636,529	450,750
Adjustments for non-cash items:			
Interest income	21	(2,358,284)	(2,155,638)
Interest expense	22	377,964	345,222
Depreciation of property and equipment	13	44,295	41,598
Amortization of intangible assets	12	30,914	24,488
Impairment loss on financial assets	25	104,279	277,098
Write-down on NRV of repossessed collaterals	15	2,940	52,497
Change in fair value of investment property	14	32,593	22,095
Impairment of assets held for sale		2,424	1,681
Other charges for provisions		-	9,839
Revaluation effect of cash and cash equivalents		405,812	121,053
Other revaluation effects		(82,829)	28,163
Written off property and equipment		1,564	59
Net gain from sale of property and equipment		(265)	(5)
Net gain from sale of repossessed collaterals		(5,963)	(42,724)
		(808,027)	(823,824)
Changes in:			
Due with banks		(749,529)	(327,138)
Loans and advances to customers		(2,932,634)	(2,661,117)
Other assets		(61,291)	272,009
Due to banks and financial institutions		871,128	169,420
Due to customers		3,065,846	4,242,189
Due to Central Bank		81,749	205,114
Other liabilities		163,394	31,181
Interest received		2,335,988	2,125,159
Interest paid		(373,651)	(444,248)
Income tax paid		(98,123)	(53,175)
Net cash generated from operating activities		1,494,850	2,735,570
Cash flows from investing activities			
Purchases of intangible assets	12	(60,108)	(18,037)
Purchases of property and equipment	13	(82,776)	(59,102)
Proceeds from sale of property and equipment		1,823	1,589
Proceeds from sale of non-current assets held for sale		17,990	56,881
(Purchases)/Proceeds of treasury bills		(206,427)	487,712
Purchases of bonds		(1,460,297)	(1,676,992)
Net cash used in investing activities		(1,789,795)	(1,207,949)

Cash flows from financing activities			
Dividends distributed	-		(25,088)
Net cash generated from financing activities	-		(25,088)
Net increase in cash and cash equivalents during the year	(294,945)		1,502,533
Revaluation effect of cash and cash equivalents	(405,812)		(121,053)
Cash and cash equivalents at the beginning of the year	6,628,914		5,272,744
Cash and cash equivalents at the end of the year	32	5,953,467	6,654,224

The consolidated statement of cash flows is to be read in conjunction with the notes set out on pages 5 to 76 integral part of the consolidated financial statements.

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.

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 Subsidiary (collectively the ‘Group’).

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

DIRECTORS AS AT 31 DECEMBER 2018

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 Subsidiary

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.

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. BASIS OF PREPARATION (CONTINUED)

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.

2.5. Comparative

Certain reclassification is made in order to obtain better presentation and disclosure in the consolidated financial statements as at December 31, 2017 and as at December 31, 2018. More specifically:

“Loans and advances to Financial Institutions” of LEK 1,119,584 thousand was presented on a consolidated line in the consolidated statement of financial position as at 31 December 2017, and for both periods ending on 31 December 2018 and 31 December 2017. These are grouped together and presented under “Loans and advances to customers”. The respective disclosures in the notes to the consolidated financial statements have been made with respect to this reclassification.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

3.1. New and amended standards and interpretations

In these financial statements, the Group has applied IFRS 9, IFRS 15 and IFRS 7R, effective for annual periods beginning on or after 1 January 2018, for the first time. 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 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018.

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in Note 7.

3.1.1.1. Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics. The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortized cost) have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition.
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity’s own credit risk relating to liabilities designated at FVPL, which should be presented in OCI with no subsequent reclassification to profit or loss.

The Group’s classification of its financial assets and liabilities is explained in Notes 4.8.4, 4.9, 4.10, 4.11 and 4.17. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 7.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1.1.2. Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group’s accounting for loan loss impairments by replacing IAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the

Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Group’s impairment method are disclosed in Note 4.8.7. The quantitative impact of applying IFRS as at 1 January 2018 is disclosed in Note 7.

3.1.2. IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include: transition disclosures as shown in Note 7, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 35.1.2. Reconciliations from opening to closing ECL allowances are presented in Notes 8, 9, 10 and 11.

3.1.3. IFRS 15 Revenues from contracts with customers

The adoption of IFRS 15 did not impact the timing or amount of fee, commission and other income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements, as detailed in note 23. If the Group had prepared the financial statements for 2018 under previous revenue standard IAS 18, the figures in the financial statements as at 31 December 2018 would have been the same as prepared under IFRS 15.

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 9 Financial Instruments which has been implemented from 1 January 2018 using the modified retrospective approach through which the opening balances on 1 January 2018 are restated.

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 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 whether 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1. Basis of consolidation (continued)

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.

4.3. Interest

Under both IFRS 9 and IAS 39, 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, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EIR method. 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 net carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account 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 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 in the consolidated statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortized through Income from banking operations in the consolidated statement of comprehensive income.

Interest and similar income

Policy from 1 January 2018 (IFRS 9): 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 35.1.2.1) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3. Interest (continued)

If the financial assets cures (as outlined in Note 35.1.2.1) 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 4.8.7.1), 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 2018 and 2017. Policy before 1 January 2018 (IAS 39): When the recorded value of a financial asset or group of similar financial assets has been reduced by an impairment loss, interest income

continues to be recognised on gross amount using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

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.

Fee income can be divided into the following three categories:

- 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.

- 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.

- Lending fees

The fees included here include among other things fees charged for servicing a loan, a letter of credit or bank guarantee. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

4.5. Dividend income

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

4.6. Leases

4.6.1. Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

4.6.2. Leased assets – lessor

If the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, than the arrangement is classified as finance lease. At the commencement of the lease term the Group records the financial lease as a receivable at an amount equal to the net investment in the lease and is presented within loans and advances (Note 4.10). Net investment in the lease equals to gross investment in the lease discounted by the interest rate implicit in the lease. The Group recognises finance income based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

4.7.3. 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

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 4.8.4. 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8.Financial instruments (continued)

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

Form 1 January 2018, 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 4.9, 4.10 and 4.11).

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 4.17.

4.8.4.1. 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**4.8. Financial instruments (continued)****4.8.4. Measurement categories of financial assets and liabilities (continued)****4.8.4.2. 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.

Before 1 January 2018, the Group classified its financial

assets as loans and receivables (amortised cost), and held-to-maturity (amortised cost), see Notes 4.9, 4.10 and 4.11.

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

4.8.5. Reclassification

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.

4.8.6. Derecognition of financial assets and liabilities**Policy applicable from 1 January 2018 (IFRS 9)****4.8.6.1. 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**4.8. Financial instruments (continued)****4.8.6. Derecognition of financial assets and liabilities (continued)****4.8.6.2. Derecognition other than for substantial modification****4.8.6.2.1. 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**4.8. Financial instruments (continued)****4.8.6. Derecognition of financial assets and liabilities (continued)****4.8.6.2. Derecognition other than for substantial modification (continued)****4.8.6.2.2. 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.

4.8.6.3. Derecognition of financial assets and liabilities (Policy applicable before 1 January 2018 – IAS 39)**4.8.6.3.1. Financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset. Transfer takes place when rights to contractual cash flows are transferred, or rights to contractual cash flows are retained but an entity enters into "pass through" arrangement. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

4.8.6.3.2. Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. . Where there has been an exchange between an existing borrower and the lender of debt instruments with substantially different term, or has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for an extinguishment of the original financial liability and the recognition of a new financial liability. Terms are substantially different if the present value of the net cash flows under the new terms discounted using the original effective interest rate is at least 10 per cent different from the present value of the remaining cash flows under the original financial liability. A gain or loss from extinguishment of the original financial liability is recognised in profit or loss.

4.8.7. Impairment of financial assets

4.8.7.1. Overview of the ECL principles

As described in Note 3.1.1.2, the adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Group has been recording the 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 4.8.7.2. The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 35.1.2.2.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8. Financial instruments (continued)

4.8.7. Impairment of financial assets (continued)

4.8.7.1. Overview of the ECL principles (continued)

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.

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 35.1.3.1.

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 35.1.3.

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 35.1.2.1).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.

4.8.7.2. 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 35.1.3.2.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8. Financial instruments (continued)

4.8.7. Impairment of financial assets (continued)

4.8.7.2. The calculation of ECLs (continued)

- 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 35.1.3.2.
- 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 35.1.3.2.

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 35.1.3.2.

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 35.1.2.1), 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.SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8. Financial instruments (continued)

4.8.7. Impairment of financial assets (continued)

4.8.7.3. 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 35.1.3.1.3.

4.8.7.4. 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.

4.8.7.5. Identification and measurement of impairment (Policy before 1 January 2018)

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

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet reported. Loans and advances and held-

to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (type and amount of the loan). Based on historical data for each of these groups a loss factor is calculated. These expected loss factors are adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends, and then they are applied to estimate impairment loss on each group. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

4.SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8. Financial instruments (continued)

4.8.7. Impairment of financial assets (continued)

4.8.7.5. Identification and measurement of impairment (Policy before 1 January 2018) (continued)

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss is measured as follows:

- If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

4.8.8. 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.

4.8.9. 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.

4.8.10. 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.

4.8.11. 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:

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8. Financial instruments (continued)

4.8.11. Fair value measurement (continued)

- 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 36.

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.

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.

4.9. 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.

4.10. Due from banks and Loans and advances to customers

From 1 January 2018, "Due from banks" and "Loans and advances to customers" in the statement of financial position, include

- 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.

- lease receivables in which the Group is the lessor (Note 4.6.2)

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 financial statements.

4.SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10. Due from banks and Loans and advances to customers (continued)

Before 1 January 2018, "Due from banks" and "Loans and advances to customers" were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Group did not intend to sell immediately or in the near term. "Due from banks" and "Loans and advances" were classified as loans and receivables. Loans and advances to customers included:

- those classified as loans and receivable; and
- finance lease receivable

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Loans and advances also included finance lease receivable in which the Group was the lessor (see Note 3.5.2). When the Group purchased a financial asset and simultaneously entered into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement was accounted for as a loan or advance, and the underlying asset was not recognised in the Group's consolidated financial statements.

4.11. Investment securities

From 1 January 2018, 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.

Before 1 January 2018, Investment securities were initially measured at fair value plus incremental direct transaction costs, and subsequently accounted as held to maturity.

Held-to-maturity investments were non-derivative assets with fixed or determinable payments and fixed maturity that the Group had the positive intent and ability to hold to maturity.

Held-to-maturity investments were carried at amortised cost using the effective interest method, less any impairment losses (see Note 4.8.7.4). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments to AFS category and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity

that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

4.12. Property and equipment

4.12.1. 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12. Property and equipment (continued)

4.12.2. 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.

4.12.3. 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.

4.13. 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.

4.14. 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.

4.15. Inventories

Inventories 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15. Inventories (continued)

The Group holds inventories in the form of consumption inventories and as repossessed collaterals. 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.

4.16. 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.

4.17. 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.

4.18. 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.

4.19. Financial Guarantees

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 – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision as set out in Note 33.

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, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, 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 33.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20. 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.

4.21. 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:

- Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are applied for annual periods beginning on or after 1 January 2018).

4.22. 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 16 Leases

IFRS 16 was issued in January 2016 and it replaces 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 similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

4.SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.22. Impact of standards issued but not yet effective (continued)

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under 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.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 using the modified retrospective approach for all leases previously classified as operating leases. As per this approach, the Group will measure the lease liability at the present value of the remaining lease payments, discounted using the rates at the leasing sector for similar assets and the right to use asset will be recognised at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of cars and some of its branches with lease terms that end within 12 months as of the date of initial application and certain office equipment (i.e. printing and photocopying machines) that are considered of low value.

To the date these financial statements are issued, the Group has arrived to an approximate amount of the impact of IFRS 16. The actual impact of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

As at 1 January 2019, the Group has made an initial assessment to the potential impact of implementing IFRS 16, and estimated that the liability and the right-to-use asset will fall into the range of LEK 750,000-800,000 thousand, dependant on the fact that the Group is still to clear minor estimates and assumptions.

For the following new standards and interpretations, the Group anticipates that their adoption will have no material impact on the financial statements of the Group in the period of initial application and are not expected to have an impact over the financial statements of the Group:

- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021),
- 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 IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- 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),
- Conceptual Framework in IFRS standards - For preparers who develop accounting policies based on the Conceptual Framework (effective for annual periods beginning on or after 1 January 2020),

4.SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.22. Impact of standards issued but not yet effective (continued)

- IFRS 3: Business Combinations (Amendments) - amendments in Definition of a Business (effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted),
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of ‘material’ (Amendments) - clarify the definition of material and how it should be applied (effective for annual periods beginning on or after 1 January 2020 with earlier application permitted)
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS, which become effective for annual periods beginning on or after 1 January 2019, and including:

- IFRS 3 Business Combinations
- IFRS 11 Joint Arrangements
- IAS 12 Income Taxes
- IAS 23 Borrowing costs.

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 35).

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. 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.USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

5.2. Impairment

The measurement of impairment losses both under IFRS 9 and IAS 39 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

Significant accounting judgements, estimates and assumptions related to impairment losses on financial assets before 1 January 2018, are disclosed below.

Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Committee function.

A collective component of the total allowance is established for groups of homogeneous loans that are not individually impaired.

Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Committee function.

A collective component of the total allowance is established for groups of homogeneous loans that are not individually impaired.

Collective allowance for groups of assets that are not considered individually significant and those that are individually significant but that were not found to be individually impaired cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

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. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

5.3. Fair value

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 4.8.11. 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.

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.

6.CONSolidATION

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

	As at 31 December 2018		As at 31 December 2017	
	Bank	Subsidiary	Bank	Subsidiary
Total assets	51,374,187	1,669,500	46,487,052	1,214,189
Total liabilities	46,924,441	1,357,593	42,612,723	882,105
Shareholder's equity	4,449,746	311,907	3,874,329	332,084
Total banking income	2,090,772	79,073	1,939,828	93,046
Profit before tax	650,505	38,651	406,752	43,998

7. TRANSITION DISCLOSURES

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

The table below reconciles the aggregate opening loan loss provision allowances under IAS 39 or IAS 37 as at 31 December 2017 to the ECL allowances under IFRS 9 as at 01 January 2018.

	31 December 2017	Impact from First Time Adoption	1 January 2018
Impairment allowance for:	Under IAS39/IAS37	Re-measurement	Under IFRS 9
Balances with Central Bank	-	3,156	3,156
Due from banks	-	10,743	10,743
Investment securities	-	45,716	45,716
Loans and advances to customers	1,674,643	(88,906)	1,585,737
Other assets – Sundry debtors	53,020	-	53,020
Financial Guarantees	8,500	1,588	10,088
Letters of credit for customers	-	1,570	1,570
Total	1,736,163	(26,133)	1,710,030

7.TRANSITION DISCLOSURES (CONTINUED)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS9 as of 1 January 2018 is as follows:

	31 December 2017		Impact from First Time Adoption IFRS 9		1 January 2018	
	IAS 39 measurement		Re- classification	Re- measurement	IFRS 9 measurement	
	Category	Amount		ECL	Amount	Category
Cash and balances with Central Bank	L&R	5,300,462	-	(3,156)	5,297,306	AC

Due from banks	L&R	3,960,261	-	(10,743)	3,949,518	AC
Investment securities at amortised cost		N/A	16,784,123	(45,716)	16,738,407	AC
From: Treasury Bills held-to-maturity			1,051,668			
From: Bonds held-to-maturity			15,732,455			
Bonds held-to-maturity	L&R	15,732,455	(15,732,455)	-	N/A	
To: Investment securities at amortised cost			(15,732,455)			
Treasury Bills held-to-maturity	L&R	1,051,668	(1,051,668)	-	N/A	
To: Investment securities at amortised cost			(1,051,668)			
Loans and advances to customers, net		19,195,903	-	88,906	19,284,809	
Loans and advances to customers, net	L&R	18,227,540	-	85,967	18,313,507	AC
Financial lease receivables, net		968,363	n/a	2,939	971,302	
Non-financial assets						
Deferred tax asset		19,794		6,844	26,638	
Total Assets		45,260,543	-	36,135	45,296,678	
Financial liabilities						
Due to Central Bank	AC	2,374,465	-	-	2,374,465	AC
Due to banks and FI	AC	1,559,210	-	-	1,559,210	AC
Due to customers	AC	38,236,823	-	-	38,236,823	AC
Non-financial liabilities						
Other liabilities (Provision for off balance sheet items)		308,653	-	3,158	311,811	
Deferred tax liability		-	-	12,894	12,894	
Total Liabilities		42,479,151	-	16,052	42,495,203	
Retained Earnings						
Retained Earnings		871,593	-	20,083	891,676	

As of 1 January 2018, the Group did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

8.CASH AND BALANCES WITH CENTRAL BANK

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

	As at December 31, 2018	As at December 31, 2017
Cash on hand	1,295,036	1,102,623
Central Bank:		
Current account	953,209	1,614,870
Compulsory reserves	3,247,864	2,582,817
Accrued interest	163	152
Allowance for impairment losses	(4,118)	-
Total	5,492,154	5,300,462

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% (2017: 40%) 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 2018	5,300,462	-	-	5,300,462
New assets originated or purchased	571,156	-	-	571,156
Assets de-recognised or repaid	(116,241)	-	-	(116,241)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(259,105)	-	-	(259,105)
Total	5,496,272	-	-	5,496,272

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	3,156	-	-	3,156
New assets originated or purchased	962	-	-	962
Assets de-recognised or repaid	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-

Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	4,118	-	-	4,118

9.DUE FROM BANKS

Due from banks are detailed as follows:

	As at December 31, 2018	As at December 31, 2017
Current accounts:		
Resident	36,638	25,310
Non-resident	3,298,324	3,391,996
	3,334,962	3,417,306
Deposits:		
Resident	370,260	519,425
	370,260	519,425
Other accounts	107,931	23,449
Accrued interest	43	81
Allowance for impairment losses	(8,361)	-
Total	3,804,835	3,960,261

Deposits with resident banks mature in the range of 3 to 78 days (2017: 3 to 80 days) and bear interest in the range of 0.1%p.a. to 0.2%p.a. (2017: 0.2%p.a. to 1.28%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 2018	3,960,261	-	-	3,960,261
New assets originated or purchased	960,883	-	-	960,883
Assets de-recognised or repaid	(856,595)	-	-	(856,595)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(251,353)	-	-	(251,353)
Total	3,813,196	-	-	3,813,196

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	10,743	-	-	10,743
New assets originated or purchased	2,708	-	-	2,708
Assets de-recognised or repaid	(4,637)	-	-	(4,637)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(453)	-	-	(453)
Total	8,361	-	-	8,361

10.INVESTMENT SECURITIES

Below is an analysis of the Bank's financial investment.

	As at December 31, 2018	As at December 31, 2017
Debt instruments at amortised cost:		
Albanian Treasury Bills	1,258,095	-
Albanian Government Bonds	16,578,464	-
Foreign Governments Bonds	328,841	-
Corporate Bonds	312,844	-
Allowance for impairment losses	(54,962)	-
Total Debt instruments at amortised cost	18,423,282	-
Financial investments held-to maturity:		
Albanian Treasury Bills	-	1,051,668
Albanian Government Bonds	-	15,018,284
Foreign Governments Bonds	-	346,822
Corporate Bonds	-	367,349
Total financial investments held-to maturity	-	16,784,123
Total investment securities	18,423,282	16,784,123

The Bank has pledged some of its Albanian Treasury bonds as collateral for repurchase agreements with Central Bank amounting at LEK 2,560,000 thousand (2017: LEK 2,300,000 thousand).

T-Bills are issued by the Albanian Government and by original maturity are presented as follows:

	31 December 2018			31 December 2017		
	Nominal value	Unamortized discount	Book Value	Nominal value	Unamortized discount	Book Value
12 months	1,269,690	(11,595)	1,258,095	1,059,880	(8,212)	1,051,668
Total	1,269,690	(11,595)	1,258,095	1,059,880	(8,212)	1,051,668

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

	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	3,535	328,842
Corporate Bonds	305,223	2,427	5,193	312,843
Total	16,959,818	18,059	242,272	17,220,149

	31 December 2017			
	Nominal value	Remaining (premium) /discount	Accrued interest	Book Value
Albanian Government	14,827,718	(16,032)	206,598	15,018,284
Foreign Governments	333,300	10,130	3,392	346,822
Corporate Bonds	354,965	7,499	4,885	367,349

Total	15,515,983	1,597	214,875	15,732,455
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10. INVESTMENT SECURITIES (CONTINUED)

Bonds at amortised cost (2017: held-to maturity) are rated as follows:

<i>Moody's Ratings or equivalents</i>	As at December 31, 2018	As at December 31, 2017
Albanian Government		
Rated B+	1,332,332	888,223
Not rated	15,246,132	14,130,061
Foreign Governments		
Rated Aaa	108,691	112,988
Rated Aa2	55,509	60,094
Rated Aa3	55,397	59,641
Rated A1	54,319	56,198
Rated A3	54,925	-
Rated Baa1	-	57,901
Corporate Bonds		
Rated Aa2	76,534	77,998
Rated A1	63,329	67,483
Rated A2	62,927	138,548
Rated A3	79,142	83,320
Not rated	30,912	-
Total	17,220,149	15,732,455

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 2018	16,784,123	-	-	16,784,123
New assets originated or purchased	2,377,326	-	-	2,377,326
Assets de-recognised or repaid	(570,694)	-	-	(570,694)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(112,511)	-	-	(112,511)
Total	18,478,244	-	-	18,478,244

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	45,716	-	-	45,716
New assets originated or purchased	11,753	-	-	11,753
Assets de-recognised or repaid	(2,141)	-	-	(2,141)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(366)	-	-	(366)
Total	-	-	-	54,962

11. LOANS AND ADVANCES TO CUSTOMERS

UNION BANK SH.A. Notes to the Consolidated Financial Statements as at and for the year ended December 31, 2018 (Amounts in LEK '000 unless otherwise stated)

Loans and advances to customers are detailed as follows:

	As at December 31, 2018	As at December 31, 2017
Loans and advances at amortised cost	22,606,845	19,859,846
Finance Lease	1,095,654	1,010,700
Allowance for Impairment	(1,549,601)	(1,674,643)
Total	22,152,898	19,195,903

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

	Gross carrying amount	ECL amount	As at December 31, 2018 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 Lease	1,095,654	(37,982)	1,057,672
Total	23,702,499	(1,549,601)	22,152,898

	Gross carrying amount	Impairment allowance	As at December 31, 2017 Carrying amount
Retail customers			
Mortgage Lending	5,148,853	(110,127)	5,038,726
Personal loans	2,922,233	(147,287)	2,774,946
Overdrafts and credit cards	321,799	(24,134)	297,665
Retail lending	8,392,885	(281,548)	8,111,337
Lending to businesses	11,466,961	(1,350,758)	10,116,203
Finance Lease	1,010,700	(42,337)	968,363
Total	20,870,546	(1,674,643)	19,195,903

Loans and advances to customers earn interest as follows:

Currency	As at December 31, 2018	As at December 31, 2017
LEK	2.10% - 20.0% p.a.	2.10% - 20.0% p.a.
EUR	1.20% - 15.0% p.a.	1.16% - 15.0% p.a.
USD	2.35% - 9.01% p.a.	1.70% - 15.0% 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 2018 is LEK 355,593 thousand (2017: LEK 333,475 thousand) and bear interest rates that are 1% p.a. to 1.8% below the rates given to usual customers.

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, 2018	As at December 31, 2017
Less than one year	86,586	143,915
Between one and five years	1,145,951	1,012,265
Unearned future finance income	(136,883)	(145,480)

Net investment in finance lease	1,095,654	1,010,700
Less impairment allowance	(37,982)	(42,337)
Total	1,057,672	968,363

Interest rates of the finance lease portfolio vary from 7.5% p.a. to 8.2% p.a.(2017: 7.68% p.a. to 9% p.a.)

11. 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 2018	4,583,164	376,554	189,135	5,148,853
New assets originated or purchased	2,177,593	-	-	2,177,593
Assets de-recognised or repaid	(753,473)	(108,261)	(56,846)	(918,580)
Transfers to Stage 1	95,171	(90,572)	(4,599)	-
Transfers to Stage 2	(227,840)	229,737	(1,897)	-
Transfers to Stage 3	(80,676)	(29,714)	110,390	-
Amounts written off	-	-	(2,784)	(2,784)
Foreign exchange adjustments	(255,807)	(21,896)	(11,471)	(289,174)
Total	5,538,132	355,848	221,928	6,115,908

Mortgage lending

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	43,971	4,498	41,027	89,496
New assets originated or purchased	24,647	-	-	24,647
Assets de-recognised or repaid	(3,650)	(3,229)	(5,113)	(11,992)
Transfers to Stage 1	266	(266)	-	-
Transfers to Stage 2	(1,752)	1,752	-	-
Transfers to Stage 3	(7,427)	-	7,427	-
Net re-measurement of ECL	(7,458)	(701)	(10,848)	(19,007)
Amounts written off	-	-	(2,784)	(2,784)
Foreign exchange adjustments	(2,579)	(243)	(2,369)	(5,191)
Total	46,018	1,811	27,340	75,169

11. LOANS AND 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 2018	2,549,469	145,207	227,557	2,922,233
New assets originated or purchased	1,588,700	-	-	1,588,700
Assets de-recognised or repaid	(1,096,480)	(63,720)	(58,861)	(1,219,061)
Transfers to Stage 1	16,073	(15,480)	(593)	-
Transfers to Stage 2	(119,541)	143,742	(24,201)	-
Transfers to Stage 3	(93,938)	(33,757)	127,695	-
Amounts written off	-	-	(13,135)	(13,135)
Foreign exchange adjustments	(76,676)	(5,453)	(5,265)	(87,394)
Total	2,767,607	170,539	253,197	3,191,343

Consumer loans

UNION BANK SH.A. Notes to the Consolidated Financial Statements as at and for the year ended December 31, 2018 (Amounts in LEK '000 unless otherwise stated)

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	43,727	16,872	140,135	200,734
New assets originated or purchased	49,631	-	-	49,631
Assets de-recognised or repaid	(10,885)	(2,232)	(18,808)	(31,925)
Transfers to Stage 1	3,025	(2,718)	(307)	-
Transfers to Stage 2	(8,321)	11,612	(3,291)	-
Transfers to Stage 3	(18,451)	(3,564)	22,015	-
Net re-measurement of ECL	(12,230)	(1,762)	29,290	15,298
Amounts written off	-	-	(13,135)	(13,135)
Foreign exchange adjustments	(1,168)	(333)	(2,182)	(3,683)
Total	45,328	17,875	153,717	216,920

Overdrafts and credit cards

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	244,022	29,754	48,023	321,799
New assets originated or purchased	88,140	-	-	88,140
Assets de-recognised or repaid	(64,011)	(8,233)	(9,386)	(81,630)
Transfers to Stage 1	12,174	(10,055)	(2,119)	-
Transfers to Stage 2	(21,364)	22,342	(978)	-
Transfers to Stage 3	(17,413)	(4,653)	22,066	-
Amounts written off	-	-	(433)	(433)
Foreign exchange adjustments	(7,445)	(1,086)	(771)	(9,302)
Total	234,103	28,069	56,402	318,574

Overdrafts and credit cards

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	2,687	6,442	30,694	39,823
New assets originated or purchased	4,023	-	-	4,023
Assets de-recognised or repaid	(350)	(1,185)	(4,737)	(6,272)
Transfers to Stage 1	3,641	(2,903)	(738)	-
Transfers to Stage 2	(1,475)	1,736	(261)	-
Transfers to Stage 3	(1,484)	(804)	2,288	-
Net re-measurement of ECL	(2,115)	3,283	11,749	12,917
Amounts written off	-	-	(433)	(433)
Foreign exchange adjustments	(136)	(224)	(547)	(907)
Total	4,791	6,345	38,015	49,151

11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Business lending

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	8,365,829	757,649	2,343,483	11,466,961
New assets originated or purchased	5,993,234	-	-	5,993,234
Assets de-recognised or repaid	(3,062,255)	(135,482)	(554,188)	(3,751,925)
Transfers to Stage 1	202,144	(197,558)	(4,586)	-
Transfers to Stage 2	(651,000)	711,906	(60,906)	-
Transfers to Stage 3	(254,531)	(70,873)	325,404	-
Amounts written off	-	-	(4,814)	(4,814)
Foreign exchange adjustments	(538,447)	(49,566)	(134,423)	(722,436)
Total	10,054,974	1,016,076	1,909,970	12,981,020

Business lending

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	141,197	46,289	1,028,800	1,216,286
New assets originated or purchased	134,207	-	-	134,207
Assets de-recognised or repaid	(23,774)	(57)	(116,845)	(140,676)
Transfers to Stage 1	13,064	(13,064)	-	-
Transfers to Stage 2	(10,634)	14,040	(3,406)	-
Transfers to Stage 3	(56,430)	(613)	57,043	-
Net re-measurement of ECL	(40,004)	(21,873)	92,989	31,112
Amounts written off	-	-	(4,814)	(4,814)
Foreign exchange adjustments	(8,210)	(2,386)	(55,140)	(65,736)
Total	149,416	22,336	998,627	1,170,379

Financial Lease

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	568,720	333,439	108,541	1,010,700
New assets originated or purchased	585,894	-	-	585,894
Assets de-recognised or repaid	(211,187)	(172,363)	(44,943)	(428,492)
Transfers to Stage 1	15,420	(15,420)	-	-
Transfers to Stage 2	(208,013)	208,013	-	-
Transfers to Stage 3	(11,054)	(7,607)	18,661	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(40,766)	(23,901)	(7,780)	(72,448)
Total	699,014	322,161	74,479	1,095,654

Financial Lease

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	1,088	1,300	37,011	39,399
New assets originated or purchased	5,131	-	-	5,131
Assets de-recognised or repaid	(165)	(236)	(2,768)	(3,169)
Transfers to Stage 1	56	(56)	-	-
Transfers to Stage 2	(828)	828	-	-
Transfers to Stage 3	(3,440)	(27)	3,467	-
Net re-measurement of ECL	(171)	(238)	(145)	(554)
Amounts written off	-	-	-	-
Foreign exchange adjustments	(78)	(94)	(2,653)	(2,825)
Total	1,593	1,477	34,912	37,982

11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**11.1. Impairment allowance for loans and advances to customers (continued)**

Movements on the allowance for impairment losses under IAS 39 for loans and advances for the year to 31 December 2017 is, as follows:

	As at December 31, 2017
As at 1 January	1,585,113
Net impairment charge for the year	277,098
Loans written-off during the period	(157,948)
Translation differences	(29,620)
Balance at the end of the year	1,674,643

12. INTANGIBLE ASSETS

	Software	Other intangible assets	Intangible assets in progress	Total
Cost				
At 1 January 2017	257,576	62,719	10,193	330,488
Additions	10,235	4,365	3,437	18,037
Transfer	(264)	-	264	-
At 31 December 2017	267,547	67,084	13,894	348,525
Additions	40,964	9,549	9,594	60,108
Transfer s	-	-	-	-
At 31 December 2018	308,511	76,633	23,488	408,632
Accumulated amortization				
At 1 January 2017	(190,461)	(35,158)	-	(225,619)
Amortization charge	(18,400)	(6,088)	-	(24,488)
At 31 December 2017	(208,861)	(41,246)	-	(250,107)
Amortization charge	(23,870)	(7,044)	-	(30,914)
At 31 December 2018	(232,731)	(48,290)	-	(281,021)
Net book amount				
At 1 January 2017	67,115	27,561	10,193	104,869
At 31 December 2017	58,686	25,838	13,894	98,418
At 31 December 2018	75,780	28,343	23,489	127,611

Other intangible assets include payments for developing the ATM network supporting systems and the installation, customization, certification and on-line links between Bank's ATM host system and the Bank's system, as well as payments made for SWIFT interface and access fees.

13. PROPERTY AND EQUIPMENT

	Computers	Electronic equipment	Office Furniture	Other	Fixed assets in progress	Leasehold improvements	Total
Cost							
At 1 January 2017	179,272	132,430	63,011	3,331	8,753	213,509	600,306
Additions	13,659	8,266	5,486	1,112	18,411	12,168	59,102
Disposals	(18,773)	(473)	(278)	-	-	-	(19,524)
At 31 December 2017	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
Disposals	(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
Accumulated depreciation							
At 1 January 2017	(132,739)	(85,106)	(40,389)	(2,030)	-	(125,624)	(385,888)
Depreciation charge	(12,841)	(9,994)	(5,055)	(248)	-	(13,460)	(41,598)
Depreciation charge for disposals	17,373	262	246	-	-	-	17,881
Year ended December 2017	(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)

Net book amount							
At 1 January 2017	46,533	47,324	22,622	1,301	8,753	87,885	214,418
Year ended December 2017	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

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 2018 (2017: none).

14. 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 2018 was LEK 9,176 thousand (2017: LEK 5,213 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.

	2018	2017
Balance at 1 January	358,977	372,790
Transferred from repossessed collaterals (Note 15)	7,738	51,464
Acquired during the year	65,906	2,863
Transferred to repossessed collaterals (Note 15)	(3,570)	(46,045)
Net changes in fair value	(32,593)	(22,095)
Balance at 31 December	396,458	358,977

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: <ul style="list-style-type: none"> 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.)

15. OTHER ASSETS

Other assets are detailed as follows:

	As at December 31, 2018	As at December 31, 2017
Repossessed collaterals	289,486	303,319
Monetary values in transit	-	96,460
Vat receivable	89,620	64,084
Accrued income	10,724	13,000
Prepayments	24,304	21,511
Assets repossessed from finance lease receivables	4,248	648
Consumption Inventory	124,938	5,395
Payment in transit	6,937	14,233
Clients' receivables	16,408	14430
Other	2,330	782
Sundry debtors, net	41,173	56,549
Total	610,168	590,411

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.

	2018	2017
Balance at 1 January	303,319	354,020
Transferred from investment property (Note 14)	3,570	(51,464)
Acquired during the year	5,302	17,018
Transferred to investment property (Note 14)	(7,738)	46,045
Assets sold during the year	(12,027)	(9,803)
Net write-down of NRV for the year	(2,940)	(52,497)
Balance at 31 December	289,486	303,319

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.

	2018	2017
Balance at 1 January	648	5,164
Repossessed during the year	3,205	1,519
Assets sold during the year	(4,354)	(4,354)
Impairment of assets held for sale	(2,424)	(1,681)
Translation differences	2,819	-
Balance at 31 December	4,248	648

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

Sundry debtors and impairment losses recognized as per IFRS 9 (31 December 2018) and IAS 39 (31 December 2017) are disclosed below:

	As at December 31, 2018	As at December 31, 2017
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Sundry debtors, gross	124,814	109,569
ECL/Impairment	(83,641)	(53,020)
Sundry debtors, net	41,173	56,549

	2018
Impairment allowance as at 31 December 2017	53,020
Impairment charge for the year (ECL) (Note 25)	31,969
Amounts written off	(73)
Foreign exchange adjustments	(1,275)
Total impairment losses as at 31 December 2018	83,641

16.DUE TO CENTRAL BANK

	As at December 31, 2018	As at December 31, 2017
Treasury bills sold under repurchase agreements	2,453,930	2,372,181
Accrued interest	2,311	2,284
Total	2,456,241	2,374,465

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 1.17% p.a. to 1.22% p.a. (2017: 1.34% p.a. to 1.40% p.a.) and are denominated in LEK.

17.DUE TO BANKS AND FINANCIAL INSTITUTIONS

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

	As at December 31, 2018	As at December 31, 2017
Current accounts		
Resident	1,082,498	849,518
Non-resident	367,611	313,367
	1,450,109	1,162,885
Term deposits		
Resident	928,007	345,931
Non-resident	40,034	43,015
	968,041	388,946
Other accounts		
Resident	10,992	6,183
	10,992	6,183
Accrued interest	9,460	1,196
Total	2,438,602	1,559,210

Current accounts from resident financial institutions include LEK 581 million (2017: LEK 455 million) deposited by Unioni Financiar Tirane (‘UFT’), out of which LEK 92.6 million (2017: LEK 99.7 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 336.7 million (2017: LEK 243 million).

Term deposits from non-resident financial institutions include annual deposits from 'Union of Financial Corners', a related party, of LEK 40,033 thousand (2017: LEK 43,015 thousand), which are held as collateral for loans issued by the Bank, and bear interest at rates 0.3% p.a. (2017: 0.3% p.a.).

18.DUE TO CUSTOMERS

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

	As at December 31, 2018	As at December 31, 2017
Government and public administration:		
Local currency	652,048	407,927
Foreign currency	282,947	125,814
	934,995	533,741
Current accounts:		
Local currency	3,326,030	3,073,541
Foreign currency	4,784,893	4,229,753
	8,110,923	7,303,294
Saving accounts:		
Local currency	1,661,220	1,437,361
Foreign currency	4,937,621	4,348,297
	6,598,841	5,785,658
Term deposits:		
Local currency	13,974,208	13,153,953
Foreign currency	11,135,837	10,722,718
	25,110,045	23,876,671
Other customer accounts:		
Local currency	74,126	97,621
Foreign currency	248,994	415,239
	323,120	512,860
Subtotal	41,077,924	38,012,224
Prepaid interest on customer deposits	(3)	(150)
Accrued interest	220,771	224,749
Total	41,298,692	38,236,823

Current and saving accounts bear interest in the range of 0.1% p.a. to 0.5% p.a. (2017: 0.1% p.a. to 0.5% p.a.) and term deposits bear interest as follows:

Currency	2018	2017
LEK	0.60% p.a. to 4.90% p.a.	0.60% p.a. to 4.60% p.a.
EUR	0.05% p.a. to 2.50% p.a.	0.05% p.a. to 1.50% p.a.
USD	0.20% p.a. to 1.10% p.a.	0.20% p.a. to 1.10% p.a.
GBP	0.10% p.a. to 0.45% 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.

18.DUE TO CUSTOMERS (CONTINUED)

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

As at December 31, 2018			As at December 31, 2017		
LEK	Foreign currency	Total	LEK	Foreign currency	Total

Government and admin accounts						
On demand	633,048	282,947	915,995	388,927	125,814	514,741
Three months	19,000	-	19,000	-	-	-
Twelve months	-	-	-	19,000	-	19,000
Total government and admin accounts	652,048	282,947	934,995	407,927	125,814	533,741
Current accounts	3,326,030	4,784,893	8,110,923	3,073,541	4,229,753	7,303,294
Saving accounts	1,661,220	4,937,621	6,598,841	1,437,361	4,348,297	5,785,658
Term deposits:						
Three months	218,485	496,812	715,297	280,615	599,521	880,136
Six months	467,026	522,485	989,511	512,255	550,843	1,063,098
Twelve months	4,116,296	4,984,078	9,100,374	4,185,201	4,930,426	9,115,627
Fourteen months	1,336,863	1,123,079	2,459,942	977,722	833,772	1,811,494
Twenty-five months	1,024,270	754,165	1,778,435	1,133,084	688,225	1,821,309
Thirty-five months	3,121,876	1,660,550	4,782,426	2,400,854	1,404,023	3,804,877
Sixty months	3,598,896	1,583,784	5,182,680	3,544,741	1,653,972	5,198,713
Other deposits	90,496	10,884	101,380	119,481	61,936	181,417
Total deposits	13,974,208	11,135,837	25,110,045	13,153,953	10,722,718	23,876,671
Other customer accounts:						
On demand	9,191	13,404	22,595	7,706	5,318	13,024
Twelve months	27,021	76,540	103,561	12,021	41,632	53,653
Other	37,914	159,050	196,964	77,894	368,289	446,183
Total other customer accounts	74,126	248,994	323,120	97,621	415,239	512,860
Total	19,687,632	21,390,292	41,077,924	18,170,403	19,841,821	38,012,224

“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.

19. OTHER LIABILITIES

Other liabilities are comprised of the following:

	As at December 31, 2018	As at December 31, 2017
Payments in transit	267,325	173,133
Other payables	47,377	29,132
Invoices to be received	40,647	49,779
Deferred income and accrued expenses	14,981	10,644
Advances from clients	71,523	2,404
Other provisions for risk and expenses	12,703	9,461
Loans from government	20,733	34,100
Total	475,289	308,653

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, 2018	As at December 31, 2017
Financial guarantee contract issued	10,471	8,500
Letters of credit	1,271	-
Provisions for risk and expenses	961	961
Total	12,703	9,461

The amount in respect of financial guarantee contract issued represent:

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.

As at 31 December 2017 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 under IAS 37 for possible losses arising from a legal process.

20.SHARE CAPITAL

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

	31 December 2018		31 December 2017	
	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

20.SHARE CAPITAL (CONTINUED)

The structure of subscribed capital is as follows:

	2018	2017
Unioni Financiar Tirane (UFT) Sh.p.k	86.34%	86.34%
European Bank for Reconstruction and Development (EBRD)	10.12%	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 dated 28 June 2018, the profit of the year 2017 was decided to be retained to be used for investment purposes.

Based on Shareholders' Decision dated 21 June 2017, the amount of LEK 25,088 thousand from the profit of 2016 was distributed as dividends proportionately to their existed shareholding. The remaining amount of this profit was decided to be retained for investments.

21.LEGAL RESERVE

The Legal reserve of LEK 280,405 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.

22.INTEREST INCOME

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

	For the year ended December 31, 2018	For the year ended December 31, 2017
Loans and advances to customers	1,474,487	1,359,147
Investment securities	871,336	784,497
Due from banks	12,461	11,994
Total	2,358,284	2,155,638

23.INTEREST EXPENSE

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

	For the year ended December 31, 2018	For the year ended December 31, 2017
Due to customers	328,914	308,443
Due to banks and financial institutions	17,103	6,080
Repurchase agreements	31,901	30,605
Other	46	94
Total	377,964	345,222

24.FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Fee income earned from services that are provided over a certain period of time		
Account maintenance fees	56,660	48,235
Cards and E-banking maintenance fees	10,701	8,882
Fee income from providing financial services and earned on the execution of a transaction		
Transfer and payment orders	136,082	114,591
Other banking services	72,318	60,717
Lending activity	14,260	21,804
Total	290,021	254,229

25.FEE AND COMMISSION EXPENSES

Fees and commissions expense were comprised as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Banking services	37,251	32,065
Treasury operations	4,734	3,165
Other	11,522	11,685
Total	53,507	46,915

26.NET IMPAIRMENT LOSS OF FINANCIAL ASSETS

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

	Note	For the year ended December 31, 2018	For the year ended December 31, 2017
Charges for ECL on cash and Central Bank	8	962	-
Reversal of ECL on Due to Banks	9	(1,929)	-
Charges for ECL/Impairment loss on loans and advances to customers	11	63,371	277,098

Charges for ECL on investment securities	10	9,612	-
Charges for ECL on other financial assets	15	31,969	-
Charges for ECL on Guarantees and Letters of credit	33	294	-
Total		104,279	277,098

27.NET GAIN FROM DERECOGNITION 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. The reason for such decision was 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 the comparative period.

28.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 2018 is loss of LEK 144,277 thousand (2017: gain of LEK 14,008 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 213,472 thousand (2017: loss of LEK 51,072 thousand).

29.PERSONNEL COSTS

	For the year ended December 31, 2018	For the year ended December 31, 2017
Salaries and other compensations	450,931	429,145
Social insurance	51,901	50,060
Total	502,832	479,205

As at 31 December 2018 the Group had 384 employees (2017: 386).

30.OTHER OPERATING EXPENSES

Other operating expenses were comprised as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Rent	208,973	215,707
Other external services	148,669	129,877
Premium insurance of deposits	132,976	101,933
Software maintenance	45,890	39,337
Security services	42,059	36,153
Marketing	36,684	32,804
Communication expenses	32,799	34,329
Consulting and Legal fees	33,261	15,953
Utilities energy, water etc.	23,842	24,144
Maintenance and repairs	13,495	13,220
Office supplies	12,280	14,173
Transportation and business trip expense	12,123	9,992
Insurance	9,092	7,358

Board remuneration	4,280	3,974
Representation	2,379	2,235
Trainings	1,726	965
Total	760,528	682,154

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

31.INCOME TAX

	For the year ended December 31, 2018	For the year ended December 31, 2017
Current tax expense	115,513	83,678
Deferred tax income	(16,341)	(10,094)
Total tax expense	99,172	73,584

Income tax in Albania is assessed at the rate of 15% (2017: 15%) of taxable income.

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

	Effective Tax rate	2018	Effective Tax rate	2017
Profit before tax		636,529		450,750
Income tax at 15%	15.00%	95,479	15.00%	67,612
Non-deductible expenses	0.64%	4,085	1.37%	6,191
Income exempted from income tax	-0.06%	(392)	-0.05%	(219)
Income tax expense	15.58%	99,172	16.32%	73,584

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

	For the year ended December 31, 2018	For the year ended December 31, 2017
Deferred tax asset at the beginning of the year	19,794	9,700
Impact of adopting IFRS9- ECL on bonds	6,844	-
Recognized in profit or loss	3,447	10,094
Deferred tax asset at the end of the year	30,085	19,794
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:

31.INCOME TAX (continued)

	2018	Recognized in Profit or loss	Impact of adopting IFRS9	2017	Recognized in Profit or loss
Deferred tax asset:					
Reposessed collateral	9,259	(348)	-	9,607	6,300
Investment property	14,050	5,469	-	8,581	3,575
ECL on bonds	4,833	(2,011)	6,844	-	-

Finance lease receivable	1,943	337	-	1,606	219
	20,169	3,447	6,844	19,794	10,094
Deferred tax liability:					
ECL on loans	-	(12,894)	12,894	-	-
	-	(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.

	2018	2017
Income tax payable/(receivable) as at 1 January	14,066	(16,437)
Income tax paid (due as at the end of previous year)	(14,066)	(1,759)
Income tax prepaid to Albanian tax office	(84,046)	(51,313)
Income tax prepaid to nonresidents (due to elimination of double taxation)	(11)	(103)
Current tax	115,513	83,678
Income tax payable/ (receivable) as at 31 December	31,456	14,066

32.MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

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
Other assets	396,349	213,819	610,168
Deferred tax	-	30,085	30,085
Total assets	21,991,796	29,311,335	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	9,785,667	(5,182,816)	4,602,851

31 December 2017	Within 12 months	After 12 months	Total
Assets			
Cash and balances with Central Bank	5,300,462	-	5,300,462
Due from banks	3,936,812	23,449	3,960,261

Treasury Bills held-to-maturity	1,051,668	-	1,051,668
Bonds held-to-maturity	3,455,270	12,277,185	15,732,455
Loans and advances to customers	7,177,664	12,018,239	19,195,903
Intangible assets	-	98,418	98,418
Property and equipment	-	230,279	230,279
Investment property	-	358,977	358,977
Other assets	259,703	330,708	590,411
Deferred tax	-	19,794	19,794
Total assets	21,181,579	25,357,049	46,538,628
Liabilities			
Due to Central Bank	2,374,465	-	2,374,465
Due to banks and financial institutions	532,843	1,026,367	1,559,210
Due to customers	7,950,969	30,285,854	38,236,823
Other liabilities	278,077	30,576	308,653
Income tax payable	14,066	-	14,066
Total liabilities	11,150,420	31,342,797	42,493,217
Net	10,031,159	(5,985,748)	4,045,411

33.CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	As at December 31, 2018	As at December 31, 2017
Cash on hand	1,295,036	1,102,623
Accounts with Central Bank	953,209	1,614,870
Financial instruments with maturity of 3 months or less	3,705,222	3,936,731
Total	5,953,467	6,654,224

34.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 2018 and 2017 is presented in Note 20. Unioni Financiar Tirane (UFT) Sh.p.k is the ultimate parent of the Group.

Related entities (owed directly or indirectly by UFT) include: Union Distribucion Servis Albania Shpk, Media Union Shpk, Union Travel Shpk, Albanian Courier Shpk, United Transport, Union Group Shpk, Uni-Com Sha, Albanian Cargo Service Shpk, Auto Master Sha, United Motors Shpk, S-Systems Sha, Atex Shpk, Auto City Sha, Pluton Investor Shpk, Arch Investor Shpk, Plus Communication, Auto Net Shpk, Qendra Kerkime Monitor, Uni-Cons Shpk, Union Net Shpk, Paylink Sha, Union of Financial Corners sa, Unioni Financiar Prishtine, Expo City shpk, ASL Construc 2 shpk, E-ticketing systems, Union net Kroaci, Prestige Service Shpk, Digit-alb sha, Tirana Real Invest Capital, Niko Leka pf, Kato Vora Albania, Kato Aromatic Albania, Sicily by car- Autoeuropa, Automobile Touring Club, Automaster Service Shpk, Klubi i Automobilit te Shqiperise. In associated entities are also included some entities owned by other Bank's related parties: Inovation ne krijim, Locomotives Shpk, Start Plus, Intergrafika Shpk.

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

	As at December 31, 2018	As at December 31, 2017
Assets:		

Loans and advances to customers:		
Other Shareholders	6,060	1,609
Related entities	1,549,482	1,417,793
Key management personnel of the entity and their relatives	61,516	94,335
Other Assets:		
Parent company	151	423
Other Shareholders	2	2
Related entities	101	100
Key management personnel of the entity and their relatives	-	10
Liabilities:		
Due to banks and financial institutions:		
Parent company	709,600	454,861
Related entities	376,832	286,170
Due to customers:		
Other Shareholders	32,051	41,638
Related entities	422,194	534,166
Key management personnel of the entity and their relatives	239,071	196,627
Other Liabilities:		
Parent company	4	2,729
Other Shareholders	-	247
Related entities	15,593	7,939
Key management personnel of the entity and their relatives	116	7

34.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, 2018	As at December 31, 2017
ECL/ Impairment allowance:		
Other Shareholders	73	45
Related entities	3,524	19,066
Key management personnel of the entity and their relatives	690	3,801

Loans to related entities in the amount of LEK 1,549,482 thousand (2017: LEK 1,417,793 thousand) are covered by cash collateral of LEK 896,486 thousand (2017: LEK 972,513 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, 2018	For the year ended December 31, 2017
Interest income:		
Parent company	-	-
Other Shareholders	123	161
Related entities	53,475	54,438
Key management personnel of the entity and their relatives	3,301	4,295
Interest expense:		
Parent company	11	-
Other Shareholders	302	61
Related entities	1,053	1,288
Key management personnel of the entity and their relatives	798	800
Fee and commission income:		
Parent company	2,033	2,135
Other Shareholders	169	236
Related entities	5,449	4,635
Key management personnel of the entity and their relatives	439	476
Operating income:		

Related entities	1,074	1,079
Operating expense:		
Parent company	-	2,412
Other Shareholders	3,924	2,086
Related entities	154,971	149,473
Key management personnel of the entity and their relatives	88,564	87,656
Sale of Fixed assets:		
Related entities	1,816	-
Purchase of Fixed assets:		
Related entities	42,942	6,635

34.RELATED PARTY TRANSACTIONS (CONTINUED)

Off balance sheet commitments	As at December 31, 2018	As at December 31, 2017
Un-drawn credit facilities from the Bank:		
Other Shareholders	8,607	10,097
Related entities	64,432	158,411
Key management personnel of the entity and their relatives	11,453	10,715
Commitment received:		
Other Shareholders	246,840	-
Guarantees received:		
Parent company	220,942	99,733
Other Shareholders	43,049	47,525
Related entities	2,019,071	2,248,960
Key management personnel of the entity and their relatives	235,460	205,754
Guarantees given:		
Parent company	20	20
Related entities	4,142	2,908

35.COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include the following:

	2018	2017
Un-drawn credit facilities	1,263,451	1,274,881
Guarantees given in favor of customers	247,636	145,271
Commitments for LC	75,475	79,722
Allowance for impairment losses	(3,242)	-

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 2018	145,271	-	-	145,271
New assets originated or purchased	82,936	-	-	82,936
Assets de-recognised or repaid	(21,437)	-	-	(21,437)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-

Amounts written off	-	-	-	-
Foreign exchange adjustments	40,866	-	-	40,866
Total	247,636	-	-	247,636

35.COMMITMENTS AND CONTINGENCIES

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	1,588	-	-	1,588
New assets originated or purchased	1,970	-	-	1,970
Assets de-recognised or repaid	(1,490)	-	-	(1,490)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(97)	-	-	(97)
Total	1,971	-	-	1,971

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 2018	79,722	-	-	79,722
New assets originated or purchased	216,979	-	-	216,979
Assets de-recognised or repaid	(215,512)	-	-	(215,512)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(5,714)	-	-	(5,714)
Total	75,475	-	-	75,475

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	1,570	-	-	1,570
New assets originated or purchased	1,272	-	-	1,272
Assets de-recognised or repaid	(1,458)	-	-	(1,458)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-

Foreign exchange adjustments	(113)	-	-	(113)
Total	1,271	-	-	1,271

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 2018. 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.

35.COMMITMENTS AND CONTIGENCIES (CONTINUED)

Operating lease commitments

The Group has entered into non-cancelable lease commitments. Such commitments are composed as follows:

	2018	2017
Not later than 1 year	113,005	110,547
Total	113,005	110,547

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.

36.1. 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 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. Each business unit has a responsible officer who reports on all credit related matters to local management 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 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.

36.FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1.Credit risk (continued)

36.1.1. 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.

36.1.2. Impairment assessment (applicable from 1 January 2018)

36.1.2.1 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 unlikelihood 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.

36.1.2.2. 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 sopranaturals and corporates). Despite their priority, all criteria have the same weight in the assessment process for significant increase in credit risk.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1.Credit risk (continued)

36.1.2.Impairment assessment (applicable from 1January 2018) (continued)

36.1.2.2.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.

36.1.3. Impairment model

36.1.3.1. Individual vs. Collective

As explained in Note 4.8.7.5 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.

36.1.3.2. Expected loss parameters

36.1.3.2.1. PD estimation for loan portfolio

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.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1. Credit risk (continued)

36.1.3. Impairment model (continued)

36.1.3.2. Expected loss parameters (continued)

36.1.3.2.2. PD estimation for treasury exposures

For these relationships, 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.

36.1.3.2.3. 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.

36.1.3.2.4. 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.

36.1.3.2.5. 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 $RR = \text{“Recovery Rate”}$) 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.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1. Credit risk (continued)

36.1.4. 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 2018					As at 31 December 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Cash and Central Bank						
Low- fair risk	5,496,272	-	-	-	5,496,272	5,300,462
Less: allowance	(4,118)	-	-	-	(4,118)	-
Carrying amount	5,492,154	-	-	-	5,492,154	5,300,462

	As at 31 December 2018					As at 31 December 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Due from banks						
Low- fair risk	3,813,196	-	-	-	3,813,196	3,960,261
Less: allowance	(8,361)	-	-	-	(8,361)	-
Carrying amount	3,804,835	-	-	-		3,960,261

	As at 31 December 2018					As at 31 December 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Investment securities						
Low- fair risk	610,773	-	-	-	610,773	656,270
Monitoring	17,867,471				17,867,471	16,127,853
Less: allowance	(54,962)	-	-	-	(54,962)	-
Carrying amount	18,423,282	-	-	-	18,423,282	16,784,123

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1.Credit risk (continued)

36.1.4.Analysis of credit quality (continued)

	As at 31 December 2018					As at 31 December 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Loans and advances						
Low- fair risk	19,293,830	767,600	106,355	-	20,167,785	16,673,696
Monitoring	-	1,125,098	296,659	-	1,421,757	1,284,159
Substandard	-	-	324,437	-	324,437	994,028
Doubtful	-	-	537,001	-	537,001	635,991
Lost	-	-	1,251,519	-	1,251,519	1,282,672
Less: allowance	(247,148)	(49,845)	(1,252,608)	-	(1,549,601)	(1,674,643)

Carrying amount	19,046,682	1,842,853	1,263,363	-	22,152,898	19,195,903
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	As at 31 December 2018					As at 31 December 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Financial guarantees and other commitments						
Low- fair risk	3,776,558	-	-	-	3,776,558	3,934,951
Less: allowance	(8,108)	-	-	-	(8,108)	-
Carrying amount	3,768,450	-	-	-	3,768,450	3,934,951

36.FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1. Credit risk (continued)

36.1.5. 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 2017							Total
	Financial services	Government	Consumers	Retail and wholesale	Construction	Services	Agriculture and processing industries	
Cash on hand and Central Bank	5,300,462	-	-	-	-	-	-	5,300,462
Due from banks	3,960,261	-	-	-	-	-	-	3,960,261
Treasury bills held to maturity	-	1,051,668	-	-	-	-	-	1,051,668
Bonds held-to-maturity	259,575	15,252,117	-	137,442	-	83,321	-	15,732,455
Loans and advances to customers								
Lending to businesses	654,308	-	-	2,524,244	2,151,412	4,390,945	395,294	10,116,203
Consumer lending	-	-	2,774,946	-	-	-	-	2,774,946
Overdrafts and credit cards	-	-	297,665	-	-	-	-	297,665
Mortgage Lending	-	-	5,038,726	-	-	-	-	5,038,726
Financial Lease	3,091	-	134,034	242,652	46,721	405,967	135,898	968,363

Total Loans and advances to customers	657,399	-	8,245,371	2,766,896	2,198,133	4,796,912	531,192	19,195,903
	10,177,697	16,303,785	8,245,371	2,904,338	2,198,133	4,880,233	531,192	45,215,439
Financial guarantees	1,350	-	2,050	23,029	64,656	54,155	31	145,271
Standby letters of credit	-	-	-	-	-	-	79,722	79,722
Commitments to extend credit	142,936	-	465,660	126,478	221,141	254,750	63,916	1,274,881
	144,286	-	467,710	149,507	285,797	308,905	143,669	1,499,874
Total	10,321,983	16,303,785	8,713,081	3,053,845	2,483,930	5,189,138	674,861	46,715,313

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1. Credit risk (continued)

36.1.5. 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 cash-collateralized.

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 (2017: LEK 2,808,200 thousand).

The breakdown of the carrying amount 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 2018	Credit impaired loans	Collateral
Mortgage Lending	221,928	715,853
Personal loans	253,196	422,032
Overdrafts and credit cards	56,402	743
Loans to businesses	1,909,971	3,988,580
Financial Lease	74,474	74,474
Total	2,515,971	5,201,682

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1. Credit risk (continued)

36.1.5. Analysis of risk concentrations (continued)

31 December 2017	Credit impaired loans	Collateral
Mortgage Lending	189,135	590,818
Personal loans	227,557	371,656
Overdrafts and credit cards	48,023	23,782
Loans to businesses	2,343,483	5,226,049
Financial Lease	108,541	108,541
Total	2,916,739	6,320,846

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 2018 is LEK 367,175 thousand (2017: LEK 612,386 thousand). The increase in the total restructured portfolio is a consequence of the management decision to 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 2018 is LEK 21,166 thousand (2017: LEK 157,948 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 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

31 December 2017	Stage 1	Stage 2	Stage 3	Total
Property	27,627,902	2,966,840	5,567,263	36,162,005
Pledge	8,105,365	1,170,794	744,800	10,020,959
Cash	1,879,458	18,497	8,783	1,906,738
Total	37,612,725	4,156,131	6,320,846	48,089,702

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1. Credit risk (continued)

36.1.5. 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 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

31 December 2017	Over-collateralized portfolio		Under-collateralized portfolio	
	Carrying amount of portfolio	Fair value of collateral	Carrying amount of portfolio	Fair value of collateral
Mortgage Lending	3,993,151	11,848,549	1,155,702	64,656
Personal loans	1,276,996	3,726,962	1,645,237	25,604
Overdrafts and credit cards	27,212	403,973	294,587	34,235
Loans to businesses	9,226,141	30,537,411	2,240,820	306,351
Financial Lease	1,010,700	1,141,961	-	-
Total	15,534,200	47,658,856	5,336,346	430,846

36.2. 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.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2. 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.

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2. 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 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	5,496,272	-	-	-	-	-	5,496,272
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	12,688,463	2,177,777	2,892,144	6,031,385	21,411,051	14,597,104	59,797,924
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	(7,241,256)	(1,556,942)	184,384	(3,603,002)	9,939,427	14,591,204	12,313,815

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2. Liquidity risk (continued)

31 December 2017	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	5,300,462	-	-	-	-	-	5,300,462
Placements and balances with banks	3,803,879	133,018	-	-	-	23,449	3,960,346
Treasury Bills held-to-maturity	195,083	204,089	441,829	362,795	-	-	1,203,796
Bonds held-to-maturity	315,269	342,251	1,088,109	2,280,251	9,883,753	4,954,720	18,864,353
Loans and advances to customers	2,054,325	1,089,045	1,798,458	3,845,120	9,755,317	5,901,393	24,443,658
Other assets	257,974	899	-	-	-	665	259,538

Total undiscounted financial assets	11,926,992	1,769,302	3,328,396	6,488,166	19,639,070	10,880,227	54,032,153
Liabilities							
Due to Central Bank	1,091,548	1,287,927	-	-	-	-	2,379,475
Due to banks and Financial institutions	1,192,504	84,062	53,339	168,821	62,224	3,333	1,564,283
Due to customers	15,500,876	2,285,984	2,702,780	8,697,402	9,845,801	10,073	39,042,916
Other liabilities	264,559	780	786	2,723	19,512	9,716	298,076
Income tax payable	-	14,066	-	-	-	-	14,066
Total undiscounted financial liabilities	18,049,487	3,672,819	2,756,905	8,868,946	9,927,537	23,122	43,298,816
Net undiscounted financial assets/liabilities	(6,122,495)	(1,903,517)	571,491	(2,380,780)	9,711,533	10,857,105	10,733,337

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2. 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 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

31 December 2017	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	8,870	16,808	6,685	76,955	35,928	25	145,271
Letters of credit	48,014	21,155	10,553	-	-	-	79,722
Other undrawn commitments to lend	53,319	34,394	271,877	849,981	65,310	-	1,274,881
Total Commitments and guarantees	110,203	72,357	289,115	926,936	101,238	25	1,499,874

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3. 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. 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:

	2018	2017
EUR:LEK	123.42	132.95
USD:LEK	107.82	111.10

The analysis of monetary assets and liabilities as at 31 December 2018 and 2017 by the foreign currencies in which they were denominated is shown below:

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	46,685,299
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)	3,590,195

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3. Market risks (continued)

Currency risk (continued)

31 December 2017	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with Central Bank	1,479,173	381,365	3,275,087	164,837	5,300,462
Placements and balances with banks	324,483	263,185	2,972,414	400,179	3,960,261
Treasury Bills held-to-maturity	1,051,668	-	-	-	1,051,668
Bonds held-to-maturity	13,864,000	508,140	1,360,315	-	15,732,455
Loans and advances to customers	4,712,432	160,548	14,322,923	-	18,948,934
Other assets	113,928	98,088	47,365	157	259,538
Total	21,545,684	1,411,326	21,978,104	565,173	45,500,287
Liabilities					
Due to Central Bank	2,374,465	-	-	-	2,374,465
Due to banks and financial institutions	431,916	143,153	966,058	18,083	1,559,210
Due to customers	18,357,287	1,420,756	17,983,170	475,610	38,236,823
Other liabilities	132,612	7,860	150,980	6,557	298,009
Income tax payable	14,066	-	-	-	14,066
Total	21,310,346	1,571,769	19,100,208	500,250	42,482,573
Net commitments and Foreign Exchange Spot	56,738	152,959	10,224	(47,384)	172,537
Net Position	235,338	(7,484)	2,888,120	17,539	3,017,714

Interest rate risk

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. 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 2018 is analyzed below. As at 31 December 2018, 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	
	2018	2017	2018	2017	2018	2017	2018	2017
Assets:								
Statutory reserves	0.70%	0.88%	N/A	N/A	-0.40%	-0.40%	N/A	N/A
Due from banks	N/A	1.28%	N/A	N/A	0.15%	0.20%	N/A	N/A
Investment securities	5.06%	5.12%	3.69%	2.58%	4.29%	4.22%	N/A	N/A
Loans to customers	8.65%	8.93%	6.63%	5.49%	5.14%	5.32%	N/A	N/A
Liabilities:								
Due to banks	2.06%	1.68%	N/A	N/A	0.30%	0.33%	N/A	N/A
Due to customers	2.04%	1.78%	0.8%	0.65%	0.49%	0.49%	0.31%	0.31%
T-Bills under Repos	1.2%	1.37%	N/A	N/A	N/A	N/A	N/A	N/A

36. FINANCIAL RISK MANAGEMENT (CONTINUED)**36.3. 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 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	81,716	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	

36. FINANCIAL RISK MANAGEMENT (CONTINUED)**36.3. Market risks (continued)****Interest rate risk (continued)**

31 December 2017	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	3,806,661	-	-	-	-	1,493,801	5,300,462
Placements and balances with banks	3,911,502	-	-	-	-	48,759	3,960,261
Treasury Bills held-to-maturity	149,963	199,196	422,735	279,774	-	-	1,051,668
Bonds held-to-maturity	400,000	300,000	1,378,052	1,626,530	11,812,997	214,876	15,732,455
Loans and advances to customers	4,289,764	1,762,440	3,180,200	5,114,890	6,613,383	(1,764,774)	19,195,903
Other assets	-	-	-	-	-	259,538	259,538
Total	12,557,890	2,261,636	4,980,987	7,021,194	18,426,380	252,200	45,500,287
Liabilities							
Due to Central Bank	1,088,625	1,283,556	-	-	-	2,284	2,374,465
Due to banks and financial institutions	28,286	83,285	53,280	164,956	60,680	1,168,723	1,559,210
Due to customers	14,507,941	2,188,754	2,717,363	8,569,905	9,156,452	1,096,408	38,236,823

Other liabilities	786	-	1,542	1,195	30,577	263,909	298,009
Income tax payable	-	-	-	-	-	14,066	14,066
Total	15,625,638	3,555,595	2,772,185	8,736,056	9,247,709	2,545,390	42,482,573
Gap	(3,067,748)	(1,293,959)	2,208,802	(1,714,862)	9,178,671	(2,293,190)	3,017,714
Cumulative gap	(3,067,748)	(4,361,707)	(2,152,905)	(3,867,767)	5,310,904	3,017,714	

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3. 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 2018	31 December 2017
Interest rate increases by 2%	172,773	106,218
Interest rate increases by 1.5%	129,580	79,664
Interest rate increases by 1%	86,387	53,109
Interest rate decreases by 1%	(86,387)	(53,109)
Interest rate decreases by 1.5%	(129,580)	(79,664)
Interest rate decreases by 2%	(172,773)	(106,218)

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 2018	31 December 2017
LEK depreciates against USD by 5%	9,874	(374)
LEK appreciates against USD by 5%	(9,874)	374
LEK depreciates against EUR by 5%	129,755	144,406
LEK appreciates against EUR by 5%	(129,755)	(144,406)
LEK depreciates against other ccys by 5%	(199)	877
LEK appreciates against other ccys by 5%	199	(877)

36.4. 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.

37. 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 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

	As at 31 December 2017			
	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Financial assets				
Due from banks	3,960,261	-	-	3,960,261
Treasury Bills held-to-maturity	1,051,668	-	1,051,072	-
Loans and advances to customers	19,195,903	-	-	16,339,331
Bonds held-to-maturity	15,732,454	1,613,122	14,476,881	-
Financial liabilities				
Due to Central Bank	2,374,465	-	2,374,465	-
Due to banks and financial institutions	1,629,222	-	-	1,685,879
Due to customers	38,236,823	-	-	38,177,190
Due to government	34,100	-	-	34,100

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.

37. 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.

38. 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 2018 and 2017 and as at the end of respective years these ratio were 14.84% and 14.81%.

39. EVENTS AFTER THE REPORTING DATE

Based on the Sale and Purchase Agreement signed in 1 November 2018, subsequent to balance sheet date, on 20 March 2019, the Bank acquired 100% of the shares in Banka Nderkombetare Tregetare sha ("BNT"), and is the only shareholder of this bank. BNT is an Albanian bank that was established as a joint stock company in 1996 and licensed on 20 February 1997. There are no other events after the reporting date that would require either adjustments or additional disclosures in the consolidated financial statements.

