UNION BANK SH.A.

Independent Auditor’s Report
and Consolidated Financial Statements as at
and for the year ended 31 December 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Union Bank sh.a

Report on the audit of the consolidated financial statements

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 31 December 2021 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated 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 ("ISA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") and with Institute of Authorizes Chartered Auditors of Albania Code of Ethics ("IEKA Code"), together with the ethical requirements of the Law No. 10091, dated 5 March 2009 "On the statutory audit and the organization of the statutory auditors and chartered accountants professions", amended, that are relevant to our audit of the consolidated financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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

Ernst & Young - Ekspert Kontabël i Autorizuar
Dega në Shqipëri

Ernst & Young Certified Auditors

15 June 2022
Tirana, Albania

Mario Vangjel
Certified Auditor

Vangjeli

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in LEK '000

	Notes	As at December 31, 2021	As at December 31, 2020
Assets			
Cash and balances with Central Bank	7	9,482,635	8,421,761
Due from banks	8	5,026,622	4,260,889
Investment securities at FVOCI	9	851,106	659,680
Investment securities at amortised cost	9	26,844,825	24,205,328
Loans, leases and advances to customers	10	35,667,113	31,555,612
Income tax receivable	33	-	19,891
Investment property	14	468,283	366,229
Repossessed assets	15	324,344	450,869
Other assets	16	527,331	570,495
Intangible assets	11	232,536	157,586
Property and equipment	12	474,527	426,782
Right-of-use assets	13.1.1	545,245	671,842
Deferred tax asset	33	31,541	25,877
Total assets		**80,476,108**	**71,792,841**
Liabilities			
Due to Central Bank	17	2,693,411	3,446,121
Due to banks and financial institutions	18	5,865,649	5,063,806
Due to customers	19	63,215,713	55,810,132
Lease Liabilities	13.1.2	646,991	783,643
Other liabilities	20	570,042	468,907
Income tax payable	33	71,133	-
Subordinated debt	21	487,866	250,303
Total liabilities		**73,550,805**	**65,822,912**
Shareholders' equity			
Share capital	22	2,717,813	2,717,813
Share premium		175,600	175,600
Legal and Other Reserve	22.1	856,997	731,483
Fair Value Reserve		1,937	25,633
Retained earnings		3,172,956	2,319,400
Total shareholders' equity		**6,925,303**	**5,969,929**
Total liabilities and shareholders' equity		**80,476,108**	**71,792,841**

These consolidated financial statements have been approved by Executive Management on 30 May 2022 and signed on its behalf by:

Flutura Veipi

Flutura Veipi
Chief Executive Officer

UNION BANK TIRANE

Arten Zikaj
Chief Financial Officer

The consolidated statement of financial position is to be read in conjunction with the notes set out on pages 5 to 85 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, 2021	For the year ended December 31, 2020
Interest income	23	3,296,014	2,954,364
Interest expense	24	(615,387)	(630,989)
Net interest income		**2,680,627**	**2,323,375**
Fee and commission income	25	439,734	344,836
Fee and commission expenses	26	(106,919)	(80,037)
Net fee and commission income		**332,815**	**264,799**
Net impairment loss on financial assets	27	(221,969)	(693,524)
Gain from sale of financial assets at amortised cost	28	-	4,490
Gain from sale of financial assets at FVOCI		33,730	16,058
Net foreign exchange result	29	110,969	186,921
Change in fair value of investment property	14	204	17,741
Income from leased investment property	13.2	17,327	4,753
Other income, net	30	134,036	89,185
Write-down on net realizable value of repossessed collaterals		(12,042)	(55,907)
Other charges for provisions		(25,358)	(4,694)
Amortization of intangible assets	11	(43,846)	(34,443)
Depreciation of property and equipment	12	(69,405)	(64,099)
Depreciation of right-of-use assets	13.1	(148,739)	(165,352)
Personnel costs	31	(671,484)	(618,582)
Other operating expenses	32	(846,167)	(668,120)
Profit before tax		**1,270,698**	**602,601**
Income tax expense	33	(216,628)	(106,540)
Profit of the year		**1,054,070**	**496,061**
Other comprehensive income, net of tax		**(23,696)**	**25,633**
Total comprehensive income for the year		**1,030,374**	**521,694**

These consolidated financial statements have been approved by Executive Management on 30 May 2022.

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 85 integral part of the consolidated financial statements.

CONSOLIDTAED STATEMENTS OF CHANGES IN EQUITY

in LEK '000

	Notes	Share capital	Share premium	Legal Reserve	Fair Value Reserves	Retained Earnings	Total
Balance at 1 January 2020		**2,717,813**	**175,600**	**610,613**	**-**	**1,944,209**	**5,448,235**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	496,061	496,061
Other comprehensive income, net of income tax		-	-	-	25,633	-	25,633
Total comprehensive income for the year		**-**	**-**	**-**	**25,633**	**496,061**	**521,694**
Transactions with owners recorded directly in equity							
Increase of legal reserves	22.1	-	-	120,870	-	(120,870)	-
Dividends distributed	22	-	-	-	-	-	-
Total contributions by and distributions to owners		**-**	**-**	**120,870**	**-**	**(120,870)**	**-**
Balance at 31 December 2020		**2,717,813**	**175,600**	**731,483**	**25,633**	**2,319,400**	**5,969,929**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	1,054,070	1,054,070
Other comprehensive income, net of income tax		-	-	-	(23,696)	-	(23,696)
Total comprehensive income for the year		**-**	**-**	**-**	**(23,696)**	**1,054,070**	**1,030,374**
Transactions with owners recorded directly in equity							
Increase of legal reserves	22.1	-	-	125,514		(125,514)	-
Dividends distributed	22	-	-	-	-	(75,000)	(75,000)
Total contributions by and distributions to owners		**-**	**-**	**125,514**	**-**	**(200,514)**	**(75,000)**
Balance at 31 December 2021		**2,717,813**	**175,600**	**856,997**	**1,937**	**3,172,956**	**6,925,303**

These consolidated financial statements have been approved by Executive Management on 30 May 2022.

The consolidated statement of changes in equity is to be read in conjunction with the notes set out on pages 5 to 85 integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

in LEK '000

	Notes	For the year ended December 31, 2021	For the year ended December 31, 2020
Cash flows from operating activities			
Profit before tax		1,270,698	602,601
Adjustments for non-cash items:			
Interest income	23	(3,296,014)	(2,954,364)
Interest expense	24	615,387	630,989
Depreciation of property and equipment	12	69,404	64,099
Amortization of intangible assets	11	43,846	34,443
Depreciation of ROU assets	13.1.1	148,739	165,352
Impairment loss on financial assets	27	221,969	693,524
Write-down on NRV of repossessed collaterals	15	10,823	53,847
Change in fair value of investment property	14	(204)	(17,741)
Impairment of assets held for sale	16	1,219	2,060
Other charges for provisions		25,358	4,694
Disposal of ROU assets		(10)	(4,006)
Revaluation effect of cash and cash equivalents		(22,261)	65,482
Other revaluation effects		(38,091)	24,255
Written off property and equipment		6,167	6,796
Net gain from sale of property and equipment		83	(398)
Net loss/gain from sale of repossessed collaterals		11,081	(6,397)
Net gain /loss from sale of investment property		-	(9,850)
		(931,806)	**(644,614)**
Changes in:			
Due with banks		(1,202,742)	(632,431)
Loans and advances to customers		(4,345,769)	(3,826,930)
Other assets		31,541	(250,883)
Due to banks and financial institutions		800,934	644,097
Due to customers		7,401,045	3,811,775
Due to Central Bank		(753,215)	659,734
Other liabilities		60,479	79,060
Proceeds from sale of non-current assets held for sale		73,482	24,237
Interest received		3,267,540	2,912,331
Interest paid		(607,514)	(592,052)
Income tax paid		(126,978)	(108,644)
Net cash generated from operating activities		**3,666,997**	**2,075,680**
Cash flows from investing activities			
Purchases of intangible assets	11	(118,796)	(56,170)
Purchases of property and equipment	12	(156,258)	(68,814)
Proceeds from sale of property and equipment		8,442	2,498
Proceeds from sale of investment properties		-	53,830
Purchases of investment securities		(2,826,140)	(2,037,560)
Recovery in net investment lease		6,379	5,999
Net cash used in investing activities		**(3,086,373)**	**(2,100,217)**
Cash flows from financing activities			
Dividends distributed		(75,000)	-
Repayment of lease liability		(143,900)	(153,499)
Issuing of subordinated debt		235,640	247,400
Net cash generated from financing activities		**16,740**	**93,901**
Net increase in cash and cash equivalents during the year		597,364	69,364
Revaluation effect of cash and cash equivalents		22,261	(65,482)
Cash and cash equivalents at the beginning of the year		**7,653,311**	**7,649,429**
Cash and cash equivalents at the end of the year	35	**8,272,936**	**7,653,311**

These consolidated financial statements have been approved by Executive Management on 30 May 2022.

The consolidated statement of cash flows is to be read in conjunction with the notes set out on pages 5 to 85 integral part of the consolidated financial statements.

(Amounts in LEK '000 unless otherwise stated)

1. INTRODUCTION

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

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

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

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

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

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

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

Directors as at 31 December 2021

Supervisory Board of the Bank

Edmond Leka	Chairman
Niko Leka	Vice-Chairman
Varuzhan Piranjani	Member
Henry Russell	Member
Flutura Veipi	Member (and CEO)
Gazmend Kadriu	Member
Teuta Baleta	Member
Kreshnik Dibra	Member

Mr. Kreshnik Dibra joined the Board on 29 April 2021.
Mr. Henry Russell joined the Board on 26 August 2021, replacing Mrs. Melis Ekmen Tabojer.

Supervisory Board of the Landeslease

Arten Zikaj	Chairman
Enkeleda Hasho	Member
Rezart Ferzaj	Member

2. BASIS OF PREPARATION

2.1. Statement of compliance

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

Group consolidated financial statements are prepared by the parent Company.

2. BASIS OF PREPARATION (CONTINUED)

2.2. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and FVOCI Investment securities which are measured at fair value and inventory of repossessed assets which is measured at the lower of cost and net realizable 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.

2.4. Going concern

The Group's management has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

3.1. New and amended standards and interpretations

Several other amendments and interpretations apply for the first time in 2021, but do not have any impact on the Group's consolidated financial statements as disclosed in note 4.33.

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2021, unless otherwise stated. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective as disclosed in the note 4.34.

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1. Basis of consolidation

4.1.1. Business combination

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

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

4.1.2. Subsidiary

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3. Interest (continued)

Interest and similar income

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.

In its Interest income/expense calculated using the effective interest method; the Group only includes interest on those financial instruments that are set out in Note 4.3 above.

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

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

The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets. The Group does not hold any POCI financial assets as at 31 December 2021 and 20120.

4.4. Fees and commissions

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

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

Consequently, the Group has used the practical expedient of the standard and needs not to present information about the aggregate amount of the price related to the unsatisfied portion of performance obligations.
The performance obligations are satisfied either at a point in time where by commission revenue is recognised when the service has been executed and transferred to the customer, or over time where by the Group performs the service over an agreed period and the customer consumes it as the service is being performed, and revenue is recognised over the said period. Accordingly, fee and commission income is recognised as:

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6. Dividend income

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

4.7. Tax expense

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

4.7.1. Current tax

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

4.7.2. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.
The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group 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 – Initial recognition

4.8.1. Date of recognition

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

4.8.2. Initial measurement of financial instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8. Financial instruments – Initial recognition (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

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 either

- Amortised cost (see Notes 4.19, 4.20 and 4.21)
- FVOCI (see Note 4.21)

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

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

4.9. Financial assets and liabilities

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

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

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

The details of these conditions are outlined below.

4.9.1.1. Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9. Financial assets and liabilities (continued)

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

4.9.1.2. The SPPI test

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

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

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

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

4.9.2. Debt instruments at FVOCI

The Group classifies debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 4.3.

The ECL calculation for debt instruments at FVOCI is explained in Note 4.12.3. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

4.9.3. Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. Disclosures for the Group's issued debt are set out in Note 21.

4.10. Reclassification of financial assets and liabilities

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

Financial liabilities are never reclassified.

4.11. Derecognition of financial assets and liabilities

4.11.1. Derecognition due to substantial modification of terms and conditions

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11. Derecognition of financial assets and liabilities (continued)

4.11.1. Derecognition due to substantial modification of terms and conditions (continued)

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

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

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

4.11.2. Derecognition other than for substantial modification

4.11.2.1. Financial assets

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

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

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

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

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

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)

4.11. Derecognition of financial assets and liabilities (continued)

4.11.2. Derecognition other than for substantial modification (continued)

4.11.2.2. Financial liabilities

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

4.12. Impairment of financial assets

4.12.1. Overview of the ECL principles

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 4.12.2. The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 38.1.2.2.

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

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

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 38.1.2.3.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 38.1.2.2.

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

- Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 38.1.2.1). 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12. Impairment of financial assets (continued)

4.12.1 Overview of the ECL principles (continued)

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

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

4.12.2. The calculation of ECLs

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

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

- PD - *The Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 39.1.2.4.1.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 38.1.2.4.3.
- 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 38.1.2.4.4.

These parameters are derived from internally developed statistical models and other historical data. They are adjusted to reflect forward looking information as described in Note 38.1.4.4.2. 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 38.1.2.1), 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12. Impairment of financial assets (continued)

4.12.2 The calculation ECL (continued)

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

4.12.3. Debt instruments measured at fair value through OCI

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

4.12.4. 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
- Foreign exchange rates, etc

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 38.1.2.4.2.

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

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

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

4.13. Credit enhancements: collateral valuation and financial guarantees

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

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

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and depending on the type of it, re-assessed on a year or three- yearly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. Details of the impact of the Group's various credit enhancements are disclosed in Note 38.1.4.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13. Credit enhancements: collateral valuation and financial guarantees (continued)

Guarantees held are included in the measurement of loan ECL when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended.

4.14. Forborne and modified loans

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

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

When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk, as set out in Note 38.1.2.2. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period.

Details of forborne assets are disclosed in Note 38.1.4.

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

4.15. Offsetting

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

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

4.16. Write offs

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. In order to be written off, the Group follows regulatory requirements, where such loans must be classified in the "Lost" risk category, with more than 365 days past due, for the last two years and a 100% provisioning kept for them. However, the Group may not execute write-off if:

1. based in the analyses of borrower's financial situation and the quality of the collateral, it finds a possibility of settlement/ repayment of the respective loan.
2. loans under restructuring process, on which at any case, may not exceed a 6-months period from the day that the loan has met the conditions to be written off.

If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

4.17. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18. Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

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

- Level 1: Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Group has access to at the measurement date.
- Level 2: This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

The estimation of the fair value is disclosed in Note 39.

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.

4.19. Cash and cash equivalents

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

4.20. Due from banks and Loans and advances to customers

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.21. Investment securities

Investment securities include debt investment securities measured at amortised cost or at FVOCI (see Note 4.8.4). Investment securities are initially measured at fair value plus incremental direct transaction costs. Investment securities at amortised cost are subsequently measured at their amortised cost using the effective interest method. FVOCI Investment securities are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI.

4.22. Leases

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

4.22.1. Group as a lessee

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

4.22.1.1. Right-of-use assets

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

The right-of-use assets are presented within Note 13.1.1.

4.22.1.2. Lease liabilities

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

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

Lease liability is presented as a separate line in the Group's consolidated statement of financial position and are disclosed on Note 13.1.2.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.22. Leases (continued)

4.22.2. The Group as a lessor

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

4.22.2.1. Finance lease

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

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

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

Leases in which the Group is a lessor of a financial lease are disclosed in Note 10.

4.22.2.2. Operating lease

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

4.22.3. Sublease

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

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

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

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

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

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.23. Property and equipment

4.23.1. Recognition and measurement

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

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

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

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

4.23.2. Subsequent costs

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

4.23.3. Depreciation

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

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

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

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

4.24. Intangible assets

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.25. Investment properties

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

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

4.26. Inventories and repossessed assets

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

Repossessed collaterals are properties acquired through enforcement of security over loans and advances to customers. For a transfer from investment property carried at fair value to inventories, the property's deemed cost for subsequent accounting shall be its fair value at the date of change in use.
Any write-down to NRV is recognised as an expense in the period in which write-down occurs. Any reversal is recognised in profit and loss statement in the period in which reversal occurs.

4.27. Impairment of non-financial assets

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

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

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

4.28. Deposits, repurchase agreements, and subordinated liabilities

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

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

4.29. Provisions

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance as set out in Note 38.

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

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 38.

4.31. Equity

Elements of Equity are share capital, share premium and reserves. Reserves includes legal and general reserve (note 22.1) and fair value reserve. Fair value reserves comprise the cumulative net change in the fair value of debt instruments classified at FVOCI, less the allowance for ECL. Movements of the equity elements are disclosed in the note 22.

4.32. 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.

4.33. 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:

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.33. Adoption of new or revised standards and interpretations (continued)

The amendments of reference rates or known as just benchmark rates had no impact on the financial statements of the Bank since the contracts are with Minimum rates and the replacement of reference interest rate with an alternative benchmark rate had no effects of changes to contractual cash flows. The assessment of the Bank in accounting implications of the implementation of the new requirements has started before the IBORs reform start. The Bank assessed for the IBOR reform that no impact in financial statements will results. The amendments of the replacement of reference interest rate of the contracts with Minimum rates with an alternative benchmark rate for the bank has results in no modification of the contracts and the de-recognitions of the assets has not been applied, since the contractual cash flows of financial assets and liabilities had no changes in order to require the effective interest rate to be adjusted.

4.34. 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 Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture -** The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments) -** The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments.
- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments):** The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. Management has assessed the amendments and there is no impact on financial statements.
- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments):** The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. Management has assessed the amendments and there is no impact on financial statements.
- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

  The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. Management has assessed that the amendment will have no impact.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments) -** The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a Bank from deducting from the cost of property, plant and equipment amounts received from selling items produced while the Bank is preparing the asset for its intended use. Instead, a Bank will recognise such sales proceeds and related cost in profit or loss.**IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a Bank includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments) - The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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 38).

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

5.1. Business model assessment (continued)

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

5.2. Impairment

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

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios to derive the economic inputs into the ECL models

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

5.3. Fair value

5.3.1. Fair value of financial instruments

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

5.3.2. Fair value of non-financial assets

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

(Amounts in LEK '000 unless otherwise stated)

5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

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

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease.

That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

5.5. Estimating the incremental borrowing rate

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

6. CONSOLIDATION

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

	As at 31 December 2021		As at 31 December 2020	
	Bank	**Subsidiary**	**Bank**	**Subsidiary**
Total assets	80,492,820	1,745,661	71,856,535	1,757,335
Total liabilities	73,748,493	1,404,330	66,046,962	1,436,588
Shareholder's equity	6,744,327	341,331	5,809,573	320,746
Total banking income	3,232,851	116,960	2,813,147	95,511
Profit before tax	1,237,393	71,841	573,590	30,084

(Amounts in LEK '000 unless otherwise stated)

7. CASH AND BALANCES WITH CENTRAL BANK

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

	As at December 31, 2021	As at December 31, 2020
Cash on hand	1,863,078	2,099,347
Central Bank:		
Current account	2,286,709	1,649,306
Compulsory reserves	5,335,429	4,676,353
Accrued interest	131	121
Allowance for impairment losses	(2,712)	(3,366)
Total	**9,482,635**	**8,421,761**

Compulsory reserve represents a minimum reserve deposit held from the Bank 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% (2020: 70%) of the compulsory reserve in LEK, provided that the average of the reserve balance on the last day of the maintenance period does not fall below the required reserve level. This reserve is calculated as a percentage over the customer deposits. The reserve ratio is:

- 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 2020	**6,950,498**	-	-	**6,950,498**
New assets originated or purchased	1,568,790	-	-	1,568,790
Assets de-recognised or repaid	(128,967)	-	-	(128,967)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	34,806	-	-	34,806
Gross carrying amount as at 31 December 2020	**8,425,127**	-	-	**8,425,127**
New assets originated or purchased	1,790,660	-	-	1,790,660
Assets de-recognised or repaid	(654,648)	-	-	(654,648)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(75,792)	-	-	(75,792)
Gross carrying amount as at 31 December 2021	**9,485,347**	-	-	**9,485,347**

(Amounts in LEK '000 unless otherwise stated)

7. CASH AND BALANCES WITH CENTRAL BANK (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**1,341**	-	-	**1,341**
New assets originated or purchased	2,025	-	-	2,025
Assets de-recognised or repaid	-	-	-	-
Transfers between stages	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
ECL allowance as at 31 December 2020	**3,366**	-	-	**3,366**
New assets originated or purchased	206	-	-	206
Assets de-recognised or repaid	(860)	-	-	(860)
Transfers between stages	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
ECL allowance as at 31 December 2021	**2,712**	-	-	**2,712**

8. DUE FROM BANKS

Due from banks are detailed as follows:

	As at December 31, 2021	As at December 31, 2020
Current accounts:		
Resident	50,112	47,254
Non-resident	4,073,038	3,857,405
	4,123,150	**3,904,659**
Deposits:		
Resident	-	-
	-	-
Other accounts	905,889	362,223
Allowance for impairment losses	(2,417)	(5,993)
Total	**5,026,622**	**4,260,889**

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 2020	**5,105,325**	-	-	**5,105,325**
New assets originated or purchased	666,215	-	-	666,215
Assets de-recognised or repaid	(1,436,047)	-	-	(1,436,047)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(68,611)	-	-	(68,611)
Gross carrying amount as at 31 December 2020	**4,266,882**	-	-	**4,266,882**
New assets originated or purchased	2,210,263	-	-	2,210,263
Assets de-recognised or repaid	(1,477,317)	-	-	(1,477,317)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	29,211	-	-	29,211
Gross carrying amount as at 31 December 2021	**5,029,039**	-	-	**5,029,039**

(Amounts in LEK '000 unless otherwise stated)

8. DUE FROM BANKS (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**16,234**	**-**	**-**	**16,234**
New assets originated or purchased	1,225	-	-	1,225
Assets de-recognised or repaid	(11,209)	-	-	(11,209)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(257)	-	-	(257)
ECL allowance as at 31 December 2020	**5,993**	**-**	**-**	**5,993**
New assets originated or purchased	858	-	-	858
Assets de-recognised or repaid	(4,495)	-	-	(4,495)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	61	-	-	61
ECL allowance as at 31 December 2021	**2,417**	**-**	**-**	**2,417**

9. INVESTMENT SECURITIES

Below is an analysis of the Group's investment securities portfolio measured at FVOCI and at amortised cost:

	As at December 31, 2021	As at December 31, 2020
Debt instruments measured at FVOCI:		
Albanian Government Bonds	851,106	659,680
Total investment securities at FVOCI	**851,106**	**659,680**
Debt instruments at amortized cost:		
Albanian Treasury Bills	2,399,844	745,205
Albanian Government Bonds	23,004,731	22,563,758
Foreign Governments Bonds	522,891	416,749
Corporate Bonds	977,361	547,330
Subtotal	**26,904,827**	**24,273,042**
Allowance for impairment losses	(60,002)	(67,714)
Total investment securities at amortised cost	**26,844,825**	**24,205,328**

During 2021, the Group sold EUR 5 million of FVOCI investment securities and as a result a transfer of LEK 33,730 thousand (2020: LEK 16,058 thousand) was made from unrealised gains from OCI to the Income statement. The details of such instruments as at 31 December 2021 and 2020 are presented below:

					31 December 2021
	Nominal value	**Remaining (premium) /discount**	**Accrued interest**	**Revaluation effect**	**Book Value**
Albanian Government	863,244	(14,928)	3,308	(518)	851,106
Total	**863,244**	**(14,928)**	**3,308**	**(518)**	**851,106**

					31 December 2020
	Nominal value	**Remaining (premium) /discount**	**Accrued interest**	**Revaluation effect**	**Book Value**
Albanian Government	618,500	297	12,801	28,082	659,680
Total	**618,500**	**297**	**12,801**	**28,082**	**659,680**

(Amounts in LEK '000 unless otherwise stated)

9. INVESTMENT SECURITIES (CONTINUED)

The Group did not have any debt instruments measured at FVOCI which were pledged as collateral as at 31 December 2021 and 2020.

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

	31 December 2021			31 December 2020		
	Nominal value	**Unamortized discount**	**Book Value**	**Nominal value**	**Unamortized discount**	**Book Value**
12 months	2,420,200	(20,356)	2,399,844	750,000	(4,795)	745,205
Total	**2,420,200**	**(20,356)**	**2,399,844**	**750,000**	**(4,795)**	**745,205**

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

				31 December 2021
	Nominal value	**Remaining (premium) /discount**	**Accrued interest**	**Book Value**
Albanian Government	22,607,076	62,452	335,203	23,004,731
Foreign Governments	491,889	22,982	8,021	522,892
Corporate Bonds	955,832	16,284	5,244	977,360
Total	**24,054,797**	**101,718**	**348,468**	**24,504,983**

				31 December 2020
	Nominal value	**Remaining (premium) /discount**	**Accrued interest**	**Book Value**
Albanian Government	22,195,350	53,761	314,647	22,563,758
Foreign Governments	387,230	22,928	6,591	416,749
Corporate Bonds	536,007	9,764	1,559	547,330
Total	**23,118,587**	**86,453**	**322,797**	**23,527,837**

The Group has pledged some of its Albanian Treasury bonds at amortised cost as collateral for repurchase agreements with Central Bank amounting at LEK 2,770,000 thousand (2020: LEK 3,650,000 thousand).

(Amounts in LEK '000 unless otherwise stated)

9. INVESTMENT SECURITIES (CONTINUED)

Bonds and T-Bills at amortised cost are rated as follows:

Moody's Ratings or equivalents	**As at December 31, 2021**	**As at December 31, 2020**
Albanian Government		
Rated B+ (Euro denominated)	2,027,396	1,826,309
Not rated	23,377,179	21,482,654
Foreign Governments		
Rated Aa2	55,505	53,434
Rated Aa3	54,412	52,822
Rated A1	34,805	-
Rated A2	54,049	-
Rated A	-	52,451
Rated Baa1	31,475	-
Rated Baa2	64,185	
Rated Baa3	-	32,657
Rated Ba1	138,814	158,524
Rated B1	-	66,861
Rated B2	89,647	-
Corporate Bonds		
Rated Aa2	43,610	41,848
Rated Aa3	161,070	41,476
Rated A1	31,845	30,566
Rated A2	151,589	102,653
Rated A3	99,793	100,886
Rated Baa1	200,442	-
Rated Baa2	266,141	154,624
Rated Baa3	22,870	44,297
Not rated	-	30,980
Total	**26,904,827**	**24,273,042**

A reconciliation of changes in the fair value and corresponding allowance for ECL by stage for debt instruments measured at FVOCI is, as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Fair value as at 1 January 2020	**-**	**-**	**-**	**-**
New assets originated or purchased	866,204	-	-	866,204
Assets matured or repaid	(263,444)	-	-	(263,444)
Changes in Fair value	44,119			44,119
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Accrued interest	12,801			12,801
Foreign exchange adjustments	-	-	-	-
Fair value as at 31 December 2020	**659,680**	**-**	**-**	**659,680**
New assets originated or purchased	848,225	-	-	848,225
Assets matured or repaid	(637,420)	-	-	(637,420)
Changes in Fair value	(7,009)			(7,009)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Accrued interest	3,308			3,308
Foreign exchange adjustments	(15,678)	-	-	(15,678)
Fair value as at 31 December 2021	**851,106**	**-**	**-**	**851,106**

(Amounts in LEK '000 unless otherwise stated)

9. INVESTMENT SECURITIES (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**-**	**-**	**-**	**-**
New assets originated or purchased	1,763	-	-	1,763
Assets matured, repaid or written off	-	-	-	-
Transfers between stages	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Foreign exchange adjustments	-	-	-	-
ECL allowance as at 31 December 2020	**1,763**	**-**	**-**	**1,763**
New assets originated or purchased	2,377	-	-	2,377
Assets matured, repaid or written off	(1,721)	-	-	(1,721)
Transfers between stages	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Foreign exchange adjustments	(42)	-	-	(42)
ECL allowance as at 31 December 2021	**2,377**	**-**	**-**	**2,377**

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

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**22,828,848**	**-**	**-**	**22,828,848**
New assets originated or purchased	7,012,487	-	-	7,012,487
Assets matured or repaid	(5,577,530)	-	-	(5,577,530)
Transfers between Stages	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	9,237	-	-	9,237
Gross carrying amount as at 31 December 2020	**24,273,042**	**-**	**-**	**24,273,042**
New assets originated or purchased	8,510,238	-	-	8,510,238
Assets matured or repaid	(5,854,256)	-	-	(5,854,256)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(24,197)	-	-	(24,197)
Gross carrying amount as at 31 December 2021	**26,904,827**	**-**	**-**	**26,904,827**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**26,649**	**-**	**-**	**26,649**
New assets originated or purchased	65,014	-	-	65,014
Assets matured or repaid	(24,005)	-	-	(24,005)
Transfers between stages	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	56	-	-	56
ECL allowance as at 31 December 2020	**67,714**	**-**	**-**	**67,714**
New assets originated or purchased	18,805	-	-	18,805
Assets matured or repaid	(16,835)	-	-	(16,835)
Transfers between Stages	-	-	-	-
Net re-measurement of ECL	(9,551)	-	-	(9,551)
Amounts written off	-	-	-	-
Foreign exchange adjustments	(131)	-	-	(131)
ECL allowance as at 31 December 2021	**60,002**	**-**	**-**	**60,002**

(Amounts in LEK '000 unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are detailed as follows:

	As at December 31, 2021	As at December 31, 2020
Loans and advances at amortised cost	36,038,420	32,132,453
Finance Leases	1,375,421	1,342,183
Allowance for Impairment	(1,746,728)	(1,919,024)
Total	**35,667,113**	**31,555,612**

The table below shows the movement on ECL allowances:

	As at December 31, 2021	As at December 31, 2020
ECL allowances as at 1 January	**1,919,024**	**2,001,921**
Charge of the year	211,347	648,042
Amounts written off	(358,669)	(745,230)
Foreign exchange adjustments	(24,974)	14,291
ECL allowance as at 31 December	**1,746,728**	**1,919,024**

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

	As at December 31,2021		
	Gross carrying amount	**ECL amount**	**Carrying amount**
Retail customers			
Mortgage Lending	10,080,561	(127,156)	9,953,405
Personal loans	6,142,948	(383,538)	5,759,410
Overdrafts and credit cards	317,418	(64,238)	253,180
Retail lending	**16,540,927**	**(574,932)**	**15,965,995**
Lending to businesses	**19,497,493**	**(1,113,717)**	**18,383,776**
Finance Leases	1,375,421	(58,079)	1,317,342
Total	**37,413,841**	**(1,746,728)**	**35,667,113**

	As at December 31,2020		
	Gross carrying amount	**ECL amount**	**Carrying amount**
Retail customers			
Mortgage Lending	8,822,764	(113,561)	8,709,203
Personal loans	5,513,851	(458,238)	5,055,613
Overdrafts and credit cards	334,182	(85,294)	248,888
Retail lending	**14,670,797**	**(657,093)**	**14,013,704**
Lending to businesses	**17,461,656**	**(1,207,021)**	**16,254,635**
Finance Leases	1,342,183	(54,910)	1,287,273
Total	**33,474,636**	**(1,919,024)**	**31,555,612**

Loans and advances to customers earn interest as follows:

Currency	**As at December 31, 2021**	**As at December 31, 2020**
LEK	2.40% - 25.0% p.a.	2.40% - 20.0% p.a.
EUR	1.00% - 19.0% p.a.	1.00% - 19.0% p.a.
USD	3.00% - 10.0% p.a.	2.60% - 9.00% p.a.

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

The outstanding amount of Loans and advances given to Group's personnel as at 31 December 2021 is LEK 620,920 thousand (2020: LEK 549,841 thousand) and bear interest rates that are 1% p.a. to 1.8% below the rates given to standard customers.

(Amounts in LEK '000 unless otherwise stated)

10. 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, 2021	As at December 31, 2020
Less than one year	576,668	606,846
Between one and five years	952,497	885,542
Over 5 years	-	1,606
Unearned future finance income	(153,744)	(151,811)
Gross finance lease	**1,375,421**	**1,342,183**
Less impairment allowance	(58,079)	(54,910)
Total	**1,317,342**	**1,287,273**

Interest rates of the finance lease portfolio vary from 5.9% p.a. to 7.5% p.a. (2020: 5.9% p.a. to 7.5% p.a.).

10.1. Impairment allowance for loans and advances to customers

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

Mortgage lending

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**6,663,918**	**451,310**	**406,760**	**7,521,988**
New assets originated or purchased	3,017,406	-	-	3,017,406
Assets de-recognised or repaid	(1,485,839)	(151,651)	(150,478)	(1,787,968)
Transfers to Stage 1	133,563	(110,861)	(22,702)	-
Transfers to Stage 2	(731,065)	751,759	(20,694)	-
Transfers to Stage 3	(175,160)	(93,011)	268,171	-
Amounts written off	-	-	(10,511)	(10,511)
Foreign exchange adjustments	75,121	5,121	1,607	81,849
Gross carrying amount as at 31 December 2020	**7,497,944**	**852,667**	**472,153**	**8,822,764**
New assets originated or purchased	2,814,886	-	-	2,814,886
Assets de-recognised or repaid	(1,145,063)	(128,684)	(131,941)	(1,405,688)
Transfers to Stage 1	520,910	(490,395)	(30,515)	-
Transfers to Stage 2	(318,146)	397,059	(78,913)	-
Transfers to Stage 3	(92,879)	(58,410)	151,289	-
Amounts written off	-	-	(7,839)	(7,839)
Foreign exchange adjustments	(120,105)	(15,574)	(7,883)	(143,562)
Gross carrying amount as at 31 December 2021	**9,157,547**	**556,663**	**366,351**	**10,080,561**

(Amounts in LEK ‘000 unless otherwise stated)

10. LOANS ADVANCES TO CUSTOMERS (CONTINUED)

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

Mortgage lending

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**51,478**	**7,377**	**104,649**	**163,504**
New assets originated or purchased	19,110	-	-	19,110
Assets de-recognised or repaid	(7,516)	(118)	(32,996)	(40,630)
Transfers to Stage 1	8,252	(1,538)	(6,714)	-
Transfers to Stage 2	(8,551)	9,958	(1,407)	-
Transfers to Stage 3	(10,408)	(2,659)	13,067	-
Net re-measurement of ECL	(43,647)	2,005	22,229	(19,413)
Amounts written off	-	-	(10,511)	(10,511)
Foreign exchange adjustments	585	94	822	1,501
ECL allowance as at 31 December 2020	**9,303**	**15,119**	**89,139**	**113,561**
New assets originated or purchased	17,495	-	-	17,495
Assets de-recognised or repaid	(695)	(2,015)	(11,025)	(13,735)
Transfers to Stage 1	11,222	(6,254)	(4,968)	-
Transfers to Stage 2	(2,379)	16,058	(13,679)	-
Transfers to Stage 3	(12,515)	(2,060)	14,575	-
Net re-measurement of ECL	(8,369)	(107)	28,365	19,889
Amounts written off	-	-	(7,839)	(7,839)
Foreign exchange adjustments	(198)	(323)	(1,694)	(2,215)
ECL allowance as at 31 December 2021	**13,864**	**20,418**	**92,874**	**127,156**

Consumer loans

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**4,044,401**	**241,755**	**416,582**	**4,702,738**
New assets originated or purchased	2,763,386	-	-	2,763,386
Assets de-recognised or repaid	(1,676,328)	(139,132)	(119,900)	(1,935,360)
Transfers to Stage 1	28,868	(26,239)	(2,629)	-
Transfers to Stage 2	(495,242)	510,898	(15,656)	-
Transfers to Stage 3	(247,664)	(84,250)	331,914	-
Amounts written off	-	-	(40,382)	(40,382)
Foreign exchange adjustments	20,155	1,413	1,901	23,469
Gross carrying amount as at 31 December 2020	**4,437,576**	**504,445**	**571,830**	**5,513,851**
New assets originated or purchased	2,846,890	-	-	2,846,890
Assets de-recognised or repaid	(1,788,256)	(115,013)	(196,136)	(2,099,405)
Transfers to Stage 1	308,019	(303,332)	(4,687)	-
Transfers to Stage 2	(202,638)	250,641	(48,003)	-
Transfers to Stage 3	(105,310)	(60,928)	166,238	-
Amounts written off	-	-	(67,578)	(67,578)
Foreign exchange adjustments	(39,687)	(7,038)	(4,085)	(50,810)
Gross carrying amount as at 31 December 2021	**5,456,594**	**268,775**	**417,579**	**6,142,948**

(Amounts in LEK '000 unless otherwise stated)

10. LOANS ADVANCES TO CUSTOMERS (CONTINUED)

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

Consumer loans

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**66,274**	**25,972**	**231,109**	**323,355**
New assets originated or purchased	102,413	-	-	102,413
Assets de-recognised or repaid	(17,785)	(5,105)	(25,552)	(48,442)
Transfers to Stage 1	6,690	(4,828)	(1,862)	-
Transfers to Stage 2	(21,187)	29,616	(8,429)	-
Transfers to Stage 3	(46,957)	(11,560)	58,517	-
Net re-measurement of ECL	(14,680)	9,523	125,682	120,525
Amounts written off	-	-	(40,382)	(40,382)
Foreign exchange adjustments	289	(2)	482	769
ECL allowance as at 31 December 2020	**75,057**	**43,616**	**339,565**	**458,238**
New assets originated or purchased	76,528	-	-	76,528
Assets de-recognised or repaid	(23,164)	(10,606)	(62,327)	(96,097)
Transfers to Stage 1	14,735	(12,659)	(2,076)	-
Transfers to Stage 2	(15,560)	30,277	(14,717)	-
Transfers to Stage 3	(27,738)	(11,217)	38,955	-
Net re-measurement of ECL	(29,651)	(9,123)	52,166	13,392
Amounts written off	-	-	(67,578)	(67,578)
Foreign exchange adjustments	(186)	(109)	(650)	(945)
ECL allowance as at 31 December 2021	**70,021**	**30,179**	**283,338**	**383,538**

Overdrafts and credit cards

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**250,736**	**29,014**	**73,919**	**353,669**
New assets originated or purchased	44,331	-	-	44,331
Assets de-recognised or repaid	(35,473)	(8,411)	(6,774)	(50,658)
Transfers to Stage 1	11,424	(10,313)	(1,111)	-
Transfers to Stage 2	(27,609)	30,590	(2,981)	-
Transfers to Stage 3	(18,265)	(7,021)	25,286	-
Amounts written off	-	-	(15,073)	(15,073)
Foreign exchange adjustments	1,445	141	327	1,913
Gross carrying amount as at 31 December 2020	**226,589**	**34,000**	**73,593**	**334,182**
New assets originated or purchased	50,219	-	-	50,219
Assets de-recognised or repaid	(14,391)	(11,768)	(4,636)	(30,795)
Transfers to Stage 1	14,203	(11,516)	(2,687)	-
Transfers to Stage 2	(23,190)	27,875	(4,685)	-
Transfers to Stage 3	(14,976)	(6,901)	21,877	-
Amounts written off	-	-	(33,504)	(33,504)
Foreign exchange adjustments	(1,963)	(276)	(445)	(2,684)
Gross carrying amount as at 31 December 2021	**236,491**	**31,414**	**49,513**	**317,418**

(Amounts in LEK '000 unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

10.1. Impairment allowance for loans and advances to customers (continued)

Overdrafts and credit cards

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**6,586**	**8,704**	**52,748**	**68,038**
New assets originated or purchased	5,185	-	-	5,185
Assets de-recognised or repaid	(630)	(1,512)	(4,644)	(6,786)
Transfers to Stage 1	4,066	(3,328)	(738)	-
Transfers to Stage 2	(965)	2,854	(1,889)	-
Transfers to Stage 3	(3,664)	(1,618)	5,282	-
Net re-measurement of ECL	(2,989)	204	36,392	33,607
Amounts written off	-	-	(15,073)	(15,073)
Foreign exchange adjustments	50	56	217	323
ECL allowance as at 31 December 2020	**7,639**	**5,360**	**72,295**	**85,294**
New assets originated or purchased	5,197	-	-	5,197
Assets de-recognised or repaid	(875)	(982)	(12,005)	(13,862)
Transfers to Stage 1	5,406	(1,907)	(3,499)	-
Transfers to Stage 2	(1,201)	5,071	(3,870)	-
Transfers to Stage 3	(3,603)	(1,013)	4,616	-
Net re-measurement of ECL	(4,003)	693	24,952	21,642
Amounts written off	-	-	(33,504)	(33,504)
Foreign exchange adjustments	(71)	(51)	(407)	(529)
ECL allowance as at 31 December 2021	**8,489**	**7,171**	**48,578**	**64,238**

Business lending

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**13,525,236**	**825,753**	**2,398,201**	**16,749,190**
New assets originated or purchased	9,174,927	-	-	9,174,927
Assets de-recognised or repaid	(6,904,266)	(517,105)	(540,270)	(7,961,641)
Transfers to Stage 1	80,333	(78,224)	(2,109)	-
Transfers to Stage 2	(1,579,999)	1,635,046	(55,047)	-
Transfers to Stage 3	(1,075,709)	(249,419)	1,325,128	-
Amounts written off	-	-	(679,264)	(679,264)
Foreign exchange adjustments	153,964	3,890	20,590	178,444
Gross carrying amount as at 31 December 2020	**13,374,486**	**1,619,941**	**2,467,229**	**17,461,656**
New assets originated or purchased	9,070,311	-	-	9,070,311
Assets de-recognised or repaid	(5,348,999)	(410,075)	(746,413)	(6,505,487)
Transfers to Stage 1	971,884	(965,975)	(5,909)	-
Transfers to Stage 2	(1,018,127)	1,350,957	(332,830)	-
Transfers to Stage 3	(634,109)	(91,948)	726,057	-
Amounts written off	-	-	(249,748)	(249,748)
Foreign exchange adjustments	(215,405)	(26,425)	(37,409)	(279,239)
Gross carrying amount as at 31 December 2021	**16,200,041**	**1,476,475**	**1,820,977**	**19,497,493**

(Amounts in LEK '000 unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

10.1. Impairment allowance for loans and advances to customers (continued)

Business lending

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**185,746**	**26,943**	**1,203,452**	**1,416,141**
New assets originated or purchased	257,371	-	-	257,371
Assets de-recognised or repaid	(61,900)	(12,174)	(57,964)	(132,038)
Transfers to Stage 1	4,638	(4,444)	(194)	-
Transfers to Stage 2	(55,789)	67,452	(11,663)	-
Transfers to Stage 3	(151,318)	(4,402)	155,720	-
Net re-measurement of ECL	(69,743)	32,594	370,751	333,602
Amounts written off	-	-	(679,264)	(679,264)
Foreign exchange adjustments	2,144	(109)	9,174	11,209
ECL allowance as at 31 December 2020	**111,149**	**105,860**	**990,012**	**1,207,021**
New assets originated or purchased	320,176	-	-	320,176
Assets de-recognised or repaid	(32,426)	(14,328)	(155,078)	(201,832)
Transfers to Stage 1	41,056	(39,762)	(1,294)	-
Transfers to Stage 2	(25,525)	89,839	(64,314)	-
Transfers to Stage 3	(224,726)	(7,206)	231,932	-
Net re-measurement of ECL	(39,115)	(40,261)	137,455	58,079
Amounts written off	-	-	(249,748)	(249,748)
Foreign exchange adjustments	(1,913)	(1,244)	(16,822)	(19,979)
ECL allowance as at 31 December 2021	**148,676**	**92,898**	**872,143**	**1,113,717**

Financial Leases

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	**749,046**	**326,621**	**90,045**	**1,165,712**
New assets originated or purchased	617,573	-	-	617,573
Assets de-recognised or repaid	(254,144)	(174,356)	(15,356)	(443,856)
Transfers to Stage 1	12,088	(12,088)	-	-
Transfers to Stage 2	(296,467)	331,426	(34,959)	-
Transfers to Stage 3	(62,867)	(42,200)	105,067	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	256	1,629	869	2,754
Gross carrying amount as at 31 December 2020	**765,485**	**431,032**	**145,666**	**1,342,183**
New assets originated or purchased	705,812	-	-	705,812
Assets de-recognised or repaid	(360,484)	(252,652)	(58,630)	(671,766)
Transfers to Stage 1	18,553	(18,553)	-	-
Transfers to Stage 2	(171,607)	175,648	(4,041)	-
Transfers to Stage 3	(3,699)	(74,096)	77,795	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(4,481)	4,035	(362)	(808)
Gross carrying amount as at 31 December 2021	**949,579**	**265,414**	**160,428**	**1,375,421**

(Amounts in LEK '000 unless otherwise stated)

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

10.1. Impairment allowance for loans and advances to customers (continued)

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**3,241**	**1,902**	**25,740**	**30,883**
New assets originated or purchased	18,837	-	-	18,837
Assets de-recognised or repaid	(322)	(386)	(871)	(1,579)
Transfers to Stage 1	72	(72)	-	-
Transfers to Stage 2	(9,956)	14,039	(4,083)	-
Transfers to Stage 3	(5,154)	(251)	5,405	-
Net re-measurement of ECL	2,263	2,073	1,944	6,280
Amounts written off	-	-	-	-
Foreign exchange adjustments	51	31	407	489
ECL allowance as at 31 December 2020	**9,032**	**17,336**	**28,542**	**54,910**
New assets originated or purchased	8,375	-	-	8,375
Assets de-recognised or repaid	(1,529)	(4,037)	(4,528)	(10,094)
Transfers to Stage 1	748	(748)	-	-
Transfers to Stage 2	(3,445)	4,151	(706)	-
Transfers to Stage 3	(43)	(2,977)	3,020	-
Net re-measurement of ECL	(3,831)	(7,867)	17,892	6,194
Amounts written off	-	-	-	-
Foreign exchange adjustments	(233)	(74)	(999)	(1,306)
ECL allowance as at 31 December 2021	**9,074**	**5,784**	**43,221**	**58,079**

11. INTANGIBLE ASSETS

	Software	Other intangible assets	Intangible assets in progress	Total
Cost				
At 1 January 2020	**331,121**	**90,568**	**27,643**	**449,332**
Additions	50,418	4,793	959	56,170
Disposals	-	-	-	-
At 31 December 2020	**381,539**	**95,361**	**28,602**	**505,502**
Additions	48,953	43,460	26,383	118,796
Disposals	-	-	-	-
At 31 December 2021	**430,492**	**138,821**	**54,985**	**624,298**
Accumulated amortization				
At 1 January 2020	**(255,359)**	**(58,114)**	**-**	**(313,473)**
Amortization charge	(24,831)	(9,612)	-	(34,443)
Amortization charge for disposals	-	-	-	-
At 31 December 2020	**(280,190)**	**(67,726)**	**-**	**(347,916)**
Amortization charge	(32,446)	(11,400)	-	(43,846)
Amortization charge for disposals	-	-	-	-
At 31 December 2021	**(312,636)**	**(79,126)**	**-**	**(391,762)**
Net book amount				
At 1 January 2020	**75,762**	**32,454**	**27,643**	**135,859**
At 31 December 2020	**101,349**	**27,635**	**28,602**	**157,586**
At 31 December 2021	**117,856**	**59,695**	**54,985**	**232,536**

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

(Amounts in LEK '000 unless otherwise stated)

12. PROPERTY AND EQUIPMENT

	Buildings	Computers	Electronic equipment	Office Furniture	Other	Fixed assets in progress	Leasehold improvements	Total
Cost								
At 1 January 2020	**165,205**	**217,087**	**159,309**	**75,357**	**27,821**	**7,937**	**275,870**	**928,586**
Additions	-	13,230	10,132	5,462	14,522	367	25,101	68,814
Adjustments	-	(347)	(2,982)	(513)	(2,357)	-	(25,210)	(31,409)
At 31 December 2020	**165,205**	**229,970**	**166,459**	**80,306**	**39,986**	**8,304**	**275,761**	**965,991**
Additions	-	84,288	7,858	7,464	19,928	18,550	18,172	156,260
Transfers/Reclassifications	(27,516)	1,906	(1,954)	49	-	(1)	-	(27,516)
Disposals	-	(723)	(3,367)	(1,449)	(23,961)	-	(71)	(29,571)
At 31 December 2021	**137,689**	**315,441**	**168,996**	**86,370**	**35,953**	**26,853**	**293,862**	**1,065,164**
Accumulated depreciation								
At 1 January 2020	**(5,830)**	**(155,152)**	**(108,735)**	**(53,435)**	**(5,414)**	**-**	**(169,060)**	**(499,626)**
Depreciation charge	(7,969)	(16,820)	(10,493)	(4,497)	(5,139)	-	(19,181)	(64,099)
Depreciation charge for disposals	-	278	2,566	292	483	-	18,897	22,516
Year ended December 2020	**(13,799)**	**(171,694)**	**(116,662)**	**(57,640)**	**(10,070)**	**-**	**(169,344)**	**(539,209)**
Depreciation charge	(7,570)	(18,935)	(10,155)	(4,807)	(4,955)	-	(22,983)	(69,405)
Transfers/Reclassifications	3,096	-	-	-	-	-	-	3,096
Depreciation charge for disposals	-	716	2,580	1,217	10,351	-	17	14,881
Year ended December 2021	**(18,273)**	**(189,913)**	**(124,237)**	**(61,230)**	**(4,674)**	**-**	**(192,310)**	**(590,637)**
Net book amount								
At 1 January 2020	**159,375**	**61,935**	**50,574**	**21,922**	**22,407**	**7,937**	**106,810**	**430,960**
Year ended December 2020	**151,406**	**58,276**	**49,797**	**22,666**	**29,916**	**8,304**	**106,417**	**426,782**
Year ended December 2021	**119,416**	**125,528**	**44,759**	**25,140**	**31,279**	**26,853**	**101,552**	**474,527**

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 2021 (2020: none).

(Amounts in LEK '000 unless otherwise stated)

13. LEASES

Group as a Lessee

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

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

13.1. Amounts recognised in the statement of financial position

13.1.1. Right-of-use Asset

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

	Right-of-use assets			
	Buildings	**Computer equipment**	**Other tangible assets**	**Total**
Cost				
At 1 January 2021	**916,447**	**35,250**	**21,509**	**973,206**
Additions	26,408	-	5,809	32,217
Disposal/Transfer	(14,772)	-	(906)	(15,678)
At 31 December 2021	**928,083**	**35,250**	**26,412**	**989,745**
Accumulated Depreciation				
At 1 January 2021	**259,083**	**31,334**	**10,947**	**301,364**
Depreciation charge	141,437	3,916	3,386	148,739
Depreciation charge for disposals	(4,794)	-	(809)	(5,603)
At 31 December 2021	**395,726**	**35,250**	**13,524**	**444,500**
Net book amount				
At 1 January 2021	**657,364**	**3,916**	**10,562**	**671,842**
Year ended December 2021	**532,357**	**-**	**12,888**	**545,245**

13.1.2. Lease Liability

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

	2021	**2020**
At 1 January	**783,643**	**868,759**
Additions	32,216	113,720
Disposals	(10,085)	(57,127)
Accretion of interest (Note 24)	51,834	60,967
Lease payment	(195,734)	(214,466)
Revaluation effect	(14,883)	11,790
At 31 December	**646,991**	**783,643**
Current	145,823	148,506
Non-current	501,168	635,137

The maturity analysis of lease liabilities is disclosed in Note 34.

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

(Amounts in LEK '000 unless otherwise stated)

13. LEASES (CONTINUED)

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

13.1.3. Net investment lease

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

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

The Net investment lease is shown under "Other assets" (Note 16) and the movements during the period are disclosed below:

	2021	2020
At 1 January	**77,816**	**82,504**
Investment in finance lease	-	-
Lease payments	(11,756)	(11,882)
Interest Income	5,377	5,883
Revaluation effect	(1,762)	1,311
At 31 December	**69,675**	**77,816**

13.2. Amounts related to leases recognized during the reporting period

The following amounts are recognized in profit or loss:

	2021	2020
Depreciation expense of right-of-use assets (Note 13.1.1)	148,739	165,352
Interest expense on lease liabilities (Note 13.1.2) (Note 24)	51,834	60,967
Expense relating to short-term leases (included in administrative expenses) (Note 32)	38,066	24,759
Total expenses related to leases	**238,639**	**251,078**

	2021	2020
Gain from disposal of Right-of-use asset	10	4,470
Interest income on Investment lease (sublease) (Note 23)	5,377	5,883
Income on operational lease (Note 14)	17,327	4,753
Total income related to leases	**22,714**	**15,106**

During 2021, the Group terminated one leasing contract closed to maturity and this termination resulted in a Gain from disposal of ROU asset at 10 thousand Lek (2020: 4,470 thousand LEK). The Group had total cash outflows for leases of LEK 233,800 thousand in 2021 (2020: LEK 236,158 thousand).

(Amounts in LEK '000 unless otherwise stated)

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 2021 was LEK 17,327 thousand (2020: LEK 4,753 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 Group's investment property portfolio every year.

The fair values of the Group'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.

	2021	**2020**
Balance at 1 January	**366,229**	**419,395**
Transferred from repossessed assets (Note 15)	101,850	-
Assets sold during the year	-	(43,980)
Transferred to repossessed assets (Note 15)	-	(26,927)
Net changes in fair value	204	17,741
Balance at 31 December	**468,283**	**366,229**

Valuation techniques and significant unobservable inputs

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

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

15. REPOSSESSED ASSETS

Repossessed collaterals are properties acquired through enforcement of security over loans and advances to customers. The Group 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 Group's repossessed collaterals.

	2021	**2020**
Balance at 1 January	**450,869**	**391,146**
Transferred from investment property (Note 14)	-	26,927
Acquired during the year	46,292	103,557
Transferred from PPE (Note 12)	24,419	-
Transferred to investment property (Note 14)	(101,850)	-
Assets sold during the year	(84,563)	(16,914)
Net write-down of NRV for the year	(10,823)	(53,847)
Balance at 31 December	**324,344**	**450,869**

(Amounts in LEK '000 unless otherwise stated)

16. OTHER ASSETS

Other assets are detailed as follows:

	As at December 31, 2021	As at December 31, 2020
Net Investment lease	69,675	77,816
Vat receivable	50,542	57,668
Consumption Inventory	32,192	12,666
Other	33,926	3,244
Sundry debtors, net	28,011	36,209
Prepayments	41,050	105,058
Assets held for sale	3,334	-
Clients' receivables	13,353	15,303
Accrued income	8,963	10,355
Payment in transit	4,826	3,212
Monetary values in transit	241,459	248,964
Total	**527,331**	**570,495**

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.

	2021	2020
Balance at 1 January	**-**	**22,079**
Repossessed during the year	4,395	124
Assets sold during the year	-	(18,953)
Impairment of assets held for sale	(1,219)	(2,060)
Translation differences	158	(1,190)
Balance at 31 December	**3,334**	**-**

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

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

	As at December 31, 2021	As at December 31, 2020
Sundry debtors, gross	106,499	125,402
ECL	(78,488)	(89,193)
Sundry debtors, net	**28,011**	**36,209**

	2021	2020
Impairment allowance as at 1 January	**89,193**	**112,041**
Impairment charge for the year (ECL) (Note 27)	13,899	15,540
Recovery from reversal of impairment (Note 27)	(7,685)	(12,787)
Amounts written off	(17,521)	(21,180)
Foreign exchange adjustments	602	(4,421)
Total impairment losses as at 31 December	**78,488**	**89,193**

(Amounts in LEK '000 unless otherwise stated)

17. DUE TO CENTRAL BANK

Amounts due to central bank are detailed as follows:

	As at December 31, 2021	As at December 31, 2020
Current Accounts	31,495	-
Treasury bills sold under repurchase agreements	2,659,729	3,444,439
Accrued interest	2,187	1,682
Total	**2,693,411**	**3,446,121**

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 2021 bear interest at market rates ranging from 0.53% p.a. to 0.55% p.a. (2020: 0.5% p.a. to 0.55% p.a.) and are denominated in LEK.

18. DUE TO BANKS AND FINANCIAL INSTITUTIONS

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

	As at December 31, 2021	As at December 31, 2020
Current accounts		
Resident	1,941,056	1,931,603
Non-resident	755,582	565,678
	2,696,638	**2,497,281**
Term deposits		
Resident	1,837,293	1,912,284
	1,837,293	**1,912,284**
Borrowings		
Resident	1,180,000	540,000
Non-resident	115,008	70,686
	1,295,008	**610,686**
Other accounts		
Resident	19,011	26,765
	19,011	**26,765**
Accrued interest	17,699	16,790
Total	**5,865,649**	**5,063,806**

Current accounts from resident financial institutions include LEK 1,190 million (2020: LEK 1,191 million) deposited by Unioni Financiar Tirane ('UFT'), out of which LEK 90.6 million (2020: LEK 92.8 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 693.8 million (2020: LEK 547.3 million).

Borrowings from resident banks have a maturity up to 7 days (2020: 7 days) and interest rates from 0.45% p.a. to 0.5% p.a. (2020: at 0.45% p.a)

Borrowings from non-resident banks represent loans received by the Bank from EBRD as per Green Economy Financing Facility ('GEFF'). As per this agreement, the total commitment is scheduled to be received in 3 yearly tranches of 2 million EUR each. Commitment fee is 0.5% p.a. and is calculated and paid over the undrawn part of each tranche. Minimum disbursement amount in every tranche is 1 million EUR. Loan disbursed under this agreement has an outstanding balance of LEK 115,008 thousand (2020: LEK 70,686 thousand), with an interest rate of 2.5% p.a. and an initial maturity of 3 years.

(Amounts in LEK '000 unless otherwise stated)

19. DUE TO CUSTOMERS

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

	As at December 31, 2021	**As at December 31, 2020**
Government and public administration:		
Local currency	337,694	224,042
Foreign currency	94,905	98,515
	432,599	**322,557**
Current accounts:		
Local currency	6,175,113	5,004,511
Foreign currency	10,121,373	7,204,784
	16,296,486	**12,209,295**
Saving accounts:		
Local currency	3,322,405	2,460,357
Foreign currency	8,827,065	7,003,748
	12,149,470	**9,464,105**
Term deposits:		
Local currency	18,278,169	18,283,063
Foreign currency	14,876,565	14,546,223
	33,154,734	**32,829,286**
Other customer accounts:		
Local currency	179,346	219,141
Foreign currency	592,323	360,325
	771,669	**579,466**
Subtotal	**62,804,958**	**55,404,709**
Prepaid interest on customer deposits	-	(796)
Accrued interest	410,755	406,219
Total	**63,215,713**	**55,810,132**

Current and saving accounts bear interest in the range of 0.05% p.a. to 0.5% p.a. (2020: 0.05% p.a. to 0.5% p.a.) and term deposits bear interest as follows:

Currency	**2021**	**2020**
LEK	0.20% p.a. to 6.60% p.a.	0.20% p.a. to 5.60% p.a.
EUR	0.05% p.a. to 2.60% p.a.	0.05% p.a. to 3.20% p.a.
USD	0.20% p.a. to 1.70% p.a.	0.20% p.a. to 1.55% p.a.
GBP	0.10% p.a. to 0.60% p.a.	0.10% p.a. to 0.55% p.a.

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

(Amounts in LEK '000 unless otherwise stated)

19. DUE TO CUSTOMERS (CONTINUED)

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

	As at December 31, 2021			As at December 31, 2020		
	LEK	**Foreign currency**	**Total**	**LEK**	**Foreign currency**	**Total**
Government and admin accounts						
On demand	337,694	64,592	402,286	224,042	73,775	297,817
Three months	-	-	-	-	-	-
Twelve months	-	30,313	30,313	-	24,740	24,740
Total government and admin accounts	**337,694**	**94,905**	**432,599**	**224,042**	**98,515**	**322,557**
Current accounts	**6,175,113**	**10,121,373**	**16,296,486**	**5,004,511**	**7,204,784**	**12,209,295**
Saving accounts	**3,322,405**	**8,827,065**	**12,149,470**	**2,460,357**	**7,003,748**	**9,464,105**
Term deposits:						
One month	-	-	-	161	2,552	2,713
Three months	210,510	644,824	855,334	247,753	805,039	1,052,792
Six months	420,212	561,118	981,330	467,254	526,462	993,716
Twelve months	2,982,028	4,641,560	7,623,588	3,480,018	5,317,380	8,797,398
Fourteen months	2,803,516	2,583,583	5,387,099	2,828,522	2,217,663	5,046,185
Twenty-five months	1,703,467	1,522,970	3,226,437	1,714,808	1,441,437	3,156,245
Thirty-five months	7,104,305	4,069,585	11,173,890	5,555,585	2,994,242	8,549,827
Sixty months	2,999,447	829,730	3,829,177	3,735,989	1,161,132	4,897,121
Other deposits	54,684	23,195	77,879	252,973	80,316	333,289
Total deposits	**18,278,169**	**14,876,565**	**33,154,734**	**18,283,063**	**14,546,223**	**32,829,286**
Other customer accounts:						
On demand	24,055	32,928	56,983	21,160	11,243	32,403
Twelve months	21,007	24,796	45,803	31,445	60,334	91,779
Other	134,284	534,599	668,883	166,536	288,748	455,284
Total other customer accounts	**179,346**	**592,323**	**771,669**	**219,141**	**360,325**	**579,466**
Total	**28,292,727**	**34,512,231**	**62,804,958**	**26,191,114**	**29,213,595**	**55,404,709**

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

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

(Amounts in LEK '000 unless otherwise stated)

20. OTHER LIABILITIES

Other liabilities are comprised of the following:

	As at December 31, 2021	As at December 31, 2020
Payments in transit	257,916	248,536
Other payables	83,428	70,453
Invoices to be received	99,776	59,471
Deferred income and accrued expenses	26,700	13,689
Advances from clients	15,471	23,832
Other provisions for risk and expenses	56,153	15,497
Loans from government	30,598	37,429
Total	**570,042**	**468,907**

Payments in transit represent outbound international money transfers with agreed settlement dates in the first days of the subsequent year. Upon settlement, these payments are expected to reduce amounts of cash and cash equivalent or to increase the balances of customer accounts.

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 0.2% p.a.

Provisions are held in respect of:

	As at December 31, 2021	As at December 31, 2020
Financial guarantee contract issued	15,947	13,611
Letters of credit	5,387	925
Provisions for risk and expenses	34,819	961
Total	**56,153**	**15,497**

The amount in respect of financial guarantee contract issued represent ECL provisions raised for these instruments.

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

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

21. SUBORDINATED DEBT

After having received the approval from Financial Supervision Authority ("AMF"), dated 30 August 2021, on 01 October 2021 the Bank issued Subordinated debt as a Bond at EUR 2 million. The debt has an initial maturity of 7 years and a fixed interest rate of 3.3%p.a. Previously the Bank had issued a Subordinated debt on 21 February 2020 at EUR 2 million and with an initial maturity of 6 years bearing a fixed interest rate of 3.25% p.a.

	As at December 31, 2021	As at December 31, 2020
Subordinated debt	483,040	247,400
Accrued interest	4,826	2,903
Total	**487,866**	**250,303**

Central Bank of Albania approved the recognition of Subordinated debt issued on 2021 as part of Regulatory Capital of the Bank on December 2021. The one issued on February 2020, was approved on May 2020 to be part of Regulatory Capital of the Bank.

(Amounts in LEK '000 unless otherwise stated)

22. SHARE CAPITAL

At 31 December 2021, the subscribed capital of the Bank was divided into 2,097,143 shares (2020: 2,097,143 shares) with a nominal value of EUR 10 each, while the movements in the paid up share capital in 2021 and 2020 were as follows:

	31 December 2021		31 December 2020	
	No. of shares	**Value of shares**	**No. of shares**	**Value of shares**
Balance at the beginning of the year	2,097,143	2,717,813	2,097,143	2,717,813
Capital increase	-	-	-	-
Paid-up share capital	**2,097,143**	**2,717,813**	**2,097,143**	**2,717,813**

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

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

According to the plan, EBRD exit was completed by December 2021 and the structure of the subscribed capital changed as follows:

	2021	**2020**
Unioni Financiar Tirane (UFT) Sh.p.k	96.46%	92.24%
European Bank for Reconstruction and Development (EBRD)	-	4.22%
Edmond Leka	1.77%	1.77%
Niko Leka	1.77%	1.77%

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

Based on Shareholders' Decision of the Bank dated 30 June 2021 and of the Subsidiary dated 30 June 2021, the following allocation of profit was made:

- The amount of LEK 125,514 thousand from the profit of 2020 of the Bank was allocated to the general reserve
- The amount of LEK 75,000 thousand was distributed as dividends.
- The remaining amount of this profit was decided to be retained for investments.

Based on Shareholders' Decision of the Bank dated 28 September 2020 and of the Subsidiary dated 28 July 2020, the following allocation of profit was made:

- The amount of LEK 120,872 thousand from the profit of 2019 of the Bank was allocated to the general reserve
- The remaining amount of this profit was decided to be retained for investments.

22.1. LEGAL AND OTHER RESERVE

Legal and other reserve is made of:

- The Legal reserve of LEK 289,471 thousand is created based on the Albanian law "On entrepreneurs and companies", and was calculated as at least 5% of the Group's earnings until the level of 10% of the basic capital was reached. The decisions to create these reserves were taken by the respective Shareholders of the Bank and the Subsidiary when allocating the profits of years 2014 and 2015 and 2018.

(Amounts in LEK '000 unless otherwise stated)

22. SHARE CAPITAL (CONTINUED)

22.1. LEGAL AND OTHER RESERVE (CONTINUED)

- General reserve is required to be from 1.25% up to 2% of risk weighted assets of the Bank and is created by appropriation of 1/5 of yearly profit of the Bank and it can be used by the Bank for any unidentified risk in its activity. Total general reserve of the Bank is LEK 476,861 thousand (2020: LEK 351,347 thousand). General reserve of the Bank was calculated as 1/5 of the profits of the years 2017, 2018, 2019 and 2020.
- Other reserves also include share capital of subsidiaries created from capitalization of their retained earnings, which becomes restricted for distribution after the legal increase in capital.

23. INTEREST INCOME

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

	For the year ended December 31, 2021	For the year ended December 31, 2020
Loans and advances to customers	2,048,072	1,776,837
Finance Lease	147,576	130,221
Investment securities	1,089,125	1,033,617
Due from banks	5,864	7,806
Investment lease (Note 13.1.3)	5,377	5,883
Total	**3,296,014**	**2,954,364**

24. INTEREST EXPENSE

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

	For the year ended December 31, 2021	For the year ended December 31, 2020
Due to customers	494,493	506,248
Due to banks and financial institutions	30,307	28,277
Repurchase agreements	18,750	24,392
Lease liability (Note 13.1.2)	51,834	60,967
Subordinated debt	9,963	6,935
Other	10,040	4,170
Total	**615,387**	**630,989**

25. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Fee income earned from services that are provided over a certain period of time		
Account maintenance fees	90,991	79,060
Cards and E-banking maintenance fees	14,314	12,049
Letters of credit and bank guarantees	6,214	4,861
Fee income earned at a point of time		
Transfer and payment orders	185,510	147,773
Other banking services	116,246	77,682
Loan servicing fees	26,459	23,411
Total	**439,734**	**344,836**

(Amounts in LEK '000 unless otherwise stated)

26. FEE AND COMMISSION EXPENSES

Fees and commissions expense were comprised as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Banking services	76,634	55,096
Treasury operations	13,299	12,788
Other	16,986	12,153
Total	**106,919**	**80,037**

Banking services includes fee interest charge amounting at LEK 42,211 thousand (2020: LEK 27,781 thousand) paid on credit balances on accounts with correspondent banks.

27. NET IMPAIRMENT LOSS OF FINANCIAL ASSETS

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

	Note	For the year ended December 31, 2021	For the year ended December 31, 2020
Charges for ECL on cash and Central Bank	7	(654)	2,025
Reversal of ECL on Due to Banks	8	(3,637)	(9,984)
Charges for ECL loans and advances to customers	10	206,877	624,608
Charges for ECL finance lease	10	4,474	23,538
Charges for ECL on investment securities	9	(7,581)	41,009
Charges for ECL on FVOCI investment securities	9	656	1,763
Charges for ECL on other financial assets	16	6,214	10,985
Charges for ECL on Guarantees and Letters of credit	37	15,620	(420)
Total		**221,969**	**693,524**

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

On June 2020, the Bank sold the remained part of the Eurobond portfolio issued by Albanian Government, in Eur (the "Note") bought back in 2015, held at amortized cost, scheduled to mature by November 2020. The reason for such decision was to secure additional liquidity in euro, to acquire a larger portion of the new Eurobond issued by Albanian Government on June 2020, a 7 year maturity senior unsecured note.

The carrying amount of the derecognized bond held at amortized cost was of LEK 604,366 thousand and the gain from that de-recognition was of LEK 4,490 thousand. No such sale happened in 2021.

29. NET FOREIGN EXCHANGE RESULT

Net foreign exchange gain includes gains less losses from trading activities and foreign currency differences arising on open position revaluation. Net foreign exchange result in 2019 is gain of LEK 88,854 thousand (2019: gain of LEK 88,854 thousand). The effect of the open position revaluation at the year-end for the paid-up share capital (denominated in EUR) was gain of LEK 43,232 thousand (2019: loss of LEK 36,960 thousand).

30. OTHER INCOME NET

	For the year ended December 31, 2021	For the year ended December 31, 2020
Loss\ Gains on sale of fixed assets	(11,213)	8,659
Repayment of loans previously written off	136,921	81,888
Gain from ROU disposal	10	4,470
Other	8,318	(5,832)
Total	**134,036**	**89,185**

(Amounts in LEK '000 unless otherwise stated)

31. PERSONNEL COSTS

	For the year ended December 31, 2021	For the year ended December 31, 2020
Salaries and other compensations	600,059	555,043
Social insurance	71,425	63,539
Total	**671,484**	**618,582**

Salaries and social insurance for the year ended 31 December 2021 and 2020 are further breakdown as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Executive Management	75,349	83,625
Other personnel	596,135	534,957
Total	**671,484**	**618,582**

For the year ended 31 December 2021 the Group had an average number of 415 employees (2020: 404).

32. OTHER OPERATING EXPENSES

Other operating expenses were comprised as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Other external services	228,801	162,861
Premium insurance of deposits	201,407	188,660
Software maintenance	65,871	49,482
Marketing	61,020	34,509
Security services	53,654	50,467
Consulting and Legal fees	42,643	28,119
Communication expenses	38,072	38,081
Rent for short-term leases (Note 13.2)	38,066	24,759
Utilities energy, water etc.	24,729	24,462
Maintenance and repairs	24,463	19,191
Board remuneration	21,746	10,910
Insurance	14,593	14,784
Office supplies	14,355	12,574
Transportation and business trip expense	7,224	6,407
Trainings	6,027	415
Representation	3,496	2,439
Total	**846,167**	**668,120**

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.

The remuneration of the statutory auditor for the year ended December 31, 2021 was LEK 6,623 thousand (2020: LEK 5,065 thousand) inclusive of VAT and relates only to statutory audit and other audit related services, included in Consulting and Legal fees.

(Amounts in LEK '000 unless otherwise stated)

33. INCOME TAX

	For the year ended December 31, 2021	For the year ended December 31, 2020
Current tax expense	218,002	113,839
Deferred tax (income)/expense	(1,374)	(7,299)
Total tax expense	**216,628**	**106,540**

Income tax in Albania is assessed at the rate of 15% (2020: 15%) of taxable income.

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

	Effective Tax rate	2021	Effective Tax rate	2020
Profit before tax		**1,270,698**		**602,601**
Income tax at 15%	15.00%	190,605	15.00%	90,390
Non-deductible expenses	2.09%	26,617	2.77%	16,720
Income exempted from income tax	-0.04%	(457)	-0.09%	(570)
Income tax expense	**17.05%**	**216,765**	**17.68%**	**106,540**

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

	For the year ended December 31, 2021	For the year ended December 31, 2020
Deferred tax asset at the beginning of the year	**31,659**	**22,790**
Recognized in profit or loss	(196)	8,869
Recognized in OCI	78	-
Deferred tax asset at the end of the year	**31,541**	**31,659**
Deferred tax liability at the beginning of the year	**5,782**	-
Recognized in profit or loss	(1,570)	1,570
Recognized in OCI	(4,212)	4,212
Deferred tax liability at the end of the year	**-**	**5,782**

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

	2021	Recognized in Profit or loss	Recognized in OCI	2020	Recognized in Profit or loss	Recognized in OCI
Deferred tax asset:						
Effect of IFRS 16	4,745	(291)	-	5,036	3,648	-
Repossessed assets	23,462	(809)	-	24,271	6,930	-
Investment property	735	735	-	-	(1,598)	-
ECL on bonds	177	(52)	-	229	(195)	-
Finance lease receivable	2,344	221	-	2,123	84	-
Investment securities at FVOCI	78	-	78	-	-	-
	31,541	**(196)**	**78**	**31,659**	**8,869**	**-**
Deferred tax liability:						-
Investment securities at FVOCI	-	-	(4,212)	4,212	-	4,212
Investment properties	-	(1,570)	-	1,570	1,570	-
	-	**(1,570)**	**(4,212)**	**5,782**	**1,570**	**4,212**

(Amounts in LEK '000 unless otherwise stated)

33. INCOME TAX (CONTINUED)

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.

	2021	2020
Income tax (receivable)/payable as at 1 January	**(19,891)**	**(25,086)**
Income tax paid (due as at the end of previous year)	-	-
Income tax prepaid to Albanian tax office	(126,978)	(108,644)
Current tax	218,002	113,839
Income tax payable/(receivable) as at 31 December	**71,133**	**(19,891)**

34. 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 2021	Within 12 months	After 12 months	Total
Assets			
Cash and balances with Central Bank	9,482,635	-	9,482,635
Due from banks	4,989,621	37,001	5,026,622
Investment securities	5,392,534	22,303,397	27,695,931
Loans and advances to customers	9,470,045	26,197,068	35,667,113
Intangible assets	-	232,536	232,536
Property and equipment	-	474,527	474,527
Right-of-use asset	-	545,245	545,245
Investment property	-	468,283	468,283
Repossessed assets	170,050	154,294	324,344
Other assets	464,421	62,910	527,331
Deferred tax	-	31,541	31,541
Total assets	**29,969,306**	**50,506,802**	**80,476,108**
Liabilities			
Due to Central Bank	2,693,411	-	2,693,411
Due to banks and financial institutions	2,454,808	3,410,841	5,865,649
Due to customers	14,712,190	48,503,523	63,215,713
Lease liabilities	146,792	500,199	646,991
Other liabilities	510,587	59,455	570,042
Subordinated debt	4,826	483,040	487,866
Income tax payable	71,133	-	71,133
Total liabilities	**20,593,747**	**52,957,058**	**73,550,805**
Net	**9,375,559**	**(2,450,256)**	**6,925,303**

(Amounts in LEK '000 unless otherwise stated)

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

31 December 2020	Within 12 months	After 12 months	Total
Assets			
Cash and balances with Central Bank	8,421,761	-	8,421,761
Due from banks	4,080,073	180,816	4,260,889
Investment securities	5,832,708	19,032,300	24,865,008
Loans and advances to customers	9,133,572	22,422,040	31,555,612
Income tax receivable	19,891	-	19,891
Intangible assets	-	157,586	157,586
Property and equipment	-	426,782	426,782
Right-of-use asset	-	671,842	671,842
Investment property	-	366,229	366,229
Repossessed assets	-	450,869	450,869
Other assets	499,125	71,370	570,495
Deferred tax	-	25,877	25,877
Total assets	**27,987,130**	**43,805,711**	**71,792,841**
Liabilities			
Due to Central Bank	3,446,121	-	3,446,121
Due to banks and financial institutions	1,674,716	3,389,090	5,063,806
Due to customers	12,162,985	43,647,147	55,810,132
Lease liabilities	148,506	635,137	783,643
Other liabilities	428,124	40,783	468,907
Subordinated debt	2,903	247,400	250,303
Total liabilities	**17,863,355**	**47,959,557**	**65,822,912**
Net	**10,123,775**	**(4,153,846)**	**5,969,929**

Current and saving accounts are not considered to mature all in less than 12 months. 60% of Current accounts and 70% of savings are considered with a maturity more than 12 months. Time deposits maturing in less than 12 months are renewable and only 20% of them is considered to be matured as per their contractual maturity.

35. ADDITIONAL CASH FLOW INFORMATION

Cash and cash equivalents consisted of the following:

	As at December 31, 2021	As at December 31, 2020
Cash on hand	1,863,077	2,099,346
Accounts with Central Bank	2,286,709	1,649,306
Current accounts at non-resident banks	4,073,038	3,857,405
Current accounts at resident banks	50,112	47,254
Deposits at resident banks	-	-
Total	**8,272,936**	**7,653,311**

(Amounts in LEK '000 unless otherwise stated)

35. ADDITIONAL CASH FLOW INFORMATION (CONTINUED)

Changes in subordinated debt arising from financing activities are as following:

	As at December 31, 2021	**As at December 31, 2020**
Opening Balance	**250,303**	**-**
Cash flow items	**233,671**	**243,368**
Issuances	241,520	247,400
Interest paid	(7,849)	(4,032)
Repayments	-	-
Non-cash items	**3,893**	**6,935**
Accrued Interest	9,963	6,935
Foreign exchange impact	(6,070)	-
Ending Balance	**487,867**	**250,303**

Changes in investment securities arising from investing activities are as following:

	As at December 31, 2021	**As at December 31, 2020**
Opening Balance	**24,932,722**	**22,828,848**
Cash flow items	***1,811,465***	***1,042,174***
Issuances	9,280,562	8,136,103
Interest received	(995,385)	(995,385)
Repayments	(6,473,712)	(6,098,544)
Non-cash items	***1,011,746***	***1,061,700***
Accrued Interest	1,124,037	1,080,762
Deferred Fee	(24,235)	(23,472)
FV adjustment	(48,180)	(4,826)
Foreign exchange impact	(39,876)	9,236
Ending Balance	**27,755,933**	**24,932,722**

36. 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 2021 and 2020 is presented in Note 22. Unioni Financiar Tirane (UFT) Sh.p.k is the ultimate parent of the Group.

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

	As at December 31, 2021	**As at December 31, 2020**
Assets:		
Loans and advances to customers:		
Other Shareholders	25,634	14,184
Related entities	2,360,299	2,071,563
Key management personnel of the entity and their close family members	154,914	52,852
Other Assets:		
Parent company	56,718	63,262
Other Shareholders	-	2,574
Related entities	34,612	16,903
Key management personnel of the entity and their close family members	21	24

(Amounts in LEK '000 unless otherwise stated)

36. RELATED PARTY TRANSACTIONS (CONTINUED)

	As at December 31, 2021	As at December 31, 2020
Liabilities:		
Due to banks and financial institutions:		
Parent company	1,316,598	1,320,712
Related entities	693,848	547,325
Other shareholders	-	-
Due to customers:		
Other Shareholders	2,380	8,180
Related entities	533,379	645,574
Key management personnel of the entity and their close family members	322,119	308,752
Other Liabilities:		
Parent company	3,844	-
Other Shareholders	5,896	2,050
Related entities	31,110	12,845
Key management personnel of the entity and their close family members	3,251	3,423
Lease Liabilities:		
Related entities	8,684	220,671
Key management personnel of the entity and their close family members	43,409	46,833
Subordinated debt:		
Parent company	-	12,523
Related entities	8,684	13,774
Key management personnel of the entity and their close family members	43,409	37,566

Loans to related entities in the amount of LEK 2,360,299 thousand (2020: LEK 2,071,563 thousand) are covered by cash collateral of LEK 1,190,567 thousand (2020: LEK 1,134,254 thousand) and the remaining balance is covered by other collaterals provided by the parent company and related entities.

Off balance sheet commitments	As at December 31, 2021	As at December 31, 2020
Un-drawn credit facilities from the Bank:		
Other Shareholders	7,391	7,207
Related entities	84,757	38,545
Key management personnel of the entity and their close family members	13,586	9,449
Commitment received:		
Other Shareholders	-	-
Guarantees received:		
Parent company	216,160	221,423
Other Shareholders	44,811	12,526
Related entities	7,973,916	8,152,879
Key management personnel of the entity and their close family members	310,366	153,405
Guarantees given:		
Parent company	20	20
Related entities	220,222	67,167

(Amounts in LEK '000 unless otherwise stated)

36. 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, 2021	**As at December 31, 2020**
ECL/ Impairment allowance:		
Other Shareholders	125	83
Related entities	15,846	26,403
Key management personnel of the entity and their close family members	8,869	2,309

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

	For the year ended December 31, 2021	**For the year ended December 31, 2020**
Interest income:		
Parent company	4,369	4,780
Other Shareholders	486	291
Related entities	79,566	64,386
Key management personnel of the entity and their close family members	3,865	2,955
Interest expense:		
Parent company	385	326
Other Shareholders	2,307	22
Related entities	15,198	18,761
Key management personnel of the entity and their close family members	5,133	4,673
Fee and commission income:		
Parent company	1,901	3,063
Other Shareholders	158	146
Related entities	13,860	10,022
Fee and commission expense:		
Parent company	382	296
Other Shareholders	4,534	-
Related entities	354	128
Operating income:		
Parent company	11,290	9,643
Related entities	2,206	2,225
Operating expense:		
Parent company	4,313	-
Other Shareholders	8,126	4,337
Related entities	119,319	93,207
Key management personnel of the entity and their close family members	86,219	81,823
Sale of Fixed assets:		
Related entities	13,154	1,948
Purchase of Fixed assets:		
Related entities	52,699	17,493

(Amounts in LEK '000 unless otherwise stated)

37. COMMITTMENTS AND CONTINGENCIES

Commitments and contingencies include the following:

	2021	2020
Un-drawn credit facilities	1,838,269	1,757,750
Guarantees given in favor of customers	1,121,384	510,130
Commitments for LC	298,493	58,797
Allowance for impairment losses	(21,334)	(6,114)

Impairment losses above relate to guarantees and letters of credit. Provisions for undrawn credit facilitates are part of the provisions for loans and advances to customers as discussed in note 4.12.2.

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 2020	**495,942**	-	-	**495,942**
New contracts originated or purchased	395,410	-	-	395,410
Contracts de-recognised or repaid	(381,944)	-	-	(381,944)
Transfers between Stages	(2,500)	-	2,500	-
Foreign exchange adjustments	722	-	-	722
Gross carrying amount as at 31 December 2020	**507,630**	-	**2,500**	**510,130**
New contracts originated or purchased	875,929	-	-	875,929
Contracts de-recognised or repaid	(257,507)	-	(2,500)	(260,007)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(13,688)	13,688	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	(4,668)	-	-	(4,668)
Gross carrying amount as at 31 December 2021	**1,107,696**	**13,688**	-	**1,121,384**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**4,361**	-	-	**4,361**
New contracts originated or purchased	4,935	-	-	4,935
Contracts de-recognised or repaid	(4,239)	-	-	(4,239)
Transfers between Stages	(39)	-	39	-
Net re-measurement of ECL	(4)	-	-	(4)
Foreign exchange adjustments	58	-	-	58
ECL allowance as at 31 December 2020	**5,072**	-	**39**	**5,111**
New contracts originated or purchased	12,948	-	-	12,948
Contracts de-recognised or repaid	(2,468)	-	(39)	(2,507)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(703)	703	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	639	-	-	639
Foreign exchange adjustments	(244)	-	-	(244)
ECL allowance as at 31 December 2021	**15,244**	**703**	-	**15,947**

(Amounts in LEK '000 unless otherwise stated)

37. COMMITMENTS AND CONTIGENCIES (CONTINUED)

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 2020	**127,041**	**-**	**-**	**127,041**
New contracts originated or purchased	49,845	-		49,845
Contracts de-recognised or repaid	(117,396)	-	-	(117,396)
Transfers between stages	(58,797)	-	58,797	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(693)	-	-	(693)
Gross carrying amount as at 31 December 2020	**-**	**-**	**58,797**	**58,797**
New contracts originated or purchased	298,493	-	-	298,493
Contracts de-recognised or repaid	-	-	(58,797)	(58,797)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(89,626)	89,626	-	-
Transfers to Stage 3	(2,753)	-	2,753	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(693)	-	-	(692)
Gross carrying amount as at 31 December 2021	**205,421**	**89,626**	**2,753**	**297,800**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	**2,031**	**-**	**-**	**2,031**
New contracts originated or purchased	784	-	-	784
Contracts de-recognised or repaid	(967)	-	-	(967)
Transfers between stages	(938)	-	938	-
Net re-measurement of ECL	(929)	-	-	(929)
Amounts written off	-	-	-	-
Foreign exchange adjustments	19	-	(13)	6
ECL allowance as at 31 December 2020	**-**	**-**	**925**	**925**
New contracts originated or purchased	5,461	-	-	5,461
Contracts de-recognised or repaid	-	-	(920)	(920)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(899)	899	-	-
Transfers to Stage 3	(1,432)	-	1,432	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(43)	(13)	(23)	(79)
ECL allowance as at 31 December 2021	**3,087**	**886**	**1,414**	**5,387**

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 2021. 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, in addition of the provisions already created from the Group.

38. 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.

38.1. 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. The credit limits assigned to an obligor is based mostly on its individual risk profile and risk rating based on recognized credit criteria. Periodical credit risk analysis is performed on biggest exposures. Collaterals posted for the loan, facility maturity and other products usage are other elements considered during the limit approval or renewal.

Each of the Group entities manages the Credit risk based on the policies approved by the respective Board of Directors. The Bank Credit Risk Committee and the Lease Committee for the Subsidiary are responsible for the management of the Group's entities credit risk. Core responsibilities of the respective Credit Risk Committees include monitor and propose changes in the Group's Credit Policy; approval of procedures, manuals and product in line with the Group's Credit Policy; elaborate and monitor the hierarchy of delegated approval authorities (sub-committees) and relevant exposure limits and criteria applicable for each authority. Respective Credit Committees also assess the classification criteria of loan portfolio and impairment calculation and results in compliance to applicable Group's policy. Credit risk is operationally managed and monitored by the respective entities credit risk departments.

It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Each business unit is required to implement credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Department, Credit Risk Administration Committee and Credit Committee or Subsidiary Lease Committee, based on the respective Credit Policies. Each business unit has a responsible officer who reports on all credit related matters to heads of departments and the Bank Credit Committee and/or Credit Risk Administration 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 higher approval authority, as well as de-centralized loans.

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

Based on the policies approved by the Board of Directors, the Bank's Assets and Liabilities Management Committee ("ALCO") is responsible for the management of the credit risk related to investments in securities, banks counterparties and MM investments/placements. In addition, the Treasury Department, reporting to the Bank Chief Financial Officer and 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, banks counterparties and MM investments/placements. ALCO is also the ultimate committee that assesses the classification criteria of financial assets other than loan portfolio, and related impairment calculation and results in compliance to applicable policies of the Bank.

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

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.1. 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.

38.1.2. Impairment assessment

The Group had revised the tool used for ECL calculation by using automatic template and better organized data structures and results. While adapting to the new tool, the Group made some changes to the classification criteria used for staging categorization, cleared the definition on forborne exposure and applicable exit criteria as well as cleared the definition of materiality for contamination effect.

38.1.2.1. Definition of default and cure

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

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

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

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when no default criteria are applicable anymore. There are implemented other criteria for forborne loans, specifically probation period of minimum one year and another year to exit from forborne category. Regular payment during such periods is a mandatory condition. 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.

38.1.2.2. Significant increase in credit risk

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

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

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.2.2. 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.

38.1.2.3. Individual vs. Collective

As explained in Note 4.12.2 dependent 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 EUR 100 thousand
- Loans given to individuals being in Stage 3, with an exposure above EUR 100 thousand
- 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 EUR 100 thousand;
- 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.

38.1.2.4. Expected loss parameters

38.1.2.4.1. PD estimation

PDs for loan exposure to customers are calculated from the transition matrices, which are built based on the past behavior of a specified portfolio (i.e. portfolios that share credit risk characteristics). Transition matrices are used to calculate flow rate for each sub-portfolio, therefore at "customer level" for business' exposures and at "product level" for individuals' exposure (specific product approach). Considering homogeneity of the exposures and concentration factors, calculations have been made based on number of accounts for all segments.

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 extrapolate from the one-year transition matrix the multi-year ones, specifically matching to the maximum remaining maturity of the loans in the respective classes that share the same credit risk.

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

For treasury exposures, the Bank's Risk Department and Treasury Department analyses publicly available information such as financial information and other external data, e.g., the rating of Good Rating Agency, and assigns the PDs applicable to such rating scale.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.2.4. Expected loss parameters (continued)

38.1.2.4.2. Forward looking adjustment of lifetime marginal PD

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

In order to apply a forward looking perspective and potential effect on life-time PDs, a statistical exercise has been performed measuring the relationship among different macroeconomic parameters based on Albanian available data. The macroeconomic indicators available being considered in the model are GDP, inflation rate, FX rate and unemployment rate. The above indicators are modeled against the PDs of specific segments.

Each of the relationship had been modeled through linear regression and multi-regression models, specifically PDs – GDP for Business and Mortgage sub-segments, and PDs–Average salary- average interest rate for consumer sub-segments. The correlations among parameters have been calculated. Considering the above linear regression model among PDs and different variables, only statistically important relationships had been used to calculate the forward-looking impact. By weighting the impact of the Baseline, Downturn and Upturn scenarios, the Bank calculated the weighted forward-looking effect. So, the Bank apply a correction factor to the historical marginal PD, based on 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.

In case of exposures other than loans, a correction factor had been applied in order to adjust the PD parameter of these exposures. Such factor had been measured based on the ratio of crisis vs non-crisis PDs as published by well-known rating companies and for each type of counterparties, e.g corporate, bank, sovereign.

COVID-19 had turned negative the GDP growth, affecting consumption, buyer confidence, unemployment etc. Both retail and corporate segments had been impacted. Considering the presence of the infection among the population and the reaction of the public and companies producing new behavior and risk, COVID-19 has heightened the inherent uncertainty in the Bank's assessment on the future outlook. Anyway, the last quarter of the year 2020 and year 2021 turned GDP into positive growth, therefore limiting the adverse scenarios. The vaccine programme which is progressing at the reporting date, had surely contributed to the positive outlook allowing more optimism on the refrain of the infection.

38.1.2.4.3. Exposure at default

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

38.1.2.4.4. Loss Given Default

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

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

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

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.2.4. Expected loss parameters (continued)

38.1.2.4.4. Loss Given Default (continued)

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.

38.1.2.4.5. Assessment and calculation of ECL during COVID-19

While core elements of the methodology and assumptions applied in the ECL calculations remained generally unchanged from those applied in the prior financial year, the Bank has incorporated estimates, assumptions and judgments specific to the impact of the COVID-19 pandemic.

38.1.2.4.5.1. Monitoring the performance of the COVID-19 restructured portfolio

The worldwide event of the pandemic had influenced the overall performance of the loan portfolio during 2020, but most of it turned out to be performing during 2021. Part of the portfolio that was restructured due to COVID-19 was continuously monitored and carefully assessed for its performance. Majority of the COVID-19 restructured were classified under Stage 1 and 2 considering the pre-covid characteristics and continues to remain so following their payment behavior during last year. Part of the COVID-19 restructures that were classified Stage 3, continue to remain in this category or upgraded to Stage2 considering the same forborne criteria as referred to other restructured exposures.

38.1.2.4.5.2. Payment moratorium and government guarantees

The Bank had implemented payment moratorium approved by Bank of Albania during 2020. More specifically, the customers had the opportunity to benefit during the year for two consecutive periods:

- First payment moratorium offered during March-May 2020, specifically considering the possibility to postpone maximum 3 monthly installments.
- Second payment moratorium offered during June-August 2020, which offered again the possibility to postpone maximum 3 monthly installments.

Additionally, the customers were offered the possibility to reformat their exposure without worsening their classification according to the local regulatory risk classes.

Both payment moratorium and reformatted exposures had been evaluated in terms of increased credit risk or potentially default criteria and had been classified accordingly into the ECL model. The main factor in such analysis had been the customer capacity to recover from any adverse effect from COVID-19 and the realized payments during the months following the lock-down.

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.3. 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 4.12.1.

				As at 31 December 2021		As at 31 December 2020
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Cash and Central Bank						
Low- fair risk	9,485,347	-	-	-	9,485,347	8,425,127
Less: allowance	(2,712)	-	-	-	(2,712)	(3,366)
Carrying amount	**9,482,635**	**-**	**-**	**-**	**9,482,635**	**8,421,761**

				As at 31 December 2021		As at 31 December 2020
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Due from banks						
Low- fair risk	5,029,039	-	-	-	5,029,039	4,266,882
Less: allowance	(2,417)	-	-	-	(2,417)	(5,993)
Carrying amount	**5,026,622**	**-**	**-**	**-**	**5,026,622**	**4,260,889**

				As at 31 December 2021		As at 31 December 2020
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Investment securities at FVOCI						
Low- fair risk	851,106	-	-	-	851,106	659,680
Carrying amount	**851,106**	**-**	**-**	**-**	**851,106**	**659,680**
Loss allowance[1]	**2,377**	**-**	**-**	**-**	**2,377**	**1,763**

[1] Loss allowance for investment securities at FVOCI is recognized in other comprehensive income and not as a contra account to the carrying amount of the financial asset in the statement of financial position (see Note 4.12.3).

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.3. Analysis of credit quality (continued)

	Stage 1	Stage 2	Stage 3	POCI	As at 31 December 2021 Total	As at 31 December 2020 Total
Investment securities at amortised cost						
Low- fair risk	686,678	-	-	-	686,678	476,136
Monitoring	26,218,149				26,218,149	23,796,906
Less: allowance	(60,002)	-	-	-	(60,002)	(67,714)
Carrying amount	**26,844,825**	**-**	**-**	**-**	**26,844,825**	**24,205,328**

	Stage 1	Stage 2	Stage 3	POCI	As at 31 December 2021 Total	As at 31 December 2020 Total
Loans and advances						
Low- fair risk	31,754,380	788,044	15,666	-	32,558,090	28,714,179
Monitoring	245,876	1,544,939	115,831	-	1,906,646	1,643,481
Substandard	-	265,440	384,181	-	649,621	885,137
Doubtful	-	152	911,165	-	911,317	859,174
Lost	-	164	1,388,002	-	1,388,166	1,372,665
Less: allowance	(250,124)	(156,450)	(1,340,153)	-	(1,746,727)	(1,919,024)
Carrying amount	**31,750,132**	**2,442,289**	**1,474,692**	**-**	**35,667,113**	**31,555,612**

	Stage 1	Stage 2	Stage 3	POCI	As at 31 December 2021 Total	As at 31 December 2020 Total
Financial guarantees and other commitments						
Low- fair risk	3,258,146	-	-	-	3,258,146	2,326,677
Less: allowance	(21,334)	-	-	-	(21,334)	(6,036)
Carrying amount	**3,236,812**	**-**	**-**	**-**	**3,236,812**	**2,320,641**

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.4. 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 2021

	Financial services	Government	Consumers	Retail and wholesale	Construction	Services	Agriculture and processing industries	Total
Cash on hand and Central Bank	9,482,635	-	-	-	-	-	-	9,482,635
Due from banks	5,026,622	-	-	-	-	-	-	5,026,622
Investment securities	702,698	26,719,500	-	-	-	177,636	96,097	27,695,931
Loans and advances to customers								
Lending to businesses	*1,250,669*		-	*5,928,383*	*3,387,429*	*6,916,023*	*901,272*	*18,383,776*
Consumer lending	-		*5,759,410*	-	-	-	-	*5,759,410*
Overdrafts and credit cards			*253,180*					*253,180*
Mortgage Lending	-		*9,953,405*	-	-	-	-	*9,953,405*
Financial Lease			*124,074*	*216,184*	*165,525*	*723,718*	*87,841*	*1,317,342*
Total Loans and advances to customers	1,250,669	-	16,090,069	6,144,567	3,552,954	7,639,741	989,113	35,667,113
	16,462,624	**26,719,500**	**16,090,069**	**6,144,567**	**3,552,954**	**7,817,377**	**1,085,210**	**77,872,301**
Financial guarantees	11,882	-	1,650	305,663	536,082	222,540	27,620	1,105,437
Standby letters of credit	-	-	-	203,025	1,341	-	88,740	293,106
Commitments to extend credit	76,544	-	611,260	392,725	317,973	378,709	61,058	1,838,269
	88,426	**-**	**612,910**	**901,413**	**855,396**	**601,249**	**177,418**	**3,236,812**
Total	**16,551,050**	**26,719,500**	**16,702,979**	**7,045,980**	**4,408,350**	**8,418,626**	**1,262,628**	**81,109,113**

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.4. Analysis of risk concentrations (continued)

As at 31 December 2020

	Financial services	Government	Consumers	Retail and wholesale	Construction	Services	Agriculture and processing industries	Total
Cash on hand and Central Bank	8,421,761	-	-	-	-	-	-	8,421,761
Due from banks	4,260,889	-	-	-	-	-	-	4,260,889
Investment securities	392,411	24,319,390	-	-	-	153,207	-	24,865,008
Loans and advances to customers								
Lending to businesses	*1,208,197*	-	-	*4,837,718*	*3,011,293*	*6,042,688*	*1,154,739*	*16,254,635*
Consumer lending	-	-	*5,055,613*	-	-	-	-	*5,055,613*
Overdrafts and credit cards	-	-	*248,888*	-	-	-	-	*248,888*
Mortgage Lending	-	-	*8,709,203*	-	-	-	-	*8,709,203*
Financial Lease	-	-	*113,520*	*301,616*	*117,042*	*625,821*	*129,274*	*1,287,273*
Total Loans and advances to customers	1,208,197	-	14,127,224	5,139,334	3,128,335	6,668,509	1,284,013	31,555,612
	14,283,258	**24,319,390**	**14,127,224**	**5,139,334**	**3,128,335**	**6,821,716**	**1,284,013**	**69,103,270**
Financial guarantees	11,341	-	1,750	131,462	121,445	238,990	31	505,019
Standby letters of credit	-	-	-	-	8,811	-	49,061	57,872
Commitments to extend credit	228,986	-	539,526	321,503	222,037	362,485	21,363	1,695,900
	240,327	**-**	**541,276**	**452,965**	**352,293**	**601,475**	**70,455**	**2,258,791**
Total	**14,523,585**	**24,319,390**	**14,668,500**	**5,592,299**	**3,480,628**	**7,423,191**	**1,354,468**	**71,362,061**

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.4. 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
- Risk sharing scheme

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

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s).

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independently from eventual satisfactory performance after restructuring.

Allowances for impairment

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

Credit impaired loans and advances

The credit impaired loans and advances before taking into consideration the cash flows from collateral held is LEK 2,814,846 thousand (2020: LEK 3,730,472 thousand).

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

31 December 2021	Over-collateralized portfolio		Under-collateralized portfolio	
	Credit impaired loans	Fair value of collateral	Credit impaired loans	Fair value of collateral
Mortgage Lending	348,238	1,030,554	18,113	807
Personal loans	110,493	352,507	307,086	-
Overdrafts and credit cards	47,293	3,539	2,220	-
Loans to businesses	1,450,329	3,349,400	370,646	67,026
Financial Lease	160,428	340,704	-	-
Total	**2,116,781**	**5,076,704**	**698,065**	**67,833**

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.4. Analysis of risk concentrations (continued)

31 December 2020	Over-collateralized portfolio		Under-collateralized portfolio	
	Credit impaired loans	Fair value of collateral	Credit impaired loans	Fair value of collateral
Mortgage Lending	412,824	1,164,292	59,332	1,024.00
Personal loans	221,930	761,378	349,900	3,214.00
Overdrafts and credit cards	68,020	4,860	5,573	-
Loans to businesses	2,134,792	5,327,313	332,435	4,614.00
Financial Lease	145,666	242,764	-	-
Total	**2,983,232**	**7,500,607**	**747,240**	**8,852**

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 2021 is LEK 896,954 thousand (2020: LEK 882,450 thousand). In recent years, management decided to increasingly use loan restructuring for certain borrowers that are facing financial difficulties with negative impact in their cash flows, when the restructuring is deemed to increase the probability that the borrower will be able to repay the credit exposure and the new payment plan is in line with the actual and expected future payment capacity of the borrower.

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Risk Committee determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The total amount written off during 2021 is LEK 358,669 thousand (2020: LEK 745,230 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 2021	Stage 1	Stage 2	Stage 3	Total
Property	63,798,339	5,247,421	4,681,837	73,727,597
Pledge	24,953,847	915,335	440,085	26,309,267
Cash	2,817,619	47,446	22,615	2,887,680
Total	**91,569,805**	**6,210,202**	**5,144,537**	**102,924,544**

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Property	49,318,165	5,614,171	6,285,644	61,217,980
Pledge	24,298,156	7,583,851	1,197,286	33,079,293
Cash	2,620,303	78,196	26,529	2,725,028
Total	**76,236,624**	**13,276,218**	**7,509,459**	**97,022,301**

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.4. 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 2021	**Over-collateralized portfolio**		**Under-collateralized portfolio**	
	Carrying amount of portfolio	**Fair value of collateral**	**Carrying amount of portfolio**	**Fair value of collateral**
Mortgage Lending	9,372,186	30,406,497	708,375	365,245
Personal loans	3,426,811	8,579,116	2,716,137	107,648
Overdrafts and credit cards	82,224	111,528	235,194	1,004
Loans to businesses	17,733,649	61,092,846	1,763,844	542,988
Financial Lease	1,375,421	1,717,672	-	-
Total	**31,990,291**	**101,907,659**	**5,423,550**	**1,016,885**

31 December 2020	**Over-collateralized portfolio**		**Under-collateralized portfolio**	
	Carrying amount of portfolio	**Fair value of collateral**	**Carrying amount of portfolio**	**Fair value of collateral**
Mortgage Lending	7,952,093	22,020,618	870,671	415,062
Personal loans	2,985,492	7,578,979	2,528,359	68,415
Overdrafts and credit cards	89,533	377,346	244,649	1,617
Loans to businesses	15,490,415	63,920,102	1,971,241	801,465
Financial Lease	1,342,183	1,838,697	-	-
Total	**27,859,716**	**95,735,742**	**5,614,920**	**1,286,559**

38.2. 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.

<u>For the Bank</u>

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. In addition, the Treasury Department makes sure that the treasury vault has the necessarily level reserves to support the branches of the Bank when/ if needed.

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 Money Market 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 the necessarily liquidity level, along with competitive pricing and constant monitoring of market trends.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

One of the key monitoring tools used by the Bank for managing liquidity risk is the ratio of liquid assets to short term liabilities, daily calculated in local and foreign currencies, and in total as well. These ratios are calculated as per Central Bank regulatory framework and the Bank was compliant throughout the years 2021 and 2020 as well as at year end.

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 Bank also closely monitors, takes its investments decisions based on, and complies with the regulatory levels set out for liquidity coverage ratio (LCR). LCR is calculated as the ratio of its stock of high-quality liquid assets and the net outflows over the next 30 calendar days.

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. Monthly reports include liquidity ratio, LCR level, contractual 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. In addition, the Bank has in place a Contingency Funding plan, which set up the triggering events and detailed action plans, which include the measures to be taken and responsibilities, to manage any liquidity crises the Bank may come across.

As part of a full framework of liquidity risk management, the Banks has in place the Contingency Funding Plan, which, set up the triggering events and detailed action plans, which include the measures to be taken and responsibilities, to manage any liquidity crises the Bank may come across. In addition it has also included the liquidity risk between the key indicators of Resolution Plan, based on the specific BOA regulation requirements. Both such plans are part of an yearly review from ALCO and subject to Board's approval.

With regard to COVID – 19 impacts, the Bank, in addition to increasing prudence when it come to the investment's quality, took all the relevant measures to increase the cash liquidity levels in branches, to immediately support and address any increasing demand and to minimize any risk related to the limitations with that regard and its impact on physical cash movements, especially of the shipments abroad. Such movements were accompanied with increase of the monitoring of cash activities and transfer of increasingly operational risk related to such activities, through amendment of the insurance policies and by respecting internal cash limits within the insured limits, by also entering in contractual agreement with BOA to insure the temporarily placement of cash in foreign currency with them (i.e. under their physical custody). Throughout the critical period of pandemic and afterward, the liquidity ratios have been maintained within the internal and regulatory limits.

<u>For the Subsidiary</u>

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

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

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

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.2 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 2021	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	5,339,675	-	-	-	-	-	**5,339,675**
Due from banks	4,123,064	447,632	144,912	276,326	2,753	34,265	**5,028,952**
Investment securities	630,711	1,010,108	1,786,914	2,614,260	16,460,987	9,131,864	**31,634,844**
Loans and advances to customers	1,810,260	1,640,246	2,843,387	5,386,606	20,520,310	21,330,044	**53,530,853**
Other assets	382,046	1,932	2,898	5,796	46,372	33,813	**472,857**
Total undiscounted financial assets	**12,285,756**	**3,099,918**	**4,778,111**	**8,282,988**	**37,030,422**	**30,529,986**	**96,007,181**
Liabilities							
Due to Central Bank	1,595,835	1,099,024	-	-	-	-	**2,694,859**
Due to banks and Financial institutions	3,906,602	367,466	411,231	815,257	506,123	-	**6,006,679**
Due to customers	31,583,045	3,149,696	3,820,884	11,667,381	13,570,825	-	**63,791,831**
Lease liability	15,897	31,795	47,436	92,826	452,237	142,945	**783,136**
Other liabilities	456,591	1,500	1,500	2,998	19,693	5,067	**487,349**
Subordinated debt	2,558	3,925	3,985	7,910	300,874	257,460	**576,712**
Income tax payable	71,133	-	-	-	-	-	**71,133**
Total undiscounted financial liabilities	**37,631,661**	**4,653,406**	**4,285,036**	**12,586,372**	**14,849,752**	**405,472**	**74,411,699**
Net undiscounted financial assets/liabilities	**(25,345,905)**	**(1,553,488)**	**493,075**	**(4,303,384)**	**22,180,670**	**30,124,514**	**21,595,482**

It is in the nature of Group's activities, especially when financed through customer funds, to borrow short and mid-term and invest in longer terms. As the majority of the deposits are traditionally revolved, the remaining liquidity gap is just an indicator but does not reflect the liquidity risk of the Group. As explained in detail above, the Group has all the tools to monitor and manage the liquidity by currency, based on contractual and expected maturity, and is consistently within the regulatory and internal liquidity limits

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

31 December 2020	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	4,516,702	-	-	-	-	-	**4,516,702**
Due from banks	3,935,480	-	74,220	76,206	148,440	32,432	**4,266,778**
Investment securities	1,118,072	1,086,387	1,510,420	3,130,403	14,628,619	7,747,473	**29,221,374**
Loans and advances to customers	2,072,664	1,373,263	2,376,949	5,449,002	17,771,762	11,371,313	**40,414,953**
Income tax receivable	20,831	-	-	-	-	-	**20,831**
Other assets	365,591	1,979	2,969	5,938	47,501	46,511	**470,489**
Total undiscounted financial assets	**12,029,340**	**2,461,629**	**3,964,558**	**8,661,549**	**32,596,322**	**19,197,729**	**78,911,127**
Liabilities							
Due to Central Bank	1,006,389	2,442,566	-	-	-	-	**3,448,955**
Due to banks and Financial institutions	3,099,138	443,433	98,387	972,184	471,309	-	**5,084,451**
Due to customers	23,676,426	3,118,534	3,556,683	12,516,130	13,205,391	4,328	**56,077,492**
Lease liability	22,466	34,777	47,768	95,141	564,471	204,662	**969,285**
Other liabilities	402,292	1,540	1,539	3,077	23,348	8,159	**439,955**
Subordinated debt	-	4,020	-	4,020	32,162	251,420	**291,622**
Total undiscounted financial liabilities	**28,206,711**	**6,044,870**	**3,704,377**	**13,590,552**	**14,296,681**	**468,569**	**66,311,760**
Net undiscounted financial assets/liabilities	**(16,177,371)**	**(3,583,241)**	**260,181**	**(4,929,003)**	**18,299,641**	**18,729,160**	**12,599,367**

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.2 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 2021	**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	262	257,253	188,300	345,992	329,553	24	**1,121,384**
Letters of credit	27,076	268,664	-	-	2,753	-	**298,493**
Other undrawn commitments to lend	28,907	151,447	94,007	1,257,445	306,463	-	**1,838,269**
Total Commitments and guarantees	**56,245**	**677,364**	**282,307**	**1,603,437**	**638,769**	**24**	**3,258,146**

31 December 2020	**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	31,225	1,925	81,734	170,805	224,117	324	**510,130**
Letters of credit	20,899	29,379	8,519	-	-	-	**58,797**
Other undrawn commitments to lend	68,205	92,653	280,355	1,127,384	127,303	-	**1,695,900**
Total Commitments and guarantees	**120,329**	**123,957**	**370,608**	**1,298,189**	**351,420**	**324**	**2,264,827**

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.3. Market risk

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

Currency risk

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

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

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

	2021	2020
EUR: LEK	120.76	123.70
USD: LEK	106.54	100.84

The analysis of monetary assets and liabilities as at 31 December 2020 and 2019 by the foreign currencies in which they were denominated is shown below:

31 December 2021	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with Central Bank	1,774,113	1,007,762	6,379,690	321,070	9,482,635
Due from banks	5,707	594,318	3,944,422	482,175	5,026,622
Investment securities	23,233,219	678,002	3,385,823	398,887	27,695,931
Loans and advances to customers	11,853,125	165,077	23,648,911	-	35,667,113
Other assets	84,922	893	123,037	241,903	450,755
Total	**36,951,086**	**2,446,052**	**37,481,883**	**1,444,035**	**78,323,056**
Liabilities					
Due to Central Bank	2,693,411	-	-	-	2,693,411
Due to banks and financial institutions	2,716,735	103,121	3,028,311	17,482	5,865,649
Due to customers	28,643,090	2,218,933	30,979,644	1,374,046	63,215,713
Lease liability	30,643	12,058	604,290	-	646,991
Other liabilities	127,020	24,885	330,017	5,267	487,189
Subordinated debt	-	-	487,866	-	487,866
Income tax payable	71,133	-	-	-	71,133
Total	**34,282,032**	**2,358,997**	**35,430,128**	**1,396,795**	**73,467,952**
Net commitments and Foreign Exchange Spot	202,770	(74,940)	(83,503)	(44,166)	161
Net Position	**2,871,824**	**12,115**	**1,968,252**	**3,074**	**4,855,265**

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.3 Market risks (continued)

Currency risk (continued)

31 December 2020	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with Central Bank	1,765,721	812,820	5,584,647	258,573	8,421,761
Due from banks	2,891	1,111,081	2,508,730	638,187	4,260,889
Investment securities	21,422,780	381,548	2,231,410	169,590	24,205,328
Loans and advances to customers	10,491,590	195,016	20,869,006	-	31,555,612
Income tax receivable	19,891	-	-	-	19,891
Other assets	98,175	455	104,915	249,226	452,771
Total	**33,801,048**	**2,500,920**	**31,298,708**	**1,315,576**	**68,916,252**
Liabilities					
Due to Central Bank	3,446,121	-	-	-	3,446,121
Due to banks and financial institutions	1,680,543	346,318	3,007,824	29,121	5,063,806
Due to customers	26,543,177	2,094,145	25,939,289	1,233,521	55,810,132
Lease liability	34,228	13,355	736,060	-	783,643
Other liabilities	111,217	23,405	304,326	773	439,721
Subordinated debt	-	-	250,303	-	250,303
Total	**31,815,286**	**2,477,223**	**30,237,802**	**1,263,415**	**65,793,726**
Net commitments and Foreign Exchange Spot	26,180	(31,359)	61,190	(55,848)	163
Net Position	**2,011,942**	**(7,662)**	**1,122,096**	**(3,687)**	**3,122,689**

With regard to COVID – 19 impacts, the Group applied a conservative approach minimizing of the foreign open currency position and widening the trading margins, to minimize any negative possible impact from unexpected exchange rates changes that were present especially in the first weeks of the pandemic, impacted from the availability of the liquidity of euro in the market.

In any case, the internal foreign open currency positions of the Group are prudent and quite below the regulatory limits.

Interest rate risk

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

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

The Group's interest rate gap as at 31 December 2021 is analyzed below. As at 31 December 2021, majority of the Group's short-term financial assets and liabilities, except for the loan portfolio, carry fixed interest rates.

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.3 Market risks (continued)

Interest rate risk (continued)

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**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Assets:								
Statutory reserves	0.50%	0.50%	N/A	N/A	-0.50%	-0.50%	N/A	N/A
Due from banks	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Investment securities	4.51%	4.71%	2.97%	3.84%	3.40%	3.31%	2.03%	2.02%
Loans to customers	7.62%	7.55%	5.28%	5.36%	4.78%	4.85%	N/A	N/A
Liabilities:								
Due to banks	1.19%	1.41%	0.90%	0.88%	0.82%	0.57%	N/A	N/A
Due to customers	2.10%	2.16%	0.78%	0.81%	0.53%	0.52%	0.33%	0.34%
Due to CB	0.54%	0.54%	N/A	N/A	N/A	N/A	N/A	N/A
Loans from government	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Lease liability	8.00%	8.00%	7.25%	7.25%	7.25%	7.25%	N/A	N/A
Subordinated debt	N/A	N/A	N/A	N/A	3.28%	3.25%	N/A	N/A

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.3 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 2021	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	6,895,715	-	-	-	-	2,586,920	**9,482,635**
Due with banks	3,113,007	-	-	-	-	1,913,615	**5,026,622**
Investment securities	603,294	843,771	1,733,515	2,914,930	21,299,928	300,493	**27,695,931**
Loans and advances to customers	2,705,055	3,461,615	6,520,233	16,899,505	7,954,442	(1,873,737)	**35,667,113**
Other assets	545	1,100	1,675	3,443	62,912	381,080	**450,755**
Total	**13,317,616**	**4,306,486**	**8,255,423**	**19,817,878**	**29,317,282**	**3,308,371**	**78,323,056**
Liabilities							
Due to Central Bank	1,562,219	1,097,510	-	-	-	33,682	**2,693,411**
Due to banks and financial institutions	1,192,021	306,712	354,627	807,980	490,487	2,713,822	**5,865,649**
Due to customers	7,998,904	3,651,550	4,685,706	13,291,221	26,813,174	6,775,158	**63,215,713**
Lease liability	12,076	24,360	36,809	73,474	500,272	-	**646,991**
Other liabilities	-	1,485	1,485	2,970	24,637	456,612	**487,189**
Subordinated debt	-	-	-	-	483,040	4,826	**487,866**
Income tax payable	-	-	-	-	-	71,133	**71,133**
Total	**10,765,220**	**5,081,617**	**5,078,627**	**14,175,645**	**28,311,610**	**10,055,233**	**73,467,952**
Gap	**2,552,396**	**(775,131)**	**3,176,796**	**5,642,233**	**1,005,672**	**(6,746,862)**	**4,855,104**
Cumulative gap	**2,552,396**	**1,777,265**	**4,954,061**	**10,596,294**	**11,601,966**	**4,855,104**	**-**

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.3 Market risks (continued)

Interest rate risk (continued)

31 December 2020	**Up to 1 month**	**1-3 Month**	**3-6 Months**	**6-12 Months**	**Over 1 year**	**Non-interest bearing**	**Total**
Assets							
Cash and balances with Central Bank	5,493,278	-	-	-	-	2,928,483	**8,421,761**
Due with banks	910,522	-	-	-	-	3,350,367	**4,260,889**
Investment securities	150,000	925,203	1,456,361	4,378,750	17,657,328	297,366	**24,865,008**
Loans and advances to customers	2,292,515	2,882,966	5,696,073	15,495,330	7,210,373	(2,021,645)	**31,555,612**
Income tax receivable	-	-	-	-	-	19,891	**19,891**
Other assets	519	1,048	1,596	3,281	71,372	374,955	**452,771**
Total	**8,846,834**	**3,809,217**	**7,154,030**	**19,877,361**	**24,939,073**	**4,949,417**	**69,575,932**
Liabilities							
Due to Central Bank	1,005,235	2,439,204	-	-	-	1,682	**3,446,121**
Due to banks and financial institutions	574,513	441,424	99,603	966,342	458,153	2,523,771	**5,063,806**
Due to customers	6,212,896	3,454,467	4,214,642	13,702,514	23,145,835	5,079,778	**55,810,132**
Lease liability	17,735	25,606	34,565	70,601	635,136	-	**783,643**
Other liabilities	-	1,521	1,521	3,043	31,322	402,314	**439,721**
Subordinated debt	-	-	-	-	247,400	2,903	**250,303**
Total	**7,810,379**	**6,362,222**	**4,350,331**	**14,742,500**	**24,517,846**	**8,010,448**	**65,793,726**
Gap	**1,036,455**	**(2,553,005)**	**2,803,699**	**5,134,861**	**421,227**	**(3,061,031)**	**3,782,206**
Cumulative gap	**1,036,455**	**(1,516,550)**	**1,287,149**	**6,422,010**	**6,843,237**	**3,782,206**	**-**

(Amounts in LEK '000 unless otherwise stated)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.3 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 2021	31 December 2020
Interest rate increases by 2%	232,039	136,865
Interest rate increases by 1.5%	174,029	102,649
Interest rate increases by 1%	116,020	68,432
Interest rate decreases by 1%	(116,020)	(68,432)
Interest rate decreases by 1.5%	(174,029)	(102,649)
Interest rate decreases by 2%	(232,039)	(136,865)

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 2021	31 December 2020
LEK depreciates against USD by 5%	606	(383)
LEK appreciates against USD by 5%	(606)	383
LEK depreciates against EUR by 5%	98,413	56,105
LEK appreciates against EUR by 5%	(98,413)	(56,105)
LEK depreciates against other ccys by 5%	154	(184)
LEK appreciates against other ccys by 5%	(154)	184

38.4. 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.

In addition, the Bank has established the Compliance Committee, which covers the compliance requirements and related issue on a periodically basis.

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

(Amounts in LEK '000 unless otherwise stated)

39. 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 2021
	Carrying amount	**Fair value Level 1**	**Fair value Level 2**	**Fair value Level 3**	**Fair Value Total**
Financial assets					
Due from banks	**5,026,622**	-	-	5,026,622	**5,026,622**
Investment securities at FVOCI	**851,106**	851,106	-	-	**851,106**
Investment securities at amortised cost	**26,844,825**	3,531,251	24,338,794	-	**27,870,045**
Loans and advances to customers	**35,667,113**	-	-	37,998,494	**37,998,494**
Financial liabilities					
Due to Central Bank	**2,693,411**	-	2,693,411	-	**2,693,411**
Due to banks and financial institutions	**5,865,649**	-	-	5,907,449	**5,907,449**
Due to customers	**63,215,713**	-	-	63,443,609	**63,443,609**
Due to government	**30,598**	-	-	27,605	**27,605**
Lease liability	**646,991**	-	-	646,991	**646,991**
Subordinated debt	**487,866**	-	-	487,866	**487,866**

					As at 31 December 2020
	Carrying amount	**Fair value Level 1**	**Fair value Level 2**	**Fair value Level 3**	**Fair Value Total**
Financial assets					
Due from banks	**4,260,889**	-	-	4,260,889	**4,260,889**
Investment securities at FVOCI	**659,680**	659,680	-	-	**659,680**
Investment securities at amortised cost	**24,205,328**	2,705,289	22,891,196	-	**25,596,485**
Loans and advances to customers	**31,555,613**	-	-	31,513,879	**31,513,879**
Financial liabilities					
Due to Central Bank	**3,446,121**	-	3,446,121	-	**3,446,121**
Due to banks and financial institutions	**5,063,806**	-	-	5,108,710	**5,108,710**
Due to customers	**55,810,132**	-	-	56,168,544	**56,168,544**
Due to government	**37,429**	-	-	32,718	**32,718**
Lease liability	**780,675**	-	-	780,675	**780,675**

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.

39. 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.

40. 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 ("CSR") 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

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 has complied with the minimum capital requirements during 2021 and 2020 and as at the end of respective years these ratios were 15.28% and 15.38%

The Bank assess and monitor the capital requirements as referred to Internal Capital Adequacy Assessment Process (ICAAP), being in compliance with respective guideline approved from the Supervisory Council of the Bank of Albania through the decision no. 41, date 5.6.2019. According to such requirements, the internal target ratio for capital adequacy rate set by the Board of Directors is at 13.5%.

40. CAPITAL MANAGEMENT (CONTINUED)

The Banks apply the decision communicated by the Governor and has kept capital adequacy ratio in compliance with the add-on ratio required by the current macroprudential buffers, which for year 2021 had been +1% over ICAAP level. In regard to MREL requirements, as approved by Supervisory Council of Bank of Albania, the Bank is qualified not to be applicable to such requirements, considering its market position and the products and services it offers.

The Bank monitors all regulatory imposed capital requirements throughout the period and anticipates future needs on an ongoing basis.

41. EVENTS AFTER THE REPORTING DATE

After the reporting date, a major armed conflict between Russia and Ukraine occurs.

Although certain events did occur prior to 31 December 2021 (in particular, the fact that Russian troops were mobilized around the Ukrainian border and certain sanctions had previously been imposed), the invasion of Ukraine was a specific, defined event which occurred on 24 February 2022 and the significant sanctions imposed by the international community were a direct response to that invasion. As a result, the financial statements of the Group as at and for the year ending on 31 December 2021, consider the conflict in Ukraine outbreak as a generally material non-adjusting event.

On the date of approval of these financial statements, Albania economic activities are normally operating even though the impacts from the global crises imposed by the war have impacted mainly the price of oil, commodities and several raw materials. The expected negative effects for the Group are mainly related to inflationist trends and a possible deterioration of the quality of the investment in securities and loans portfolio, for certain exposures, clients and economic sectors that are mostly impacted from the war. The influencing factors to that regard are diverse and interact with each other, and may include the further increase of the prices, downturn of financial markets, exposure to the foreign trades, the effect on the chain of production-suppliers-clients, consumption, etc.

The Group or its clients has no direct exposure to the countries in conflict. However, as a result of the uncertainty arising from the escalating tensions in the region, the multiple war related factors and their correlation makes it difficult to estimate reliably any potential effect in the near future, especially when the impact is extended globally impacting relatively high number of economic sectors, including the financial markets. The supporting measures taken by the government, including oil and food basic products list prices monitoring, direct support of the farmers and marginalised groups, subvention of energy/electricity prices above the “standard” one, especially for individuals and small business, are expected to diminish to a considerable extent the negative impact for both businesses and individuals.

From its side, the Group has taken several measures to closely monitor the situation, measure any potential impact from the devaluation of investments or deterioration of loan portfolio and support its clients if needed. In that regard, the Group has gone through the entire loan portfolio trying to identify the clients that might be directly or indirectly exposed to or impacted from the war, and estimate any potential impact on the loan portfolio performance. The securities investment portfolio is weekly monitored, although it is to be mentioned that the majority (above 95%) of the securities portfolio of the Group is kept at amortised cost and more than 90% of the total portfolio is composed from Government of Albania instruments/bonds that are classified as 0% risk weighted asset instrument for regulatory purposes. In addition, ALCO is gathered on a weekly basis to monitor the impact of the conflict and the reaction of the banking system, with the focus on liquidity and interest rates, taking appropriate defensive measures, to properly reflect the potential impact of the overall increasing prices in the price of its lending products. The estimations of the possible war effects have been presented and discussed in the last board meeting of the Group and there is no expectation of breaches in the regulatory limits, including the ones related to the liquidity or capital adequacy ratios.

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