



ANNUAL REPORT 2024



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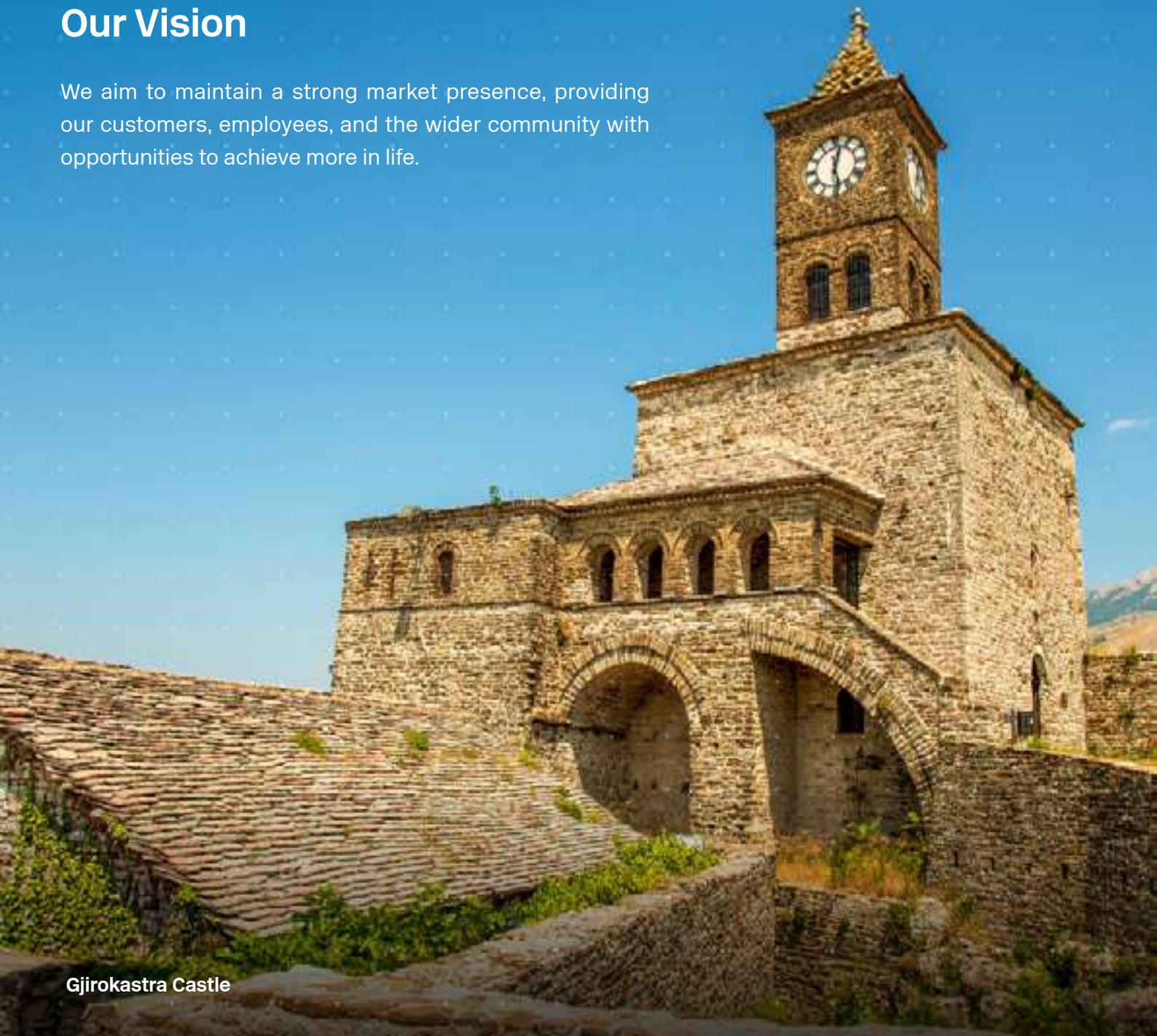
About Us

Our Mission

Union Bank is committed to being a strong and stable financial institution, offering accessible and differentiated banking products, together with an exceptional banking experience for all our customers.

Our Vision

We aim to maintain a strong market presence, providing our customers, employees, and the wider community with opportunities to achieve more in life.



Gjirokastra Castle

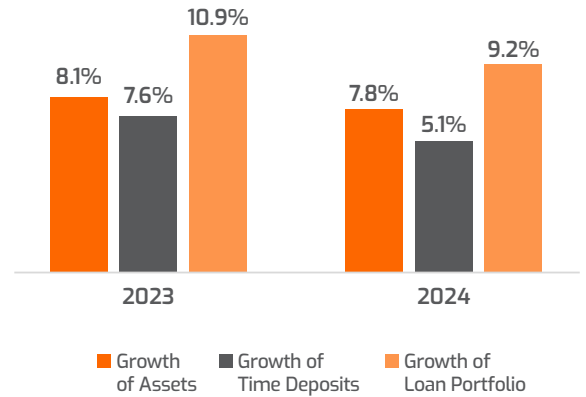
Year 2024

AT A GLANCE

STRONG MARKET POSITION

Total assets recorded annual growth of 7.8%, driven primarily by an increase in customer deposits, which remain the Bank's main source of funding.

The loan portfolio expanded by 9.2%, maintaining strong diversification across customer segments and currencies. This performance reflects a positive year for the Bank, supported by a balanced lending strategy and a broad product offering, within an overall stable banking system. Customer deposits increased by 5.1%, diversified across a broad customer base of more than 130,000 clients. The Bank maintained an optimal level of capitalization, significantly above regulatory requirements, with a Capital Adequacy Ratio of 17.5%.



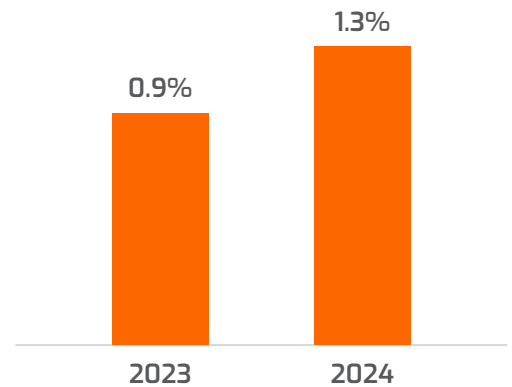
SUSTAINABLE FINANCIAL PERFORMANCE

The Bank's ongoing commitment to continuous investment—particularly in technology and the enhancement of internal structures—has delivered tangible results in recent years. These efforts, combined with strong overall performance and a dynamic economic and financial environment, have significantly contributed to the improvement of key financial indicators.

As a result, Return on Equity (RoE) reached 15.7%, representing an improvement compared to 2023. This positive trend is also reflected in the Return on Assets (RoA), which increased by 1.3%.

Aligned with this trend, the Cost-to-Income Ratio increased by 3.4% year-on-year, driven by ongoing investments in new projects and the strengthening of the Bank's operational capacities. Meanwhile, assets per branch grew by 7.8% compared to 2023.

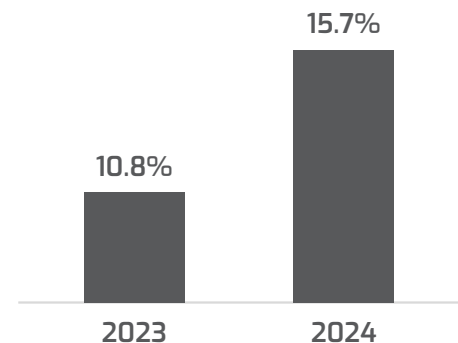
Return on Assets



PLANS FOR 2024

The Bank plans to achieve healthy loan and investment portfolio growth within the 10–12% range, aligned with anticipated growth in customer funds. We aim to maintain a profitable and sustainable business model, with a strong customer focus, while completing the transformation and consolidation of alternative channels (ATM, POS, and Mobile Banking). The target Return on Equity (RoE) is set above 17.5%. Further strengthening of the branch network will ensure higher-quality and more professional service. The Bank will continue investing in technology to support its business plans, enhance data security, and drive automation and modernization across the branch network. Beyond organic growth, the Bank also aims to explore acquisition opportunities, evaluating market developments related to the ongoing restructuring of the Albanian banking sector.

Return on Equity



1- The depreciation of the exchange rate has impacted growth indicators, as the real increase is higher.
2- Customers with at least one banking product.



Our Values

- ✓ We uphold integrity in all that we do, both as an organization and as individuals.
- ✓ We strive to build relationships founded on trust and respect with our customers.
- ✓ We value the professionalism and dedication of our employees, recognizing them as our most important asset.
- ✓ We are committed to an uncompromising focus on understanding and meeting our customers' financial needs, while promoting sustainable growth.
- ✓ We embrace change and continuously seek innovative ways to deliver high-quality, cost-effective services that meet or exceed customer expectations.
- ✓ We are dedicated to providing the highest standards of service to our customers.
- ✓ To serve our shareholders and maintain their confidence, we ensure transparent communication of our strategy, prudent governance, and the generation of sustainable, long-term returns.



Berat Castle

Message from the Board of Directors Chairman





Edmond LEKA

Chairman of the Board of Directors

Economic, technological, and regulatory developments are shaping a new reality for the financial sector in Albania, the region, and beyond. Union Bank recognizes its responsibility to play an active role in this rapidly evolving landscape and to continue strengthening its position within it.

The Board of Directors of Union Bank plays an indispensable role in maintaining the balance between innovation and oversight, risk and opportunity, and short-term performance and long-term sustainability. We are firmly convinced that strong corporate governance is essential for building trust and creating long-term value for all stakeholders—an unwavering principle in our vision for the Bank's growth. Throughout 2024, the Board strengthened its capacities by diversifying its expertise and structure, enhancing its supervisory capabilities in line with the most advanced governance standards.

This year once again highlighted the importance of balancing the ambition for growth with the responsibility to ensure stability. We closely monitored and supported strategic initiatives that consolidate Union Bank's role as a key market player, including: deepening digitalization of internal processes and customer offerings; improving the customer experience; and developing capabilities that allow the Bank to operate with greater flexibility and efficiency.

These efforts enabled the consolidation of Union Bank's position in the domestic banking market. By the end of 2024, the Bank ranked fifth in the market for asset growth, reaching 7.8%. Moreover, more than 50% of all financial transactions were conducted via our digital platform, while our e-commerce acquiring services positioned Union Bank among the top four banks nationwide in this segment.

At the same time, the Bank has demonstrated a continuous commitment to strengthening relationships with strategic partners, both domestic and international. Our collaboration with the European Bank for Reconstruction and Development has enhanced our capacity to offer products that support sustainable economic development and priority sectors.

Union Bank enters 2025 with a clear vision and a strong commitment to contributing to the development of a modern and inclusive financial system. We will continue improving internal processes, enhancing service quality for our customers, and investing in innovation—ensuring that we remain a leading player in a rapidly changing market and aligned with Albania's journey toward European Union integration.

In conclusion, Board of Directors expresses its deep appreciation to the Executive Management, senior leadership, and all Union Bank employees for their professionalism and dedication throughout the year. Special acknowledgment goes to our customers, whose trust forms the foundation of our achievements and future successes.

On behalf of the Board of Directors we reaffirm our commitment to supporting the sustainable development of Union Bank and to facing future challenges with responsibility and determination.

By the end of 2024, the Bank ranked fifth in the market for asset growth, reaching a level of 7.8%.



Flutura Veipi
Chief Executive Officer

The year 2024 was marked by significant developments in the Albanian economy, which influenced the operating environment of the banking sector. The decline in interest rates, the strengthening of the lek, and falling inflation created favorable monetary conditions, while growth in loans and deposits reflected stable economic activity. However, the limited availability of skilled labor and political uncertainty ahead of the 2025 elections posed real challenges, potentially affecting market confidence and the behavior of the financial sector. Progress in the European Union integration process, along with positive economic growth prospects, offered further opportunities for reforms and long-term sustainability.

Against this complex backdrop, Union Bank continued to grow in a stable and balanced manner, remaining committed to our clients, the community, and the development of the country. Our focus on quality customer service was confirmed by an increase in our banking clients. Deposit growth of 5.1%, high profitability (RoA 1.33%, RoE 15.7%), and the sustainable expansion of the loan portfolio with 9.2% annual growth are indicators of prudent management oriented toward long-term development.

In line with our strategic objectives, 2024 also marked further progress in digital transformation and the enhancement of the customer experience.

We modernized our digital platforms, ensuring security and ease of use. Branches were transformed into advisory spaces, fostering closer and more personalized relationships with clients.

Investments in the ATM network, including new functionalities for deposits and expanded debit and credit card offerings (Visa and Mastercard), increased ATM transactions, with 70% of cash transactions in ALL and Euro conducted through the ATM network.

Educational initiatives encouraged customers to safely use the UB Online platform, resulting in 61% of all financial transactions carried out digitally, and contributing to over 12% growth in the customer base and a 9% increase in customer loyalty compared to 2023.

These initiatives provide customers with 24/7 access to banking services, while enabling business advisors to focus on providing expert guidance on financial management and banking products. In addition, we developed products informed by data analysis and user behavior, ensuring a more personalized and effective banking experience.

Union Bank has continued to support strategic sectors of the economy through flexible financial instruments and international partnerships. In cooperation with the European Bank for Reconstruction and Development (EBRD), we provided dedicated financing for the agribusiness and tourism sectors and promoted youth entrepreneurship through programs offering tailored products, mentoring, and direct support.

Corporate Social Responsibility (CSR) remains a core pillar of our institutional identity. In 2024, we actively engaged with the community through financial education initiatives in schools and universities, student competitions in economics and technology, support for children in need and vulnerable families, voluntary blood donation drives, and greening projects in partnership with municipalities.

Looking ahead to 2025, we anticipate key developments such as integration into SEPA and the implementation of the Open Banking concept. Union Bank is prepared to face these challenges with an agile approach, emphasizing speed, flexibility, and continuous innovation. We build the bank of the future not only through technology but also through a culture that values data, people, and the courage to think differently.

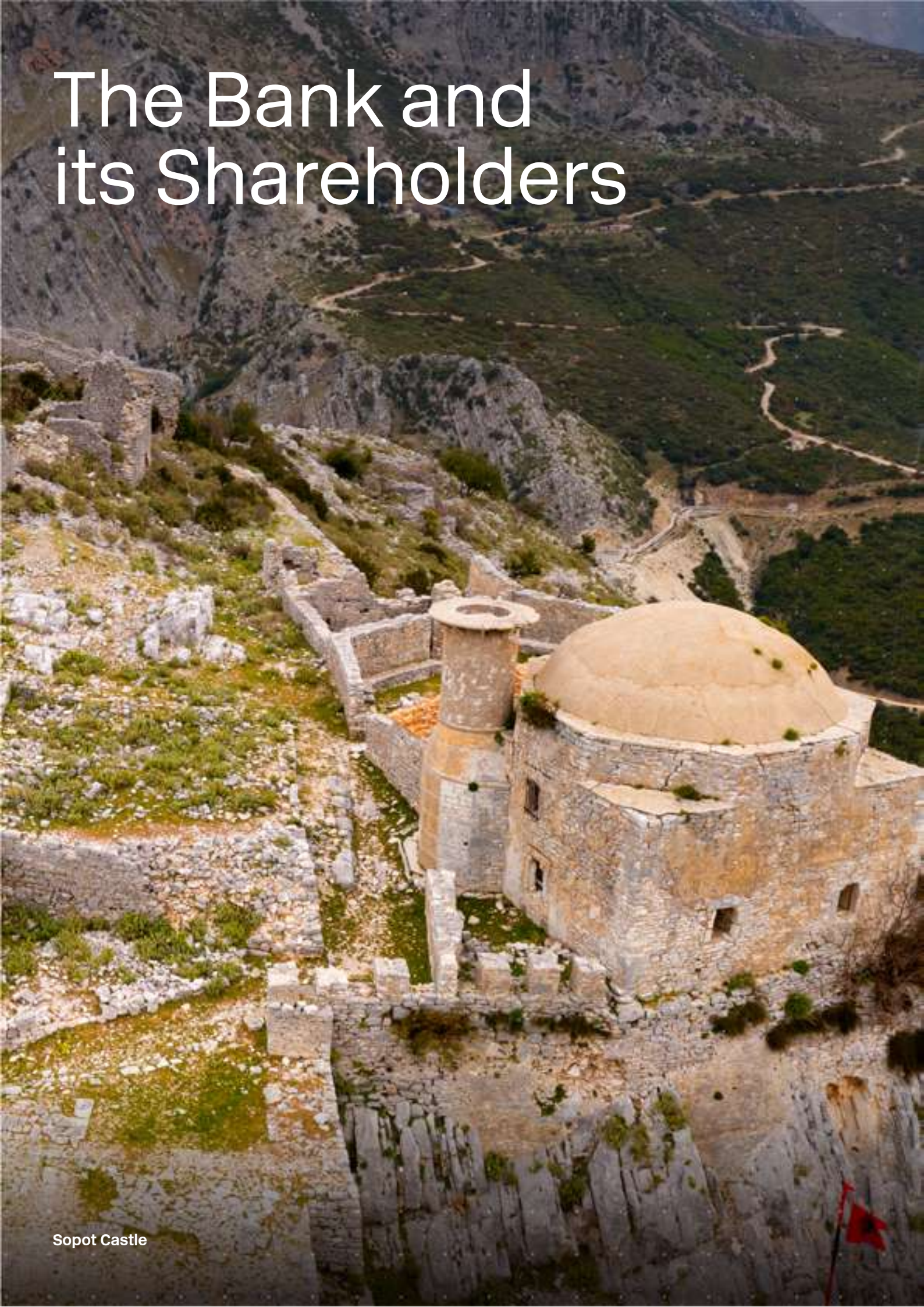
We remain committed to our mission of delivering sustainable value to our clients and contributing to the development of the Albanian economy.

“

2024 also marked further progress in digital transformation and the enhancement of the customer experience.

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The Bank and its Shareholders



4.1 HISTORY OF UNION BANK

Union Bank was licensed by the Bank of Albania in 2005 and officially opened its doors in January 2006. The Bank is registered as a joint-stock company, providing a comprehensive range of banking services to individuals and businesses across the Republic of Albania.

In 2006, the Bank began operations with the opening of 7 branches. Today, Union Bank has established a network of 32 branches nationwide. This expansion has been accompanied by the broadening of our product and service portfolio—from Maestro and Mastercard cards to the UB Online digital platform—allowing the Bank to serve customers not only physically in Albania's main cities but also globally through online services and bank cards.

In 2008, the European Bank for Reconstruction and Development (EBRD) joined Union Bank's shareholder structure, acquiring 12.5% of shares.

By 2009, Union Bank's branch network had grown to 30 branches and 39 ATMs, and the Bank recorded its first annual profit. In 2011, to support small and medium-sized enterprises (SMEs) amid growing scale and complexity, Union Bank signed a credit line agreement with the EBRD specifically for SME financing.

To diversify its activities and portfolio, Union Bank acquired 100% of the shares of Landeslease sh.a., a leasing company, in 2014. From the end of 2023, Union Bank owns 81% of Landeslease sh.a.

In 2017, Union Bank ranked among the top six banks for loan portfolio growth and top three for fund growth in the Albanian market. That year, the Bank also secured a €5 million financing line from the EBRD under the Trade Promotion Program.

The year 2018 marked the signing of the agreement to acquire 100% of the shares of the International Commercial Bank (ICB). The Bank continued achieving double-digit annual growth in assets and return on capital, and also signed an EBRD credit line to support the implementation of the Green Economy Financing Facility (GEFF) Project in Albania.

Union Bank successfully completed the acquisition and integration of ICB in 2019. This increased the Bank's market share for assets to approximately 5%, with total assets exceeding €540 million and a Return on Equity of over 15.3%. The branch network expanded by 3 new units that year, and the UB Online digital platform upgrade began in August 2019.

In 2019, the EBRD initiated its exit from Union Bank, which was finalized in December 2021. This exit, part of the initial agreement, highlights the Bank's strength in repurchasing shares without limiting its growth.

Present in the local market for nearly 19 years, Union Bank has experienced steady growth, significantly expanding its presence across Albania through its branches and agencies while broadening its product and service offerings to meet the evolving needs of its clients.

4.2 BANK'S SHAREHOLDERS

The shareholders of Union Bank, who are also the primary supporters of the Bank's operations, include a financial institution and several successful entrepreneurs. The subscribed capital structure as of December 31, 2024, and December 31, 2023, is presented in the following table:

Capital Structure	December 31 2024	December 31 2023
Unioni Financiar Tiranë Sh.a (UFT)	96.46%	96.46%
Edmond Leka	1.77%	1.77%
Niko Leka	1.77%	1.77%

Movements in paid-in capital for 2024 and 2023 are detailed below. On 27 July 2022, the General Shareholders' Meeting approved an increase in the Bank's registered capital, funded through accumulated profits, by an amount of €10 million (equivalent to 1,166,000 thousand ALL). The value of the shares is presented in thousand ALL.

	December 31 2024		December 31 2023	
	No. Shares	Nominal Value	No. Shares	Nominal Value
Position at the beginning of the year	2,097,143	3,883,813	2,097,143	3,883,813
Capital increase during the year	-	-	-	-
Paid-in capital	2,097,143	3,883,813	2,097,143	3,883,813

The paid-up capital consists entirely of ordinary shares, with no restrictions or distinctions among them.

FINANCIAL UNION TIRANA (UFT)

Financial Union Tirana (UFT or the "Parent Company") is the main shareholder of Union Bank and one of the most successful non-banking financial institutions in the Western Balkans region. UFT represents Western Union in Albania, Kosovo, North Macedonia, Croatia, and Switzerland.

Since 1995, UFT has been a contractual representative of Western Union Financial Services Inc., providing money transfer services as well as facilitating collections and payments, foreign exchange, financial agency and advisory services, business consultancy, and electronic money issuance.

UFT is a limited liability company, with NUIS J62424002G, registered under the decision of the Court of Tirana No. 9406, dated 6 March 1995. UFT operates as a financial institution under the supervision of the Bank of Albania. Its headquarters are located at Ismail Qemali Street, No. 32, 3rd Floor, Tirana. The capital of UFT amounts to 60 million ALL.

The shareholders of UFT hold the following percentage of the company:

	December 31 2024
Edmond Leka	35%
Niko Leka	35%
Varuzhan Piranjani	10%
Gjergji Misha*	10%
Eduard Shima*	10%

*Shareholders without voting rights

EDMOND LEKA

Mr. Edmond Leka has extensive experience in various financial activities. He has served as chairman of the board of directors of Financial Union Tirana (UFT) since March 1998 and, since 2006, as chairman of the board of directors of Union Bank.

Previously, Mr. Leka was chairman of the board of directors of the Italo-Albanian Bank from March 1996 to February 2002, and chairman of the board of AMC (Albanian Mobile Communication) from 1995 to 1998. From September 2000 to 2008, he served as vice-president of the American Chamber of Commerce in Albania.

He also holds the position of chairman of the board of the Harry Fultz Institute (HFI) since 2003 and of the Tirana Institute of Technology (TIT) Foundation since 2024, both non-profit organizations focused on education and technology.

NIKO LEKA

Mr. Niko Leka has long-standing experience in the financial sector, as well as in management and business activities. He has served as vice chairman of the board of directors of Financial Union Tirana (UFT) since 2015 and was an administrator from 1996 to 2015.

From 2014 to 2017, he served as chairman of the board of directors of Landeslease. Between 1994 and 1995, Mr. Leka was director of the Urban Credit Department (microfinance institution) at the Albanian Development Fund, and from 1999 to 2002, he was a member of the executive board of the Besa Fund, a microcredit financial institution.

Bank Subsidiaries

On 22 December 2014, Union Bank acquired 100% of the shares of Landeslease Sh.a. During 2023, following decisions by the relevant corporate bodies and through the purchase of newly issued shares, the subsidiary's shareholding was consolidated under Unioni Financiar Tirana Sh.p.k., bringing Union Bank's ownership to 81% of Landeslease Sh.a. The Bank's investment as of 31 December 2024 amounted to 366,436 thousand ALL.

Landeslease Sh.a is a joint-stock company with NUIS K51629002M, registered and commencing operations on 5 April 2005. The company conducts financial leasing activities and is supervised by the Bank of Albania. Its headquarters are located at Ismail Qemali Street, Tirana.

As of 31 December 2024, the share capital of Landeslease Sh.a., fully subscribed and paid up, amounts to 620,000 thousand ALL, comprising 620,000 (six hundred and twenty thousand) shares with a nominal value of 1,000 (one thousand) ALL each.

As of 31 December 2023, the subsidiary's share capital, also fully subscribed and paid up, was 620,000 thousand ALL, consisting of 620,000 (six hundred and twenty thousand) shares with a nominal value of 1,000 (one thousand) ALL each. The Bank has granted a total loan of 22.8 million euro to the subsidiary, in accordance with regulatory requirements and internal limits for this type of exposure.

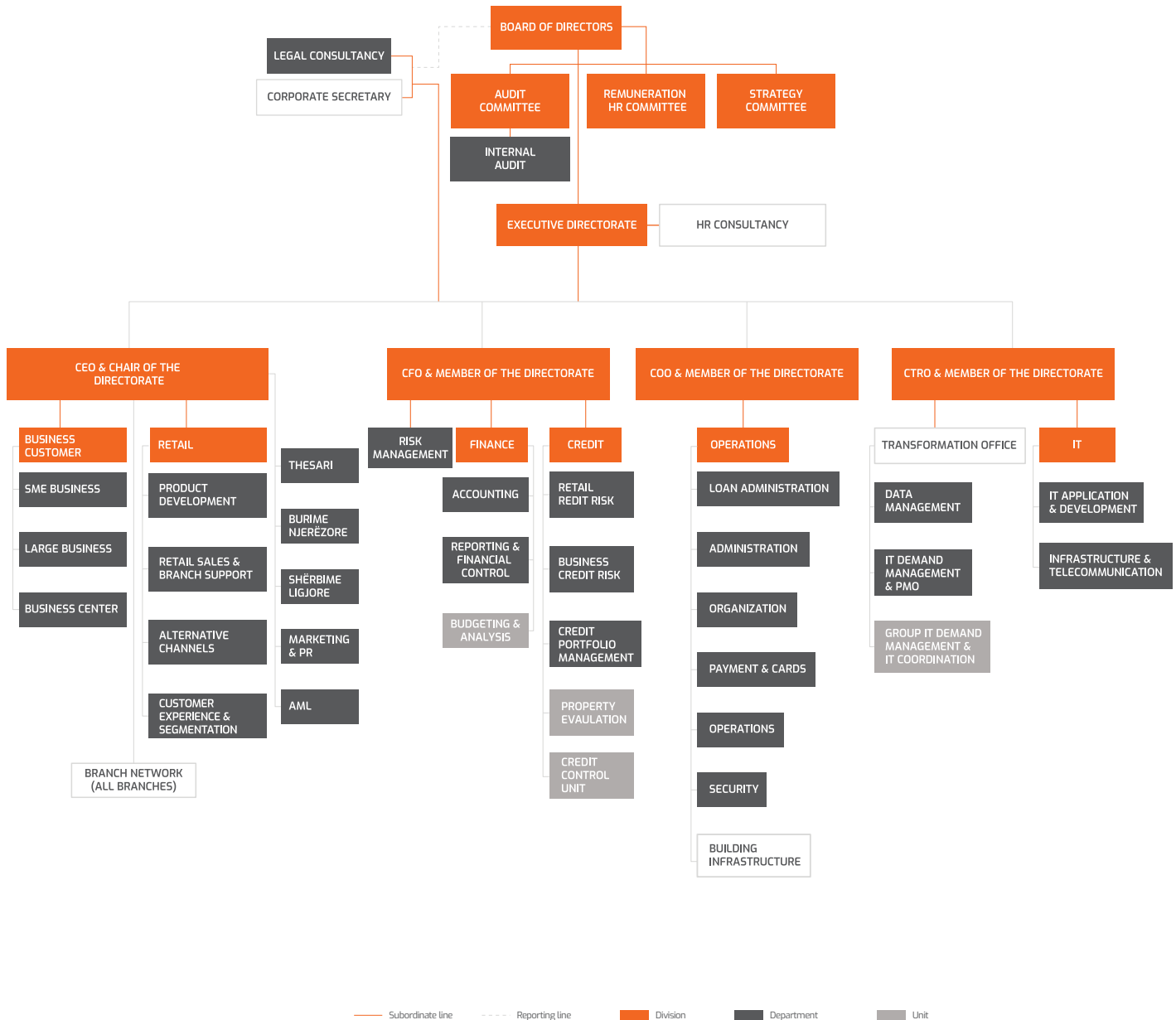
Throughout 2024, Union Bank continues to hold 81% of the subsidiary's shares, while 19% are owned by Financial Union Tirana (UFT).

Landeslease Sh.a is a joint-stock company with NUIS K51629002M, engaged in financial leasing activities and supervised by the Bank of Albania. Its headquarters are located at Mine Peza Street, No. 8, Unit No. 9, Tirana.

4.3 INFORMATION ON THE ORGANIZATIONAL, ADMINISTRATIVE AND FUNCTIONING STRUCTURE OF THE BANK

Union Bank Organizational Structure

Union Bank operates in accordance with the fundamental principles of responsible and effective management, in line with the requirements of the Bank of Albania Regulation on the Basic Principles of Bank Management and Branches of Foreign Banks, and Criteria for the Approval of Their Administrators.



4.4 BANK GOVERNING BODIES

General Assembly of Shareholders

The rights of shareholders regarding the bank's activities are exercised through the General Assembly of Shareholders, which serves as the supreme decision-making body of the bank.

The General Assembly adopts decisions on matters such as determining commercial policies, appointing and dismissing members of the Management Board and the Audit Committee, appointing and dismissing authorized accountants and liquidator(s), determining the remuneration of the above-mentioned persons, approving annual financial statements and activity reports, representing the Bank in court, and any other issues as required by law.

Board of Directors

The Board of Directors of Union Bank is a decision-making body responsible for setting the bank's medium-term objectives, strategies, and policies, as well as supervising their implementation.

The Board meets regularly, holding five main meetings per year, with additional interim meetings organized as needed between scheduled sessions. These meetings are conducted to approve the overall strategy and direction of the Bank, make key organizational decisions related to lending and budgeting, and monitor the Bank's progress, with particular focus on performance and risk management.

Each year, the Board reviews and approves all bank policies, as well as any documents required by the regulatory framework or internal regulations. Board decisions are valid when approved by a majority of members present, or by a two-thirds majority for decisions of special importance. In cases of conflict of interest, the relevant member(s) do not participate in the discussion or voting.

Board members are carefully selected to ensure an optimal combination of qualifications, experience, and expertise, contributing effectively to the Bank's strategic direction and decision-making processes. Each member is proposed by the Bank and approved by the Bank of Albania. The Board periodically monitors the performance of management structures and assesses the suitability of managers.

To fulfill its responsibilities effectively, the Board has established both permanent and temporary committees, including:

- Audit Committee
- Remuneration and Human Resources Committee
- Strategy Committee (temporary)

During the year, the Board of Directors consisted of nine members.

BOARD OF DIRECTORS



Edmond LEKA
Chairman of
the Board of Directors



Niko LEKA
Vice Chairman of
the Board of Directors



Flutura VEIPI
Member of the Board of
Directors and Chief Executive
Officer (CEO)



Varuzhan PIRANJANI
Member of
the Board of Directors



Henry RUSSELL
Member of
the Board of Directors



Teuta BALETA
Member of
the Board of Directors



Gazmend KADRIU
Member of
the Board of Directors



Kreshnik DIBRA
Member of
the Board of Directors



Mergim CAHANI
Member of
the Board of Directors

The table below presents the calendar of meetings and participation of members of the Steering Committee for 2024:

Board Meetings Calendar and Attendance During 2024		
Meeting No. & Type	Meeting Date	No. of Board Members Present
Main Meeting No. 1	02.02.2024	7/8 (100%)
Interim Meeting no.1.1	04.04.2024	8/8 (100%)
Main Meeting nr.2	26.04.2024	8/8 (100%)
Main Meeting nr.3	28.06.2024	8/8 (100%)
Interim Meeting no.3.1	09.07.2024	7/8 (100%)
Interim Meeting no.3.2	02.08.2024	8/8 (100%)
Main Meeting no.4	28.09.2024	9/9 (100%)
Main Meeting no.5	19.11.2024	9/9 (100%)

Note: The Board of Directors consists of a total of nine members. One position was vacant for part of the reporting year, so participation is reported based on eight members. After the vacant position was filled, participation is reported based on nine members.

To fully discharge its responsibilities, **the Board of Directors** has established permanent and temporary committees, including the Audit Committee, the Strategy Committee (temporary), and the Remuneration and Human Resources Committee.

The Union Bank Audit Committee consists of three members, including a chairperson, and one associate member. In accordance with regulatory requirements, membership in the Committee is independent. One member is an external expert and is not part of the Bank's Board of Directors, while the chairperson is also a member of the Board. The associate member is appointed to enhance the professional profile and continuity of the Committee and may be either a Board member or an external member.

The composition of the Audit Committee is as follows:

- **Teuta Baleta** **Chairperson**
- **Sonila Biçaku** **Member, External Expert**
- **Varuzhan Piranjani** **Member**
- **Kreshnik Dibra** **Associate Member**

1. The main duties of the Audit Committee are to assist the Board of Directors in overseeing:

- The integrity of the Bank's financial reports
- Compliance with applicable laws and regulations
- The selection process and performance of external auditors
- The performance of the internal audit unit

The table below presents the meeting calendar and attendance of the Audit Committee members for the year 2024:

Meeting No. & Type*	Meeting date	No. of Board Members Present
Interim Meeting no.1.1	24.01.2024	4 / 4 (100%)**
Main Meeting no.1	15.02.2024	4 / 4 (100%)**
Main Meeting no.2	27.03.2024	4 / 4 (100%)**
Main Meeting no.3	17.04.2024	4 / 4 (100%)**
Interim Meeting no.3.1	18.06.2024	4 / 4 (100%)**
Interim Meeting no. 3.1	19.09.2024	4 / 4 (100%)**
Main Meeting no.4	31.10.2024	4 / 4 (100%)**
Main Meeting no.5	19.12.2024	4 / 4 (100%)**

*Based on the Statute of Union Bank and the regulations of the Board of Directors and the Audit Committee, the Audit Committee holds at least 5 main meetings and/or interim meetings as necessary.

** Including the associate member of the Audit Committee

Remuneration and Human Resources Committee (HRC)

The main duties of the Remuneration and Human Resources Committee (HRC) are to assist and support the Union Bank Board of Directors in fulfilling its responsibilities related to human resources matters, including:

- Establishing and reviewing the remuneration policy of Union Bank, including employee compensation and benefits
- Policies and procedures related to the employment and dismissal of senior-level employees
- Monitoring and reviewing significant developments related to the Code of Conduct
- Policies that support the recruitment, retention, succession planning, and development of Union Bank employees

According to regulatory requirements, at least one-third of the committee members must be external experts, while the remaining members are appointed by the Board of Directors.

The composition of the Remuneration and Human Resources Committee is as follows:

- **Edmond Leka** Chairman
- **Teuta Baleta** Member
- **Elton Çollaku** Member, External Expert

The Remuneration and Human Resources Committee meets periodically, holding at least three main meetings per year and additional interim meetings as necessary.

The table below presents the calendar of meetings and attendance of the members of the Remuneration and Human Resources Committee for 2024:

Meeting No. & Type *	Meeting Date	No. of Board Members Present
Main Meeting no.1	01.03.2024	3/3 (100%)*
Interim Meeting no.2 (1.1)	14.04.2024	3/3 (100%)
Main Meeting no.3	25.09.2024	3/3 (100%)
Main Meeting no.4	14.11.2024	3/3 (100%)**

Strategy Committee (Temporary)

The Strategy Committee is established to advise the Board of Directors and assist in preparing decisions on matters that fall within the Bank's strategic scope. These matters may include:

- Review of the Bank's strategy
- Major internal restructuring of the Bank
- Evaluation of acquisition opportunities
- Planning for the opening of a subsidiary, among others

The composition of the Strategy Committee is as follows:

- **Edmond Leka** Chairman
- **Flutura Veipi** Member
- **Henry Russell** Member
- **Niko Leka** Member

The composition of the Strategy Committee is as follows:

Main Meeting no.1	Meeting Date	No. of Board Members Present
Main Meeting no.1	09.04.2024	4/4(100%)
Interim meeting no.1.1	09.07.2024	4/4(100%)
Main Meeting no.2	27.09.2024	4/4(100%)

Note: The Strategic Committee, although planned to have 5 members, operated with 4 members during the year, ensuring regular functioning and clear and unanimous decision-making in the recommendations given.

EXECUTIVE DIRECTORATE

A significant development in the organizational structure during 2024 was the expansion of the Executive Board from two members to four members.

Members of the Executive Board are elected and appointed by the Board of Directors to support the fulfillment of the Bank's strategic objectives. The Executive Board operates in accordance with the Terms of Reference approved by the Board of Directors, with a clearly defined mandate.

Each member of the Executive Board has individual areas of responsibility, which are reflected in the organizational structure. This arrangement ensures that the Bank, operating in a dynamic environment and pursuing growth objectives, strengthens its leadership with diverse expertise in risk, operations, and technology. This combination creates a more effective and collaborative forum for strategy development, supporting diversification, discussion, and flexibility in decision-making.

The expanded Executive Board has enhanced the Bank's daily decision-making processes by allowing the Chief Executive Officer to delegate part of the executive responsibilities to board members. This delegation increases operational efficiency, empowers experts in their respective fields, and raises the quality of executive management.

By developing the management capacities of the Executive Board, the Bank has increased responsibilities at the top level, shortened decision-making chains, and enabled greater delegation of responsibilities to middle management. This approach reflects the Bank's commitment to employee development as part of its strategic mission.



EXECUTIVE DIRECTORATE



Flutura VEIPI
Chief Executive Officer (CEO)
and Head of the Executive
Directorate



Suela BOKSHI
Operations Division Director
and Member of the Executive
Directorate



Arten ZIKAJ
Finance Division Director and
Member of the Executive
Directorate



Alban BURAZERI
Transformation Office Director
and Member of the Executive
Directorate

Corporate Governance

Union Bank is committed to adhering to the highest standards of governance, ensuring transparency, accountability, and ethical conduct in all operations. This commitment supports compliance with legal and regulatory requirements and enables the Bank to achieve its long-term objectives in line with its business plan.

Our governance practices are guided by the principles of responsible internal management, fostering a culture of accountability and mutual trust among shareholders and management. These practices protect stakeholders' interests and support the achievement of strategic objectives.

Transparency is a key aspect of our governance, ensuring that all stakeholders have access to clear and comprehensive information regarding the Bank's operations and governance practices. We provide detailed reporting on financial performance, strategic initiatives, and governance structures.

In 2024, the annual report was enhanced with the inclusion of a risk appetite statement and detailed information on Board of Directors meetings, ensuring stakeholders are well-informed about the Bank's performance and governance. Our Code of Ethics defines the standards of conduct expected from all employees and Board members, reinforcing our commitment to ethical decision-making. We promote a culture of integrity and accountability, ensuring that ethical considerations guide all business decisions. Conflict of interest policies ensure that transactions are transparent and carried out in the best interests of the Bank and its stakeholders. Related-party balances and transactions are disclosed in the financial statements (Section 36, reporting as of 31 December 2024).

Maintaining integrity in all operations is central to our governance approach. High ethical standards are embedded in our decision-making processes, supported by internal controls and risk management practices designed to encourage ethical behavior. Any ethical issues or conflicts of interest are addressed promptly and transparently.

Accountability is the foundation of our governance framework. The Board of Directors and its committees provide rigorous oversight of management and organizational performance. Key committees play a critical role in monitoring performance, managing risks, and ensuring compliance with legal and regulatory requirements. Oversight is further supported by regular internal and external audits, maintaining high standards of governance.

The Board of Directors conducts an annual assessment of its members, as outlined in its statute, while the Executive Management and Heads of Divisions are evaluated by the Remuneration and Human Resources Committee.

Control mechanisms, integrated into the governance framework, ensure oversight, compliance, and effective risk management and internal control. The Bank applies a clear division of responsibilities and reporting lines, promoting fairness, accountability, and effectiveness.

Through its internal code of conduct, Union Bank ensures that:

- There is a clear separation of responsibilities between functions that manage risks, oversee risks, and provide independent assurance
- Effective communication and reporting exist between these three lines, ensuring alignment with strategic objectives and risk appetite
- Principles of fairness, responsibility, and effectiveness are embedded in the Bank's governance and organizational structure

4.5 GENERAL INFORMATION ON THE CONSOLIDATED GROUP

The structure of the UFT Group also includes the following companies:

Financial Union Prishtina Sh.p.k. (FUP) UFP is a limited liability company operating in Kosovo. It is a contractual representative of Western Union Financial Services INC in Kosovo and has been in operation since 1 January 2004. UFP is a financial institution engaged in money transfer activities and is supervised by the Central Bank of Kosovo. Its headquarters are located at Street. Perandori Justinian IE, Pejton Town, Prishtina, Kosovo.

Unija Finansiska Skopje Doo (UFS) UFS is a limited liability company established in the Republic of North Macedonia by decision of the Court of Skopje No. 5710/03, dated 16 January 2004. Its NUIS is NIT4030004498497, and it is a contractual representative of Western Union Financial Services INC in North Macedonia. UFS provides money transfer services and is supervised by the National Bank of North Macedonia. Its registered office is at Str. Goce Delcev, Skopje, North Macedonia.

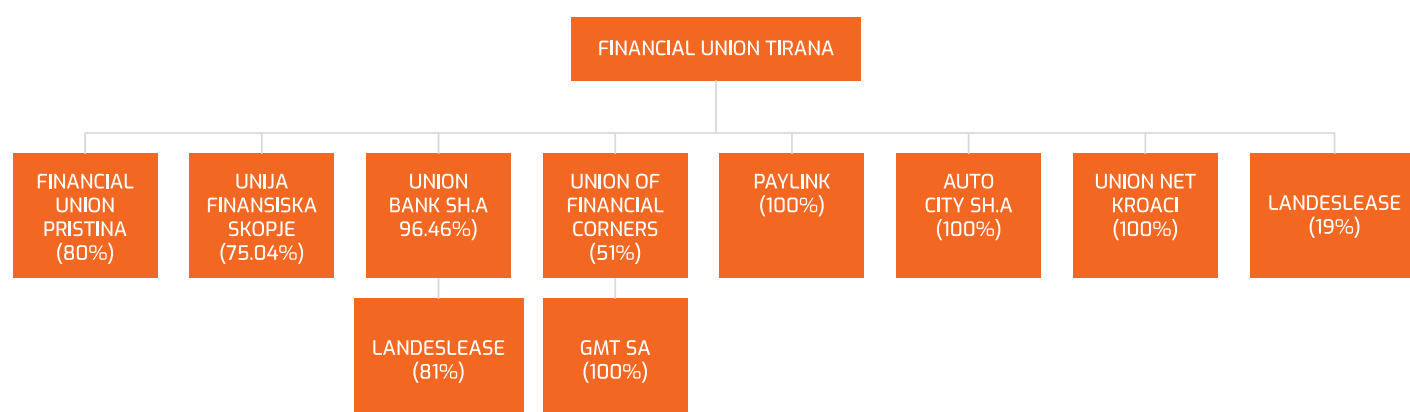
Union of Financial Corners (UFC) UFC is a financial institution established on 1 May 2005 in Geneva, Switzerland, with NUIS CHE112349585. It is a contractual representative of Western Union Financial Services INC in Switzerland, providing money transfer services. The supervisory authority is ARIF. UFC's headquarters are in Geneva, Switzerland.

Union Net Croatia Union Net Croatia was established on 10 March 2016 in Zagreb, Croatia. UFT owns 100% of its share capital.

Paylink Sh.a. (Paylink) Paylink is a financial company licensed by the Bank of Albania to provide card processing and related services. Its NUIS is L22112003M, and it began operations in September 2012. The company's headquarters are located at Tirana-Durrës Highway, km 8, Tirana.

Auto City Sh.a. (Auto City) The investment in Auto City was made on 26 December 2012. Auto City is a non-financial company with NUIS K81918006B. Its headquarters are located at Tirana-Durrës Highway, km 6, Tirana. The company provides utility services, as well as exhibition and rental spaces.

Landeslease sh.a. Union Bank owns 19% of Landeslease Sh.a. as of the end of 2023. Further details are provided in the section "Information on the Bank's Subsidiaries."



Macroeconomic Environment and the Banking System in Albania



Durrës Castle

5.1 DOMESTIC MACROECONOMIC ENVIRONMENT³

Global economic activity continued to expand during the period at a modest but stable pace. This performance was primarily supported by strong growth in the services sector, the revival of trade, and accommodative financing conditions in global markets.

Inflationary pressures have gradually declined, although they remained relatively high in specific sectors and regions. As a result, central banks have approached monetary easing cautiously. The reduction in inflation was accompanied by more favorable financing conditions in financial markets.

By the end of 2024, market volatility increased, reflecting changes in demand and supply factors, including the impact of the United States elections. Commodity markets showed rising oil and gas prices, while metals remained stable. Food prices also trended upward, mainly due to supply changes.

The global economy is expected to continue growing at a steady but moderate pace over 2025–2026, with growth driven primarily by developing regions. Global inflation rates are expected to continue on a downward trajectory. Key risks to the global economic outlook include inflation dynamics, geopolitical and trade tensions, and the need for structural adjustments related to climate change and technology.

In the euro area, economic activity slowed due to weakness in the largest member states. Growth was supported by strengthening consumption, while falling investment and slowing exports weighed on the economy. Despite a general decline in inflation, price pressures persisted, influenced by tight labor markets, rising energy costs, and delayed pass-through of previous price increases in certain sectors.

The European Central Bank implemented gradual monetary easing while remaining focused on achieving its 2% inflation target. Financial markets in Europe remained volatile, particularly over longer-term horizons. Declining interest rates improved lending conditions, although rates remained below initial expectations. Euro zone economic growth is expected to remain moderate in the short term and gradually recover in the following year, supported by consumption and services, with inflation moving toward the 2% target. Uncertainty around these forecasts remains high due to ongoing geopolitical and trade risks.

5.2 DOMESTIC MACROECONOMIC ENVIRONMENT⁴

During the period, the Albanian economy continued to grow at positive rates, with annual GDP growth reaching 4.0%. This growth was broad-based across sectors and was primarily supported by domestic demand, including final consumption and private sector investments. The labor market showed positive developments, with increases in employment and wages in both the public and private sectors.

On the demand side, economic growth was mainly driven by final consumption and private sector investments. However, rising imports of goods and services, coupled with limited export growth, exerted some downward pressure on the economy.

The economic sentiment indicator, although remaining above its historical average, declined in December. This was largely due to reduced confidence in key business sectors, particularly construction and services, while the decline in consumer confidence also contributed, albeit to a lesser extent.

Labor market developments in the fourth quarter were positive. Employment increased by approximately 1.6 percentage points year-on-year, reaching around 68%. Sectoral employment growth included agriculture (+1.0%), industry (+3.6%), and services (+1.5%). As a result, the unemployment rate fell to 8.8%, compared to 9.5% in the previous year.

³- Taken from the Financial Stability Report 6MII2024 Section.

During the period, inflation continued to decline at an accelerated pace, mainly driven by developments in food prices. This trend reflected the monetary policy stance of the Bank of Albania and the appreciation of the domestic currency. However, inflationary pressures from the domestic economy remained more persistent due to a tight labor market and strong consumer demand. The average annual inflation rate decreased to 2.2% at the end of 2024, compared to 4.8% in the previous year.

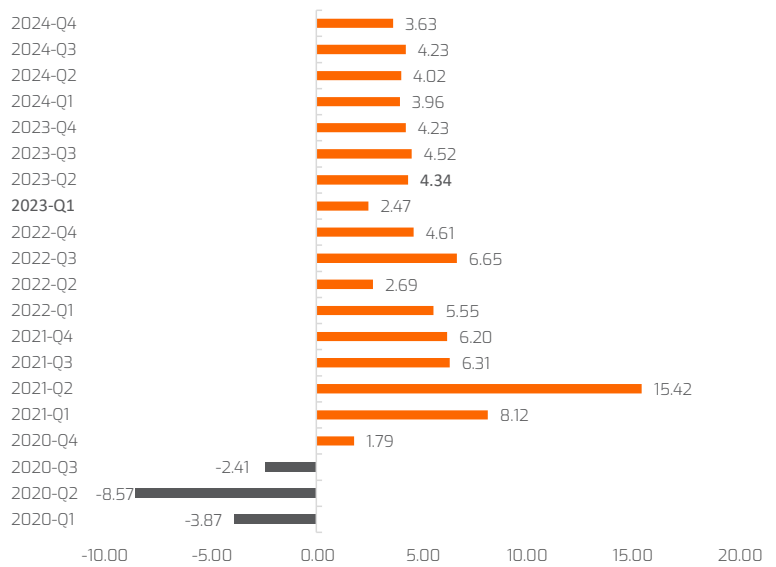
In July and November, the Bank of Albania reduced the key policy rate by 25 basis points each, bringing it to 2.75%. Fiscal policy remained largely consolidation-oriented throughout most of the period, resulting in a positive budget surplus, and only toward the end of the year did it meet the fiscal deficit target. Fiscal sustainability indicators, including the budget deficit and public debt relative to GDP, continued to improve. According to the Ministry of Finance, public debt fell to 55% of GDP at the end of 2024, the lowest level since 2010.

In the balance of payments, the current account deficit widened in the fourth quarter. This was mainly due to an increased deficit in trade in goods, partially offset by a higher surplus in the services account, a larger surplus in primary income due to increased remittances, and a reduced deficit in the secondary income account. The capital and financial account balances remained positive, reflecting higher unilateral inflows to the public and private sectors, increased foreign direct investment, and other investments, despite a negative balance in portfolio investments.

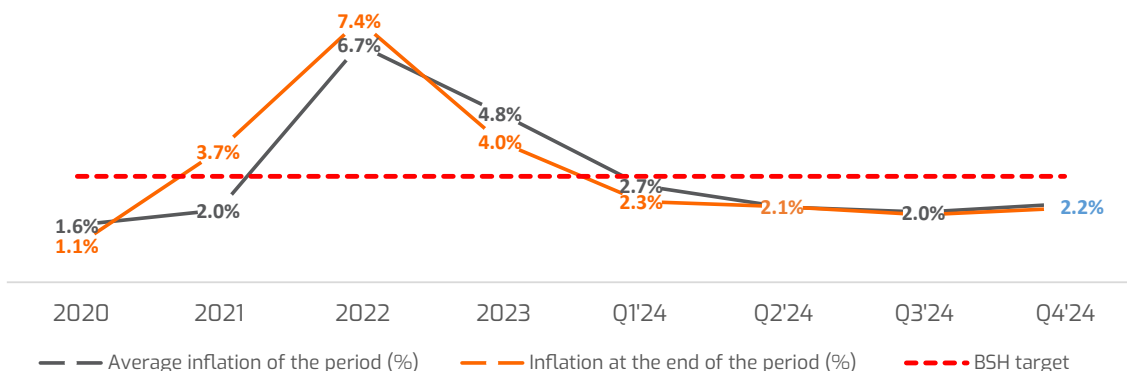
Foreign exchange reserve assets continued to grow, covering seven months of imports and approximately 5.3 times the short-term external debt. The country's net debtor position in international investments also narrowed. By the end of the fourth quarter, the current account deficit reached €374 million, a 55% increase (€133 million) from the previous year, primarily due to the widening deficit in trade in goods, which increased by €325 million as a result of lower export revenues and higher import demand.

The positive balance in trade in services helped mitigate the current account deficit, reducing it by approximately 19% to €886 million. Within this, the surplus from travel services increased by €147 million. The surplus in the secondary income account expanded to €337 million, supported by an 8% increase in remittances from emigrants, reaching €273 million. The deficit in the primary income account narrowed by €35 million to €51 million, reflecting the net effect of labor income and investment returns. The capital account recorded a positive net inflow of €44 million, compared to a negative net flow of €50 million a year earlier.

Annual Growth of quarterly GDP(%)



Inflation rate



4- Taken from the Financial Stability Report 6MII2024 Section 1.3

5.3 BANKING SECTOR IN ALBANIA⁵

The banking sector continues to dominate the Albanian financial system, accounting for nearly 90% of total assets. The sector's exposure to the non-banking sector remains low and has slightly decreased over the period, while the non-banking sector continues to be highly sensitive to banking sector activity.

On an annual basis, total banking sector assets expanded by approximately 7%. During the period, assets increased by 92 billion lek, reaching around 2,090 billion lek at the end of December. The main drivers of asset growth were increased investments in government securities and growth in the credit portfolio, contributing 60 billion lek and 40 billion lek, respectively.

Credit

Outstanding bank credit grew by 5.4% during the period, with annual growth reaching 12.8%. Adjusted for exchange rate effects, the annual credit growth would have been 15.3%. Growth was observed across all sectors and currencies, primarily concentrated in long-term loans. Loan restructurings and write-offs of non-performing loans continued; restructuring volumes declined, while write-offs remained broadly consistent with the previous period.

New credit issued during the period exceeded that of the previous year, with the main contribution coming from loans in euros, primarily extended to the business sector. New lending to individuals also increased, albeit at a slower pace, mainly for real estate purchases. The average interest rate on new loans remained at 6.6%. By currency, the average rate was 6.9% for lek-denominated loans and 6.1% for euro-denominated loans.

Deposits

Bank deposits increased by 5% over the period while maintaining their overall structure. Growth was largely driven by increases in time deposits and current accounts, mainly from individual customers, across major currencies. By currency, deposits in lek grew by 7%, while foreign currency deposits rose by 3%. Adjusted for exchange rate effects, annual growth of foreign currency deposits would have been 8%.

New deposit flows reflected seasonal patterns, with stronger growth in the second half of the year. Deposit interest rates showed limited fluctuation, with minor changes over the period. Banks increased average rates for longer-term deposits regardless of currency, while rates for shorter-term deposits remained largely stable.

Financial Result

The banking sector's net result and profitability indicators improved compared to the previous year, primarily driven by higher net interest income as well as growth in other income streams. At the end of 2024, the sector's accumulated profit reached 37.4 billion lek, up from approximately 32 billion lek in the previous year.

This growth in profit is reflected in improved profitability metrics, with return on assets (RoA) reaching 1.9% and return on equity (RoE) at 18.2%, compared to 1.7% and 17% in the previous year, respectively.

The increase in profit was supported by higher net interest income and growth in income from other activities, mainly due to gains from financial instruments and increased fee and commission income. Operating expenses and provisions saw a moderate increase compared to the prior year, reflecting ongoing investments in operations and risk management.

⁵ - Information taken from the Financial Stability Report 6MII2024 Section 4.

Banking sector revenues and expenses for the years 2020–2024 (in Million ALL)⁶

CODE	INDICATOR DESCRIPTION	T IV 2020	T IV 2021	T IV 2022	T IV 2023	T IV 2024	Y '24# IN %
1	Interest Income	50,414	53,334	60,789	83,360	97,751	14%
2	Interest Expenses	7,623	7,363	8,775	13,871	19,184	38%
3	Net Interest Income (1-2)	42,791	45,971	52,014	69,489	75,567	9%
4	Non-Interest Income	16,289	17,964	13,241	18,592	23,942	29%
4.1	Receivable Fines and Commissions	10,869	13,358	14,953	16,566	18,871	14%
4.2	Profit or Loss from Financial Instruments	2,654	1,151	(4,098)	423	2,371	461%
4.3	Income from Equity Investments in Related Companies	14	263	323	126	129	2%
4.4	Other Incomes	2,752	3,192	2,064	1,477	2,572	74%
5	Gross Income (3+4)	59,079	63,934	65,255	88,081	99,509	13%
6	Non-Interest Expenses	33,995	37,667	38,604	46,595	51,063	10%
6.1	Personnel Expenses	11,469	12,239	13,009	15,685	17,775	13%
6.2	Other Expenses	22,525	25,429	25,595	30,910	33,288	8%
7	Provisions (net)	5,404	1,218	1,500	3,813	4,830	27%
7.1	Loan Loss Provisions	7,245	841	4,091	5,721	5,570	-3%
7.2	Provisions for Other Financial Instruments	(1,842)	377	(2,591)	(1,908)	(740)	-61%
8	Net Income (Before Taxes (5-(6+7)))	19,681	25,049	25,152	37,673	43,616	16%
9	Income Taxes	2,806	3,415	3,474	5,191	6,252	20%
10	Net Income After Taxes	16,875	21,634	21,678	32,483	37,367	15%
11	Other income (loss) net of tax	-	-	-	-	-	0%

Capitalization of Activity

At the end of 2024, the banking sector's capital adequacy ratio stood at 19.8%, remaining broadly in line with the previous year. All banks maintained this indicator above the regulatory minimum requirement of 12%. Banks with predominantly Albanian capital reported slightly lower capital adequacy ratios compared to other bank groups, though these levels increased during the second half of 2024.

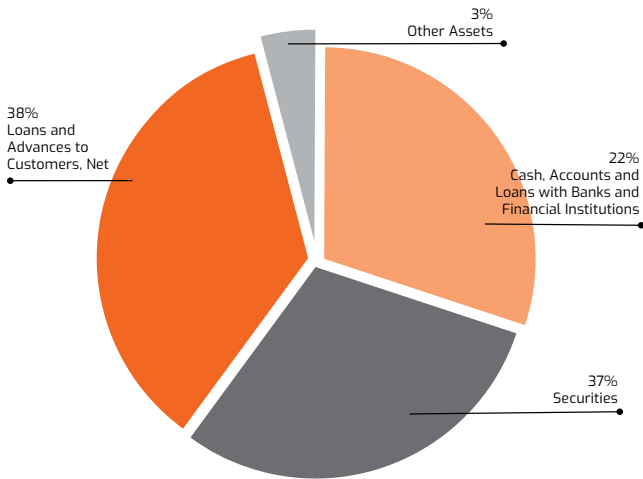
During the period, the sector's regulatory capital grew by approximately 12 billion lek, or 6%, reaching 207 billion lek. This increase was driven by higher paid-in capital, the accumulation of retained earnings through certified net profit for the period, and growth in subordinated debt. On an annual basis, the expansion of regulatory capital was mainly supported by retained earnings from prior periods, although their relative contribution has been gradually decreasing.

Risk-weighted assets increased by 3% during the period, reaching 1,050 billion lek. Credit risk-weighted assets remain the dominant component, accounting for 85% of the total, while market and operational risk-weighted assets represent 1% and 14%, respectively.

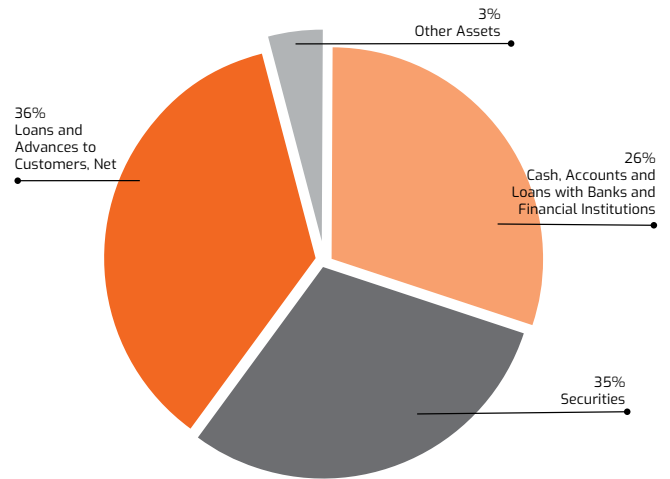
⁶ Info derived from the Bank of Albania.

The structure of assets and liabilities⁷ is reflected in the following graphs

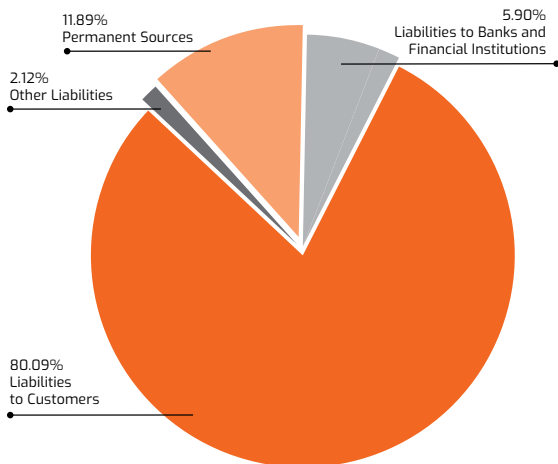
Banking System Asset Structure 2024



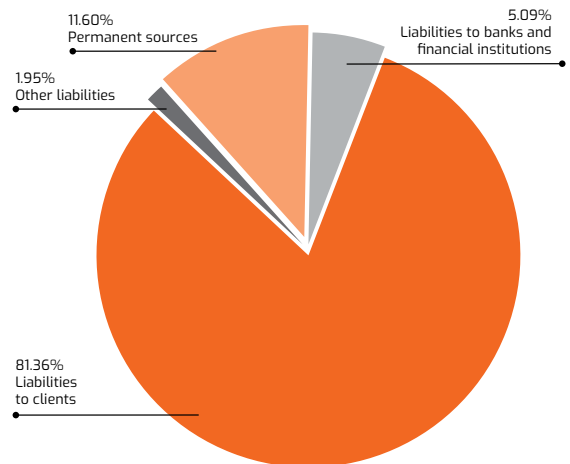
Banking System Asset Structure 2023



Structure of Banking System Liabilities 2024



Structure of Liabilities of the Banking System 2023



7- Info derived from statistics published by the Bank of Albania.

Union Bank Performance



6.1 KEY FINANCIAL INDICATORS⁸

	in Lek '000	in Lek '000	in Eur '000	in Eur '000	Change	
	2024	2023	2024	2023	2024	2023
BALANCE						
Total Assets	107,044,468	99,318,486	1,090,621	956,089	7.78%	8.13%
Gross loans portfolio	52,634,625	48,201,836	536,267	464,015	9.2%	10.9%
Investments in securities	34,837,566	33,094,651	354,942	318,585	5.3%	13.5%
Placements with banks	7,663,842	2,499,989	78,083	24,066	206.6%	-51.4%
Customer accounts	77,745,843	73,986,210	792,113	712,228	5.1%	7.6%
Paid in capital	9,466,687	8,183,273	96,451	78,776	15.7%	9.8%
PROFIT AND LOSS						
Net interest income	3,990,082	3,458,923	40,653	33,297	15.4%	18.1%
Net fee and commission income	738,442	613,863	7,524	5,909	20.3%	33.9%
Other operating income	291,550	73,418	2,970	707	285.0%	-57.1%
Operating income	5,020,074	4,146,204	51,147	39,913	21.1%	16.5%
Total operating expenses	(3,478,029)	(3,193,521)	(35,436)	(30,742)	8.9%	29.4%
Net Profit before taxes	1,542,045	952,683	15,711	9,171	61.9%	-12.6%
STATISTICS						
Numbers of staff	519	482			7.7%	7.8%
Number of outlets	32	32			0.0%	0.0%
Number of Loans outstanding	27,898	26,797			4.1%	4.0%
Number of Clients	307,241	269,868			13.8%	16.8%
KEY RATIOS						
Return on Equity	15.7%	10.8%			4.9%	-0.7%
Cost to Banking Income Ratio	56.7%	56.8%			-0.1%	3.4%
Loans to Deposits ratio	67.7%	65.1%			2.6%	1.9%
Assets Growth Rate	7.8%	8.1%			-0.3%	-6.0%
Customer Deposit Growth Rate	5.1%	7.6%			-2.5%	-1.2%
Loans Growth Rate	9.2%	10.9%			-1.7%	-5.4%
LLP to Loan portfolio	4.3%	4.2%			0.1%	0.1%
Net Interest Margin	4.2%	4.1%			0.1%	0.4%
Capital Adequacy ratio	17.9%	16.7%			1.3%	0.8%
Asset to Employee Ratio	206,251	206,055			0.1%	0.3%
Assets to Branch ratio	3,345,140	3,103,703			7.8%	8.1%

8- All figures are translated using the year-end exchange rate.

All financial indicators presented in this report have been calculated based on the Bank's financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), treating the Bank as a separate entity.

Assets

At the end of December 2024, the Bank's total assets amounted to approximately 107.04 billion ALL, reflecting an increase of 7.7 billion ALL, or around 7.8%, compared to the end of 2023.

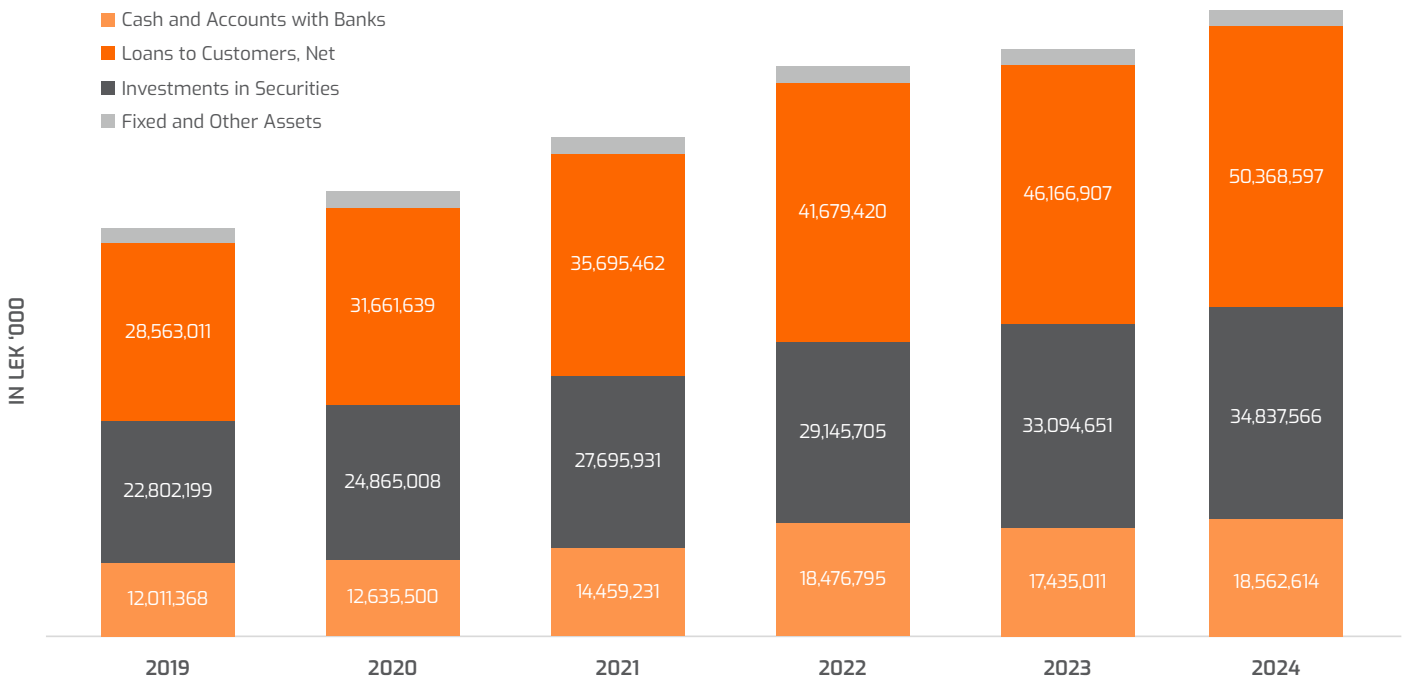
The gross loan portfolio to Customers and Financial Institutions grew by 4.4 billion ALL, or 9.2%, with over 3.7 billion ALL in loans to Customers and 0.6 billion ALL in loans to Financial Institutions. Gross loans represent approximately 49.2% of the Bank's total assets, compared to 48.5% in 2023.

Investments in securities increased by around 1.7 billion ALL. Specifically, Albanian Government Treasury Bills decreased by 0.5 billion ALL, while investments in Government Bonds and foreign securities increased by approximately 2.2 billion ALL, or 5.3%. This category accounts for 32.5% of total assets, compared to 33.3% at the end of 2023. Investments in securities include Treasury Bills, Albanian Government Bonds, and selected high-quality foreign corporate/government bonds, mainly rated "Investment Grade."

Cash and funds at the Central Bank decreased by around 4.0 billion ALL, while accounts and deposits in other banks and financial institutions increased by 5.2 billion ALL. Cash and bank accounts represent 17.3% of total assets (17.6% in 2023). Fixed and other assets account for approximately 2.3% of total assets (1.9% in 2023).

The Bank has achieved a slight improvement in its profitability structure, registering some of the strongest indicators in recent years. This progress has been supported by the maintenance of adequate liquidity levels, ensuring sustainable growth and stable financial parameters. Additionally, favorable developments in key interest rates over the past two years have contributed to higher investment returns and improved efficiency in the use of the Bank's resources.

Structure of Assets Over the Years



Liabilities and Subordinated Debt

At the end of 2024, Union Bank's liabilities totaled approximately 96.0 billion ALL, up from 90.0 billion ALL at the end of 2023, reflecting an annual increase of 6.7%, or 6.0 billion ALL. This growth is in line with the Bank's strategic plans. The structure of liabilities remained broadly stable compared to the previous year. A slight increase in the weight of liabilities relative to total liabilities and share capital was observed, with a growth of around 1%.

Customer deposits represented 79.7% of total liabilities at the end of 2024, compared to 81.2% at the end of 2023. Liabilities to banks and other financial institutions accounted for 17.0% of total liabilities, compared to 16.4% in 2023.

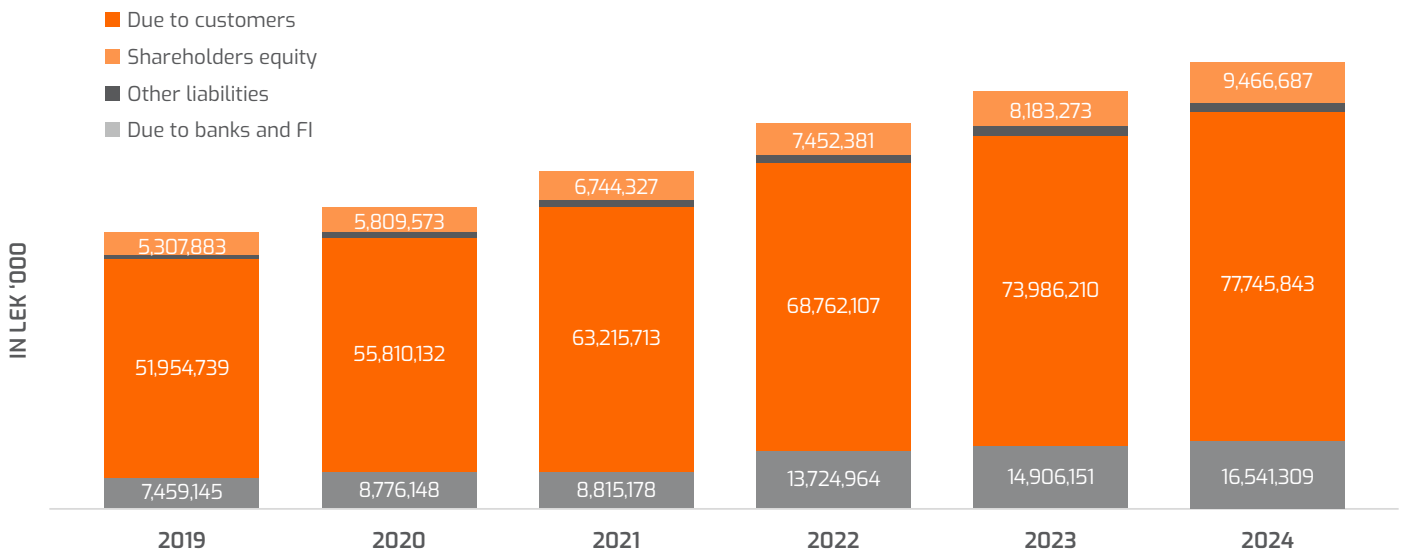
At the end of 2024, the Bank's total subordinated debt stood at 1.5 billion ALL, equivalent to approximately 16.3% of its capital. In August 2024, Union Bank issued a new subordinated debt instrument worth 5 million Euros, marking the fifth consecutive year of such an issuance. This instrument has been approved by the Financial Supervisory Authority (AFSA) and recognized by the Bank of Albania as part of the Bank's regulatory capital, in accordance with regulatory requirements to strengthen financial stability

Share Capital

At the end of 2024, the Bank's share capital increased by 1.3 billion ALL, reaching approximately 9.5 billion ALL. This represents about 8.8% of total assets, an increase of 0.6 percentage points compared to the previous year.

Note: The Bank also prepares and publishes consolidated financial statements on its website.

Structure of Liabilities and Equity Over the Years



Union Bank – Financial Results and Performance for 2024

Union Bank's net profit for 2024 exceeded ALL 1.3 billion, driven by operating income of approximately ALL 5.0 billion and operating expenses of around ALL 3.4 billion. These results reflect a solid financial performance for the year.

In September 2024, the Bank revised its budget for the remainder of the year to reflect several material developments—primarily the growth of the loan portfolio, higher total income, and the evolving trends in operating expenses and asset quality. The final profitability outperformed the Bank's initial 2024 budget.

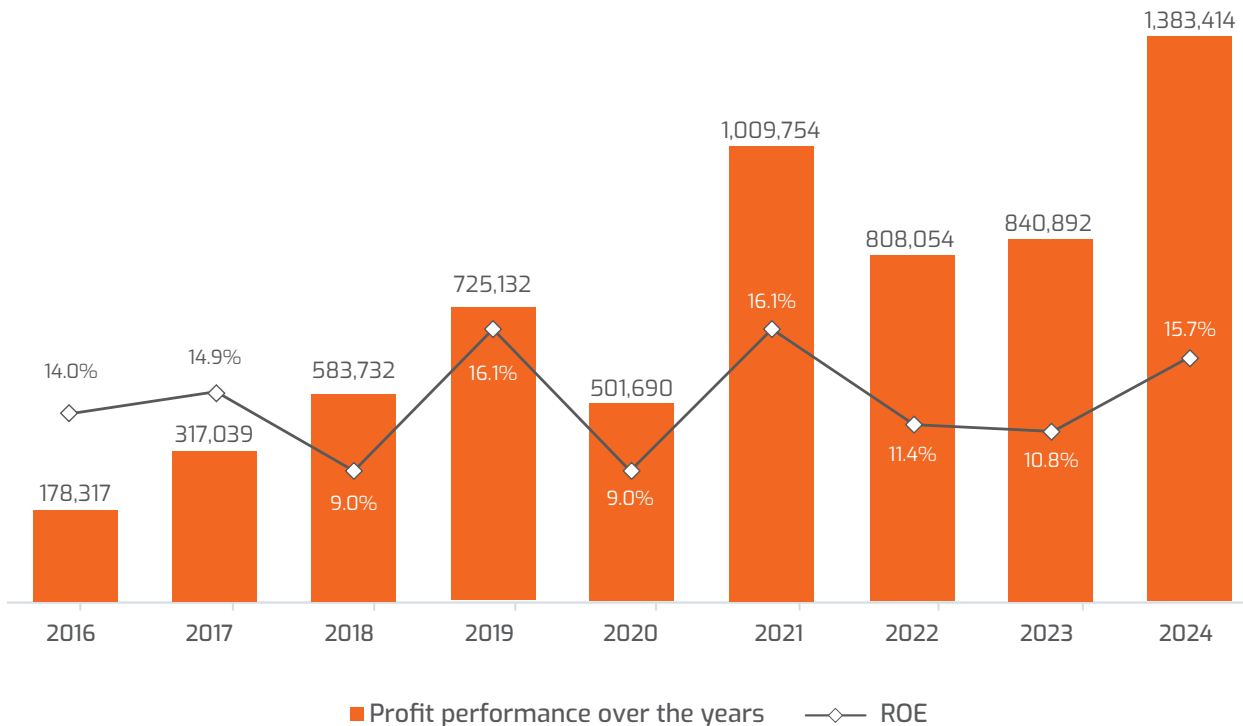
Net interest income reached approximately ALL 4.0 billion, an increase of 15.4% compared to 2023.

Net commission income amounted to ALL 738 million, a significant rise of 20.3% year on year. Although net commission income maintains a modest share of total operating income—15%, the same as in 2023—the Bank continues to prioritize this segment to further enhance revenue diversification.

Total operating income grew by ALL 874 million, or 21.1%, compared to the previous year. Operating expenses increased by around ALL 285 million, or 8.9%, including provisions. The relatively moderate expense growth reflects lower loan impairment provisions, supported by the stable and improving quality of the credit portfolio throughout 2024.

Union Bank's overall financial performance in 2024 is considered highly satisfactory, demonstrating stronger profitability than initially forecast and an improvement in key operational indicators over the previous year. Return on Equity (ROE) reached 15.7% at year end, underscoring the Bank's enhanced profitability and operational efficiency.

Profit performance over the years





Customer-Centric Strategy at the Core of the Bank's Vision

7

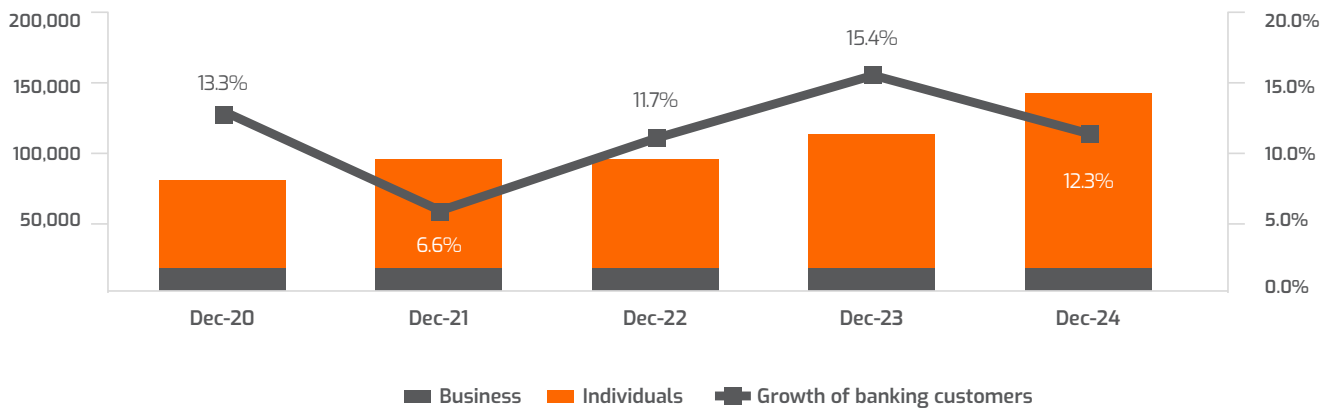
CUSTOMER-CENTRIC STRATEGY

At the core of our strategy for sustainable growth and differentiation stands the customer. Throughout 2024, we further strengthened our commitment to building increasingly personalized and value adding relationships with every client, placing them at the center of every process and decision we make. A deeper understanding of our customers—not only at a demographic level, but also in terms of their financial behavior, life cycle, and overall experience with the Bank—has been essential in shaping our offerings and developing new products and services.

During the year, we significantly advanced the way we analyze and profile our customers. Beyond the traditional segmentation based on economic status or age groups, we enhanced our analysis of customer behavior and financial habits to better identify their real needs. We developed personalized profiles based on personas—detailed representations of specific customer segments—and behavioral characteristics that enable us to design targeted offerings for each segment, thereby increasing both customer engagement and satisfaction.

The customer structure, based on income source (personal income or income from a commercial activity), consists of 89% individuals and 11% business activities.

Structure of banking customers



7.1 INDIVIDUAL CUSTOMERS

Individual Customers

Individual customers represent a significant and strategic part of our customer base. In 2024, this segment recorded a growth of 12%, reflecting not only broader inclusion but also increased trust and engagement from existing clients. Our focus for this segment has been to build a comprehensive relationship, offering personalized products and services tailored to each customer’s lifestyle and financial behavior.

A particular emphasis has been placed on salaried customers. For this segment, we developed dedicated offerings, including bundled product packages, preferential rates, and favorable lending conditions. This strategy has resulted in both new customer growth and increased activity among existing clients.

Special attention has also been given to self employed professionals, for whom we introduced more flexible solutions, including long term credit lines and higher borrowing limits.

Young people and students remain a segment with high potential and long term loyalty. We have built relationships that start at an early age and are designed to evolve over time. As the first bank to offer the innovative Student 2n1 product—a combined student ID and banking card—we have created a powerful tool for connecting with young customers. Through this card, students benefit from free services, preferential prices at cultural institutions, and a dedicated banking package tailored to their needs.

Another unique product in the market is the Junior Package, the only one that includes a dedicated banking card for children aged 0 to 17. This package, which also includes a savings account and online banking access, enables children to learn and manage finances from an early age, while parents maintain full oversight of their financial activity. Our objective is to foster financial education from the first steps of customer engagement with the banking system.

Our focus also extends to customer groups with basic financial needs, such as pensioners. For them, we provide packages with reduced fees and simplified services to ensure equal and dignified access to banking services. We have also enhanced their digital experience by offering easy to use solutions for pension management and monthly payments.

Another strategically important group is emigrant customers—individuals who live and work abroad but maintain strong ties with Albania. For this segment, we designed specific investment and savings products with competitive interest rates and tailored conditions, aimed at encouraging their financial participation in the domestic market, especially in real estate investments and long term deposits.

All these efforts have been backed by a new technological approach that aims to unify the customer experience across all service channels. We enhanced our omnichannel experience to ensure that every client receives the same service standard, whether visiting a branch or banking online. Our goal is to make every interaction easy, intuitive, and personalized. The year 2024 marked a period of significant progress in how we understand, segment, and serve our customers. A deeper customer understanding, advanced analysis of financial behavior, and improvements in the overall customer experience have been the pillars supporting our growth. We firmly believe that only by placing the customer at the center can we build a bank that grows alongside them.

Customer Experience

In 2024, Union Bank continued to advance on its journey toward becoming an institution guided entirely by the customer. Across every internal decision and process, our priority was to build a customer experience that is increasingly consistent, personalized, and value driven—shifting from a reactive approach to a proactive and structured engagement model. This year marked a strong focus on gaining a deeper understanding of the customer experience across all touchpoints with the Bank. More than 12,000 comments and suggestions collected through satisfaction surveys, NPS feedback, spontaneous reactions, and formal complaints were analyzed. This substantial volume of data was systematically processed to identify strengths as well as areas where improvement is essential.

Unlike previous years, customer feedback in 2024 was processed using an enhanced classification system, grouping each comment according to the nature of the concern—from product related issues and transaction inquiries to communication aspects and digital interface usability. This enabled us to work more effectively with every internal unit to correct, improve, and redesign experiences that had previously caused customer frustration.

In parallel with technical enhancements, we introduced an automated communication system that delivers personalized notifications and messages based on customer profiles, real time behavior, and product usage. This approach has made it possible not only to inform customers promptly, but also to make them feel actively engaged in their relationship with the Bank rather than merely passive recipients of services.

The year 2024 also represented a turning point in the way we handle complaints. We restructured the complaint management process so that resolution is not seen as the final goal, but rather as the starting point for wider improvements. Each case raised by customers was addressed by identifying its root cause and using it as input for enhancing the corresponding processes.

This year, we focused on measuring the experience of new customers and analyzing the factors that contribute to the churn of existing ones, in order to build a complete feedback cycle that drives our improvements. We also incorporated targeted evaluations for individual products and specific service channels, allowing us to measure the experience more accurately and in greater detail.

What we have worked to build this year is a new organizational culture—one in which the customer's voice is not perceived as a challenge to be managed, but as a development engine that drives continuous transformation. Customer data, experiences, and expectations have become an integral part of every discussion on new products, process adjustments, or digital enhancements.

9- NPS (Net Promoter Score)

7.2 BUSINESS CUSTOMERS

Partnership with Business Clients – A Lasting Commitment to Long-Term Development

At Union Bank, building and nurturing long-term partnerships with our business clients is more than a strategic priority—it is a working philosophy that guides us every day. We believe that strong, trust based relationships with businesses are not built solely through competitive products, but above all through a deep understanding of their needs and a commitment to being a reliable partner in their growth journey.

Our role extends far beyond the traditional provision of banking services. We position ourselves as strategic advisors who support clients in designing and implementing sustainable financial plans, provide insights into market opportunities, and connect them with a broader ecosystem of businesses and partners. This approach has enabled us to create long term, stable, and value adding relationships for both sides.

A Comprehensive Strategy for Business Development

Our strategy for small, medium, and large enterprises is built on the principles of sustainable economic development, innovation, and digitalization. We prioritize sectors with high growth potential and strong social impact—such as agribusiness and tourism—with the aim of supporting not only economic expansion, but also social inclusion and regional development.

We have established an integrated approach that combines:

- Personalized financing, tailored to each client's profile and needs;
- Professional advisory services, offering guidance at every stage of the business cycle;
- Strategic partnerships, enhancing access to new markets and resources.

Collaboration with international financial institutions and participation in Guarantee Programs have significantly expanded our ability to finance clients in areas where access to capital was previously limited due to insufficient collateral. This has enabled us to support more rural businesses, contributing to improved economic and social well being in these communities.

Supporting Strategic Sectors and Driving Innovation

Through programs such as the Albanian Agribusiness and Tourism Support Facility (AATSF), we have strengthened key economic sectors by easing access to financing for agribusinesses and tourism enterprises. Concrete results include:

- Increased domestic production;
- Improved operational infrastructure;
- Creation of new jobs in rural areas.

Another important component is the Youth in Business initiative, aimed at empowering young entrepreneurs through financing, training, and mentorship. This program has helped a new generation of entrepreneurs build sustainable, innovative businesses that create long term impact in their communities. Additionally, Union Bank remains one of the most active banks in supporting start ups, offering not only capital but also access to mentor networks, participation in business events, and knowledge sharing opportunities.

Sustainable Development and Green Investments

Environmental and social responsibility are key dimensions of our long term strategy. We have supported projects focused on renewable energy, energy efficiency, and green development. Our investments have contributed to:

- Reduced carbon emissions;
- More efficient use of natural resources;
- Improved living conditions in local communities.

Partnerships with international organizations have provided not only additional financing resources, but also technical expertise, strengthening our capacity to offer advanced and sustainable solutions to our clients.

Looking Ahead: Digitalization and Adapting to a Transforming Market

The year 2025 marks a new phase in our growth journey. Through the Go Digital program, we aim to accelerate the digital transformation of Albanian SMEs. This program will:

- Provide technological solutions for financial and operational management;
- Enable easier access to online financing;
- Enhance efficiency and access to new markets through digital platforms.

Looking forward, our focus on sustainable investments will deepen, with concrete plans to develop new green financing products and strengthen partnerships for projects with positive environmental and social impact.





Products and Customer Segment Report

8.1 PRODUCTS FOR INDIVIDUALS

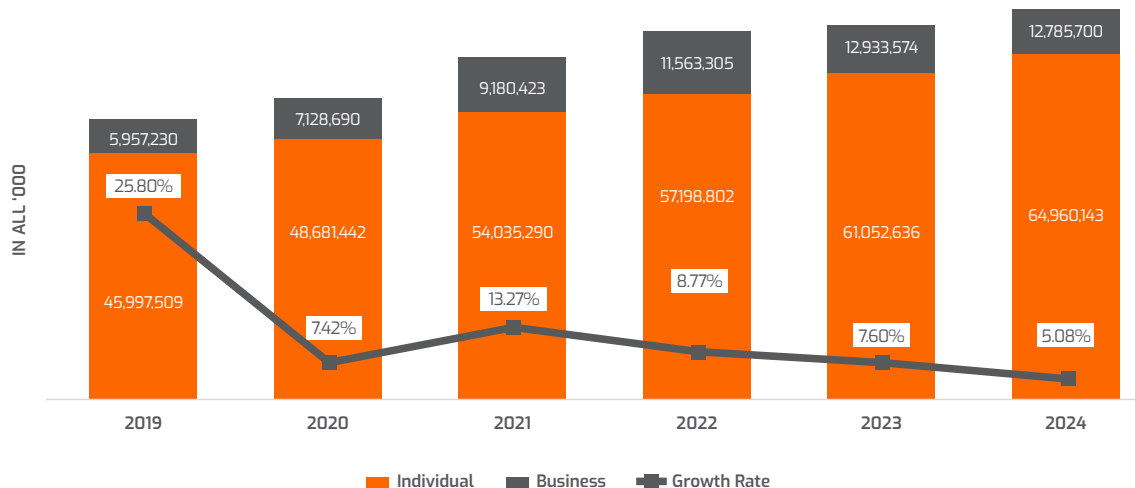
Savings Account

The Savings Account recorded positive annual growth in 2024, with a 3% increase in the total volume saved and an 11% increase in the number of accounts. Beyond offering regular interest earnings, the Savings Account provides customers with two essential advantages: security and immediate access to their funds.

Our Bank continues to promote this product as part of building healthy financial habits, helping customers of all age groups feel protected against unexpected financial situations and better prepared for the future through improved planning.

For 2025, the Bank aims to achieve stronger growth in both the number and volume of Savings Accounts. This will be supported by enhanced product conditions and expanded benefits, with a clear focus on further educating customers about the advantages of saving and helping them select the savings option that best fits their financial goals.

Customer Accounts Developments



Time Deposits

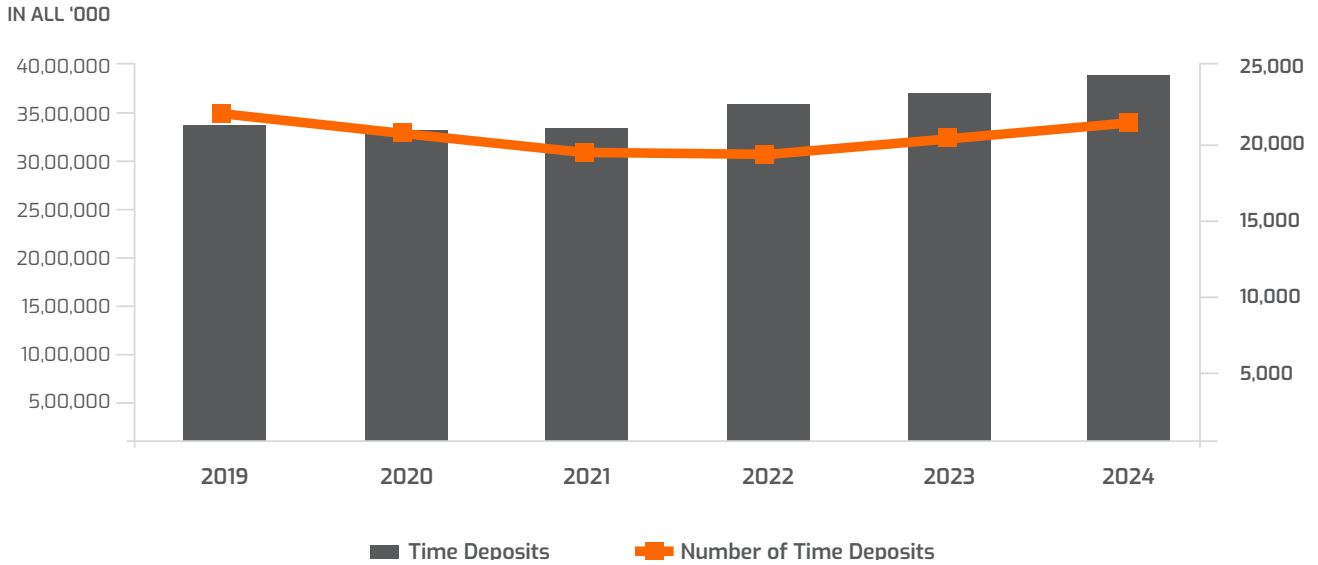
Time deposit products recorded an annual growth of 14% in volume during 2024 compared to the previous year. The rise in deposit interest rates over the past year has increased customer interest in saving through time deposits as a favorable form of investment. Time deposits in our Bank reflect the confidence customers place in our stability and professionalism, representing a deliberate choice to invest in their future with a secure and predictable return.

The trend shows that time deposits continue to remain the most preferred form of savings among all customer groups—beyond the traditionally dominant categories of emigrants and pensioners who have historically favored this savings option.

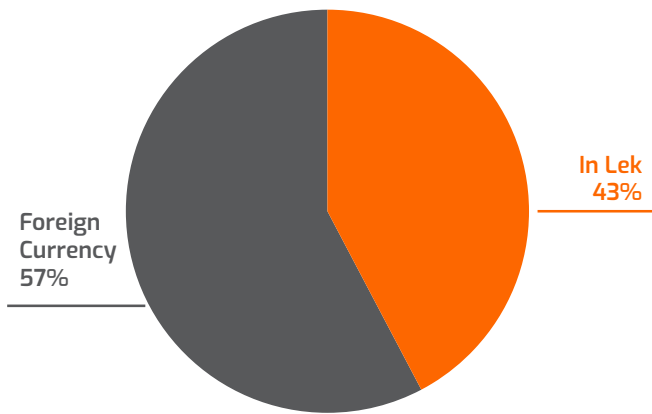
Throughout 2024, our Bank actively promoted a wide range of time deposit products, providing customers with a broad selection while communicating all associated benefits in a clear and transparent manner.

In 2024, the Bank continued to offer enhanced interest rates for time deposits opened through UB Online, our digital banking platform, thereby encouraging greater use of digital channels. Improved interest rates were also extended to pension age customers as well as to children.

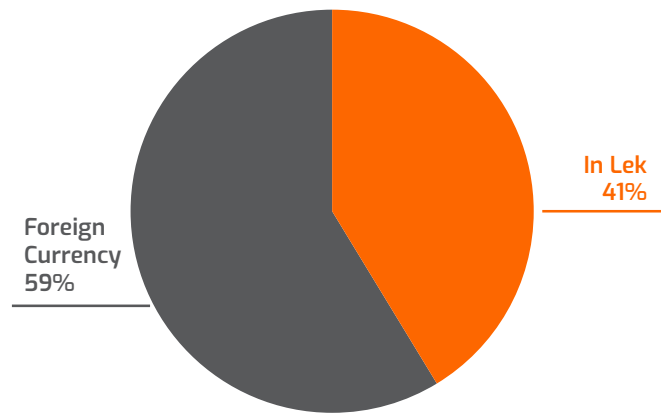
Time Deposit Developments



Customer Liabilities Structure 2024



Customer Liabilities Structure 2023



8.2 LOANS GRANTED TO INDIVIDUAL CUSTOMERS

Union Bank continued throughout 2024 to serve as a reliable financial partner for individuals, offering a diverse range of lending initiatives tailored to meet their financial needs.

During the year, the Bank placed special emphasis on improving its lending processes, with a clear focus on increasing automation to enhance efficiency and the overall customer experience.

Another key element was the development of promotional campaigns for consumer loans at various points throughout the year. These campaigns offered improved financial conditions and additional benefits for both new and existing customers.

In support of women and girls—aiming to strengthen their economic empowerment—as well as for customers across various professional groups, Union Bank undertook dedicated initiatives to expand credit access. These included more favorable interest rates and dedicated financing limits tailored to the needs of these segments.

The Bank also strengthened its cooperation agreements with the most reputable construction companies in the country, enabling financing for customers seeking to invest in real estate even when they do not currently possess the required collateral. This approach has expanded opportunities for individuals to access housing finance and invest in long term assets.

The mortgage loan remains one of the most in demand products within the individual financing portfolio, reflecting not only the need for stable housing but also the trust customers place in the Bank's consistent and transparent offering. This product recorded an 11% increase compared to the previous year, a trend that highlights the positive performance of this portfolio. Meanwhile, the consumer loan portfolio grew by 19% compared to 2023.

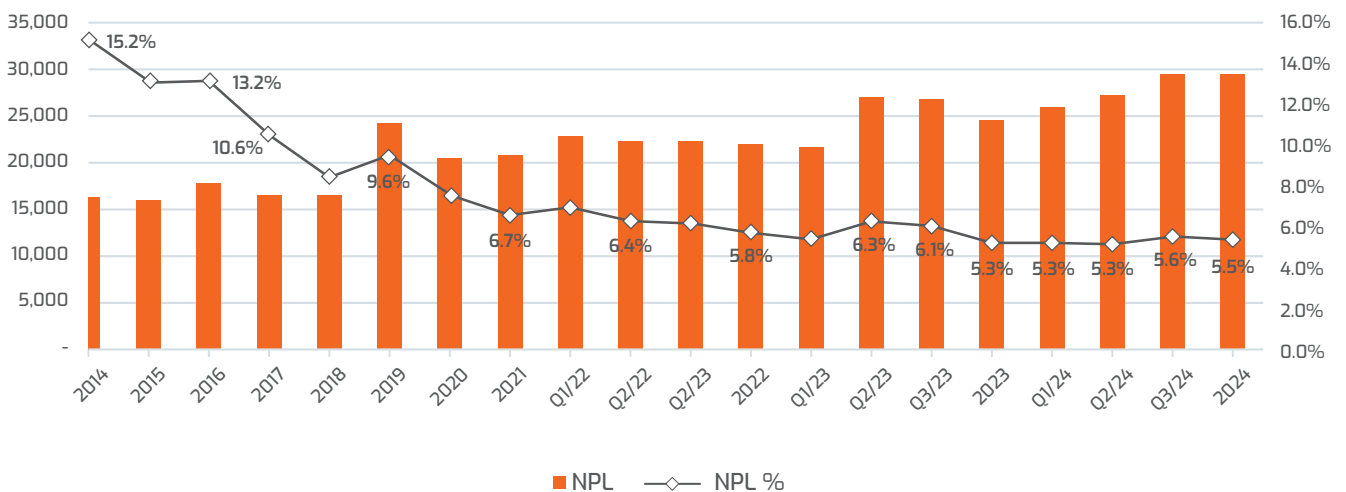
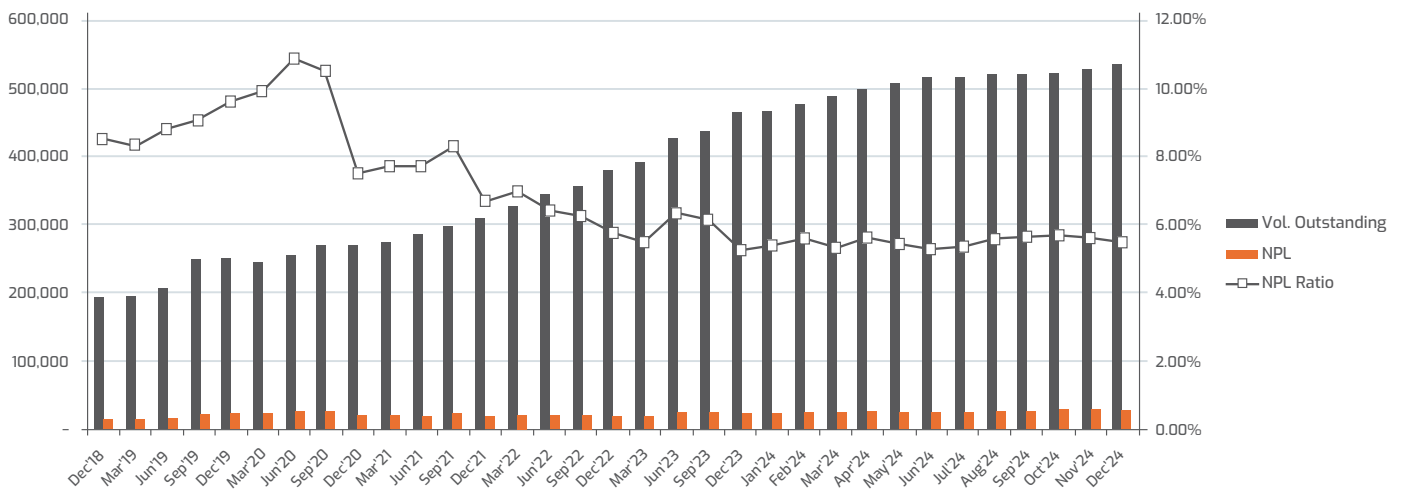
Portfolio Quality

The loan portfolio structure in 2024 consisted of 46% individual customers and 54% business customers. This composition aligns with the Bank's strategic orientation toward increasing financing for the Individual segment.

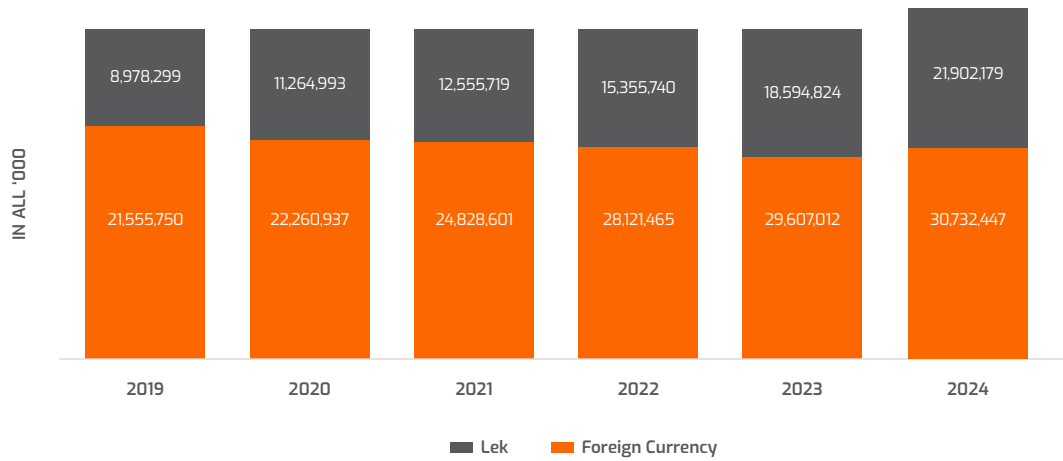
Through our careful and responsible risk management approach, Union Bank has supported customers in achieving their personal goals while simultaneously maintaining the quality of the loan portfolio, safeguarding market confidence, and ensuring financial stability. Close monitoring practices were applied across both the mortgage and consumer lending portfolios.

During 2024, the Bank maintained an average non performing loan (NPL) level of 3.2% for individual customers. At the institutional level, the overall NPL ratio for the entire loan portfolio stood at 5.47%.

Total Portfolio



Customer Loans Structure in Foreign Currency



Card Products

In line with its strategy to enhance the customer experience, Union Bank continued to expand its offering of debit and credit cards for individuals and businesses, making them an essential component of customers' financial lives. In 2024, the total number of cards issued increased by 11% compared to the previous year, reflecting a steady rise in the use of digital payment tools and electronic fund management.

With benefits such as 24/7 access to funds through ATMs and POS terminals, secure online purchases, real time expense monitoring via the UB Online digital application, as well as reward programs and personalized offers, our customers are increasingly encouraged to use cards instead of cash. During 2024, Union Bank also introduced MasterCard integration into the Google Pay digital wallet for its customers.

As part of our customer centric focus, the Bank developed a series of reward campaigns throughout the year, aiming to provide added value for every card payment—through cash back incentives and promotional gifts. This contributed to an increase in transactions, as card usage continues to grow as a preferred payment method. The number of transactions increased by 12%, while the total transaction volume grew by a notable 26% compared to 2023.

Educating and informing young people about the importance of using banking instruments for everyday purchases and payments remains a key part of our strategy. This is supported through products such as the Junior debit card for children and the Student Card 2 in 1, developed in partnership between Union Bank and the Municipality of Tirana.

As a bank committed to digital development and the provision of fast and secure payment solutions, Union Bank will continue in the coming years to focus on new projects that address evolving customer needs—facilitating and further encouraging the use of cards as preferred payment instruments.

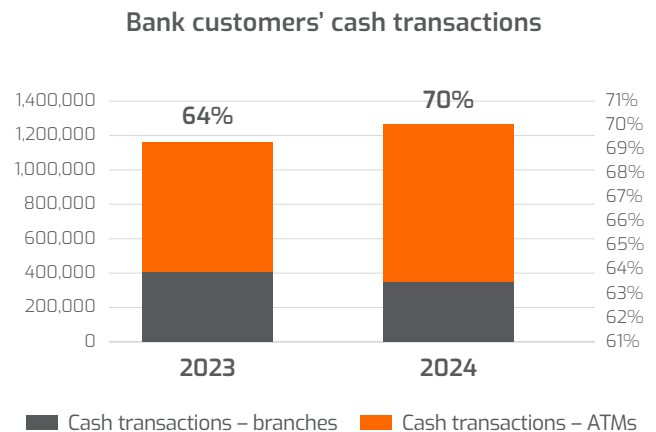
8.3 DIGITAL AND ALTERNATIVE CHANNELS

ATM Network

At the end of 2024, Union Bank provided customers with a network of 69 ATMs across the country, 36 of which offer the additional functionality of cash deposit. Of the total fleet, 38 ATMs are located within branches and 31 ATMs are positioned outside branch locations, expanding the Bank's geographic coverage.

Aligned with the Bank's strategy to digitalize customer transactions, 70% of cash transactions in both Lek and Euro during 2024 were carried out through the ATM network.

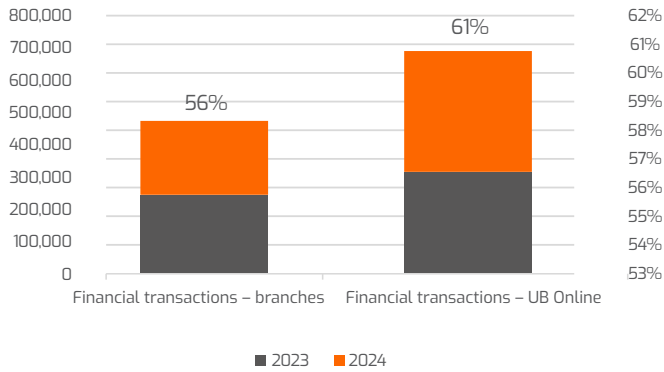
ATM services are available for all internationally issued cards carrying the Mastercard brand. Through targeted customer communication and ongoing support from branch staff, the Bank has actively engaged in educating customers to channel more of their cash related transactions through this convenient and efficient service channel.



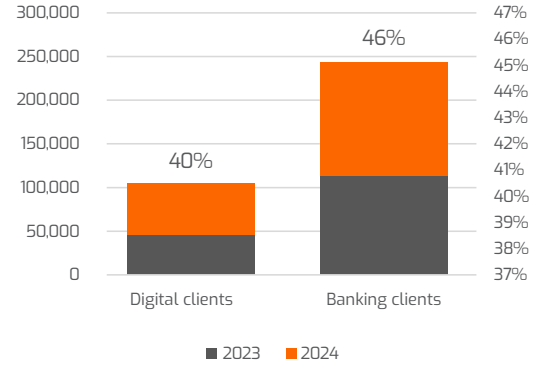
UB Online Digital Platform

Customer interactions with the Bank through UB Online continue to grow year after year. Its ease of use, combined with the ability to perform virtually any financial transaction, has made this channel seamlessly integrated into customers' daily lives. Throughout 2024, 61% of all financial transactions were carried out via UB Online, with steady month over month growth, reaching 68% by year end. The number of customers with access to digital banking increased by 30% compared to 2023, resulting in more than 50% of the Bank's customers using UB Online as one of their primary interaction channels.

Financial transactions initiated via UB Online



Digital Clients



DUAKredi

Throughout 2024, DUAKredi continued to operate as an active remote channel for processing primarily individual consumer loans. It successfully converted leads generated from the Bank's social media channels, the DUAKredi website, the UFT network, and partner retail points of sale. Strengthened staff capabilities, combined with improvements in supporting systems, contributed to strong performance: remote channels accounted for 19% of all consumer loan conversions during 2024.

Customer Call Center

As one of the Bank's primary 24/7 interaction points and a channel with multiple entry paths, the Customer Call Center succeeded in delivering excellent service fully aligned with the Bank's strategy. Professionalism, experience, clear and simple communication, and timely responses have made this channel a reliable and satisfactory alternative for both individual and business customers.

Performance orchestration, continuous training based on real customer experiences, strong competency development, and the active promotion of solutions that best serve the client have helped build an empowered and continuously improving team. This approach has enabled the Call Center to maintain high customer satisfaction, cultivate a healthy and trustworthy relationship with clients, and preserve a competitive advantage in the market through superior service quality.

Development of Internal Operations



Lezha Castle

The year 2024 was marked by significant internal developments in line with the Bank's strategy, with a strong focus on digitalization, process improvement, and alignment with evolving regulatory requirements.

From this perspective, several regulatory driven projects were successfully developed and implemented, including:

- AIPS Payments in EUR
- Open Banking Project
- Electronic Payments Integration through the E Albania Platform, among others.

Throughout the year, substantial attention was also dedicated to structuring and advancing a series of internal projects aimed at improving existing banking platforms, increasing automation, and enhancing operational efficiency.

These included:

- Ongoing upgrades of the Bank's two core platforms: the Core Banking System and the Digital Banking Platform
- Automation of internal approval processes through automated workflow platforms—a project that will continue into 2025
- Deployment of new self service devices for customer cash deposits, such as the VIVEX device, designed to further digitalize transactions and enhance customer satisfaction

The challenges presented during 2024 were managed effectively through strong internal support and increased interdepartmental collaboration.

Development and Management of the Branch Network



10.1 BRANCH ROLE AND PHYSICAL PRESENCE EXPANSION

Branch Network

During 2024, Union Bank further consolidated its network of 32 branches, located across the country's main cities, while continuing the transformation and modernization of its physical presence. As part of this strategy, the Bank increased the use of the UB Online application for conducting financial transactions.

The Bank continued to strengthen the "One Stop Shop" concept, which has improved productivity and efficiency by enhancing the customer experience. This model enables customers to receive services and complete transactions in real time at a single service point, including access to financial advisory support.

Standardization and Modernization of Physical Spaces

Throughout 2024, the Bank continued the reconstruction and redesign of several existing branches, aligning them with contemporary standards of layout, accessibility, and customer experience. The redesigned spaces were organized to increase comfort, improve service delivery, and promote financial education through dedicated information areas.

Strengthening the Role of Branch Staff

To support a more personalized service approach, the Bank intensified training programs for branch staff, with particular focus on enhancing advisory and sales capabilities. Employees were guided toward offering effective solutions tailored to each customer's financial needs, as well as encouraging the use of alternative banking channels.

Expansion of Alternative Channels and Cooperation with External Networks

Union Bank deepened its collaboration with the UnionNet / Western Union network to extend banking services beyond branch operating hours. Currently, more than 750 agencies across the country provide services such as payments, account openings, applications for consumer and mortgage loans, and cash in / cash out services through ATMs.

This partnership has expanded customer access in areas where the Bank does not have physical branches, significantly increasing reach and capacity to serve clients outside traditional banking locations and beyond standard business hours.

Continuous Focus on Innovation and Customer Convenience

Union Bank continued developing hybrid branch models, which combine physical service with technology driven and automated solutions. These models have contributed to optimizing waiting times and improving overall service quality.

BRANCH NETWORK

Headquarters Branch

Bulevardi "Zogu i I",
Rr. "Sheshi Ferenc Nopçka",
Nd. 5, H. 3, Tiranë
Tel: +355 4 238 9085

Shallvare Branch

Rr. "Reshit Çollaku"
Pallatet Shallvare 2/18,
Tiranë
Tel: +355 4 238 9169

Garda Branch

Rr. "Dëshmorët e 4
Shkurtit", Tiranë
Tel: +355 4 238 9170

Blloku Branch

Rr. "Ismail Qemali",
Pallati nr. 32, Shk 1, Tiranë
Tel: +355 4 238 9160

Lana Branch

Blv. "Bajram Curri",
Rr. "Isuf Elezi", Nr.8/1, Tiranë
Tel: +355 4 238 9163

Kinostudio Branch

Rruga "Aleksandër Moisiu",
Përballë ish- Kinostudios, Tiranë
Tel: +355 4 238 9166

Medrese Branch

Rr. e Dibrës,
Sheshi "Hafiz Ibrahim Dalliu",
Tiranë
Tel: +355 4 238 9164

Ali Demi Branch

Rruga "Ali Demi"
Tiranë
Tel: +355 4 238 9162

Laprake Branch

Rruga e Durrësit,
Hyrja 1, Laprakë,
Tiranë,
Tel: +355 4 238 9168

Kristal Branch

Rr. "Medar Shtyllai"
Kompleksi Kika 1,
Komuna e Parisit, Tiranë
Tel: +355 4 238 9181

Toptani Branch

Rr. "Murat Toptani"
(Eurocol Center), Tiranë
Tel: +355 4 238 9158

Piazza Branch

Rr. "Ded Gjo Luli"
Nr. 3, Tiranë
Tel: +355 4 238 9157

Rruga e Kavajës Branch

Rruga e Kavajës
Nd. 50, H. 1, Tiranë
Tel: +355 4 238 9159

Gjergj Fishta Branch

Bulevardi Gjergj Fishta
Kompleksi Delijorgji
Tel: +355 4 238 9130

Kamez Branch

Kryqëzimi i Bulevardit Blu me rrugën
Dubai, (ish Tutto Casa), Kamëz
Tel: +355 4 238 9167

Durrës 1 Branch

Rruga Tregtare, Durrës
Tel: +355 4 238 9171

Durrës 2 Branch

Rruga "Kristaq Rama"
Durrës
Tel: +355 4 238 9172

Elbasan Branch

Bulevardi "Qemal Stafa",
Elbasan
Tel: +355 4 238 9173

Kavajë Branch

Shëtitorja "Josif Budo",
Kavajë
Tel: +355 4 238 9174

Rrogozhinë Branch

Lgji. Nr. 2, Pallati 82/3,
Shk.1, Ap. 2, Rrogozhinë
Tel: +355 4 238 9175

Fushë Krujë Branch

Sheshi "George E. Bush",
Fushë-Krujë
Tel: +355 4 238 9182

Lezhë Branch

Rr. "Besëlidhja", Lezhë
Tel: +355 4 238 9184

Sarandë Branch

Rr. "Skënderbe",
Lgji. 1, Sarandë
Tel: +355 85 224 567

Shkodër Branch

Lgji. "Vasil Shanto",
Shkodër
Tel: +355 4 238 9185

Kukës Branch

Lgji. Nr. 5, Kukës
Tel: +355 4 238 9180

Lushnjë Branch

Shëtitorja "Kongresi
i Lushnjës", Lushnjë
Tel: +355 4 238 9186

Fier Branch

Sheshi "Fitorja",
Rr. "Kastriot Muço", Fier
Tel: +355 4 238 9176

Berat Branch

Rr. "Antipatrea",
Lgji. "22 Tetori", Berat
Tel: +355 4 238 9188

Vlorë Branch

Ish Parku Rinia, Bulevardi Ismail
Qemali Lagjia Pavarësia, Vlorë
Tel: +355 4 238 9177

Pogradec Branch

Lgji. Nr 1, Blv. "Rreshit Çollaku",
Pogradec
Tel: +355 4 238 9178

Korçë Branch

Rr. "Ismail Qemali",
Sheshi i Teatrit, Korçë
Tel: +355 4 238 9179

Divjake Branch

Qendër Divjakë, Lushnjë
Tel: +355 4 238 9187

Risk Management Framework



In carrying out its activities, the Bank adopts a prudent and structured approach to ensure an optimal balance between the risks undertaken and the returns achieved. This approach is supported by an integrated risk management framework that encompasses the identification, assessment, monitoring, control, and mitigation of potential risks that may affect the Bank's ability to meet its strategic, financial, and operational objectives.

The Bank has established a comprehensive internal control and risk management structure based on three lines of defense: business units, which serve as the first line and are responsible for identifying and managing risks at the operational level; the risk management and compliance functions, which provide guidance, policy development, independent monitoring, and control; and internal audit, which provides independent assurance on the effectiveness of internal controls and risk management systems.

At the executive level, the Bank has established a number of functional committees that play a key role in decision making and in overseeing risk, including: Asset and Liability Management Committee (ALCO), Credit Risk Management Committee, Credit Committee, Operational and Other Risks Committee, Compliance Committee, Capital and Performance Management Committee, Collateral Administration Committee, Network Management Committee, Product Management Committee, Information Technology Committee, Procurement Committee, Human Resources Management Committee, Recovery and Delinquency Management Committee, Project Portfolio Management Committee, Health and Safety Council (Committee).

These structures hold primary responsibility for managing the Bank's risks and making tactical decisions in this regard. They are actively engaged in identifying and assessing relevant risks, preparing risk management policies, and enabling informed decision making supported by analysis.

The Risk Management Department plays a central role in these processes and is actively represented in the above committees. It provides independent, technical opinions and contributes to institutional decision making. The department reports directly to a member of the Executive Management and, independently, to the Audit Committee and the Bank's Supervisory Board.

The department is responsible for preparing and updating the Bank's risk management policies and methodologies, developing measurement models and mitigation techniques, assessing risk exposure parameters, and preparing periodic reports on the Bank's overall risk profile. It also maintains close cross functional cooperation with all business units and support functions, enabling a comprehensive and proactive approach to risk.

In line with the nature of its business and activity profile, the Bank is exposed to a number of risks, which are managed through dedicated structures. These include: credit risk, liquidity risk, interest rate and market risk, counterparty and foreign exchange risk, operational risk, and others.

All these risks are managed in accordance with the regulatory framework of the Bank of Albania and international standards, supported by appropriate instruments and indicators for their measurement and monitoring.

Every employee is aware of their role in maintaining stability and is committed to operating within the Bank's defined risk appetite.

Risk Management Policies

These policies describe the key risks to which the Bank is exposed, as well as the core principles underlying the processes and organizational structure for managing those risks. The main risk management policies are outlined below.

Asset–Liability Management (ALM) Policy

The Asset–Liability Management Policy is the primary document guiding the management of the Bank's assets and liabilities, including all fund related transactions, the investment of liquid resources, and the management of other financial risks on the Bank's balance sheet.

The main areas covered include: liquidity management, interest rate risk management, foreign exchange risk management. The ALCO Committee has established rules, procedures, tools, and control mechanisms for the proper management of all financial risks. Both internal and regulatory limits are clearly defined and are regularly monitored by the Risk Management function.

Investment Policy

The Investment Policy defines the key criteria for the prudent management of the Bank's financial investments in alignment with its business strategy. It specifies eligible investments and evaluates them according to their inherent risks. The Bank has also developed additional complementary policies related to investments and risk limits.

Counterparty Risk Policy

Counterparty risk is treated in a similar manner to credit risk and applies particularly to exposures to banks and other financial institutions. In this context, the suitability of counterparties and their respective limits are assessed individually, based on predefined criteria and the corresponding methodology.

Operational Risk Policy

Operational risk affects all banking products and services and may arise daily during transaction processing. This type of risk can result from inadequate information systems, technological failures, breaches of internal controls, employee negligence, fraud, or unforeseen events.

The Bank's internal operational risk framework (policies and procedures) provides a clear description of operational risk across the organization and promotes a culture of business process self assessment. The policy includes: active reporting and monitoring of key risk indicators, root cause analysis of operational risk events, rapid response to incidents, regular and frequent self assessments, diligent and up to date maintenance of business continuity plans.

The Operational and Other Risks Committee (KRORT) regularly monitors operational loss events and overall risk cost. It defines responsibilities for minimizing losses and ensuring sufficient coverage and mitigation for activities exposed to operational risk.

Compliance Policy

The Compliance Policy reflects the Bank's institutional commitment to conduct its activities in accordance with external laws and regulations, as well as the Bank's internal standards. It sets out the fundamental principles governing the Compliance function, including the identification, assessment, management, and reporting of risks arising from non compliance with the regulatory framework.

This policy defines the role and responsibilities of the Compliance Unit, which advises and oversees adherence to regulations and relevant legislation. Its responsibilities also include: managing conflicts of interest, safeguarding customer rights related to product and service transparency, protecting the Bank's reputation and long term stability.

As a core component of the Bank's internal governance system, the Compliance function forms part of the second line of defense. It operates independently from operational units and follows an internal regulatory framework designed to identify, monitor, and effectively address compliance risks.



Human Resources, Training and Employee Development



12.1 HUMAN RESOURCES DEVELOPMENT

Union Bank applies Human Resources practices fully aligned with current employment legislation, government directives, and internal regulations governing selection, recruitment, promotion, and related processes. All policies and practices are fair, non discriminatory, and transparent. All full time employees benefit from a comprehensive package that includes social and health coverage, disability/pension benefits, holidays and leave entitlements, as well as other advantages. These policies reflect the Bank's overall business activity, strategic goals, and mission.

Strategic workforce planning is structured to encourage the development of existing employees and maximize their potential as they pursue the next steps in their career path, provided they meet—and exceed—the requirements of their current roles.

The Bank's organizational culture promotes a transparent and proactive approach to ethical and professional standards, integrating these principles throughout the workplace. In terms of employment development and training, the Bank supports efficient and appropriate behavior, prioritizing business objectives.

By the end of 2024, Union Bank employed a total of 519 staff members, including 274 employees at the Head Office and 245 employees across the branch network.

Total staff turnover for 2024 stood at 12.1%, marking an improvement compared to 2023.

12.2 RECRUITMENT AND STAFF SELECTION

Throughout 2024, the recruitment and selection process aimed to attract qualified candidates with the experience and professional competencies required to meet service standards at all levels of the Bank. To ensure continuity in meeting business needs, both in person and online interviews were conducted with potential candidates, depending on the role and circumstances.

Approximately 100 new employees were hired in 2024 to support business needs across all operational areas.

To ensure a thorough evaluation and selection of the best candidates and professionals needed to meet business objectives, the Bank follows a structured recruitment process consisting of several stages such as technical/logical/behavioral testing (Predictive Index), group discussions mainly for entry level positions such as Customer Service, and individual interviews to assess candidate suitability for the role.

Depending on the job profile and the vacancy, interview panels consist of Department/Branch Managers and representatives from the Human Resources Department.

In 2024, significant focus was placed on internal promotion and employee development, providing opportunities for career growth within the institution and contributing positively to employee motivation.

12.3 INTERNSHIP PROGRAM

Through its internship program, Union Bank aims to attract high performing students with strong motivation to learn, work, and develop within a challenging professional environment. The program enables the Bank to identify future employment potential while simultaneously supporting the students' preparation for entering the labor market.

Union Bank values the ambition and drive of young people, offering them exposure to real working environments and professional mentorship from Bank staff. The program emphasizes the importance of commitment and discipline, viewing each internship as a potential starting point for a long term employment relationship.

In 2024, the Bank welcomed 47 interns, 5 of whom were subsequently employed.

12.4 TRAINING AND CONTINUOUS EDUCATION

Union Bank, in addition to its focus on attracting and selecting the best talent in the market, is strongly committed to developing and enhancing employees' professional skills and knowledge. The Bank considers training and development programs as a strategic investment essential for achieving business objectives.

New employees participate in orientation training from the moment they join the institution, followed by on the job training, allowing them to gain practical experience through established procedures and guidance from colleagues. This approach ensures a smooth and efficient transition into the workplace.

With regard to continuous learning and professional development, employees are offered extensive opportunities for skill building and certification. Throughout 2024, the Bank delivered a wide range of training programs and professional development initiatives, delivered by both internal trainers and external experts. Additionally, selected employees were provided access to the UDEMY online training platform.

In total, around 200 training sessions were conducted—approximately 80 internal and 90 external.

The annual training plan reflected the needs of the Bank's organizational units, aiming to strengthen and refresh the technical knowledge and competencies required to meet challenges and achieve expected results. In total, 3,258 training days were delivered across in person and online formats, with staff attending an average of 6 training days per year. Training modules included: Managerial Development Programs for senior and mid level management, Technical programs for branch staff, Sales performance and efficiency, Banking products, UB Online service, Customer service, communication, and responsiveness, Multitasking and problem solving, Managerial and leadership capability development.

Additional specialized training was conducted for staff in the Head Office, covering topics such as digitalization, design thinking, digital marketing, mindfulness (employee well being), train the trainer, and participation in conferences and workshops. Periodic mandatory training was also delivered on workplace safety and health, information security, data protection, compliance, anti money laundering, and refreshers on banking products.

12.5 COMPENSATION POLICIES

The Remuneration and Human Resources Committee is the primary decision making body responsible for determining incentives and compensation plans as part of the Bank's HR policies. Its decisions are approved by the Supervisory Board, and its operations are governed by the corresponding statute.

The Bank places high importance on this function, as compensation has a significant impact on employee engagement, motivation, and performance.

The Human Resources Department reports directly to the Chief Executive Officer, who holds final responsibility for HR matters within the Bank. HR issues are also addressed through the Bank's internal HR Committee and the Remuneration and Human Resources Committee at Board level.

In 2024, the Bank introduced the role of Human Resources Advisor, aimed at providing direct strategic advisory support to the CEO on HR related matters, particularly in staff development, organizational structure, and institutional culture.

Salaries

The Compensation Policy applies to all Bank employees and covers all forms of remuneration, including: fixed compensation (base salary), variable compensation (bonuses), other financial and material benefits, participation in voluntary pension schemes.

Union Bank's salary structure is based on a Grade System, a standardized framework used by decision makers to maintain balanced salary levels internally and in alignment with the labor market. The structure defines minimum and maximum salary ranges for each grade and supports benchmarking against market standards, particularly within the banking sector.

The Bank aims for its salary system to remain aligned with median market levels, ensuring: high employee motivation and job satisfaction, a merit based culture of recognition and advancement, strong competitiveness in attracting high caliber professionals in the labor market.

Salary Adjustment Factors

In making decisions regarding salary reviews, the Bank takes into consideration the following factors:

- Changes in market salary levels and other labor market dynamics, as well as developments in the legal and regulatory framework.
- Increases in competencies and role responsibilities within the Bank, which may lead to a reassessment of the grade and a salary adjustment within the limits of the new grade.
- Strategic changes, organizational transformations, and process automation, including the creation of new roles or critical roles essential to business continuity.

Individual employee performance is considered a secondary and complementary criterion in the salary increase process. Guided by labor market developments, the Bank conducts the necessary analyses and, based on conclusions, may decide whether or not to initiate a salary review process. The Bank may also implement salary changes for specific positions or individuals when deemed necessary for the smooth functioning of its operations.

Variable Compensation Elements

At Union Bank, variable compensation components include performance based incentives, sales incentive schemes, project completion rewards, and other financial benefits that may be paid on a deferred basis. This category also includes benefits such as: participation in life and health insurance schemes, contributions to voluntary pension funds, preferential pricing for Bank products and services, coverage of mobile phone expenses and associated limits, flexible working hours, remote work arrangements.

Variable compensation is determined by the Bank depending on its financial situation, overall performance, and the performance of individual business units

- **Performance Based Compensation.** Awarded to recognize achievements against established quantitative and qualitative objectives. This scheme primarily applies to roles that operate in non customer facing structures. Components of the performance based scheme include both individual performance results and the Bank's overall performance. The scheme promotes performance improvement and ensures transparency and meritocracy. Details of the scheme are reviewed and communicated to employees annually.
- **Sales Incentives.** Sales incentive schemes apply to roles that interact with customers in branches and regions. They are also extended to certain roles in the Head Office with quantitative objectives. These schemes may also be applied on an ad hoc basis to reward high performing individuals.
- **Project Based Rewards.** Provided to encourage successful completion and contribution to strategic, high impact projects that significantly influence the Bank's operations and performance.

Variable compensation elements may be awarded individually or combined, depending on the circumstances, activities, and objective structure of a particular business unit.

Employee Benefits

Employee benefits at Union Bank are designed to align with labor market trends. They complement the overall compensation package, making it attractive both for existing employees and for prospective candidates joining the Bank.

These benefits support employee well being, contribute to high levels of motivation and productivity, and help reduce turnover risk. Benefit schemes include:

- Life and health insurance
- Voluntary Pension Fund
- Preferential pricing for banking products
- Birthday leave
- Shorter working hours on Fridays
- Additional position related benefits

Remuneration of the Supervisory Council and the Executive Management

Members of the Supervisory Council and its Committees are compensated through an annual membership fee and participation fees for both regular and interim meetings, paid quarterly in proportion to their period of service. They do not receive any additional compensation or benefits, whether monetary or non monetary.

The remuneration of the Executive Management consists of fixed and variable components, which depend on the Bank's financial performance as well as the individual performance of the respective functions. These are reflected in a remuneration framework that also includes reduction or non payment elements linked to various risks, as stipulated in the Remuneration Policy for Executive Management employees and in the annual objectives.

In 2024, all members of the Executive Management received performance based variable cash bonuses linked to the Bank's results, participation in projects, as well as fixed cash bonuses for the New Year. These amounts are summarized below, in thousand ALL:

Total Aggregate Value of Payments and Rewards for the Fiscal Year (in Thousand ALL)	2024	2023	2022
Fixed Remuneration Elements	-	-	-
Cash/Bonus	4,600	1,526	1,364
Variable Remuneration Elements	-	-	-
Cash/Bonus	17,260	19,861	18,035

12.6 OCCUPATIONAL RISK AND SAFETY

Union Bank values and prioritizes the safety of its employees, ensuring that the Bank remains a secure environment for both staff and clients. The Bank maintains continuous efforts and demonstrates strong responsibility in further enhancing workplace safety, including strengthening controls that protect customer information.

One of the Bank's key objectives is to safeguard the health, well being, and security of its employees, both within the workplace and beyond. In terms of employee benefits, the health insurance provided through Sigma Inter-Albanian VIG is renewed annually for nearly all employees, offering some of the most comprehensive schemes that cover medical treatments within a wide network of reputable clinics and hospitals across Albania.

Marketing Activities and Social Responsibility



Program of Activities and Sponsorships

Throughout 2024, Union Bank continued its longstanding commitment to being an active and supportive partner of initiatives that promote sustainable values within society. The Bank participated in sports activities, volunteer initiatives, and community events, further strengthening its connection with the community and contributing to its development. A particular focus was dedicated to the younger generation through the support of projects aimed at financial education, fostering innovation, and encouraging personal development. Union Bank remains committed to preserving and promoting Albanian art and cultural values as an integral part of our national identity and heritage.



ACTIVITIES AND SPONSORSHIPS 2024

Union Bank – Sponsor of the Albanian National Football Team

In 2024, Union Bank continued its support for the Albanian National Football Team under its long term agreement with the Albanian Football Federation. In an important year for our national team—participating in the final stage of UEFA EURO 2024—the Bank stood by the “Red and Blacks” not only through institutional sponsorship, but also by organizing a series of enthusiastic activities under the motto #NeBesojme (“We Believe”). These initiatives aimed to strengthen fan spirit and reinforce the sense of national pride, reflecting Union Bank’s commitment to the unifying power of sport.

Union Bank and the Municipality of Tirana Plant 2,000 Decorative Plants in the Capital

Union Bank contributed to the expansion of Tirana’s green spaces by planting 2,000 decorative plants along the main garden area of Zogu I Boulevard.

Union Bank remains consistently engaged in projects that improve community life, particularly initiatives that support environmental protection and the growth of green public spaces in the capital.

Union Bank Donates School Bags and Supplies for 100 Children of SOS Villages in Tirana and Shkodër

Ahead of the new school year, Union Bank donated school bags and educational supplies to 100 children from SOS Villages in Tirana and Shkodër. The Bank continues its commitment to initiatives that support the education and development of the younger generation, as well as projects that enhance community well being, as part of its broader corporate social responsibility.

Union Bank Participates in the Charity Gala Hosted by Down Syndrome Albania

Union Bank took part in the Charity Gala organized by Down Syndrome Albania, supporting the provision of services and therapies for children with Down syndrome. The Bank consistently contributes to causes focused on children of this category, helping to create more opportunities and hope for their inclusion in society.

Union Bank Participates in the “Youth School for Financial Education” Activity

In line with its strategy to support young people, Union Bank participated in the two day event “Youth School for Financial Education,” organized by the Ministry of State for Youth and Children in cooperation with the Bank of Albania.

The initiative aimed to increase awareness and expand financial literacy among pre university students. Union Bank places special emphasis on developing financial knowledge among youth by offering dedicated products that help them build sustainable skills in managing personal finances. Products such as the Junior Card and Filizat Account, part of the Junior Package, are specifically designed to promote financial independence and educate young people on responsible planning and money management.

Union Bank – Official Sponsor of the Colour Day Festival

Union Bank served as the official sponsor of the Colour Day Festival for the fourth consecutive year. The largest youth festival in Tirana took place in May at Skanderbeg Square, attracting thousands of participants and enjoying high media and social media visibility. The festival featured diverse entertainment activities for all ages, games, vibrant color displays, and performances by both Albanian and international artists.

Union Bank Blood Donation Drive for Children with Thalassemia

Blood donation at Union Bank is an annual tradition that exemplifies the positive spirit of the Bank and its employees. In early June, the Bank’s staff responded to the call of the Albanian Red Cross to help meet the blood needs of children with thalassemia. A large number of employees from the Head Office and Tirana branches volunteered in the donation session.

Union Bank Participates in AgroTech Expo 2024

Union Bank took part in the AgroTech Expo 2024 fair, held on 18–20 October at Expocity Albania. The Bank supports the agricultural sector by providing financing across the entire agribusiness value chain, offering dedicated products tailored to the needs of the sector.

Union Bank Participates in the “Tirana International Tourism Fair 2024”

Ahead of the tourism season, Union Bank joined the Tirana International Tourism Fair, held on 5–6 April at Italia Square. The Bank is committed to supporting and empowering the tourism industry by offering tailored financial advantages and solutions designed to meet the diverse needs of businesses and organizations within the tourism ecosystem.

Union Bank and the European Bank for Reconstruction and Development (EBRD) Launch the “Youth in Business” Program in Albania

Union Bank is dedicated to Albania's economic development by supporting young entrepreneurs, who represent a vital segment of the economy. As one of the first EBRD partner institutions to introduce the “Youth in Business” Program in Albania, Union Bank supports the aspirations of young entrepreneurs by fostering innovation and stimulating economic growth.

Investing in young entrepreneurs reflects the Bank's progressive strategy and its alignment with broader societal goals to promote business inclusion and contribute to a more dynamic entrepreneurial ecosystem.

Union Bank Supports the 15th International Conference of Information Commissioners (ALBANIA XV ICIC)

This conference is one of the most significant global events promoting a culture of transparency and accountability among public institutions. The central theme of this edition was “Empowering individuals through access to information, ensuring transparency and inclusion in an interconnected world.” Union Bank remains committed to initiatives that uphold fundamental human rights, promoting the values of transparency and access to information as essential pillars of a healthy and developed society.



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Plans for 2025



14.1 UNION BANK'S STRATEGY PLACES THE CLIENT AT THE CENTER

Union Bank's strategy is centered around the client—delivering a personalized approach based on data driven analysis, communication, attentive listening, and the development of processes and products that enhance the value of each client's relationship with the Bank.

In 2025, the Bank will place even greater emphasis on expanding its client base and strengthening client loyalty in an environment affected by migration and population decline. The primary objective remains sustainable growth, while in parallel the Bank continues its institution wide Digital Transformation as a necessity to enhance service quality, increase efficiency, and integrate technology into banking processes to enable automation and reduce operational risks—while managing the increased exposure to cyber risk.

An important element of the Bank's strategy is alignment with the market developments affecting the banking system, particularly new regulatory requirements issued by the Bank of Albania. These include Open Banking, Strong Customer Authentication, and additional regulatory changes anticipated in 2025 and beyond, such as SEPA Payments (planned for October 2025), Instant Payments (planned for 2026), and International Standards Based Reporting (planned for 2025). These require not only technological investment to mitigate compliance risks but also a mindset shift, as such changes transform operating models and require the institution to be fully prepared—internally and through market and client education. This dimension will remain a priority for the Bank in the next 2–3 years and beyond.

Digitalization of Client Services

Clients remain at the core of our market objectives: expanding the client base—especially in a demographically challenged environment with growing competition across the financial sector. The goal is to grow the client base by 10%, using a mix of tools, with communication and client satisfaction at the center, as these remain the most important drivers of client growth for the Bank.

However, in today's digital world—where clients expect 24/7 online access and younger generations enter the banking system—having a platform that is secure, intuitive, and continuously evolving in functionality has become essential.

Therefore, in 2025 the Bank will continue to expand its network of cash deposit ATMs in both currencies (ALL and EUR), and introduce new platforms for large volume cash deposits (Union Bank Digital Teller). In 2025, the Bank will launch an upgraded Online Banking platform, offering enhanced security, regulatory compliance, ease of use, and broader online services. The Bank aims to increase the share of active online banking users from 55% to 68%.

Asset Growth

As a bank, our primary role is intermediation—preserving and growing client savings and channeling funds toward a diversified mix of clients: individuals, commercial businesses, and the Albanian Government—groups that constitute the core of the Bank's asset structure.

Business growth is driven by personalized service and product development. The Bank targets a prudent increase of approximately 9% in client funds in a competitive environment, while offering investment alternatives for individuals and businesses, and a 10–13% increase in the loan portfolio.

The Bank aims to diversify its funding base, with individuals remaining the largest contributors in absolute value, while increasing the contribution from business clients. The focus remains on channeling business transactions into banking channels and supporting increased commercial activity driven by economic growth and strategic sectors that the Bank has historically supported.

For business clients, the Bank targets a 13% increase in funds, despite their ongoing reinvestment in commercial activity. The volume of transactions through accounts and cards is planned to grow by over 40% in 2025, supported by the Bank's investment in a POS network projected to reach 700 terminals (2.7 times larger than the 2024 portfolio) and expanded e commerce payment solutions across various economic sectors. These investments are expected to increase business deposits by reducing cash holdings and enabling growth linked to rising commercial activity, especially in tourism related sectors.

14.1 STRATEGIC PLANS

The targeted 13% growth in the loan portfolio maintains a diversified structure: 63% business loans and 37% retail loans. The loan portfolio is expected to maintain nearly the same weight distribution in 2025 as in previous years. This reflects the Bank's strong focus on both segments, its comprehensive product offering, and a strategy in which SME lending becomes increasingly representative in overall growth, while limiting expansion in segments with high exposure levels.

In 2025, the Bank will further strengthen partnerships by developing dedicated business lines and introducing customized products to stimulate lending in the following areas:

- Energy Efficiency Loans
- Digital Investment Loans
- Youth in Business (YIB)
- AATSF

Digital Transformation

For the past two years, digital transformation has been identified as essential, with numerous initiatives underway. The broader plan, covering 15 actions across multiple areas, began in 2024 and will continue through 2027. This does not exclude updates to the plan as new market developments and strategic objectives arise.

This transformation is critical for the Bank to achieve its growth objectives across all dimensions, enhance customer related quality targets, mitigate risks, and optimize internal operations.

The transformation plan derives from the Bank's vision. Many initiatives require dedicated engagement, but they will introduce a new dimension—expanding knowledge, elevating capabilities, and supporting the Bank's ambition to reinforce its role as a key institution for clients, employees, and partners.

Risk Management

Every growth objective and strategic direction is guided by a clearly defined risk appetite—grounded in analytical assessment and designed to ensure that stability and service quality are not compromised, but rather strengthened.

The Bank's risk appetite reflects a healthy balance between market characteristics, shareholder expectations, and the goal of being an important market partner offering high security, ongoing development, and sustainable returns.

The Bank's risk management strategy is built across several dimensions:

- Prudent growth, based on client and market analysis.
- Asset diversification, targeting a well balanced lending portfolio across client categories, credit products, and currencies—naturally mitigating exchange rate risk.
- Investments in high quality, low risk securities, serving as an alternative to credit investment and supporting liquidity management, while prioritizing service for resident clients and lending within the country.
- Low credit risk, supported by decentralized lending decisions for smaller loans across the branch network, emphasizing both relationship quality and informed risk assessment thanks to proximity to clients and the market.
- Strong focus and investment in cyber risk protection, prioritizing prevention and leveraging both internal and external expertise.
- Priority on operational risk, with carefully designed processes and control layers.
- Technology investments not only to bring innovation and speed to clients, but primarily to build more robust system based controls and reduce operational risk through design.

Employee Development

In this digital transformation journey, employees play a crucial role.

The development of senior and mid level managers focuses on capability building, alignment with the Bank's strategy, and clarity regarding their responsibilities in the transformation process. This has been a priority in internal communication during 2024 and 2025. In 2025, the Bank will complete a leadership development program for mid level managers and expand participation while introducing additional coaching elements.

Technology is often seen as a threat to the workforce. At Union Bank, we view it as an opportunity—both organizationally and individually—to empower employees. Technology enables new ways of working, continuous learning, and process automation that reduces mechanical workloads. It also increases the need to manage a larger portfolio of projects as a result of regulatory, technological, and service related developments.



14.1 STRATEGIC PLANS

Our focus on attracting talent has been a challenge and has prompted a revised approach to hiring technology oriented professionals. In 2025, the Bank will strengthen collaboration with universities specializing in this field, introducing new forms of cooperation and redefining employer partner relationships as service based and mutually beneficial engagements.

Technological developments in the banking sector have increased the need for new functions, new organizational structures, deeper dialogue, and the adoption of the agile working model in several bank functions—particularly technology projects, product development, and customer analytics. Implementing this mindset in team rituals and workflows requires Human Resources to play a substantial role and train a wider base of employees, across multiple functions—not only those directly involved.

14.2 FINANCIAL PLANS AND PERFORMANCE

Vision and Strategic Objectives

Union Bank aims to position itself as a dynamic and modern institution in the Albanian market, with a stable financial structure and a prudent, risk aware approach to growth. The Bank aspires to remain easily accessible to every citizen and business in Albania, providing high quality products and services through an extensive physical presence across the country, naturally integrated with alternative service channels. These include a network of multifunctional ATMs and an enhanced internet banking platform, which will be launched in its most advanced version in 2025, offering an improved experience, greater accessibility, and new functionalities for our clients.

The strategy for the 2025–2027 period focuses on controlled asset growth, sustainable profitability, and deeper digitalization of operations, establishing a solid foundation for the Bank's long term development.

Strategic Directions and Development Outlook

The Bank's strategy is built upon expectations of a relatively stable economic environment and a further improvement in the risk profile of the domestic financial sector. In this context, the Bank seeks to achieve balanced and sustainable growth by consolidating its market position, expanding in priority segments, and deepening existing client relationships.

The year 2025 is expected to bring continued progress across all financial parameters, supported by an Albanian economic environment driven by the expansion of key sectors such as tourism and construction. These sectors are expected to generate increased demand for financing, banking services, and liquidity management—creating favorable conditions for the sustainable growth of banking activity. In this context, Union Bank is well positioned to benefit from new market opportunities, in line with its ambition to remain a dynamic and long term player in the financial sector.

Financial Objectives for 2025 and Medium Term Outlook

By year end 2025, Union Bank aims to strengthen its market position through balanced and sustainable growth in assets and profitability. Specifically: Total assets are projected to increase by over EUR 110 million. Net profit is expected to exceed EUR 15 million Return on equity (ROE) is forecast to stand above 15% at end 2025, reflecting the Bank's solid performance. In the medium term, this indicator is expected to stabilize within an average range of around 14%, fully aligned with long term stability and sustainability objectives. These results will reflect not only volume growth but also the Bank's sustained commitment to operational efficiency and high asset quality standards.

Strategic Commitment of the Bank's Management

The Executive Management remains fully committed to implementing a clear strategy focused on sustainable growth, supported by well defined tactical plans aimed at continuously improving customer experience and strengthening the revenue base.

The Bank's strategic approach is grounded in flexibility and the ability to adapt to economic and regulatory developments, as well as in active monitoring of trends in the banking sector. In this regard, the Bank will carefully assess developments within the sector, including potential consolidation processes that may characterize the Albanian banking system. Union Bank will remain proactive in identifying and leveraging new opportunities aligned with its strategic objectives for growth, efficiency, and enhanced market positioning.

14.2 FINANCIAL PLANS AND PERFORMANCE

Capital Sustainability and Prudent Lending Policy

The capital adequacy ratio is expected to remain above 17.5% throughout the planning period, reflecting a solid capital base and the Bank's ability to support sustainable loan growth. This strong financial indicator will be reinforced by the policy of capitalizing the majority of generated profits, as well as the planned issuance of subordinated debt instruments of EUR 5 million, aimed at maintaining an optimal capital structure.

In line with the objective of long term stability and responsible risk management, lending activity will continue to prioritize portfolio quality and a rigorous risk analysis process. This approach aims not only to safeguard capital, but also to build a sustainable foundation for long term and stable growth in interest income.

Liquidity Policy and Prudent Risk Management

Union Bank plans to maintain a strong and stable liquidity position throughout the entire planning horizon, above regulatory requirements, ensuring the necessary flexibility to respond to various operational and financial scenarios.

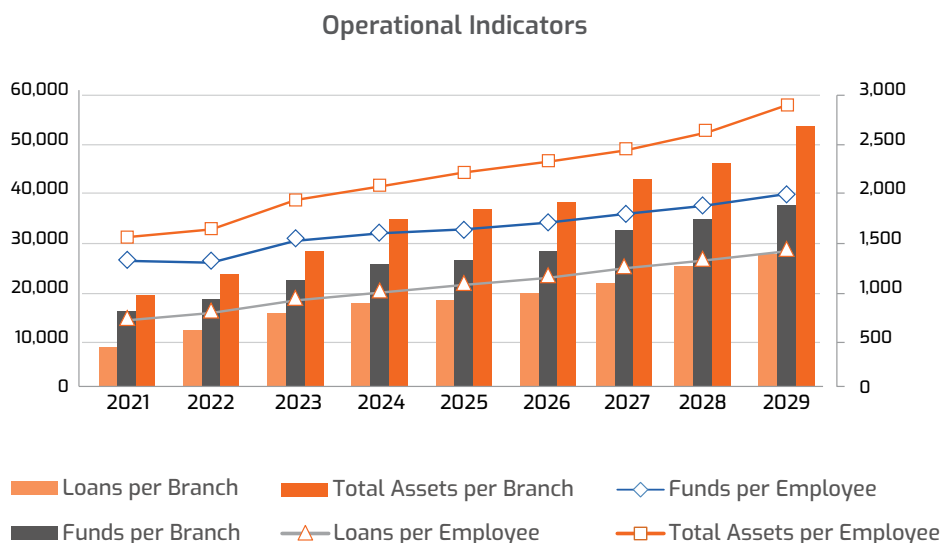
Liquidity levels will be supported through the maintenance of predefined buffers, established based on internal analyses and stress testing scenarios built on conservative assumptions. These indicators are continuously and systematically monitored in alignment with the Bank's approved risk appetite framework and the prudential requirements of the Bank of Albania. This proactive approach aims to ensure the Bank's financial resilience and its ability to meet client obligations at all times, fostering strong market confidence and enabling sustainable growth.

Operational Efficiency Improvements and Enhanced Shareholder Value

The Bank's operational indicators—including the cost to income ratio and net profitability—are expected to improve through targeted efficiency measures, including digitalization, service modernization, and continued investment in technology and staff. In this way, the Bank aims not only to strengthen its financial performance but also to maximize shareholder value and reinforce its competitive advantage in an increasingly digitalized market environment.

Successful implementation of these strategic objectives will enhance the Bank's profile as a responsible, innovative, and future oriented financial institution. Through the combination of financial stability, digital transformation, and a proactive approach toward clients and the community, the Bank seeks to generate a positive and measurable impact on the sustainable development of the Albanian economy.

The Bank's operational indicators continue to show improvement year after year, as illustrated in the chart below (figures in EUR '000).



14.2 FINANCIAL PLANS AND PERFORMANCE

Assets

During 2025, the Bank's total assets are expected to increase by approximately 11%. This growth will be supported by a sustainable expansion in lending and a more efficient structuring of the asset portfolio, with the aim of improving returns and optimizing risk profiles. Key priorities include improving the loan to deposit ratio, increasing the share of interest earning assets, and maintaining stable net interest margins. All these objectives will be achieved while preserving an optimal level of liquidity, in accordance with the Bank's internal policies and the regulatory framework of the Bank of Albania. The structure of Union Bank's assets reflects a prudent balance between loan exposures and investments in securities, supporting liquidity management, income diversification, and risk control. In line with the general trend of declining returns in short term money markets, the Bank has oriented its investment strategy toward carefully selected securities that offer satisfactory profit margins while maintaining a conservative risk profile.

In addition, 2025 will include the completion of several strategic IT infrastructure projects, such as the upgrade of the core banking system, the expansion of risk monitoring systems, and the automation of operational functions in both branches and head office. These investments aim to strengthen the security, efficiency, and scalability of the Bank's operations. This positioning enables the optimization of the asset portfolio under a prudent investment philosophy that safeguards capital and generates stable income in a changing market environment. In the years ahead, the focus will remain on sustainable asset growth, with an expected annual increase of approximately 10–11%, while maintaining required quality and risk control standards. Preserving and optimizing the existing branch network will be accompanied by further consolidation of alternative channels, which represent a key pillar of the Bank's strategy to stay closer to clients and provide a modern, accessible, and personalized banking experience.

Lending

For 2025, Union Bank forecasts a 13% annual increase in its loan portfolio. This result reflects the successful execution of the Bank's sustainable growth strategy and its focus on products and markets with high return potential. In the medium term, loan portfolio growth is expected to remain in double digits, within the 10.0–12.8% range, ensuring a balance between volume expansion and credit quality preservation.

The growth strategy aims not only to strengthen the existing portfolio but also to expand toward new customer segments, with a particular focus on individuals and small and medium sized enterprises (SMEs). These segments are critical pillars of local economic development, and the Bank aims to play an active role in financing and supporting them through tailored products, competitive terms, and a personalized relationship management approach.

Special attention will be devoted to loan portfolio quality, which remains essential for maintaining the Bank's long term financial stability and profitability. Higher cost pressures on businesses and consumers, driven by global uncertainty, have influenced both loan demand and the structure and performance of the credit portfolio. In this context, the Bank regularly assesses and monitors all exposures, maintaining a strong focus on asset quality and acceptable risk levels. Lending processes will continue to be modernized in line with the upgrade of the core banking system and the implementation of new functional modules, enabling faster response times, higher efficiency, and an improved customer experience.

As a result of these technological improvements, lending products will become more personalized, more accessible, and more flexible—both in terms of conditions and approval procedures—better aligning with the diverse profiles and needs of clients.

Marketing campaigns, supported by new sales strategies and expanded use of data analytics, will focus on strengthening relationships with existing clients while generating new leads to expand the client base and enhance the banking experience. Particular emphasis will be placed on consumer, mortgage, and business lending products, in line with demographic trends and market needs.

Lending will continue to support both existing and new clients, with the objective of creating a positive impact across all sectors of the Albanian economy. This commitment will be carried out in accordance with sectoral limits defined in the Bank's internal policies, ensuring a prudent balance between portfolio growth and risk management.

To maximize impact, the Bank will adopt a proactive approach to cross selling, offering integrated and customized packages supported by advanced technology, with the aim of increasing customer satisfaction, efficiency, and contribution to strategic sectors of the economy.



14.2 FINANCIAL PLANS AND PERFORMANCE

At the core of this approach is the belief that through smart, balanced, and quality focused lending, Union Bank not only supports the development of its clients but also contributes meaningfully to the sustainable progress of the Albanian economy.

Financing

The Bank relies primarily on client funded deposits as its main source of financing. The depositor base is widely diversified within the retail segment, offering a variety of currencies and maturities, with a balanced geographical distribution. For 2025, Union Bank forecasts approximately 9% growth in client funds, with increased focus on current accounts and term deposits, while savings accounts are expected to grow at a more moderate pace.

This increase is expected to come both from deepening relationships with existing clients (cross selling) and expanding the new client base across all categories—individuals and businesses alike.

In the medium term, annual growth in client funds is projected to remain around 10%, maintaining a balanced and sustainable financing structure. This growth will be supported by an active relationship management strategy, a product offering aligned with market needs, and ongoing improvements in distribution channels and the digital customer experience. In absolute terms, the main contributors to this growth are expected to be term deposits and current accounts, which continue to gain importance under current market conditions.

The increase in these segments reflects not only the benefit of competitive interest rates but also a clear shift in client preferences toward banking products that offer an effective balance between flexibility and structured financial planning. The structure of funds will be closely monitored, with particular attention to the composition of major currencies (Euro and Lek), which directly affect the Bank's asset liability structure and investment strategy. In an increasingly competitive financial environment, shaped by alternative investment instruments, special attention will be given to fund management practices to preserve the stability of the funding base and maintain a balanced liquidity profile.

Funding management strategies will include proactive measures to maintain an optimal structure of maturities and currencies, ensuring support for the growth of both lending and investment activity without compromising financial stability.

Beyond client funds, the Bank also uses—and plans to further expand—other institutional financing sources, such as interbank credit lines and structured borrowings from international partners. These instruments will serve not only to support effective liquidity management and optimize funding costs but also to provide financing for dedicated loan products tailored to specific target segments.

In this context, the Bank aims to strengthen cooperation with international financial institutions and participate in specialized programs such as Women in Business, Youth in Business, agro financing and tourism credit lines, and products promoting business digitalization. These programs are intended to provide advantageous financing conditions to clients operating in priority sectors of the Albanian economy, thereby contributing to their financial inclusion and sustainable development. The pricing strategy for deposits and funding products will continue to balance customer attraction with profitability, through careful management of the net interest margin. This remains a challenge, particularly given the rising cost of funds and increasing availability of alternative investment options in the market, which intensify competition for funding sources.

To support these objectives, marketing campaigns and product development initiatives will aim not only to continuously enhance the existing offer but also to introduce hybrid and flexible packages tailored to the profiles and specific needs of different customer segments.

These initiatives are designed to increase the attractiveness and differentiation of the Bank's offering, strengthen competitiveness in the market, and create greater perceived value for clients.

Risk Appetite and Tolerance Statement



Preza Castle

The Bank maintains a prudent and measured approach to risk, fully aligned with its strategic objectives and its mission to ensure long term financial stability and credibility in the market. As such, Union Bank aims to maintain a Moderate to Low risk profile, achieved through careful management of its business model and key objectives targeting steady, sustainable growth and a return on equity (ROE) of approximately 14.0%.

The Bank's risk appetite is reviewed periodically by the Supervisory Council and the Executive Management, in line with changes in the Bank's internal and external environment.

The Bank aims to maintain a stable balance sheet, sound profitability, strong capital adequacy, and the capability to meet all obligations under both normal and stressed economic conditions over the coming years.

The Bank has a low appetite for strategic risks that could hinder or jeopardize the execution of its annual business plans. The Bank has a moderate appetite for credit risk and seeks to maintain high asset quality. However, it is willing to accept somewhat higher levels of credit risk when engaging with private and public sector clients in pursuit of its strategic objectives. The Bank balances its strategic goals with careful risk assessment, ensuring it is not overly concentrated in large exposures, homogeneous portfolios (e.g., clients unhedged against currency risk, or growth primarily in high risk weighted assets), or specific economic sectors.

Key credit risk appetite metrics include: Risk Weighted Assets (RWA): < 85% of the loan portfolio, non Performing Loans (NPLs): ≤ 7.4%, loans exposed to FX risk: ≤ 25% of total loans.

Union Bank has a low appetite for operational risks that may result in financial or reputational losses, and aims to minimize circumstances that could significantly weaken stakeholder confidence or undermine its mission. Nonetheless, the Bank is prepared to accept a limited financial exposure arising from operational risk (e.g., inadequate or failed internal processes, human error, systems failures, or external events), while continuously enhancing its mitigation measures and internal controls.

The Bank has zero tolerance for fraud and corruption—whether committed by staff or external parties. Union Bank is committed to a high level of compliance with all applicable laws, regulations, internal policies, and sound governance principles. The Bank maintains a low appetite for failures in physical security controls. The Bank manages market risks—primarily interest rate risk and foreign exchange risk—within established limits, across an investment portfolio representing approximately 40% of total assets. The Bank does not seek to eliminate these risks entirely, as they are inherent to the execution of its financial strategy. Instead, the Bank aims to maintain an acceptable level of market risk through a robust framework of controls and limits. In this context: the Bank has a low to moderate appetite for financial market risks and a low appetite for capital losses arising from FX risk.

Union Bank aims to preserve healthy liquidity levels, consistently meeting all regulatory liquidity ratios—including the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), and short term liquidity indicators. The Bank also aims to maintain a loan to deposit ratio of no more than 65% at the consolidated level.

The Bank recognizes the rising challenges associated with information security risks and aims to mitigate them through a strong security culture, adequate investments in infrastructure and tools, external advisory support, active controls, and ongoing staff training. The Bank is willing to tolerate only minimal and time limited service interruptions, provided they do not lead to unmet obligations toward stakeholders or reputational harm that could trigger broader negative market perception or financial loss.

Independent Auditor's Report and Financial Statements for the Year 2024



UNION BANK S.H.A.
Independent Auditor's Report
and Separate Financial Statements
as at and for the year ended 31 December 2024

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INDEPENDENT AUDITOR'S REPORT

To management and Shareholders of Union Bank sh.a

Opinion

We have audited the separate financial statements of Union Bank sh.a (the "Bank"), which comprise the separate statement of financial position as at 31 December 2024, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects the separate financial position of the Bank as at 31 December 2024 and its separate financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report. We are independent of the Bank 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 financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and IEKA Code.

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

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank prepared by Management in accordance with Article 53 of Law no. 9662, dated 18 December 2006 "On Banks in the Republic of Albania", amended and with article no. 18 of the law no. 25/2018 "On Accounting and financial statements". The Annual Report of the Bank is expected to be made available to us after the date of our audit report.

Our opinion on the separate financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the audit, or appears to be materially misstated.

When reading the Annual Report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other matters

The Bank's separate financial statements for the year ended 31 December 2023 were audited by another auditor, who expressed an unmodified opinion on those financial statements on 20 June 2024.

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

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

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



**forv/s
mazars**
Emin Duraku, Str. Binjaket Build,
No.5, 1013, Tirane, Albania
NUI: K32123006W

May 19, 2025

Diana Ylli (Golemi)
Statutory Auditor

Union Bank sh.a

SEPARATE STATEMENT OF FINANCIAL POSITION

Amounts in LEK '000

	Notes	As at December 31, 2024	As at December 31, 2023
Assets			
Cash and balances with Central Bank	6	10,898,772	14,935,022
Due from banks	7	7,663,842	2,499,989
Investment securities at FVPL (Trading)	8	59,702	55,833
Investment securities at FVOCI	8	1,485,468	1,061,589
Investment securities at amortised cost	8	33,292,396	31,977,229
Loans and advances to customers	9	50,368,597	46,166,907
Income tax receivable	34	-	2,512
Other assets	16	288,516	287,525
Repossessed assets	15	477,848	329,189
Investment properties	14	33,903	195,660
Investment in subsidiaries	10	366,436	285,436
Intangible assets	11	453,189	436,363
Property and equipment	12	838,749	522,981
Right-of-use assets	13.1.1	746,517	494,457
Deferred tax asset	33	70,533	67,794
Total assets		107,044,468	99,318,486
Liabilities			
Due to Central Bank	17	9,593,294	7,227,975
Due to banks and financial institutions	18	6,948,015	7,678,176
Due to customers	19	77,745,843	73,986,210
Other liabilities	20	959,565	615,075
Lease Liabilities	13.1.2	769,955	525,037
Income tax payable		18,291	-
Subordinated debt	21	1,542,818	1,102,740
Total liabilities		97,577,781	91,135,213
Shareholders' equity			
Share capital	22	3,883,813	3,883,813
Share premium	22	175,600	175,600
Legal and Other Reserve	22.1	1,156,316	1,107,600
Fair Value Reserve	22.2	6,397	(63,999)
Retained earnings		4,244,561	3,080,259
Total shareholders' equity		9,466,687	8,183,273
Total liabilities and shareholders' equity		107,044,468	99,318,486

These separate financial statements have been approved by Executive Management on 27 March 2025 and signed on its behalf by:


 Flutura Veipi
 Chief Executive Officer




 Arten Zikaj
 Chief Financial Officer

The separate statement of financial position is to be read in conjunction with the notes set out on pages 5 to 83 integral part of the separate financial statements.

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Amounts in LEK '000

	Notes	<u>For the year ended December 31, 2024</u>	<u>For the year ended December 31, 2023</u>
Interest income	23	5,507,231	4,617,673
Interest expense	24	(1,517,149)	(1,161,056)
Net interest income		3,990,082	3,456,617
Fee and commission income	25	852,872	712,798
Fee and commission expenses	26	(114,430)	(98,935)
Net fee and commission income		738,442	613,863
Net impairment loss on financial assets	27	(405,304)	(501,052)
Net trading income	28	6,950	22,848
Gain from sale of financial assets at FVOCI	8	31,192	3,558
Net foreign exchange result	29	76,220	(119,327)
Change in fair value of investment property	14	3,066	(3,262)
Income from leased investment property	14.2	2,510	9,383
Dividend income from subsidiary	11	48,600	50,007
Other income, net	30	126,078	109,255
Write-down of net realizable value of repossessed assets	15	(54,965)	(165,911)
Other charges for provisions		(4,282)	-
Amortization of intangible assets	11	(85,200)	(76,606)
Depreciation of property and equipment	12	(109,676)	(99,250)
Depreciation of right-of-use assets	13.2	(168,798)	(168,750)
Personnel costs	31	(1,255,452)	(991,163)
Other operating expenses	32	(1,397,418)	(1,187,527)
Profit before tax		1,542,045	952,683
Income tax expense	33	(229,027)	(155,518)
Profit of the year		1,313,018	797,165
Other comprehensive income that will be reclassified to the income statement, net of tax	22.2	70,396	43,727
Total comprehensive income for the year		1,383,414	840,892

These separate financial statements have been approved by Executive Management on 27 March 2025.

The separate statement of profit or loss and other comprehensive income is to be read in conjunction with the notes set out on pages 5 to 83 integral part of the separate financial statements.

Union Bank sh.a

SEPARATE STATEMENT OF CHANGES IN EQUITY

Amounts in LEK '000

	Notes	Share capital	Share premium	Legal and other Reserves	Fair Value Reserves	Retained Earnings	Total
Balance at 1 January 2023		3,883,813	175,600	941,502	(107,726)	2,559,192	7,452,381
Total comprehensive income for the year							
Profit for the year		-	-	-	-	797,165	797,165
Other comprehensive income, net of income tax	22.2	-	-	-	43,727	-	43,727
Total comprehensive income for the year		-	-	-	43,727	797,165	840,892
Transactions with owners recorded directly in equity							
Increase in share capital		-	-	-	-	-	-
Creation of General Reserve	22.1	-	-	166,098	-	(166,098)	-
Dividends distributed	22	-	-	-	-	(110,000)	(110,000)
Total contributions by and distributions to owners		-	-	166,098	-	(276,098)	(110,000)
Balance at 31 December 2023		3,883,813	175,600	1,107,600	(63,999)	3,080,259	8,183,273
Total comprehensive income for the year							
Profit for the year		-	-	-	-	1,313,018	1,313,018
Other comprehensive income, net of income tax	22.2	-	-	-	70,396	-	70,396
Total comprehensive income for the year		-	-	-	70,396	1,313,018	1,383,414
Transactions with owners recorded directly in equity							
Increase in share capital		-	-	-	-	-	-
Creation of General Reserve	22.1	-	-	48,716	-	(48,716)	-
Dividends distributed	22	-	-	-	-	(100,000)	(100,000)
Total contributions by and distributions to owners		-	-	48,716	-	(148,716)	(100,000)
Balance at 31 December 2024		3,883,813	175,600	1,156,316	6,397	4,244,561	9,466,687

These separate financial statements have been approved by Executive Management on 27 March 2025.

The separate statement of changes in equity is to be read in conjunction with the notes set out on pages 5 to 83 integral part of the separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS
Amounts in LEK '000

	Notes	For the year ended December 31, 2024	For the year ended December 31, 2023
Cash flows from operating activities			
Profit before tax		1,542,045	952,683
Adjustments for non-cash and non-operating items:			
Interest income	23	(5,507,231)	(4,617,673)
Interest expense	24	1,517,149	1,161,056
Depreciation of property and equipment	12	109,676	99,250
Amortization of intangible assets	11	85,200	76,606
Depreciation of ROU assets	13.1	168,798	168,750
Dividend income from subsidiary	10	(48,600)	(50,007)
Impairment loss on financial assets	27	405,304	501,052
Write-down on NRV of repossessed assets	15	54,965	165,911
Change in fair value of investment property	14	(3,066)	3,262
Gain from disposal of ROU assets	13.2	(2,312)	1,064
Fair value losses		74,155	38,482
Other provisions for risk and expenses		4,282	-
Forex/revaluation effects		639,060	1,111,158
Net (gain)/ loss from sale and written off of property and equipment		878	-
Net loss from sale of repossessed collaterals		15,147	7,271
		(944,550)	(381,135)
Changes in:			
Due from banks		(76,971)	833,225
Loans and advances to customers		(4,534,880)	(4,892,546)
Other assets		2,312	(5,035)
Due to banks and financial institutions		(734,533)	804,490
Due to customers		3,602,355	5,033,508
Due to Central Bank		2,385,089	343,776
Other liabilities		345,559	104,914
Proceeds from sale of repossessed collaterals		26,349	11,534
Interest received		5,399,604	4,513,359
Interest paid		(1,310,869)	(890,952)
Income tax paid		(222,759)	(146,477)
Net cash generated from operating activities		3,936,706	5,328,661
Cash flows from investing activities			
Purchases of intangible assets	11	(106,308)	(187,803)
Purchases of property and equipment	12	(437,003)	(146,109)
Proceeds from sale of property and equipment		10,681	-
Investment in subsidiaries		(81,000)	(124,434)
Purchases of investment securities	35	(2,133,154)	(4,390,354)
Dividends received	10	48,600	77,007
Recovery in net investment lease		6,750	6,545
Net cash used in investing activities		(2,691,434)	(4,765,148)
Cash flows from financing activities			
Dividends distributed	22	(100,000)	(110,000)
Repayment of lease liability	13	(203,161)	(196,593)
Issuing of subordinated debt	35	490,750	363,580
Net cash generated from financing activities		187,589	56,987
Net increase in cash and cash equivalents during the year		1,432,861	620,500
Revaluation effect of cash and cash equivalents		(395,609)	(829,940)
Cash and cash equivalents at the beginning of the year	35	10,681,382	10,890,822
Cash and cash equivalents at the end of the year	35	11,718,634	10,681,382

These separate financial statements have been approved by Executive Management on 27 March 2025.

The separate statement of cash flows is to be read in conjunction with the notes set out on pages 5 to 83 integral part of the separate financial statements.

1. INTRODUCTION

Union Bank Sh.a. (the “Bank”) is a financial institution registered as a commercial bank on 9 January 2006 pursuant to Decision no. 101, dated 28 December 2005, of the Supervisory Board of the Bank of Albania (“BoA”). The Bank’s activity is governed by 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 On Bank Supervisory Board of the BoA.

The Bank is a commercial bank, which provides banking services to individuals and enterprises within the Republic of Albania. It is registered as a joint stock company, under the registration number 33563, dated 26 May 2005, which also marks the commencement of 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”), and became the sole shareholder of this financial institution. The Subsidiary is an Albanian leasing company registered as a joint stock company and commenced operations on 5 April 2005. In 2023, following approvals by the relevant internal governing bodies as well as with the approval of the Bank of Albania, Unioni Financiar Tiranë Sh.p.k became a shareholder of the Subsidiary through the purchase of newly issued shares. As a result of this transaction, the Bank now owns 81% of the Subsidiary's shares

These financial statements are separate financial statements of the Bank (the “Parent”). The preparation of separate financial statements is required by the applicable local tax legislation. In addition to these, the Bank prepares consolidated financial statements in accordance with the requirements of IFRS 10. Those consolidated financial statements comprise the Bank and its subsidiary (collectively the ‘Group’). The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases (note 2.5).

The Bank operates through a network of 32 branches and agencies, as of December 31, 2024 (31 December 2023: 32 branches and agencies) throughout Albania.

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

Directors and Management as at 31 December 2024*Board of Directors (Supervisory Board)*

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
Mërgim Cahani	Member

Audit Committee

Teuta Baleta	Head of Audit Committee
Varuzhan Piranjani	Member
Sonila Bicaku	Member

Executive Management

Flutura Veipi	Chief Executive Officer (“CEO”)
Suela Bokshi	Chief Operations Officer
Arten Zikaj	Chief Financial Officer
Alban Burazeri	Chief Transformation Officer

(Amounts in LEK '000 unless otherwise stated)

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

The Bank presents its separate statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 34.

The separate financial statements have been prepared on the historical cost basis, except for investment properties, Investment securities at FVPL 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 separate financial statements are presented in Albanian Lek ("LEK"), which is the Bank'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 Bank'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 Bank's ability to continue as a going concern. Therefore, the separate financial statements continue to be prepared on the going concern basis.

2.5 Separate financial statements

The Bank accounts for the investment in subsidiary (Note 1 and Note 10) at cost. The Bank recognises a dividend from a subsidiary in profit or loss in its separate financial statements when its right to receive the dividend is established.

The Bank has applied all applicable IFRSs when providing disclosures in its separate financial statements.

These financial statements are prepared on a separate (unconsolidated) basis, in accordance with the accounting and tax legislation of the Republic of Albania. The Bank voluntarily prepares consolidated financial statements that include its subsidiary, which is available at the electronic address of the Bank: <https://unionbank.al/>. Information on the main financial indicators of the subsidiary on a pre-elimination basis is provided in note 10.

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the 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 Group having power over an investee.

Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2024 in order to obtain full information of the financial position, results of operations and changes in financial position of the Group as a whole.

2.6 Use of estimates and judgments

The preparation of separate financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

2. BASIS OF PREPARATION (CONTINUED)

2.6 Use of estimates and judgments (continued)

Management believes that the underlying assumptions are appropriate and that the separate financial statements therefore present the financial position and results fairly. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the separate financial statements are described in Note 5.

2.7 Comparative

Certain reclassification have been made to improve the presentation and disclosure in the separate financial statements as at December 31, 2024.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

3.1 New and amended standards and interpretations

Several amendments and interpretations apply for the first time in 2024, but do not have any impact on the Bank's separate financial statements see note 4.33.

The Bank has not adopted early any standard, interpretation or amendment that has been issued but is not yet effective, see note 4.34.

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1. Subsidiaries and consolidation

Subsidiaries are entities controlled by the Bank.

The Bank prepares separate financial statements and consolidated financial statements in accordance with IFRS. Interests in subsidiaries are accounted for at cost in the separate financial statements. The consolidated financial statements prepared voluntarily by the Bank even though the Bank satisfies the exemption criteria of IFRS for preparing them as the financial statements of the Bank are consolidated by the ultimate parent.

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 and liabilities 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. 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 Bank 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.

*(Amounts in LEK '000 unless otherwise stated)***4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****4.3. Interest (continued)**

Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

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

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

Interest and similar income

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

Other interest income includes interest on financial instruments designated at FVPL other than those held for trading, using the contractual interest rate. Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in 'Net trading income'.

The Bank 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 Bank 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 Bank 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 Bank 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 Bank does not hold any POCI financial assets as at 31 December 2024 and 2023.

4.4. Fees and commissions

The Bank 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 Bank 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 Bank'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 Bank have duration of less than one year or are renewed on annual basis (for example account maintenance). Consequently, the Bank has used the practical expedient of the standard and needs not to present information about the aggregate amount of the price related to the unsatisfied portion of performance obligations.

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

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4. Fees and commissions (continued)

- 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, 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.

4.6. 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 Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

Additional taxes that arise from the distribution of dividends by the Bank 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 Bank 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 Bank 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.

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**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 Bank 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 marketplace. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

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 Bank accounts for the Day 1 profit or loss, as described below.

4.8.3. Day 1 profit or loss

When the fair value of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank 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 Bank 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)
- FVPL (see Note 4.21)

The Bank classifies and measures its trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

The Bank classifies its financial liabilities, other than loan commitments and financial guarantees, as measured at amortised cost explained in Note 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 Bank 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.

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9. Financial Assets and Liabilities (continued)

4.9.1.1. Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios 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 Bank'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 Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

4.9.1.2. The SPPI test

As a second step of its classification process the Bank 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 Bank 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. Financial assets held for trading

The Bank classifies financial assets as held for trading when they have been purchased primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held for trading assets are recorded in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest income is recorded in net trading income according to the terms of the contract, or when the right to payment is established. Included in this classification are debt securities that have been acquired principally for the purpose of selling in the near term.

4.9.3. Debt instruments at FVOCI

The Bank 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.

*(Amounts in LEK '000 unless otherwise stated)***4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****4.9. Financial assets and liabilities (continued)****4.9.3. Debt instruments at FVOCI (continued)**

The ECL calculation for debt instruments at FVOCI is explained in Note 4.12.3. Where the Bank 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 / loss.

4.9.4. 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 Bank's issued debt are set out in Note 21.

4.10. Reclassification of financial assets and liabilities

If the business model under which the Bank 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 Bank's financial assets. During the current financial year and previous accounting period there was no change in business model under which the Bank 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 Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank 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 Bank 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 Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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

- The Bank 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

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11. Derecognition of financial assets and liabilities (continued)

4.11.2. Derecognition other than for substantial modification (continued)

4.11.2.1. Financial assets (continued)

Pass-through arrangements are transactions whereby the Bank 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 Bank 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 Bank cannot sell or pledge the original asset other than as security to the eventual recipients

The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank 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 Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank 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 Bank 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 Bank's continuing involvement, in which case, the Bank 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 Bank 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 Bank 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 Bank would be required to pay upon repurchase.

4.11.2.2. Financial liabilities

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

4.12. Impairment of financial assets

4.12.1. Overview of the ECL principles

The Bank 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 Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 38.1.2.2.

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12. Impairment of financial assets (continued)

4.12.1. Overview of the ECL principles (continued)

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

- 12-month ECL, 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 Bank 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 Bank's policy for grouping financial assets measured on a collective basis is explained in Note 38.1.2.3.

The Bank 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 38.1.2.3. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank 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 Bank 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 Bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank 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 Bank has classified all credit impaired assets acquired in business combinations carry the same classification and not as POCI since the Bank has acquired and subsequently merged a business as a whole.

4.12.2. The calculation of ECLs

The Bank 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 key parameters 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 38.1.2.4.1.
- 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, deducting discounted fair value of collateral. The EAD is further explained in Note 38.1.2.4.3.

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12. Impairment of financial assets (continued)

4.12.2 The calculation of ECLs (continued)

LGD - *The Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. When EAD is estimated net of collateral, no cash flows from realisation of collateral are included in LGD. 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 38.1.2.4.2. 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.
- Financial guarantee contracts: The Bank'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 Bank 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.

*(Amounts in LEK '000 unless otherwise stated)***4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****4.12. Impairment of financial assets (continued)****4.12.4. Forward looking information**

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

- GDP growth
- Unemployment rates
- Inflation
- Interest Rate
- 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 Bank 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 Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank 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 Bank 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 Bank'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 Bank's various credit enhancements are disclosed in Note 38.1.4.

To the extent possible, the Bank 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 independent appraisals.

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 Bank 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 Bank 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 Bank 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.

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14. Forborne and modified loans (continued)

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank'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 Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 38.1.2.2. The Bank 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 38.1.2.1.

If modifications are substantial, the loan is derecognised, as explained in Note 4.11.

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 Bank 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 Bank's trading activity.

4.16. Write offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. In accordance with the approved Write-off Procedure endorsed by the Board of Directors and Bank of Albania regulation No. 62 "On Credit Risk Management from Banks and branches of foreign banks", the Bank shall write off the loans from the balance sheet, no later than two years after their classifications as "Lost".

There are excluded from the above requirement:

1. loans, on which the decision-making of the bank and only after the approval by the Bank of Albania, it is argued that based on the analysis of the financial situation of the borrower and collateral quality, it is certified the effective possibility of its settlement/re-payment, and
2. loans under restructuring process, on which at any case, the exclusion from the requirement, may not exceed a 6-month 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Any subsequent recoveries are credited to other income.

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 Bank 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 Bank has access to at the measurement date.

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18. Fair value measurement (continued)

- 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 Bank 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 Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize 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 Bank 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 recognized 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 Bank 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 Bank recognizes 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 Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized 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 Bank 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 Bank's financial statements.

4.21. Investment securities

Investment securities include debt investment securities measured at amortised cost, at FVPL 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. Trading securities are subsequently measured at fair value with gains and losses arising due to change in fair value recognised in profit and loss statement.

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.22. Leases

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

4.22.1. Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank 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 Bank 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 Bank 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 Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are 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 Bank 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 Bank's separate statement of financial position and is disclosed on Note 13.1.2.

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

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

4.22.2. Bank as a lessor

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

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.22. Leases (continued)

4.22.3. Sublease

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

- if the head lease is a short-term lease that the Bank, 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 Bank 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 separate statement of the financial position.

For subleases classified as operating lease, the Bank 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.

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 Bank 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 Bank. 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%

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.23. Property and equipment (continued)

4.23.3. Depreciation (continued)

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 Bank 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 Bank, 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.

4.25. 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 Bank 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, including 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 separate statement of financial position. The Bank holds inventories in the form of consumption inventories. Consumption inventories are materials bought in order to be consumed in the rendering of services.

Repossessed assets 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 Bank'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.

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.27. Impairment of non-financial assets (continued)

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 Bank's sources of debt funding. When the Bank 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 Bank's separate financial statements.

4.29. Provisions

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

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

In the ordinary course of the business, the Bank 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 Bank'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 37.

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 Bank 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 37.

4.31. Equity

Elements of Equity are share capital, share premium and reserves. Reserves include legal and general reserve (Note 22.1), merger reserve 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 Bank 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 Bank 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.

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Bank's accounting policies:

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments).**
- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (Amendments).**
- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosures - Supplier Finance Arrangements (Amendments).**

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.

- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)** - The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments has been endorsed by the EU. The Management has assessed the amendments and there is no impact on financial statements.
- **IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures - Classification and Measurement of Financial Instruments (Amendments).** In May 2024, the IASB issued amendments to the Classification and Measurement of Financial Instruments which amended IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures and they become effective for annual reporting periods beginning on or after January 1, 2026, with earlier application permitted. The amendments have not yet been endorsed by the EU. Management will analyse the requirements of this newly issued standard and assess its impact.
- **IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures - Contracts Referencing Nature-dependent Electricity (Amendments).** In December 2024, the IASB issued targeted amendments for a better reflection of Contracts Referencing Nature-dependent Electricity, which amended IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures and they become effective for annual reporting periods beginning on or after January 1, 2026, with earlier application permitted. The amendments have not yet been endorsed by the EU. The Management has assessed the amendments and there is no impact on financial statements.
- **IFRS 18 Presentation and Disclosure in Financial Statements.** In April 2024, the IASB issued the IFRS 18 - Presentation and Disclosure in Financial Statements which replaces IAS 1 - Presentation of Financial Statements and it becomes effective for annual reporting periods beginning on or after January 1, 2027, with earlier application permitted. The standard has not yet been endorsed by the EU. In the following reporting periods, Management will analyse the requirements of this newly issued standard and assess its impact.
- **IFRS 19 Subsidiaries without Public Accountability: Disclosures.** In May 2024, the IASB issued the IFRS 19 - Subsidiaries without Public Accountability: Disclosures, and it becomes effective for annual reporting periods beginning on or after January 1, 2027, with earlier application permitted. The standard has not yet been endorsed by the EU. The Management has assessed the amendments and there is no impact on financial statements.
- **Annual Improvements to IFRS Accounting Standards – Volume 11.** In July 2024, the IASB issued Annual Improvements to IFRS Accounting Standards – Volume 11. An entity shall apply those amendments for annual reporting periods beginning on or after January 1, 2026. Earlier application is permitted. The standard has not been endorsed by the EU. The Management has assessed the amendments and there is no impact on financial statements.

(Amounts in LEK '000 unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- **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** - In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the separate 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 Bank'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 Bank'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 separate 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 Bank 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 Bank monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason of their disposal and whether the reasons are consistent with the objective of the business for which the asset is held. Incidental sales of financial assets measured at amortised cost close to their maturity are not considered as a change to this business model. Monitoring is part of the Bank'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 Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's 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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)**5.2 Impairment (continued)**

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Bank 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 37. 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 value measurement for all properties in these categories are categorised as Level 3 fair value based on the valuation technique used (Note 4.18). Apart the valuation of the property certain estimations are made to determine the possibility of the sale of the assets being under repossessed collateral category.

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

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

5.5. Estimating the incremental borrowing rate

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

6. CASH AND BALANCES WITH CENTRAL BANK

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

	As at December 31, 2024	As at December 31, 2023
Cash on hand	2,943,230	2,215,094
<i>Central Bank:</i>		
Current account	1,423,930	6,318,991
Compulsory reserves	6,540,939	6,404,474
Accrued interest	851	781
Allowance for impairment losses	(10,178)	(4,318)
Total	10,898,772	14,935,022

Compulsory reserve represents a minimum reserve deposit held in accordance with the Bank of Albania's requirement.

This reserve is not available for use in the Bank's day to day operations. However, according to the applicable regulations, the Bank may utilize of up to 70% (2023: 70%) of the compulsory reserve held in LEK, provided that the average of the average balance of the reserve 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 "reserve base", which includes liabilities resulting from the acceptance of funds from the Bank in both LEK and foreign currencies. The base of the foreign currency reserve consists of liabilities denominated in USD and EUR, with EUR-denominated liabilities also encompassing all other foreign currency liabilities (except USD) converted at the fixed exchange rate of the Bank of Albania. The reserve rates are applied to that part of the reserve base where the initial maturity does not exceed 24 months and are different depending on maturity and the currency of 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 the additional value for liabilities 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	
	31 December 2024	31 December 2023
Gross carrying amount as at 1 January	14,939,340	13,337,988
New assets originated or purchased	965,386	2,798,535
Payments and assets derecognised	(4,403,591)	(228,679)
Amounts written off	-	-
Foreign exchange adjustments	(592,185)	(968,504)
Gross carrying amount as at 31 December	10,908,950	14,939,340

	Stage 1	
	31 December 2024	31 December 2023
ECL allowance as at 1 January	4,318	5,336
New assets originated or purchased	5,860	(1,018)
Payments and assets derecognised	-	-
Amounts written off	-	-
Foreign exchange adjustments	-	-
ECL allowance as at 31 December	10,178	4,318

7. DUE FROM BANKS

Due from banks are detailed as follows:

	As at December 31, 2024	As at December 31, 2023
Current accounts:		
Resident	7,641	-
Non-resident	1,698,358	862,377
	1,705,999	862,377
Deposits:		
Resident	100,000	350,000
Non-resident	5,545,475	934,920
	5,645,475	1,284,920
Other accounts (non - resident)	317,429	376,923
Accrued interest	2,272	3,524
Allowance for impairment losses	(7,333)	(27,755)
Total	7,663,842	2,499,989

Other accounts represent escrow accounts at banks used as collateral for guarantees issued.

All assets due from banks are in Stage 1 and there are no transfers between stages since the beginning of the comparative period. An analysis of changes in gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1	
	31 December 2024	31 December 2023
Gross carrying amount as at 1 January	2,527,744	5,172,644
New assets originated or purchased	6,741,209	1,550,120
Payments and assets derecognised	(1,514,508)	(3,741,630)
Amounts written off	-	-
Foreign exchange adjustments	(83,270)	(453,390)
Gross carrying amount as at 31 December	7,671,175	2,527,744

	Stage 1	
	31 December 2024	31 December 2023
ECL allowance as at 1 January	27,755	28,501
New assets originated or purchased	7,010	27,252
Payments and assets derecognised	(27,398)	(27,451)
Amounts written off	-	-
Foreign exchange adjustments	(34)	(547)
ECL allowance as at 31 December	7,333	27,755

(Amounts in LEK '000 unless otherwise stated)

8. INVESTMENT SECURITIES

Below is an analysis of the Bank's investment securities portfolio measured at FVPL, FVOCI and at amortized cost

	As at December 31, 2024	As at December 31, 2023
Debt instruments measured at FVPL:		
Albanian Government Bonds held for trading	59,702	55,833
Total investment securities at FVPL	59,702	55,833
Debt instruments measured at FVOCI:		
Albanian Government Bonds	1,485,468	1,061,589
Total investment securities at FVOCI	1,485,468	1,061,589
Debt instruments at amortised cost:		
Albanian Treasury Bills	1,166,641	1,620,158
Albanian Government Bonds	27,079,765	24,864,644
Foreign Governments Bonds	2,365,026	2,037,231
Corporate Bonds	2,815,500	3,535,364
Allowance for impairment losses	(134,536)	(80,168)
Total investment securities at amortized cost	33,292,396	31,977,229

Held for trading investment securities are Albanian Government Bonds bought by the Bank. The nominal value of this portfolio is LEK 56,600 thousand (2023: LEK 56,600 thousand). During 2023 the Bank sold some instruments held for trading and realized a profit of LEK 8,947 thousand, included in Net trading income in profit and loss statement. No such sale happened during 2024.

During 2024, the Bank sold LEK 583.6 million (2023: LEK 152.3 million) of FVOCI investment securities and as a result a transfer of LEK 31,192 thousand (2023: LEK 3,558 thousand) was made from unrealized gains from OCI to the Income statement.

The details of such instruments as at 31 December 2024 and 2023 are presented below:

31 December 2024					
	Nominal value	Remaining (premium) /discount	Accrued interest	Revaluation effect	Book Value
Albanian Government	1,467,635	1,794	16,434	(395)	1,485,468
Total	1,467,635	1,794	16,434	(395)	1,485,468
31 December 2023					
	Nominal value	Remaining (premium) /discount	Accrued interest	Revaluation effect	Book Value
Albanian Government	1,144,472	(12,381)	8,537	(79,039)	1,061,589
Total	1,144,472	(12,381)	8,537	(79,039)	1,061,589

The Bank did not have any debt instruments measured at FVOCI which were pledged as collateral as at 31 December 2024 and 2023.

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 2024			31 December 2023		
	Nominal value	Unamortized discount	Book Value	Nominal value	Unamortized discount	Book Value
6 months	-	-	-	2,500	(4)	2,496
12 months	1,181,780	(15,139)	1,166,641	1,641,180	(23,518)	1,617,662
Total	1,181,780	(15,139)	1,166,641	1,643,680	(23,522)	1,620,158

(Amounts in LEK '000 unless otherwise stated)

8. INVESTMENT SECURITIES (CONTINUED)

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

	31 December 2024			
	Nominal value	Remaining (premium) /discount	Accrued interest	Book Value
Albanian Government	26,693,450	(87,018)	473,333	27,079,765
Foreign Governments	2,363,261	(20,863)	22,628	2,365,026
Corporate Bonds	2,821,614	(21,435)	15,321	2,815,500
Total	31,878,325	(129,316)	511,282	32,260,291

	31 December 2023			
	Nominal value	Remaining (premium) /discount	Accrued interest	Book Value
Albanian Government	24,590,500	(137,641)	411,785	24,864,644
Foreign Governments	2,051,980	(37,977)	23,228	2,037,231
Corporate Bonds	3,556,762	(41,201)	19,803	3,535,364
Total	30,199,242	(216,819)	454,816	30,437,239

The Bank has pledged some of its Albanian Treasury bonds at amortised cost as collateral for repurchase agreements with Central Bank amounting at LEK 10,886,000 thousand (2023: LEK 9,350,000 thousand). Bonds at amortised cost are rated as follows:

<i>Moody's Ratings or equivalents</i>	As at December 31, 2024	As at December 31, 2023
Albanian Government	27,079,765	24,864,644
Rated Ba3 (Euro denominated)	3.802.230	3.065.482
Not rated (Lek denominated)	23.277.535	21.799.162
Foreign Governments	2,365,026	2,037,231
Rated Aaa	-	206.660
Rated Aa1	586,546	484,873
Rated Aa3	237,403	245,036
Rated A1	-	96,507
Rated A2	364,954	236,126
Rated A3	384,697	302,407
Rated Baa2	128,129	127,011
Rated Baa3	252,442	52,187
Rated Ba1	-	58,665
Rated Ba2	135,150	49,044
Rated Ba3	205,157	103,227
Rated B1	70,548	-
Rated B2	-	75,488
Corporate Bonds	2,815,500	3,535,364
Rated Aaa	1,223,667	1,535,641
Rated Aa2	28,429	-
Rated Aa3	315,536	648,135
Rated A1	185,582	64,531
Rated A2	182,228	285,017
Rated A3	293,819	300,991
Rated Baa1	386,843	437,312
Rated Baa2	179,896	244,059
Rated Baa3	19,500	19,678
Total	32,260,291	30,437,239

(Amounts in LEK '000 unless otherwise stated)

8. INVESTMENT SECURITIES (CONTINUED)

According to the issuing country bonds at amortised cost are grouped as follows:

	As at December 31, 2024	As at December 31, 2023
Albanian Government	27,079,765	24,864,644
Foreign Governments	2,365,026	2,037,231
Europe	1,785,141	1,466,829
Asia Pacific	29,807	30,574
Middle East	122,913	342,128
South America	189,762	-
North America	237,403	197,700
Corporate Bonds	2,815,500	3,535,364
Europe	1,415,970	2,001,070
North America	620,162	574,217
Asia & Pacific	687,167	810,462
Middle East	92,201	92,327
Africa	-	57,288

All investment securities are in Stage 1 and there are no transfers between stages since the beginning of the comparative period.

A reconciliation of movement in fair value for FVPL securities is presented below:

	2024	2023
Fair value as at 1 January	55,833	72,867
New assets originated or purchased	-	26,600
Asset derecognized or repaid (excluding write-offs)	-	(48,048)
Changes in Fair value	3,869	4,414
Transfers between stages	-	-
Fair value as at 31 December	59,702	55,833

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

	Stage 1	
	2024	2023
Fair value as at 1 January	1,061,589	679,413
New assets originated or purchased	959,945	616,416
Payments and assets derecognized	(594,336)	(205,298)
Changes in Fair value	74,433	38,819
Amounts written off	-	-
Accrued interest	18,749	(8,759)
Foreign exchange adjustments	(34,912)	(59,002)
Fair value as at 31 December	1,485,468	1,061,589

	Stage 1	
	2024	2023
ECL allowance as at 1 January	3,183	2,257
New assets originated or purchased	2,538	1,147
Payments and assets derecognized	(385)	(28)
Transfers between stages	-	-
Net re-measurement of ECL	1,505	4
Foreign exchange adjustments	(109)	(197)
ECL allowance as at 31 December	6,732	3,183

(Amounts in LEK '000 unless otherwise stated)

8. INVESTMENT SECURITIES (CONTINUED)

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

	Stage 1	
	31 December 2024	31 December 2023
Gross carrying amount as at 1 January	32,057,397	28,474,061
New assets originated or purchased	10,343,819	9,484,473
Payments and assets derecognized	(8,612,366)	(5,442,359)
Amounts written off	-	-
Foreign exchange adjustments	(361,918)	(458,778)
Gross carrying amount as at 31 December	33,426,932	32,057,397

	Stage 1	
	31 December 2024	31 December 2023
ECL allowance as at 1 January	80,168	80,636
New assets originated or purchased	33,250	16,380
Payments and assets derecognized	(14,603)	(15,460)
Net re-measurement of ECL	36,469	(39)
Amounts written off	-	-
Foreign exchange adjustments	(748)	(1,349)
ECL allowance as at 31 December	134,536	80,168

9. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are detailed as follows:

	As at December 31, 2024	As at December 31, 2023
Loans and advances	52,692,401	48,301,435
Accrued interest	248,628	196,286
Deferred lending fees part of EIR	(306,405)	(295,885)
Gross amortized cost of loans	52,634,624	48,201,836
Allowance for impairment losses	(2,266,027)	(2,034,929)
Total	50,368,597	46,166,907

The table below shows the movement on ECL allowances:

	2024	2023
ECL allowances as at 01 January	2,034,929	1,797,785
Yearly charge	369,975	508,810
Amounts written off	(74,136)	(164,401)
Foreign exchange adjustments	(64,741)	(107,265)
ECL allowance as at 31 December	2,266,027	2,034,929

Loans and advances to customers earn interest as follows:

Currency	As at December 31, 2024	As at December 31, 2023
LEK	3.90% - 25.0% p.a.	3.40% - 25.0% p.a.
EUR	3.00% - 19.0% p.a.	1.80% - 19.0% p.a.
USD	7.00% - 9.82% p.a.	6.00% - 10.9% p.a.

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The Bank has granted loans with interest rates 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 Bank's personnel as at 31 December 2024 is LEK 951,363 thousand (2023: LEK 774,598 thousand) and bear interest rates that are 1.8% p.a. to 3.4% below the rates given to standard customers for housing and consumer loans. The Bank has granted loans to resident financial institutions. These loans mature in the range of 1 to 5 years (2023: 1 to 5 years) and bear interest rates ranging from 3.3% p.a. to 10.0% p.a. (2023: 2.3% p.a. to 10.0% p.a.)

Loan by type of customer and product wise are presented as follows:

	As at December 31,2024		
	Gross carrying amount	ECL amount	Carrying amount
Retail customers			
Mortgage Lending	14,084,986	(160,882)	13,924,104
Personal loans	9,852,925	(511,752)	9,341,173
Overdrafts and credit cards	496,463	(70,037)	426,426
Retail lending	24,434,374	(742,671)	23,691,703
Lending to businesses	28,200,250	(1,523,356)	26,676,894
Total	52,634,624	(2,266,027)	50,368,597

	As at December 31,2023		
	Gross carrying amount	Impairment allowance	Carrying amount
Retail customers			
Mortgage Lending	12,743,236	(152,613)	12,590,623
Personal loans	8,317,115	(427,480)	7,889,635
Overdrafts and credit cards	414,393	(57,719)	356,674
Retail lending	21,474,744	(637,812)	20,836,932
Lending to businesses	26,727,092	(1,397,117)	25,329,975
Total	48,201,836	(2,034,929)	46,166,907

(Amounts in LEK '000 unless otherwise stated)

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

9.1. 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:

All new assets originated during the year are stage 1 at origination date.

Mortgage lending

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	10,668,637	456,022	350,231	11,474,890
New assets originated or purchased	3,928,318	-	-	3,928,318
Payments and assets derecognized	(1,855,383)	(70,615)	(60,422)	(1,986,420)
Transfers to Stage 1	187,165	(163,844)	(23,321)	-
Transfers to Stage 2	(277,489)	303,523	(26,034)	-
Transfers to Stage 3	(51,902)	(45,964)	97,866	-
Amounts written off	-	-	(4,744)	(4,744)
Foreign exchange adjustments	(611,087)	(30,818)	(26,903)	(668,808)
Gross carrying amount as at 31 December 2023	11,988,259	448,304	306,673	12,743,236
New assets originated or purchased	3,746,219	-	-	3,746,219
Payments and assets derecognized	(1,827,754)	(54,102)	(79,356)	(1,961,212)
Transfers to Stage 1	140,613	(135,553)	(5,060)	-
Transfers to Stage 2	(326,175)	340,026	(13,851)	-
Transfers to Stage 3	(99,384)	(80,852)	180,236	-
Amounts written off	-	-	(13,186)	(13,186)
Foreign exchange adjustments	(403,011)	(14,895)	(12,165)	(430,071)
Gross carrying amount as at 31 December 2024	13,218,767	502,928	363,291	14,084,986

Mortgage lending

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	25,660	17,888	98,006	141,554
New assets originated or purchased	10,223	-	-	10,223
Payments and assets derecognized	(2,658)	(2,515)	(15,493)	(20,666)
Transfers to Stage 1	10,237	(5,622)	(4,615)	-
Transfers to Stage 2	(2,187)	7,169	(4,982)	-
Transfers to Stage 3	(153)	(875)	1,028	-
Net re-measurement of ECL	(13,334)	7,735	42,473	36,874
Amounts written off	-	-	(4,769)	(4,769)
Foreign exchange adjustments	(1,846)	(1,250)	(7,507)	(10,603)
ECL allowance as at 31 December 2023	25,942	22,530	104,141	152,613
New assets originated or purchased	23,931	-	-	23,931
Payments and assets derecognized	(10,055)	(346)	(17,630)	(28,031)
Transfers to Stage 1	3,552	(3,296)	(256)	-
Transfers to Stage 2	(5,369)	7,377	(2,008)	-
Transfers to Stage 3	(12,724)	(4,988)	17,712	-
Net re-measurement of ECL	-	4,588	27,650	32,238
Amounts written off	-	-	(13,187)	(13,187)
Foreign exchange adjustments	(834)	(958)	(4,890)	(6,682)
ECL allowance as at 31 December 2024	24,443	24,907	111,532	160,882

*(Amounts in LEK '000 unless otherwise stated)***9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)****9.1 Impairment allowance for loans and advances to customers (continued)**Consumer loans

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	6,902,039	278,701	456,051	7,636,791
New assets originated or purchased	3,727,387	-	-	3,727,387
Payments and assets derecognized	(2,504,672)	(79,141)	(113,898)	(2,697,711)
Transfers to Stage 1	132,869	(119,816)	(13,053)	-
Transfers to Stage 2	(174,517)	210,284	(35,767)	-
Transfers to Stage 3	(94,782)	(64,022)	158,804	-
Amounts written off	-	-	(64,823)	(64,823)
Foreign exchange adjustments	(272,473)	(3,906)	(8,150)	(284,529)
Gross carrying amount as at 31 December 2023	7,715,851	222,100	379,164	8,317,115
New assets originated or purchased	4,341,219	-	-	4,341,219
Payments and assets derecognized	(2,416,595)	(102,949)	(97,103)	(2,616,647)
Transfers to Stage 1	42,840	(42,306)	(534)	-
Transfers to Stage 2	(370,278)	399,867	(29,589)	-
Transfers to Stage 3	(135,794)	(56,631)	192,425	-
Amounts written off	-	-	(18,104)	(18,104)
Foreign exchange adjustments	(166,161)	(1,568)	(2,929)	(170,658)
Gross carrying amount as at 31 December 2024	9,011,082	418,513	423,330	9,852,925

Consumer loans

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	99,289	43,960	270,894	414,143
New assets originated or purchased	104,005	-	-	104,005
Payments and assets derecognized	(42,342)	(13,952)	(69,398)	(125,692)
Transfers to Stage 1	18,999	(8,080)	(10,919)	-
Transfers to Stage 2	(19,451)	32,814	(13,363)	-
Transfers to Stage 3	(17,225)	(20,032)	37,257	-
Net re-measurement of ECL	(5,884)	15,835	92,077	102,028
Amounts written off	-	-	(64,823)	(64,823)
Foreign exchange adjustments	(1,126)	(160)	(895)	(2,181)
ECL allowance as at 31 December 2023	136,265	50,385	240,830	427,480
New assets originated or purchased	108,717	-	-	108,717
Payments and assets derecognized	(30,375)	(6,885)	(19,987)	(57,247)
Transfers to Stage 1	9,638	(9,250)	(388)	-
Transfers to Stage 2	(16,890)	31,779	(14,889)	-
Transfers to Stage 3	(25,943)	(16,177)	42,120	-
Net re-measurement of ECL	(30,192)	11,530	70,588	51,926
Amounts written off	-	-	(18,104)	(18,104)
Foreign exchange adjustments	(356)	(98)	(566)	(1,020)
ECL allowance as at 31 December 2024	150,864	61,284	299,604	511,752

(Amounts in LEK '000 unless otherwise stated)

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Overdrafts and credit cards

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	274,776	25,216	42,290	342,282
New assets originated or purchased	110,657	-	-	110,657
Payments and assets derecognized	(10,505)	(6,047)	(478)	(17,030)
Transfers to Stage 1	14,309	(8,787)	(5,522)	-
Transfers to Stage 2	(21,774)	27,939	(6,165)	-
Transfers to Stage 3	(13,053)	(5,078)	18,131	-
Amounts written off	-	-	(10,034)	(10,034)
Foreign exchange adjustments	(9,715)	(1,860)	93	(11,482)
Gross carrying amount as at 31 December 2023	344,695	31,383	38,315	414,393
New assets originated or purchased	136,165	-	-	136,165
Payments and assets derecognized	(24,395)	(7,354)	(5,957)	(37,706)
Transfers to Stage 1	13,449	(12,157)	(1,292)	-
Transfers to Stage 2	(18,483)	24,285	(5,802)	-
Transfers to Stage 3	(21,274)	(5,719)	26,993	-
Amounts written off	-	-	(6,000)	(6,000)
Foreign exchange adjustments	(9,278)	(618)	(493)	(10,389)
Gross carrying amount as at 31 December 2024	420,879	29,820	45,764	496,463

Overdrafts and credit cards

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	10,747	6,538	41,444	58,729
New assets originated or purchased	8,052	-	-	8,052
Payments and assets derecognized	835	(989)	(414)	(568)
Transfers to Stage 1	8,042	(2,481)	(5,561)	-
Transfers to Stage 2	(2,044)	7,658	(5,614)	-
Transfers to Stage 3	(3,636)	(1,418)	5,054	-
Net re-measurement of ECL	(8,339)	(1,059)	12,641	3,243
Amounts written off	-	-	(10,032)	(10,032)
Foreign exchange adjustments	(714)	(323)	(668)	(1,705)
ECL allowance as at 31 December 2023	12,943	7,926	36,850	57,719
New assets originated or purchased	9,757	-	-	9,757
Payments and assets derecognized	(1,084)	(956)	(5,776)	(7,816)
Transfers to Stage 1	4,494	(3,195)	(1,299)	-
Transfers to Stage 2	(1,495)	6,895	(5,400)	-
Transfers to Stage 3	(6,296)	(1,220)	7,516	-
Net re-measurement of ECL	(6,332)	(3,226)	27,083	17,525
Amounts written off	-	-	(5,998)	(5,998)
Foreign exchange adjustments	(332)	(162)	(656)	(1,150)
ECL allowance as at 31 December 2024	11,655	6,062	52,320	70,037

(Amounts in LEK '000 unless otherwise stated)

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**9.1 Impairment allowance for loans and advances to customers (continued)***Business lending*

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	21,406,984	878,888	1,737,370	24,023,242
New assets originated or purchased	11,680,969	-	-	11,680,969
Payments and assets derecognized	(6,668,254)	(298,867)	(336,084)	(7,303,205)
Transfers to Stage 1	307,718	(213,297)	(94,421)	-
Transfers to Stage 2	(1,690,224)	1,750,374	(60,150)	-
Transfers to Stage 3	(667,482)	(167,345)	834,827	-
Amounts written off	-	-	(84,777)	(84,777)
Foreign exchange adjustments	(1,357,222)	(112,960)	(118,955)	(1,589,137)
Gross carrying amount as at 31 December 2023	23,012,489	1,836,793	1,877,810	26,727,092
New assets originated or purchased	9,229,504	-	-	9,229,504
Payments and assets derecognized	(5,478,546)	(494,301)	(728,473)	(6,701,320)
Transfers to Stage 1	773,946	(773,308)	(638)	-
Transfers to Stage 2	(1,415,064)	1,434,432	(19,368)	-
Transfers to Stage 3	(867,932)	(254,851)	1,122,783	-
Amounts written off	-	-	(36,847)	(36,847)
Foreign exchange adjustments	(869,203)	(73,987)	(74,989)	(1,018,179)
Gross carrying amount as at 31 December 2024	24,385,194	1,674,778	2,140,278	28,200,250

Business lending

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	110,353	71,459	1,001,547	1,183,359
New assets originated or purchased	133,958	-	-	133,958
Payments and assets derecognized	(20,044)	(21,333)	(66,546)	(107,923)
Transfers to Stage 1	30,385	(5,383)	(25,002)	-
Transfers to Stage 2	(38,239)	51,231	(12,992)	-
Transfers to Stage 3	(16,115)	(25,446)	41,561	-
Net re-measurement of ECL	(24,529)	97,848	291,957	365,276
Amounts written off	-	-	(84,777)	(84,777)
Foreign exchange adjustments	(35,445)	(6,906)	(50,425)	(92,776)
ECL allowance as at 31 December 2023	140,324	161,470	1,095,323	1,397,117
New assets originated or purchased	401,828	-	-	401,828
Payments and assets derecognized	(10,912)	(20,661)	(264,645)	(296,218)
Transfers to Stage 1	29,473	(29,230)	(243)	-
Transfers to Stage 2	(87,792)	95,828	(8,036)	-
Transfers to Stage 3	(279,861)	(60,867)	340,728	-
Net re-measurement of ECL	(52,373)	158,109	7,629	113,365
Amounts written off	-	-	(36,847)	(36,847)
Foreign exchange adjustments	(4,425)	(5,243)	(46,221)	(55,889)
ECL allowance as at 31 December 2024	136,262	299,406	1,087,688	1,523,356

10. INVESTMENT IN SUBSIDIARIES

After receiving the relevant approvals, in October 2023, the Bank increased its investment in the Subsidiary by purchasing 124,434 new shares in the amount of LEK 124,434 thousand. After this transaction and the change in the shareholder structure of the Subsidiary, on December 31, 2023, investments in the Subsidiary amounted to LEK 285,436 thousand and represented 81% of the cost of all shares of the Subsidiary.

In October 2024, the Bank further increased its investment in the Subsidiary by purchasing 81,000 new shares in the amount of LEK 81,000 thousand. As at December 31, 2024, investments in the Subsidiary amounted to LEK 366,436 thousand and represented 81% of the cost of all shares of Landeslease Sh.a (see note 1).

The Shareholders Assembly of the Subsidiary dated 28 June 2024, approved the distribution of a dividend of LEK 48,600 thousand from the profits of 2023. This dividend was recognized as income on 2024 in the separate statement of comprehensive income of the Bank.

The Shareholders Assembly of the Subsidiary dated 27 June 2023, approved the distribution of a dividend of LEK 50,007 thousand from the profits of 2022. This dividend was recognized as income on 2023 in the separate statement of comprehensive income of the Bank.

For the year ending 2024 (unaudited) Landeslease has a total asset amounting LEK 3,274 million (2023: 2,891 million); total liabilities of LEK 2,468 million (2023: 2,253 million) with a net assets post elimination of LEK 3,077 million; and a net profit of LEK 129 million (2023: 100 million).

11. INTANGIBLE ASSETS

	Software	Other intangible assets	Intangible assets in progress	Total
Cost				
At 1 January 2023	432,596	212,767	110,623	755,986
Additions	170,741	28,376	(11,314)	187,803
Transfers	-	-	-	-
At 31 December 2023	603,337	241,143	99,309	943,789
Additions	15,238	42,100	48,970	106,308
Transfers	-	-	(4,282)	(4,282)
At 31 December 2024	618,575	283,243	143,997	1,045,815
Accumulated amortization				
At 1 January 2023	(335,962)	(94,858)	-	(430,820)
Amortization charge	(53,355)	(23,251)	-	(76,606)
At 31 December 2023	(389,317)	(118,109)	-	(507,426)
Amortization charge	(55,777)	(29,423)	-	(85,200)
At 31 December 2024	(445,094)	(147,532)	-	(592,626)
Net book amount				
At 1 January 2023	96,636	117,910	110,623	325,166
At 31 December 2023	214,020	123,034	99,309	436,363
At 31 December 2024	173,481	135,711	143,997	453,189

Other intangible assets include payments for upgrade of Oracle Flex Direct Banking, Visa Membership fees, Trademark license implementation costs and other card projects.

The cost of fully amortised intangible assets the Banks has still in use is LEK 100,603 thousand (2023: LEK 96,238 thousand).

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Notes to the Separate Financial Statements as at and for the year ended December 31, 2024

(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 2023	134,560	360,056	185,253	94,833	27,891	38,710	301,876	1,143,179
Additions	-	85,472	25,117	14,331	-	(7,428)	28,617	146,109
Transfers/Reclassifications	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
At 31 December 2023	134,560	445,528	210,370	109,164	27,891	31,282	330,493	1,289,288
Additions	196,289	25,577	20,671	16,310	-	108,717	69,439	437,003
Transfers/Reclassifications	-	-	-	-	-	-	-	-
Disposals	-	-	(66)	(5,449)	(22,063)	-	-	(27,578)
At 31 December 2024	330,849	471,105	230,975	120,025	5,828	139,999	399,932	1,698,713
Accumulated depreciation								
At 1 January 2023	(21,114)	(222,481)	(131,718)	(65,409)	(7,583)	-	(218,752)	(667,057)
Depreciation charge	(5,672)	(44,075)	(12,428)	(6,567)	(4,061)	-	(26,447)	(99,250)
Transfers/Reclassifications	-	-	-	-	-	-	-	-
Depreciation charge for disposals	-	-	-	-	-	-	-	-
Year ended December 2023	(26,786)	(266,556)	(144,146)	(71,976)	(11,644)	-	(245,199)	(766,307)
Depreciation charge	(12,750)	(46,769)	(14,373)	(8,149)	(2,422)	-	(25,213)	(109,676)
Transfers/Reclassifications	-	-	-	-	-	-	-	-
Depreciation charge for disposals	-	-	31	5,064	10,924	-	-	16,019
Year ended December 2024	(39,537)	(313,325)	(158,488)	(75,061)	(3,142)	-	(270,411)	(859,964)
Net book amount								
At 1 January 2023	113,446	137,575	53,535	29,424	20,308	38,710	83,124	476,122
Year ended December 2023	107,774	178,972	66,224	37,188	16,247	31,282	85,294	522,981
Year ended December 2024	291,312	157,780	72,487	44,964	2,686	139,999	129,521	838,749

Leasehold improvements relate to expenditures made by the Bank for the reconstruction of leased premises used for the branches and Head Office. There are no assets pledged as collateral as at 31 December 2024 (2023: none).

The cost of fully depreciated property and equipment the Bank has still in use is LEK 2,562 thousand (2023: LEK 2,562 thousand).

13. RIGHT OF USE OF ASSETS AND LEASE LIABILITY

Bank as a Lessee

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

13.1. Amounts recognized 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			Total
	Buildings	Computer equipment	Other tangible assets	
Cost				
At 1 January 2024	1,115,198	35,250	90,620	1,241,068
Additions	446,671	-	35,459	482,130
Disposal/Transfer	(463,201)	-	(5,704)	(468,905)
At 31 December 2024	1,098,668	35,250	120,375	1,254,293
Accumulated Depreciation				
At 1 January 2024	678,395	35,250	32,966	746,611
Depreciation charge	152,110	-	16,688	168,798
Depreciation charge for disposals	(405,209)	-	(2,424)	(407,633)
At 31 December 2024	425,296	35,250	47,230	507,776
Net book amount				
At 1 January 2024	436,803	-	57,654	494,457
Year ended December 2024	673,372	-	73,145	746,517

13.1.2. Lease Liability

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

	2024	2023
At 1 January	525,037	585,825
Additions	(58,831)	157,071
Disposals	481,802	(7,784)
Accrual of interest (Note 24)	53,232	41,306
Lease payment	(202,833)	(196,593)
Revaluation effect	(28,452)	(54,788)
At 31 December	769,955	525,037
Current	153,783	133,039
Non-current	616,172	391,998

The average annual incremental borrowing rate used to discount the future lease payments for offices is 7.76%p.a. and vehicles is 7.43%p.a. (2023: offices 7.43%p.a. and vehicles 7.86%p.a.). The rate is based on the average rate some local leasing companies charge on similar assets, with similar risk and maturity.

The maturity analysis of lease liabilities is disclosed in Note 34 and Note 38.

13. RIGHT OF USE OF ASSETS AND LEASE LIABILITY (CONTINUED)**13.1. Amounts recognized in the statement of financial position (continued)****13.1.3. Net investment lease**

The Bank 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 Bank derecognised the Right-of-use asset relating to the head lease that is transferred to the sub-lessee and recognised the Net investment in the sublease.

The Bank 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:

	2024	2023
At 1 January	47,864	59,510
Addition	4,753	-
Lease payments	(9,988)	(10,445)
Interest Income	3,238	3,900
Revaluation effect	(2,511)	(5,101)
At 31 December	43,356	47,864

13.2. Amounts related to leases recognized during the reporting period

The following amounts are recognized in profit or loss:

	2024	2023
Depreciation expense of right-of-use assets (Note 13.1.1)	168,798	168,750
Interest expense on lease liabilities (Note 13.1.2) (Note 24)	53,232	41,306
Expense relating to short-term leases (included in administrative expenses) (Note 32)	25,393	29,306
Loss from disposal of Right-of-use asset	-	1,066
Total expenses related to leases	247,423	240,428
	2024	2023
Gain from disposal of Right-of-use asset	2,313	-
Interest income on Investment lease (sublease) (Note 23)	3,238	3,900
Income on operational lease (note 14)	2,510	9,383
Total income related to leases	8,061	13,283

During 2024, the Bank terminated some leasing contracts before maturity and changed the terms of some other one and due to these changes the result was a gain from disposal of ROU asset at LEK 2,313 thousand Lek (2023: loss of LEK 1,066 thousand).

The Bank had total cash outflows for leases of LEK 228,226 thousand in 2024 (2023: LEK 225,899 thousand).

14. INVESTMENT PROPERTY

The Bank 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 2024 was LEK 2,510 thousand (2023: LEK 9,383 thousand). There were no expenses incurred during the years with respect to investment properties.

Measurement of fair value - Fair value hierarchy

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

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

Level 3 fair value

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

	<u>2024</u>	<u>2023</u>
Balance at 1 January	195,660	429,104
Transferred from repossessed assets (Note 15)	13,825	-
Assets sold during the year	-	-
Transferred to repossessed assets	(178,648)	(230,182)
Net changes in fair value	3,066	(3,262)
Balance at 31 December	33,903	195,660

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.

<u>Valuation technique</u>	<u>Significant unobservable inputs</u>
Reference to the current market: The valuation model uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business)	Market prices were modified to reflect the following: <ul style="list-style-type: none"> • The level of market transactions when the market activity is low or the price for an identical property is difficult to obtain • Specific condition of each property (construction, position etc.)

Significant changes in estimated market price per sqm would impact the valuation of investment properties by the Bank. Repossessed assets (Note 15) do not reflect price increase as they are held at the lower of initial cost, or net realizable value. As these assets combined represents only 0.03% of the Bank's assets, the impact of market changes is not very significant to the Bank.

15. REPOSSESSED ASSETS

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

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

	<u>2024</u>	<u>2023</u>
Balance at 1 January	329,189	239,039
Acquired during the year	178,648	44,684
Transferred from investment property	80,297	230,182
Transferred to investment property (Note 14)	(13,825)	-
Assets sold during the year	(41,496)	(18,805)
Net write-down of NRV for the year	(54,965)	(165,911)
Balance at 31 December	477,848	329,189

16. OTHER ASSETS

Other assets are detailed as follows:

	As at December 31, 2024	As at December 31, 2023
Net Investment lease (Note 13.1.3)	43,356	47,864
Sundry debtors, net	71,048	64,734
Prepayments	85,094	62,418
Accrued income	7,030	7,828
Inventory	13,745	13,959
Payment in transit	46,150	70,557
Other	22,093	20,165
Total	288,516	287,525

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

Sundry debtors consist of bailiff fees receivable from customers, cash differences and other debtors and impairment losses recognized are disclosed below:

	As at December 31, 2024	As at December 31, 2023
Sundry debtors, gross	123,450	126,659
ECL	(52,402)	(61,926)
Sundry debtors, net	71,048	64,733

	2024	2023
Impairment allowance as at 1 January	61,926	66,602
Impairment charge for the year (ECL) (Note 27)	-	8,243
Recovery from reversal of impairment (Note 27)	(8,062)	(9,194)
Amounts written off	(1,712)	(1,311)
Foreign exchange adjustments	250	(2,414)
Total impairment losses as at 31 December	52,402	61,926

17. DUE TO CENTRAL BANK

	As at December 31, 2024	As at December 31, 2023
Current Accounts	-	-
Treasury bills sold under repurchase agreements	9,588,877	7,203,788
Accrued interest	4,417	24,187
Total	9,593,294	7,227,975

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 2024 have a maturity of 11 days (2023: from 7 to 94 days) and bear interest at market rates ranging from 2.70% p.a. to 2.81% p.a. (2023: 3.28% p.a. to 3.74% 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, 2024	As at December 31, 2023
Current accounts		
Resident	2,315,573	1,994,667
Non-resident	1,006,213	1,027,004
	3,321,786	3,021,671
Term deposits		
Resident	2,498,274	2,433,934
Non-resident	-	-
	2,498,274	2,433,934
Borrowings		
Resident	147,225	1,028,000
Non-resident	399,611	51,940
	546,836	1,079,940
Other accounts		
Resident	21,074	19,281
	21,074	19,281
Securities sold under repurchase agreement		
Resident	518,438	1,086,115
Accrued interest	41,607	37,235
Total	6,948,015	7,678,176

Current accounts from resident financial institutions include LEK 1,388 million (2023: LEK 1,164 million) deposited by Unioni Financiar Tirane ('UFT'), out of which LEK 73.6 million (2023: LEK 77.9 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 936.7 million (2023: LEK 966.4 million).

Term deposits from resident financial institutions include deposits from Landeslease of LEK 133.1 million (2023: LEK 230 million) and UFT of LEK 175.7 million (2023: LEK 110.4 million), are placed as collateral for loans issued by the Bank.

Borrowings from resident banks have a maturity 6 days (2023: up to 7 days) and interest rate of 2.7% p.a. (2023: 3.25% p.a. to 3.3% p.a.)

Borrowings from non-resident banks represent loans received by the Bank from EBRD as per below contracts:

- Youth in Business ('YiB'). Under this agreement, the total committed amount was 2 million EUR. The commitment fee is 0.5% p.a., is calculated and paid on the undrawn part of each tranche. The total amount disbursed during 2024 was 1 million EUR (2023: 500 thousand EUR), with interest rates ranging from 5.69%p.a. to 5.74% (2023: 6% p.a.), payable in 7 semiannual installments. Loan disbursed under this agreement had an outstanding balance of LEK 91,139 thousand (2023: LEK 51,940 thousand);
- Albania Agribusiness and Tourism Support Facility ('AATSF'). Under this agreement, the total committed amount was 2 million EUR. Commitment fee is 0.5% p.a., calculated and paid on the undrawn portion of each tranche. The total amount disbursed in 2024 was 2 million EUR, with interest rates ranging from 5.27%p.a. to 5.37%, payable in 7 semiannual installments. The outstanding amount of the loan disbursed under was LEK 182,279 thousand;
- West Balkans Green Economy Financing Facility III ('GEFF'). Under this agreement, the total committed amount was of 1.5 million EUR. The commitment fee is 0.5% p.a., calculated and paid on the undrawn portion of each tranche. The total amount disbursed in 2024 was 1.5 million EUR, with interest rate 5.72%p.a., payable in 7 semiannual installments. The outstanding balance of the loan disbursed under this agreement was LEK 126,193 thousand;

18. DUE TO BANKS AND FINANCIAL INSTITUTIONS (CONTINUED)

- Go Digital in the Western Balkans. Under this agreement, the total committed amount was of 1 million EUR. Commitment fee is 0.5% p.a., is calculated and paid over the undrawn part of each tranche.

Repos with resident banks were in LEK and bear interest from 2.7%p.a. to 2.8% p.a. (2023: 3.35%p.a.).

19. DUE TO CUSTOMERS

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

	As at December 31, 2024	As at December 31, 2023
Government and public administration:		
Local currency	326,855	317,594
Foreign currency	20,668	27,391
	347,523	344,985
Current accounts:		
Local currency	9,393,772	7,327,369
Foreign currency	14,685,016	14,981,659
	24,078,788	22,309,028
Saving accounts:		
Local currency	3,493,239	3,337,524
Foreign currency	8,981,433	9,486,272
	12,474,672	12,823,796
Term deposits:		
Local currency	19,313,495	18,785,554
Foreign currency	19,889,611	17,930,193
	39,203,106	36,715,747
Other customer accounts:		
Local currency	226,636	239,730
Foreign currency	653,318	941,202
	879,954	1,180,932
Subtotal	76,984,043	73,374,488
Prepaid interest	(7,200)	-
Accrued interest	769,000	611,722
Total	77,745,843	73,986,210

Current and saving accounts bear interest in the range of 0.1% p.a. to 1.4% p.a. (2023: 0.1% p.a. to 1.4% p.a.) and term deposits bear interest as follows:

Currency	2024	2023
LEK	0.50% p.a. to 6.50% p.a.	0.70% p.a. to 6.40% p.a.
EUR	0.20% p.a. to 4.50% p.a.	0.20% p.a. to 2.90% p.a.
USD	0.30% p.a. to 2.80% p.a.	0.70% p.a. to 2.80% p.a.
GBP	0.40% p.a. to 1.60% p.a.	0.30% p.a. to 1.50% p.a.
CHF	0.40% p.a. to 0.50% 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.

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Notes to the Separate Financial Statements as at and for the year ended December 31, 2024

(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, 2024			As at December 31, 2023		
	LEK	Foreign currency	Total	LEK	Foreign currency	Total
Government and admin accounts						
On demand	326,855	14,779	341,634	317,594	11,809	329,403
Three months	-	-	-	-	-	-
Twelve months	-	5,889	5,889	-	15,582	15,582
Total government and admin accounts	326,855	20,668	347,523	317,594	27,391	344,985
Current accounts	9,393,772	14,685,016	24,078,788	7,327,369	14,981,659	22,309,028
Saving accounts	3,493,239	8,981,433	12,474,672	3,337,524	9,486,272	12,823,796
Term deposits:						
Three months	138,899	543,948	682,847	154,096	327,631	481,727
Six months	300,857	605,232	906,089	302,333	1,546,754	1,849,087
Twelve months	2,125,588	4,103,392	6,228,980	2,292,100	3,923,661	6,215,761
Fourteen months	4,218,658	3,843,027	8,061,685	3,699,608	2,731,059	6,430,667
Twenty-five months	3,199,402	2,362,184	5,561,586	2,604,905	2,128,332	4,733,237
Thirty-five months	7,400,324	6,103,152	13,503,476	7,889,975	5,966,062	13,856,037
Sixty months	1,616,457	1,257,403	2,873,860	1,804,399	1,285,044	3,089,443
Other deposits	313,310	1,071,273	1,384,583	38,138	21,650	59,788
Total deposits	19,313,495	19,889,611	39,203,106	18,785,554	17,930,193	36,715,747
Other customer accounts:						
On demand	42,596	24,093	66,689	44,202	47,092	91,294
Six months	-	-	-	-	-	-
Twelve months	15,693	10,895	26,588	25,693	11,531	37,224
Other	168,347	618,330	786,677	169,835	882,579	1,052,414
Total other customer accounts	226,636	653,318	879,954	239,730	941,202	1,180,932
Total	32,753,997	44,230,046	76,984,043	30,007,771	43,366,717	73,374,488

“Other deposits” includes deposits with initial maturities of 1 months, 2 months and 36 months.

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

20. OTHER LIABILITIES

Other liabilities are comprised of the following:

	As at December 31, 2024	As at December 31, 2023
Payments in transit	486,140	341,446
Accruals for services	87,839	71,764
Loans from government	12,318	17,386
Deferred income and accrued expenses	151,647	76,532
Provisions	21,398	22,468
Other	200,223	85,479
Total	959,565	615,075

Payments in transit represent outbound international money transfers with agreed settlement dates in the first days of the subsequent year. Upon settlement, these transactions 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 a loan from Ministry of Economy to finance 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 an interest rate of 0.2% p.a.

Provisions are held in respect of:

	As at December 31, 2024	As at December 31, 2023
Financial guarantee contract issued	4,197	5,047
Letters of credit	343	563
Provisions for risk and expenses	16,858	16,858
Total	21,398	22,468

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”), the Bank issued Subordinated debt as shown below:

- In 2020, EUR 2 Million with an initial maturity of 6 years bearing fixed interest rate of 3.25%p.a.;
- In 2021, EUR 2 Million with an initial maturity of 7 years bearing fixed interest rate of 3.30%p.a.;
- In 2022, EUR 3 Million with an initial maturity of 7 years bearing fixed interest rate of 3.50%p.a.;
- In 2023, EUR 3.5 Million with an initial maturity of 7 years bearing fixed interest rate of 4.85%p.a.;
- In 2024, EUR 5 Million with an initial maturity of 7 years bearing fixed interest rate of 5.00%p.a.

	As at December 31, 2024	As at December 31, 2023
Subordinated debt	1,521,325	1,090,740
Accrued interest	21,493	12,000
Total	1,542,818	1,102,740

Central Bank of Albania has approved the recognition of Subordinated debt issued as part of Regulatory Capital of the Bank.

22. SHARE CAPITAL

At 31 December 2024, the subscribed capital was divided into 2,097,143 shares (2023: 2,097,143 shares) with a nominal value of EUR 14.77 each (2023: EUR 14.77 each), while the movements in the paid up share capital in 2024 and 2023 were as follows:

	31 December 2024		31 December 2023	
	No. of shares	Value of shares	No. of shares	Value of shares
Balance at the beginning of the year	2,097,143	3,883,813	2,097,143	3,883,813
Capital increase	-	-	-	-
Paid-up share capital	2,097,143	3,883,813	2,097,143	3,883,813

The structure of the subscribed capital remained unchanged as follows:

	2024	2023
Unioni Financiar Tirane (UFT) Sh.p.k	96.46%	96.46%
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 there to.

Based on Shareholders' Decision dated 28 June 2024, the amount of LEK 48,716 thousand from the profit of 2023 was allocated to the general reserve (note 22.1) and the amount of LEK 100,000 thousand was distributed as dividend (dividend amount per share was LEK 47.69). The remaining amount of the profit of 2023 was decided to be retained for investments.

Based on Shareholders' Decision dated 27 June 2023, the amount of LEK 116,475 thousand from the profit of 2022 was allocated to the legal reserve (note 22.1), the amount of LEK 49,623 thousand from the profit of 2022 was allocated to the general reserve (note 22.1) and the amount of LEK 110,000 thousand was distributed as dividend (dividend amount per share was LEK 52.45). The remaining amount of the profit of 2022 was decided to be retained for investments.

22.1. Legal and Other reserve

Legal and other reserve is made of:

- Legal reserve was established in accordance with the Albanian law "On entrepreneurs and companies". It was calculated as a minimum of 5% of the Bank's earnings of the years 2014, 2015 and 2022, until the reserve reached the threshold of 10% of the basic capital. As of 31 December 2024, the total legal reserve of the Bank amounts of LEK 388,380 thousand (2023: LEK 388,380 thousand).
- General reserve is required to range from 1.25% up to 2% on the Bank's risk weighted assets and is founded through the appropriation of one fifth (1/5) of yearly profit of the Bank This reserve is intended to cover any unidentified risks arising from the Bank's operations. As of 31 December 2024, the total general reserve of the Bank stands at LEK 622,027 thousand (2023: LEK 573,311 thousand), calculated as 1/5 of the profits earned during the years from 2017 to 2023.
- Reserve from the merger was established following the merger with ICB Bank and amounts to LEK 145,909 thousand.

22.2. Fair value reserve

Changes in Fair value reserve is presented below:

	As at December 31, 2024	As at December 31, 2023
Opening Balance	(63,999)	(107,726)
Net change in Fair Value	109,836	53,913
Reclassification in PL upon disposal	(31,192)	(3,558)
Net change in ECL	3,549	926
Income tax related to changes in Fair Value	(11,797)	(7,554)
Ending Balance	6,397	(63,999)

23. INTEREST INCOME

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

	For the year ended December 31, 2024	For the year ended December 31, 2023
Loans and advances to customers	3,633,611	2,991,616
Investment securities	1,640,603	1,482,358
Due from banks	229,779	139,799
Investment lease (Note 13.1.3)	3,238	3,900
Total	5,507,231	4,617,673

24. INTEREST EXPENSE

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

	For the year ended December 31, 2024	For the year ended December 31, 2023
Due to customers	950,086	732,990
Due to banks and financial institutions	120,727	86,431
Repurchase agreements	303,671	241,246
Lease liability (Note 13.1.2)	53,232	41,306
Subordinated debt	50,991	29,797
Other	38,442	29,286
Total	1,517,149	1,161,056

25. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	For the year ended December 31, 2024	For the year ended December 31, 2023
<i>Fee income earned from services that are provided over time</i>		
Account maintenance fees	121,451	109,592
Cards and E-banking maintenance fees	21,851	19,879
Letters of credit and bank guarantees	1,549	1,412
<i>Fee income earned at a point of time</i>		
Transfer and payment orders	278,627	250,449
Other banking services	379,041	286,934
Loan servicing fees	50,353	44,532
Total	852,872	712,798

Other banking services includes cards interchange fees, DDC fees on ATM's, early withdrawal penalty on time deposits.

26. FEE AND COMMISSION EXPENSES

Fees and commissions expense were comprised as follows:

	For the year ended December 31, 2024	For the year ended December 31, 2023
Banking services	74,366	60,229
Treasury operations	29,607	20,904
Other	10,457	17,802
Total	114,430	98,935

27. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

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

	Note	For the year ended December 31, 2024	For the year ended December 31, 2023
(Recovery)/Charge of ECL on cash and Central Bank	6	5,860	(1,018)
Recoveries for ECL on Due from Banks	7	(20,388)	(199)
Charges for ECL on loans and advances to customers	9	369,975	508,810
(Recoveries)/ Charges for ECL on investment securities at amortised cost	8	55,116	881
Charges for ECL on FVOCI investment securities	8	3,659	1,123
Charges for ECL on other financial assets	15	(8,062)	(951)
Charges/(Recoveries) for ECL on Guarantees and Letters of credit	37	(856)	(7,594)
Total		405,304	501,052

28. NET TRADING INCOME

Net trading income of LEK 6,950 thousand (2023: LEK 22,848 thousand) includes the results of buying and selling and changes in fair value of debt securities as well as the related interest income.

	For the year ended December 31, 2024	For the year ended December 31, 2023
Other trading income	3,081	20,720
Fair value change	3,869	2,128
Total	6,950	22,848

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 2024 is gain of LEK 76,220 thousand (2023: loss of LEK 119,327 thousand). Due to a strong deterioration of euro exchange rate, the effect of the open position revaluation at the year-end for the paid-up share capital (denominated in EUR) was loss of LEK 185,652 thousand (2023: loss of LEK 335,340 thousand).

30. OTHER INCOME, NET

	For the year ended December 31, 2024	For the year ended December 31, 2023
Gains on sale of fixed assets	878	-
Gains on sale of repossessed collaterals	15,147	7,094
Repayment of loans previously written off	104,751	110,501
Gains/(Loss) from ROU disposal	2,313	(1,066)
Other	2,989	(7,274)
Total	126,078	109,255

31. PERSONNEL COSTS

	For the year ended December 31, 2024	For the year ended December 31, 2023
Salaries and other compensations	1,129,557	886,106
Social insurance	125,895	105,057
Total	1,255,452	991,163

Salaries and social insurance for the year ended 31 December 2024 and 2023 are further detailed as follows:

	For the year ended December 31, 2024	For the year ended December 31, 2023
Executive Management	79,318	42,415
Other personnel	1,176,134	948,748
Total	1,255,452	991,163

For the year ended 31 December 2024 the Bank had an average number of 508 employees (2023: 458).

32. OTHER OPERATING EXPENSES

Other operating expenses were comprised as follows:

	For the year ended December 31, 2024	For the year ended December 31, 2023
Other external services	505,891	409,503
Premium insurance of deposits	264,292	242,589
Software maintenance	166,195	118,926
Security services	69,245	72,551
Marketing	63,722	63,352
Communication expenses	62,181	48,619
Rent for short-term leases (Note 13.2)	25,393	29,306
Consulting and Legal fees	36,270	27,671
Utilities energy, water etc	23,234	22,916
Maintenance and repairs	35,785	24,595
Office supplies	21,603	19,994
Transportation and business trip expense	12,955	15,371
Insurance	14,532	14,199
Board and other committees' remuneration	18,679	16,138
Representation	8,636	8,455
Other staff related expenses	68,805	53,342
Total	1,397,418	1,187,527

Other external services include expenses incurred for services related to debit and credit cards operations provided by MasterCard Europe SA, cards customization costs, local tax payments, personalized printing services, etc.

The remuneration paid to the statutory auditor for the year ended 31 December 2024 amounted to LEK 5,364 thousand (2023: LEK 5,507 thousand). This amount relates exclusively to the statutory audit and other audit-related services, and is included under 'Consulting and Legal fees'.

*(Amounts in LEK '000 unless otherwise stated)***33. INCOME TAX**

Amounts recognized in Profit or Loss:

	For the year ended December 31, 2024	For the year ended December 31, 2023
Current tax expense	243,562	182,036
Deferred tax expense/(income)	(14,535)	(26,518)
Total tax expense	229,027	155,518

Income tax in Albania is assessed at the rate of 15% (2023: 15%) of taxable income. The following represents a reconciliation of the accounting profit to the income tax:

	Effective Tax rate	2024	Effective Tax rate	2023
Profit before tax		1,542,045		952,683
Income tax at 15%	15.0%	231,307	15.0%	142,902
Non-deductible expenses	0.5%	8,426	2.5%	23,803
Income exempted from income tax	-0.7%	(10,706)	-1.2%	(11,187)
Income tax expense	14.9%	229,027	16.3%	155,518

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

	For the year ended December 31, 2024	For the year ended December 31, 2023
Profit before tax	1,542,045	952,683
Income/ expenses not subject to tax:	81,701	260,889
Movements in temporary differences components	96,903	176,785
- Write-down on NRV of repossessed assets	54,965	165,912
- Change in the fair value of investment property	(3,066)	3,262
- Gain on sale of repossessed assets	(26,813)	(3,222)
- Effect of reversal of ECL in deferred tax raised at initial application of IFRS 9	(335)	(554)
- Difference due to amortization of FA	(2,002)	-
- Effect of IFRS 16	(2,634)	(28,613)
- Accruals for performance bonuses	76,706	40,000
- Unpaid invoices from non residents	82	-
Income exempted from income tax	(71,378)	(74,583)
- Reversal of provisions	(5,079)	(2,905)
- Income from dividends	(17,699)	(50,007)
- Repayments from written off loans	(48,600)	(21,671)
- Income from reversal of provisions on other assets	-	-
Un-deductible expenses:	56,176	158,687
- Staff expenses	22,237	28,743
- Fines and penalties	36	1,763
- Depreciation	2,872	3,635
- Write offs	10,029	101,463
- Other	21,002	23,083
Taxable profit	1,623,746	1,213,572
Current tax at 15%	243,562	182,036

Non taxable gain on sale of repossessed assets represents recoveries of provision previously treated as non-deductible from assets sold during the year.

33. INCOME TAX (CONTINUED)

Deferred tax is calculated based on the enacted tax rate for 2024 of 15%. Deferred tax assets recognized in respect of tax losses are based on the management estimate of future probable taxable profit that will be available against which the losses can be utilized.

The movements in deferred tax assets and liabilities are presented as follows:

	For the year ended December 31, 2024	For the year ended December 31, 2023
Deferred tax asset at the beginning of the year	67,794	48,830
Recognized in profit or loss	14,535	26,518
Recognized in OCI	(11,796)	(7,554)
Deferred tax asset at the end of the year	70,533	67,794

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

	2024	Recognized in Profit or loss	Recognized in OCI	2023	Recognized in Profit or loss	Recognized in OCI
Deferred tax asset:						
Effect of IFRS 16	(3,050)	(396)	-	(2,654)	(4,292)	-
Reposessed assets	48,951	1,446	-	47,505	24,110	-
Investment property	7,311	2,317	-	4,994	783	-
Fixed assets	(300)	(300)	-	-	-	-
ECL on bonds	44	(50)	-	94	(83)	-
Accruals for bonuses	17,518	11,518	-	6,000	6,000	-
Investment securities at FVOCI	59	-	(11,796)	11,855	-	(7,554)
	70,533	14,535	(11,796)	67,794	26,518	(7,554)

In accordance with the local accounting law, as of 1 January 2008, the Bank is required to prepare its financial statements in accordance with IFRS. Furthermore, Law No. 10364, dated 16.12.2010 introduced certain amendments effective as of 24 January 2011. According to these amendments, the impairment allowances on loans and as recognized by banks under IFRS, are considered tax-deductible expenses, provided that such impairments are certified by the external auditors.

Income tax is prepaid to Albanian tax office through monthly installments. In accordance with the application of double taxation elimination mechanism, income tax arising from transactions with non-residents (foreign tax credit) is prepaid to nonresident authorities and is held from nonresidents in monthly installments. The table below presents the total income tax payable to the respective tax authorities after accounting for the prepayments made in the corresponding years.

	2024	2023
Income tax payable /(prepaid) as at 1 January	(2,512)	(38,071)
Income tax prepaid to Albanian tax office	(222,759)	(146,477)
Current tax	243,562	182,036
Income tax prepaid as at 31 December	18,291	(2,512)

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 2024	Within 12 months	After 12 months	Total
Assets			
Cash and balances with Central Bank	10,898,772	-	10,898,772
Due from banks	7,533,023	130,819	7,663,842
Investment securities	9,403,854	25,433,712	34,837,566
Loans and advances to customers	14,166,047	36,202,550	50,368,597
Investment in subsidiaries	-	366,436	366,436
Intangible assets	-	453,189	453,189
Property and equipment	-	838,749	838,749
Right-of-use asset	-	746,517	746,517
Investment property	-	33,903	33,903
Repossessed assets	93,405	384,443	477,848
Other assets	252,970	35,546	288,516
Deferred tax asset	-	70,533	70,533
Total assets	42,348,071	64,696,397	107,044,468
Liabilities			
Due to Central Bank	9,593,294	-	9,593,294
Due to banks and financial institutions	2,472,311	4,475,704	6,948,015
Due to customers	18,418,753	59,327,090	77,745,843
Lease liability	153,783	616,172	769,955
Other liabilities	784,608	174,957	959,565
Subordinated debt	21,493	1,521,325	1,542,818
Income tax payable	18,291	-	18,291
Total liabilities	31,462,533	66,115,248	97,577,781
Net	10,885,538	(1,418,851)	9,466,687
31 December 2023			
	Within 12 months	After 12 months	Total
Assets			
Cash and balances with Central Bank	14,935,022	-	14,935,022
Due from banks	2,397,675	102,314	2,499,989
Investment securities	9,188,042	23,906,609	33,094,651
Loans and advances to customers	12,045,866	34,121,041	46,166,907
Investment in subsidiaries	-	285,436	285,436
Intangible assets	-	436,363	436,363
Property and equipment	-	522,981	522,981
Right-of-use asset	-	494,457	494,457
Investment property	-	195,660	195,660
Repossessed assets	27,294	301,895	329,189
Other assets	246,383	41,142	287,525
Income tax receivable	2,512	-	2,512
Deferred tax asset	-	67,794	67,794
Total assets	38,842,794	60,475,692	99,318,486
Liabilities			
Due to Central Bank	7,227,975	-	7,227,975
Due to banks and financial institutions	3,743,648	3,934,528	7,678,176
Due to customers	17,464,323	56,521,887	73,986,210
Lease liability	133,039	391,998	525,037
Other liabilities	540,489	74,586	615,075
Subordinated debt	12,000	1,090,740	1,102,740
Total liabilities	29,121,474	62,013,739	91,135,213
Net	9,721,320	(1,538,047)	8,183,273

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

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, 2024	As at December 31, 2023
Cash on hand	2,943,229	2,215,094
Accounts with Central Bank	1,423,930	6,318,991
Current accounts at resident and non-resident banks	7,351,475	2,147,297
Total	11,718,634	10,681,382

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

	As at December 31, 2024	As at December 31, 2023
Opening Balance	1,102,740	808,173
<i>Cash flow items</i>	450,926	339,064
Issuances	490,750	363,580
Interest paid	(39,824)	(24,516)
<i>Non-cash items</i>	(10,845)	(44,497)
Accrued Interest	50,991	29,797
Foreign exchange impact	(61,836)	(74,294)
Ending Balance	1,542,821	1,102,740

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

	As at December 31, 2024	As at December 31, 2023
Opening Balance	33,174,819	29,226,341
<i>Cash flow items</i>	481,477	2,945,649
Issuances	11,303,764	10,127,489
Interest received	(1,576,450)	(1,429,394)
Repayments	(9,245,837)	(5,752,446)
<i>Non-cash items</i>	1,315,806	1,002,829
Accrued Interest	1,641,624	1,484,664
FV adjustment	71,013	35,945
Foreign exchange impact	(396,831)	(517,780)
Ending Balance	34,972,102	33,174,819

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.

36. RELATED PARTY TRANSACTIONS (CONTINUED)

The Bank has related party relationships with its shareholders and affiliates, its Subsidiary, directors and executive officers. The shareholding structure of the Bank as at 31 December 2024 and 2023 is presented in Note 22. Unioni Financiar Tirane (UFT) Sh.p.k is the ultimate parent of the Bank.

The information on the relatives of the individual shareholders of the Bank is included in “Key management personnel of the entity and their relatives”.

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

	As at December 31, 2024	As at December 31, 2023
Assets:		
Loans and advances to customers:		
Other Shareholders	139,136	114,782
Subsidiary	2,399,546	2,202,197
Related entities	1,966,330	1,927,037
Key management personnel and their close family members	198,916	166,519
Other Assets:		
Parent company	59,472	52,424
Other Shareholders	-	-
Subsidiary	8	-
Related entities	57,504	16,295
Key management personnel and their close family members	10	24
	As at December 31, 2024	As at December 31, 2023
Liabilities:		
Due to banks and financial institutions:		
Parent company	1,565,286	1,275,491
Subsidiary	133,940	234,850
Related entities	944,583	977,590
Other Shareholders	-	-
Due to customers:		
Other Shareholders	2,435	3,244
Related entities	696,885	649,944
Key management personnel and their close family members	265,566	350,765
Lease Liabilities:		
Subsidiary	62,184	45,719
Related entities	277,121	65,089
Key management personnel and their close family members	49,205	11,003
Other Liabilities:		
Parent company	6,708	1
Other Shareholders	952	-
Related entities	-	16,108
Key management personnel and their close family members	19,760	-
Subordinated debt:		
Parent company	60,109	-
Related entities	7,063	7,357
Key management personnel of the entity and their close family members	68,566	30,468

36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	As at December 31, 2024	As at December 31, 2023
ECL allowance:		
Other Shareholders	29	220
Subsidiary	621	532
Related entities	623	306
Key management personnel of the entity and their close family members	711	904

Loans to associated entities in the amount of LEK 1,966,330 thousand (2023: LEK 1,927,037 thousand) are covered by cash collateral of LEK 1,124,475 thousand (2023: LEK 1,342,960 thousand) and the remaining balance is covered by other collaterals provided by the parent company and associated entities.

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

	For the year ended December 31, 2024	For the year ended December 31, 2023
Interest income:		
Parent company	2,634	3,169
Other Shareholders	3,156	2,350
Subsidiary	102,480	79,456
Related entities	65,362	62,271
Key management personnel of the entity and their close family members	8,450	8,332
Interest expense:		
Parent company	15,603	6,909
Other Shareholders	9	11
Subsidiary	5,656	7,850
Related entities	29,438	14,615
Key management personnel of the entity and their close family members	7,109	3,596
	For the year ended December 31, 2024	For the year ended December 31, 2023
Fee and commission income:		
Parent company	6,381	2,963
Other Shareholders	257	219
Subsidiary	183	133
Related entities	4,719	4,372
Key management personnel of the entity and their close family members	573	576
Fee and commission expense:		
Parent company	-	124
Other Shareholders	-	-
Related entities	2,803	229
Operating income:		
Parent company	48	9
Related entities	658	739
Operating expense:		
Parent company	1,211	3,820
Other shareholders	5,631	4,510
Subsidiary	3,056	2,967
Related entities	160,892	146,660
Key management personnel of the entity and their close family members	160,890	129,504

36. RELATED PARTY TRANSACTIONS (CONTINUED)

	For the year ended December 31, 2024	For the year ended December 31, 2023
Dividend income from subsidiary	48,600	50,007
Sale of Fixed assets:		
Related entities	-	-
Purchase of Fixed assets:		
Related entities	12,387	35,041
Subsidiary	-	-
	As at December 31, 2024	As at December 31, 2023
Off balance sheet commitments		
Un-drawn credit facilities from the Bank:		
Parent company	981	
Other Shareholders	13,407	3,142
Subsidiary	228,463	1,661
Related entities	36,379	5,423
Key management personnel of the entity and their close family members	14,154	3,973
Guarantees received:		
Parent company	175,709	185,945
Other Shareholders	38,769	34,748
Subsidiary	2,797,225	3,086,700
Related entities	2,481,492	2,359,692
Key management personnel of the entity and their close family members	383,567	383,261
Guarantees given:		
Parent company	20	20
Related entities	217,283	222,626

37. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include the following:

	2024	2023
Un-drawn credit facilities	2,648,222	2,273,915
Guarantees given in favor of customers	622,168	873,143
Commitments for LC	13,222	17,627
Allowance for impairment losses	(4,540)	(5,610)

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

Guarantees and commitments

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

37. COMMITMENTS AND CONTIGENCIES (CONTINUED)

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 2023	1,148,563	-	2,784	1,151,347
New assets originated or purchased	368,915	-	-	368,915
Assets de-recognised or repaid	(608,979)	-	-	(608,979)
Transfers between Stages	2,784	-	(2,784)	-
Foreign exchange adjustments	(38,140)	-	-	(38,140)
Gross carrying amount as at 31 December 2023	873,143	-	-	873,143
New assets originated or purchased	299,714	-	-	299,714
Assets de-recognised or repaid	(536,037)	-	-	(536,037)
Transfers to Stage 1	(5,085)	-	5,085	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	(14,652)	-	-	(14,652)
Gross carrying amount as at 31 December 2024	617,083	-	5,085	622,168
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	9,477	-	729	10,206
New assets originated or purchased	1,530	-	-	1,530
Assets de-recognised or repaid	(4,694)	-	-	(4,694)
Transfers between Stages	729	-	(729)	-
Net re-measurement of ECL	(1,394)	-	-	(1,394)
Foreign exchange adjustments	(601)	-	-	(601)
ECL allowance as at 31 December 2023	5,047	-	-	5,047
New assets originated or purchased	3,108	-	-	3,108
Assets de-recognised or repaid	(3,719)	-	-	(3,719)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(1,273)	-	1,273	-
Net re-measurement of ECL	(51)	-	-	(51)
Foreign exchange adjustments	(188)	-	-	(188)
ECL allowance as at 31 December 2024	2,924	-	1,273	4,197

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 2023	-	36,604	2,606	39,210
New assets originated or purchased	-	17,627	-	17,627
Assets de-recognised or repaid	-	(36,604)	(2,606)	(39,210)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Gross carrying amount as at 31 December 2023	-	17,627	-	17,627
New assets originated or purchased	13,222	-	-	13,222
Assets de-recognised or repaid	-	(17,627)	-	(17,627)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(13,222)	13,222	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Gross carrying amount as at 31 December 2024	-	13,222	-	13,222

37. COMMITMENTS AND CONTIGENCIES (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	-	1,391	2,417	3,808
New assets originated or purchased	-	592	-	592
Assets de-recognised or repaid	-	(1,326)	(2,302)	(3,628)
Transfers between stages	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	(94)	(115)	(209)
ECL allowance as at 31 December 2023	-	563	-	563
New assets originated or purchased	355	-	-	355
Assets de-recognised or repaid	-	(549)	-	(549)
Transfers between stages	(355)	355	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	(26)	-	(26)
ECL allowance as at 31 December 2024	-	343	-	343

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

Legal

The Bank was involved in various claims and legal proceedings of a nature considered normal to its business as at 31 December 2024. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Bank'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 Bank.

38. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks which are properly managed by the Bank's structure. Management of risks involve analysis, evaluation, acceptance and/or mitigation of all material risks or some degree of risks or combination of risks. Taking risks is core to the financial business, and the financial and operational risks are inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance. The Bank's risk management policies are designed to identify and analyse these risks, to define appropriate risk management strategies, to establish suitable limits in line with its risk appetite, and to implement risk controls. Furthermore, the policies aim to monitor risks and compliance with established limits through reliable and up-to-date information systems. Another key aspect involves tracking and addressing regulatory requirements related to the management of risks faced by the Bank..

38.1. Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank 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.

Based on the policies approved by the Board of Directors, the Bank Credit Risk Management Committee is responsible for the management of credit risk. Core responsibilities of the Bank Credit Risk Management Committee include overseeing the implementation of the strategy for credit risk management and ensure that it is consistent with its strategic profile; decide on strategic actions to secure objective achievements regarding credit risk portfolio management; review compliance with limits or monitoring ratios and reporting triggers on credit risk that derive from the Bank's Risk Strategy and Risk Appetite; monitor implementation of the Bank's policies and procedures for credit risk management and give proposals for its continual review and revision;; review the structure of the credit exposure portfolio and monitors credit risk concentration; review the stress test analysis for assessing the bank portfolio quality etc.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)**38.1 Credit risk (continued)**

Credit Risk Management Committee also assesses the classification criteria of loan portfolio and impairment calculation and results in compliance to applicable Bank's policy.

Credit risk is operationally managed and monitored by the credit risk departments of the Bank's Credit Division. 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 Bank credit policies and procedures, within credit approval authorities delegated from the Bank's Credit Department, Credit Risk Management Committee and Credit Committee, based on the Credit Policy. Each business unit has a responsible officer who reports on all credit related matters to heads of departments and the Bank's Credit Committee and/or Credit Risk Management 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 Bank has 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 Bank 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 Bank credit processes are undertaken by Internal Audit.

38.1.1. Credit related commitments risk

The Bank makes available to its customers guarantees that may require that the Bank 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 Bank 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 Bank to similar risks to loans and are mitigated by the same control processes and policies.

38.1.2. Impairment assessment

The Bank has in use an excel-based but automatic tool for ECL calculation for loan portfolio. The tool has a better organized data structures and results are extracted in standardized tables, therefore properly documenting impairment results and relevant parameter calculations such as PD, LGD etc. While adapting to the new tool and also reflecting the market sentiment, the Bank made some changes to the classification criteria, revised minimum PD by segment, cleared the definition on forborne exposure and applicable exit criteria.

38.1.2.1. Definition of default and cure

The Bank 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 or classified as non-performing according to the local standard definition. The Bank 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 Bank also considers other criteria that may indicate unlikelihood to pay. When such events occur, the Bank 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.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)**38.1 Credit risk (continued)****38.1.2. Impairment Assessment (continued)****38.1.2.1 Definition of default and cure (continued)**

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 or other counterparty;
- 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 Bank'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, verified at the time of the cure.

38.1.2.2. Significant increase in credit risk

The Bank 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 Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank considers both quantitative and qualitative criteria in order to assess whether significant increase in credit risk has occurred, for staging purposes. The Bank defines criteria that are indicative of a significant increase in credit risk. The Bank 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 corporates). Despite their priority, all criteria have the same weight in the assessment process for significant increase in credit risk.

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 Bank 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 Bank calculates ECLs either on a collective or an individual basis.

Assets classes where the Bank 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 at group of connected obligors level 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-recognized and a new loan was recognized as a result of a credit driven debt restructuring
- Loans classified in Stage 2 for which the Bank has indications of a significant increase in credit risk.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.2 Impairment assessment(continued)

38.1.2.3. Individual vs. Collective (continued)

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

- Stage 1 and 2 categories of lending;
- Stage 3 loans, with an aggregate exposure at group of connected obligors level below EUR 100 thousand;
- Purchased POCI exposures managed on a collective basis

The Bank groups these exposures into smaller homogeneous portfolios (sub-portfolio) 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 Management 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.

38.1.2.4.2. 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 Bank 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, Foreign Exchange rate, interest rate and unemployment rate, etc. 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 GDP (transformed) and Unemployment Rate are statistically important for Business segment, GDP and Foreign Exchange (both transformed variables) are statistically important for Mortgage sub-segments, and Unemployment 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.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)**38.1 Credit risk (continued)****38.1.2 Impairment assessment(continued)****38.1.2.4.2. Forward looking adjustment of lifetime marginal PD (continued)**

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.

After several years of multiple, continues shocks, the global economy is finally showing signs of stabilizing. Despite the grimmest predictions, the world managed to avoid a global recession this year. While advanced economies have largely recovered, developing countries have yet to catch up. During 2024, the Albanian economy recorded a growth rate of around 4%, generating more employment, higher wages, and elevated income for households and businesses. The latter were also supported by the declining inflation, which fell to 2.2%, halving compared to the previous year, in turn contributing to easing the cost burden on both households and businesses. Moody's and Standard & Poor's, the two prestigious credit rating agencies, upgraded the risk rating of Albania's sovereign debt, thus certifying this positive economic overview. This development is positive for both real sector and financial sector, as it reduces the perceived risk in international markets and decreases the cost of financing in it.

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 Bank'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 Bank would expect to receive, excluding flows from any collateral.

For loans to customers, for each of the defined categories of loans the Bank calculates LGD based on this formula $LGD = 1 - RR$ (where $RR = \text{"Recovery Rate"}$) which includes Cash Payment Rate and Collateral consideration.

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

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

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 4.12.2.

				As at 31 December 2024		As at 31 December 2023
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Cash and Central Bank						
Low- fair risk	10,908,950	-	-	-	10,908,950	14,939,340
Less: allowance	(10,178)	-	-	-	(10,178)	(4,318)
Carrying amount	10,898,772	-	-	-	10,898,772	14,935,022
Due from banks						
Low- fair risk	7,671,175	-	-	-	7,671,175	2,527,744
Less: allowance	(7,333)	-	-	-	(7,333)	(27,755)
Carrying amount	7,663,842	-	-	-	7,663,842	2,499,989
Investment securities at FVOCI						
Low- fair risk	1,485,468	-	-	-	1,485,468	1,061,589
Carrying amount	1,485,468	-	-	-	1,485,468	1,061,589
Loss allowance¹	6,732	-	-	-	6,732	3,183

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).

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Notes to the Separate Financial Statements as at and for the year ended December 31, 2024

(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)

				As at 31 December 2024		As at 31 December 2023
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
<i>Investment securities at amortized cost</i>						
Low- fair risk	3,802,861	-	-	-	3,802,861	4,405,924
Monitoring	29,624,071	-	-	-	29,624,071	27,651,473
Less: allowance	(134,536)	-	-	-	(134,536)	(80,168)
Carrying amount	33,292,396	-	-	-	33,292,396	31,977,229
				As at 31 December 2024		As at 31 December 2023
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
<i>Loans and advances</i>						
Low- fair risk	47,035,817	1,146,137	45,352	-	48,227,306	44,160,583
Monitoring	-	1,479,902	3,278	-	1,483,180	1,488,991
Substandard	-	-	1,074,625	-	1,074,625	744,407
Doubtful	-	-	574,444	-	574,444	369,964
Lost	-	-	1,275,069	-	1,275,069	1,437,891
Less: allowance	(323,223)	(391,659)	(1,551,145)	-	(2,266,027)	(2,034,929)
Carrying amount	46,712,594	2,234,380	1,421,623	-	50,368,597	46,166,907
				As at 31 December 2024		As at 31 December 2023
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
<i>Financial guarantees and other commitments</i>						
Low- fair risk	3,283,612	-	-	-	3,283,612	3,164,685
Less: allowance	(4,540)	-	-	-	(4,540)	(5,610)
Carrying amount	3,279,072	-	-	-	3,279,072	3,159,075

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Notes to the Separate Financial Statements as at and for the year ended December 31, 2024

(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 2024

	Financial services	Government	Consumers	Retail and wholesale	Construction	Services	Agriculture and processing industries	Total
Cash on hand and Central Bank	10,898,772	-	-	-	-	-	-	10,898,772
Due from banks	7,663,842	-	-	-	-	-	-	7,663,842
Investment securities	2,162,873	32,023,858	-	28,383	-	249,132	373,320	34,837,566
Loans and advances to customers								
<i>Lending to businesses</i>	5,155,619	-	-	5,009,295	5,009,452	8,239,493	3,263,035	26,676,894
<i>Consumer lending</i>	-	-	9,341,173	-	-	-	-	9,341,173
<i>Overdrafts and credit cards</i>	-	-	426,426	-	-	-	-	426,426
<i>Mortgage Lending</i>	-	-	13,924,104	-	-	-	-	13,924,104
Total of Loans and advances to customers	5,155,619	-	23,691,703	5,009,295	5,009,452	8,239,493	3,263,035	50,368,597
	25,881,106	32,023,858	23,691,703	5,037,678	5,009,452	8,488,625	3,636,355	103,768,777
Financial guarantees	15,540	-	1,650	284,076	186,666	124,741	5,298	617,971
Standby letters of credit	-	-	-	-	-	-	12,879	12,879
Commitments to extend credit	334,092	-	820,381	601,665	249,034	309,748	333,302	2,648,222
	349,632	-	822,031	885,741	435,700	434,489	351,479	3,279,072
Total	26,230,738	32,023,858	24,513,734	5,923,419	5,445,152	8,923,114	3,987,834	107,047,849

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Notes to the Separate Financial Statements as at and for the year ended December 31, 2024

(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 2023

	Financial services	Government	Consumers	Retail and wholesale	Construction	Services	Agriculture and processing industries	Total
Cash on hand and Central Bank	14,935,022	-	-	-	-	-	-	14,935,022
Due from banks	2,499,989	-	-	-	-	-	-	2,499,989
Investment securities	3,093,288	29,561,655	-	28,262	-	169,743	241,703	33,094,651
Loans and advances to customers								
<i>Lending to businesses</i>	4,686,738	-	-	4,273,369	4,324,732	8,647,500	3,397,636	25,329,975
<i>Consumer lending</i>	-	-	7,889,635	-	-	-	-	7,889,635
<i>Overdrafts and credit cards</i>	-	-	356,674	-	-	-	-	356,674
<i>Mortgage Lending</i>	-	-	12,590,623	-	-	-	-	12,590,623
Total of Loans and advances to customers	4,686,738	-	20,836,932	4,273,369	4,324,732	8,647,500	3,397,636	46,166,907
	25,215,037	29,561,655	20,836,932	4,301,631	4,324,732	8,817,243	3,639,339	96,696,569
Financial guarantees	10,452	-	1,650	231,384	304,102	315,195	5,313	868,096
Standby letters of credit	-	-	-	-	-	-	17,064	17,064
Commitments to extend credit	265,708	-	726,546	368,672	391,498	255,157	266,334	2,273,915
	276,160	-	728,196	600,056	695,600	570,352	288,711	3,159,075
Total	25,491,197	29,561,655	21,565,128	4,901,687	5,020,332	9,387,595	3,928,050	99,855,644

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/or cash collateral.

Impaired loans and advances

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

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Bank 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 Bank.

Loans with renegotiated terms

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

Allowances for impairment

The Bank 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 2,972,768 thousand (2023: LEK 2,602,062 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 2024	Over-collateralized portfolio		Under-collateralized portfolio	
	Credit impaired loans	Fair value of collateral	Credit impaired loans	Fair value of collateral
Mortgage Lending	340,281	1,094,390	23,010	-
Personal loans	115,884	581,825	307,446	-
Overdrafts and credit cards	1,214	1,155	44,655	6
Loans to businesses	1,999,860	8,261,357	140,418	8,769
Total	2,457,239	9,938,727	515,529	8,775

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.4 Analysis of risk concentrations (continued)

31 December 2023	Over-collateralized portfolio		Under-collateralized portfolio	
	Credit impaired loans	Fair value of collateral	Credit impaired loans	Fair value of collateral
Mortgage Lending	294,033	776,799	12,638	-
Personal loans	135,827	531,603	243,339	-
Overdrafts and credit cards	799	710	37,620	84
Loans to businesses	1,693,389	9,620,342	184,417	7,263
Total	2,124,048	10,929,454	478,014	7,347

Loans and advances restructured

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 2024 is LEK 476,055 thousand (2023: LEK 567,982 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 Bank writes off a loan / security balance (and any related allowances for impairment losses), through a Board decision, when Bank's respective Committee determines and proposes to the Board, for approval, 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 2024 is LEK 74,136 thousand (2023: LEK 164,401 thousand).

The Bank 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 2024	Stage 1	Stage 2	Stage 3	Total
Property	72,216,706	5,766,224	5,445,632	83,428,562
Pledge	21,541,444	1,015,093	4,493,659	27,050,196
Cash	2,590,800	896	8,211	2,599,907
Total	96,348,950	6,782,213	9,947,502	113,078,665

31 December 2023	Stage 1	Stage 2	Stage 3	Total
Property	67,638,720	3,663,856	4,380,003	75,682,579
Pledge	18,588,441	1,119,095	6,550,536	26,258,072
Cash	2,819,636	6,191	6,262	2,832,089
Total	89,046,797	4,789,142	10,936,801	104,772,740

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 gross book value of loans and advances given to customers and financial institution by ranges of their collateral coverage:

31 December 2024	Over-collateralized portfolio		Under-collateralized portfolio	
	Gross book value of portfolio	Fair value of collateral	Gross book value of portfolio	Fair value of collateral
Mortgage Lending	13,129,487	32,214,029	955,499	382,531
Personal loans	4,975,687	12,568,672	4,877,238	319,234
Overdrafts and credit cards	1,919	1,861	494,544	87,388
Loans to businesses	22,984,741	65,328,541	5,215,509	2,176,409
Total	41,091,834	110,113,103	11,542,790	2,965,562

31 December 2023	Over-collateralized portfolio		Under-collateralized portfolio	
	Gross book value of portfolio	Fair value of collateral	Gross book value of portfolio	Fair value of collateral
Mortgage Lending	11,885,781	28,386,532	857,455	415,057
Personal loans	4,472,157	10,667,797	3,844,958	110,808
Overdrafts and credit cards	2,096	2,340	412,297	61,811
Loans to businesses	21,029,486	62,684,355	5,697,606	2,444,040
Total	37,389,520	101,741,024	10,812,316	3,031,716

38.2. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments, and, in general to retain continuity of its core business lines. On an operational basis, the Bank monitors its liquidity position and the performance of customer deposits, as well as the evolution of its investments and financing activities. Based on this monitoring, the Bank adjusts its asset funding structure and access to funds in order to maintain an adequate liquidity buffer to meet its obligations, in accordance with established limits. On a more strategic level, during the budgeting process, the Bank forecasts cash inflows and outflows as well as liquidity reserves. Through the ALCO, the Bank manages this risk by continuously monitoring performance against the budget and the system, the liquidity gap, and a range of liquidity ratios.

Each branch is subject to established liquidity limit, and is responsible for managing its liquidity within these limit in co-ordination with Bank's Treasury Department that manages the process of cash movement within the Bank branches. Treasury Department monitors compliance for all operating branches with established liquidity limits on daily basis. In addition, it ensure that the treasury maintains adequate reserve levels to support the Bank's branches, whenever necessary.

All policies, risk appetite limits, and the liquidity management strategy are subject to review by the ALCO (Asset and Liability Committee) and are approved annually by the Board of Directors. Daily reports are produced to measure the liquidity position of both the Bank's operational branches and the Bank as a whole.

The Bank primarily relies on customer deposits as its main source of funding, while also utilizing repos and short-term borrowings. The short-term nature a portion of these funding source increases the Bank's liquidity risk. This risk is managed through the maintenance of adequate levels of high-quality liquid assets, competitive pricing, alignment between cash inflows and outflows based on their nature, and continuous 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 for local and foreign currencies, and in total as well. These ratios are calculated as per Central Bank's regulatory framework and the Bank was compliant throughout the years 2024 and 2023 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 maintains liquidity in an amount, structure, and ratios that allows it to meet its obligations and commitments according to their maturities, as well as to support the budgeted growth of its activity, at a reasonable cost and within the risk level undertaken by the Bank. 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 policies include sets of daily, weekly and monthly reports to be prepared and analyzed. Monthly reports include liquidity ratios as Liquid Assets to Short Term Liabilities, LCR ratio, NSFR ratio, contractual gap and simulated gap analyses under separate bank specific and market crisis scenarios. Reports are produced for each single/important currency LEK 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.

As part of a full framework of liquidity risk management, the Bank 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 includes the liquidity risk between the key indicators of Recovery Plan, based on the specific BOA regulation requirements. Both such plans are part of a yearly review from ALCO and subject to Board's approval.

The Bank, is prudent when it comes to the investments' quality, also making sure to properly manage its liquidity levels in branches

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38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

An analysis of the maturity profile of the remaining undiscounted² (i.e. including future contractual interest) contractual cash flows of the Bank's financial assets and liabilities is as follows:

31 December 2024	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	5,346,343	-	-	-	-	-	5,346,343
Due from banks	7,359,972	-	-	186,485	9,426	121,518	7,677,401
Investment securities	1,219,404	3,668,408	1,584,094	3,125,462	19,689,237	11,244,054	40,530,659
Loans and advances to customers	1,977,561	3,048,714	3,742,135	8,723,962	29,513,103	20,420,965	67,426,440
Other assets	147,214	1,783	2,674	5,349	40,897	-	197,917
Total undiscounted financial assets	16,050,494	6,718,905	5,328,903	12,041,258	49,252,663	31,786,537	121,178,760
Liabilities							
Due to Central Bank	9,596,975	-	-	-	-	-	9,596,975
Due to banks and Financial institutions	4,073,494	225,366	299,931	1,200,555	1,234,492	40,000	7,073,838
Due to customers	39,720,441	4,321,375	4,652,696	13,001,668	17,197,987	1,430	78,895,597
Lease liability	16,735	33,316	58,121	105,984	611,125	108,986	934,267
Other liabilities	774,202	3,362	1,120	1,398	6,474	-	786,556
Subordinated debt	-	23,850	8,330	32,181	915,827	900,011	1,880,199
Income tax payable	-	18,291	-	-	-	-	18,291
Total undiscounted financial liabilities	54,181,847	4,625,560	5,020,198	14,341,786	19,965,905	1,050,427	99,185,723
Net undiscounted financial assets/liabilities	(38,131,353)	2,093,345	308,705	(2,300,528)	29,286,758	30,736,110	21,993,037

It is in the nature of Bank'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 Bank. As explained in detail above, the Bank has all the tools to monitor and manage the liquidity by currency, based on contractual and expected maturity and stress tests performed, and is consistently within the regulatory and internal liquidity limits.

² i.e. the balance includes the contractual interest for the life of the instrument.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)**38.2 Liquidity risk (continued)**

31 December 2023	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	9,408,361	-	-	-	-	-	9,408,361
Due from banks	1,733,778	422,884	124,656	124,656	30,170	94,324	2,530,468
Investment securities	1,544,065	2,129,858	2,491,105	3,287,230	19,485,350	9,177,486	38,115,094
Loans and advances to customers	2,455,304	2,277,099	3,481,233	7,006,571	28,037,253	19,651,728	62,909,188
Income tax receivable	2,512	-	-	-	-	-	2,512
Other assets	164,115	1,662	2,493	4,986	39,890	9,141	222,287
Total undiscounted financial assets	15,308,135	4,831,503	6,099,487	10,423,443	47,592,663	28,932,679	113,187,910
Liabilities							
Due to Central Bank	2,809,825	4,453,849	-	-	-	-	7,263,674
Due to banks and Financial institutions	5,461,172	74,147	418,447	1,245,639	477,602	-	7,677,007
Due to customers	36,616,427	4,041,554	4,207,874	10,799,894	17,789,322	-	73,455,071
Lease liability	17,075	33,964	50,384	63,559	356,315	114,638	635,935
Other liabilities	499,975	1,286	1,285	2,568	11,011	-	516,125
Subordinated debt	-	8,830	12,245	21,075	567,237	721,395	1,330,782
Total undiscounted financial liabilities	45,404,474	8,613,630	4,690,235	12,132,735	19,201,487	836,033	90,878,594
Net undiscounted financial assets/liabilities	(30,096,339)	(3,782,127)	1,409,252	(1,709,292)	28,391,176	28,096,646	22,309,316

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38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

The table below shows the contractual expiry by maturity of the Bank'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 2024	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	3,613	155,163	53,080	241,979	158,967	9,366	622,168
Letters of credit	-	-	13,222	-	-	-	13,222
Other undrawn commitments to lend	53,705	107,847	644,594	1,435,861	406,215	-	2,648,222
Total Commitments and guarantees	57,318	263,010	710,896	1,677,840	565,182	9,366	3,283,612

31 December 2023	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	73,916	9,593	288,620	286,342	214,672	-	873,143
Letters of credit	-	-	17,627	-	-	-	17,627
Other undrawn commitments to lend	125,706	237,151	280,370	1,389,595	241,093	-	2,273,915
Total Commitments and guarantees	199,622	246,744	586,617	1,675,937	455,765	-	3,164,685

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.3. Market risk

The Bank 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 Bank 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 which may have an adverse impact on the Bank's financial position or performance. This risk arises when the Bank holds open positions in foreign currencies. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions and stop loss limit. As the currency in which the Bank presents its separate financial statements is the LEK, the Bank's separate financial statements are affected by movements in the exchange rates between the LEK and other currencies.

The Bank'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 Treasury Department is the primary responsible party and the first line of control for the daily monitoring and oversight of this risk, particularly with regard to maintaining the limits established in the relevant Policies. The monitoring and control function for the Bank's currency risk are performed by CFO and Risk Management Department daily 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 Bank that are not denominated in the reporting currency of the Bank. The applicable exchange rates for the main currencies are as follows:

	2024	2023
EUR:LEK	98.15	103.88
USD:LEK	94.26	94.93

The analysis of monetary assets and liabilities as of 31 December 2024 and 2023 by the foreign currencies in which they were denominated is shown below:

31 December 2024	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with Central Bank	3,419,288	600,097	6,435,415	443,972	10,898,772
Due from banks	100,859	353,537	6,970,056	239,390	7,663,842
Investment securities	25,232,754	1,506,371	6,990,946	1,107,495	34,837,566
Loans and advances to customers	20,754,735	50,348	29,563,514	-	50,368,597
Other assets	54,247	1,543	127,968	5,919	189,677
Total	49,561,883	2,511,896	50,087,899	1,796,776	103,958,454
Liabilities					
Due to Central Bank	9,593,294	-	-	-	9,593,294
Due to banks and financial institutions	2,481,086	59,697	4,373,552	33,680	6,948,015
Due to customers	33,259,140	2,510,978	40,352,384	1,623,341	77,745,843
Lease liability	53,643	4,362	711,950	-	769,955
Other liabilities	337,070	224,678	223,808	964	786,520
Subordinated debt	-	-	1,542,818	-	1,542,818
Income tax payable	18,291	-	-	-	18,291
Total	45,742,524	2,799,715	47,204,512	1,657,985	97,404,736
Net Foreign Exchange Spot	128,355	219,271	(268,931)	(77,883)	812
Net Position	3,947,714	(68,548)	2,614,456	60,908	6,554,530

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.3 Market risks (continued)

Currency risk (continued)

31 December 2023	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with Central Bank	2,675,081	1,284,135	10,743,185	232,621	14,935,022
Due from banks	323,145	353,809	1,415,363	407,672	2,499,989
Investment securities	23,838,478	1,180,185	7,049,443	1,026,545	33,094,651
Loans and advances to customers	17,730,767	49,766	28,386,374	-	46,166,907
Income tax receivable	2,512	-	-	-	2,512
Other assets	99,273	7,421	98,301	6,153	211,148
Total	44,669,256	2,875,316	47,692,666	1,672,991	96,910,229
Liabilities					
Due to Central Bank	7,227,975	-	-	-	7,227,975
Due to banks and financial institutions	3,948,071	106,790	3,596,206	27,109	7,678,176
Due to customers	30,452,743	2,693,143	39,265,655	1,574,669	73,986,210
Lease liability	61,264	6,595	457,178	-	525,037
Other liabilities	268,465	30,285	214,778	2,547	516,075
Subordinated debt	-	-	1,102,740	-	1,102,740
Total	41,958,518	2,836,813	44,636,557	1,604,325	91,036,213
Net Foreign Exchange Spot	253,230	(100,292)	(125,695)	(28,411)	(1,168)
Net Position	2,963,968	(61,789)	2,930,414	40,255	5,872,848

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

Interest rate risk

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

The Bank attempts to mitigate this risk by maintaining the Repricing Gap fully matched, so that both its assets and liabilities mature are re-price simultaneously. This limits the risk of the Bank becoming over-sensitive to interest rate changes. The monitoring and control function for the Bank's interest rate risk are performed by ALCO. Bank's ALCO policy includes sets of limits, measurement methods and monthly reports that are prepared and analyzed.

The Bank's interest rate gap as at 31 December 2024 is analyzed below. As at 31 December 2023, majority of the Bank'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 Bank were as follows:

	Weighted average interest rate							
	LEK		USD		EUR		Other	
	2024	2023	2024	2023	2024	2023	2024	2023
Assets:								
Statutory reserves	2.75%	3.25%	N/A	N/A	N/A	N/A	N/A	N/A
Due from banks	2.83%	3.33%	N/A	N/A	2.63%	3.94%	N/A	N/A
Investment securities	5.17%	5.13%	3.92%	3.99%	3.75%	3.79%	3.74%	3.46%
Loans to customers	7.95%	7.77%	6.93%	6.35%	5.91%	5.66%	N/A	N/A
Liabilities:								
Due to banks	3.50%	3.18%	2.50%	2.20%	2.94%	1.72%	N/A	2.25%
Due to customers	2.93%	2.56%	1.87%	1.66%	1.84%	1.39%	1.01%	0.95%
T-Bills under Repos	2.80%	3.53%	N/A	N/A	N/A	N/A	N/A	N/A
Loans from government	N/A	N/A	N/A	N/A	0.20%	0.20%	N/A	N/A
Lease liability	8.67%	8.65%	7.25%	7.25%	7.66%	7.28%	N/A	N/A
Subordinated debt	N/A	N/A	N/A	N/A	3.86%	3.73%	N/A	N/A

ii. Interest rate repricing analysis

The following table presents the interest rate repricing dates for the Bank'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.

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38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.3 Market risks (continued)

Interest rate risk (continued)

31 December 2024	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	1,413,007	-	-	-	-	9,485,765	10,898,772
Due from banks	5,647,747	-	-	-	-	2,016,095	7,663,842
Investment securities	1,179,601	3,945,224	1,649,199	2,604,966	25,532,497	(73,921)	34,837,566
Loans and advances to customers	3,199,631	7,429,194	11,581,241	23,326,112	7,404,851	(2,572,432)	50,368,597
Other assets	630	1,270	1,935	3,976	35,545	146,321	189,677
Total	11,440,616	11,375,688	13,232,375	25,935,054	32,972,893	9,001,828	103,958,454
Liabilities							
Due to Central Bank	9,593,294	-	-	-	-	-	9,593,294
Due to banks and financial institutions	712,272	224,203	309,220	1,169,943	1,188,375	3,344,002	6,948,015
Due to customers	9,738,639	4,898,221	5,822,468	15,048,366	34,100,002	8,138,147	77,745,843
Lease liability	11,762	23,597	44,111	74,312	616,173	-	769,955
Other liabilities	2,230	1,115	1,115	1,395	6,451	774,214	786,520
Subordinated debt	-	-	-	-	1,521,325	21,493	1,542,818
Income tax payable	-	-	-	-	-	18,291	18,291
Total	20,058,197	5,147,136	6,176,914	16,294,016	37,432,326	12,296,147	97,404,736
Gap	(8,617,581)	6,228,552	7,055,461	9,641,038	(4,459,433)	(3,294,319)	6,553,718
Cumulative gap	(8,617,581)	(2,389,029)	4,666,432	14,307,470	9,848,037	6,553,718	-

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38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.3 Market risks (continued)

Interest rate risk (continued)

31 December 2023	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	1,254,800	-	-	-	-	13,680,222	14,935,022
Due from banks	931,887	421,407	124,656	124,656	-	897,383	2,499,989
Investment securities	1,728,510	2,239,053	2,358,049	2,831,509	24,040,904	(103,374)	33,094,651
Loans and advances to customers	3,255,690	4,880,205	9,408,609	20,679,153	10,274,064	(2,330,814)	46,166,907
Income tax receivable	-	-	-	-	-	2,512	2,512
Other assets	542	1,094	1,665	3,422	41,141	163,284	211,148
Total	7,171,429	7,541,759	11,892,979	23,638,740	34,356,109	12,309,213	96,910,229
Liabilities							
Due to Central Bank	2,805,007	4,422,968	-	-	-	-	7,227,975
Due to banks and financial institutions	2,427,774	73,733	415,034	1,273,490	445,514	3,042,631	7,678,176
Due to customers	9,153,938	4,711,363	5,291,813	12,852,844	34,076,256	7,899,996	73,986,210
Lease liability	15,888	27,702	41,626	47,823	391,998	-	525,037
Other liabilities	1,278	1,278	1,278	2,555	10,972	498,714	516,075
Subordinated debt	-	-	-	-	1,090,740	12,000	1,102,740
Total	14,403,885	9,237,044	5,749,751	14,176,712	36,015,480	11,453,341	91,036,213
Gap	(7,232,456)	(1,695,285)	6,143,228	9,462,028	(1,659,371)	855,872	5,874,016
Cumulative gap	(7,232,456)	(8,927,741)	(2,784,513)	6,677,515	5,018,144	5,874,016	-

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

38.3 Market risks (continued)

Sensitivity analyses

The sensitivity analysis below has 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 and equity, assuming all the other variables are held constant:

	31 December 2024	31 December 2023
Interest rate increases by 2%	196,961	109,428
Interest rate increases by 1.5%	147,721	82,071
Interest rate increases by 1%	98,480	54,714
Interest rate decreases by 1%	(98,480)	(54,714)
Interest rate decreases by 1.5%	(147,721)	(82,071)
Interest rate decreases by 2%	(196,961)	(109,428)

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 the effect of changes in exchange rates in the net profit, assuming that all the other variables are held constant:

	31 December 2024	31 December 2023
LEK depreciates against USD by 5%	(3,427)	(3,089)
LEK appreciates against USD by 5%	3,427	3,089
LEK depreciates against EUR by 5%	130,723	146,521
LEK appreciates against EUR by 5%	(130,723)	(146,521)
LEK depreciates against other ccys by 5%	3,045	2,013
LEK appreciates against other ccys by 5%	(3,045)	(2,013)

38.4. Operational risk

The operational risk arises from the delivery of the Bank's products and services and is inherent in day-to-day transaction processing. It may also result from inadequate information systems, technology failures, breaks of internal controls, fraud or unforeseen catastrophic events.

To manage operational risk, the Bank has established a comprehensive framework that incorporates clear definitions of operational risk controls and responsibilities across the organization, along with 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 and Other Risks Committee (KRORT) is periodically monitoring the occurrences of operational losses and operational risk events 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.

39. DISCLOSURE AND ESTIMATION OF FAIR VALUE

Fair value estimates are based on existing financial instruments on the Bank'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 2024			
	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Financial assets				
Due from banks	7,663,842	-	-	7,663,842
Investment securities at FVPL	59,702	59,702	-	-
Investment securities at FVOCI	1,485,468	1,485,468	-	-
Investment securities at amortized cost	33,292,396	8,973,657	25,229,118	-
Loans and advances to customers	50,368,597	-	-	54,651,408
Financial liabilities				
Due to Central Bank	9,593,294	-	9,593,294	-
Due to banks and financial institutions	6,948,015	-	-	6,973,917
Due to customers	77,745,843	-	-	77,977,898
Due to government	12,318	-	-	11,488
Subordinated debt	1,542,818	-	-	1,510,782

	As at 31 December 2023			
	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Financial assets				
Due from banks	2,499,989	-	-	2,499,989
Investment securities at FVPL	55,833	55,833	-	-
Investment securities at FVOCI	1,061,589	1,061,589	-	-
Investment securities at amortized cost	31,977,229	8,548,055	23,434,167	-
Loans and advances to customers	46,166,907	-	-	49,267,415
Financial liabilities				
Due to Central Bank	7,227,975	-	7,227,975	-
Due to banks and financial institutions	7,678,176	-	-	7,686,828
Due to customers	73,986,210	-	-	73,980,009
Due to government	17,386	-	-	17,386
Subordinated debt	1,102,741	-	-	1,102,741

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 table below shows capital adequacy ratios as at the end of:

	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Total risk weighted exposures	55,944,798	49,762,158
Regulatory capital	10,019,953	8,286,169
Capital adequacy ratio	17.91%	16.65%

The Bank’s policy is to maintain an optimal capital base to sustain future development of its business and to preserve market confidence. The Bank acknowledges the impact that capital levels have on shareholders’ returns and seeks to maintain appropriate 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.

40. CAPITAL MANAGEMENT (CONTINUED)

The Bank assesses and monitors the capital requirements in accordance with Internal Capital Adequacy Assessment Process (ICAAP), in compliance with relevant guideline approved by the Supervisory Council of the Bank of Albania through the decision no. 41, date 5.6.2019. In line with these requirements, the internal target for capital adequacy ratio, as set by the Board of Directors, is 12.66%.

In addition, the Bank applies and complies with the regulation on macroprudential measures, approved by decision no. 41 date 5.6.2019 of the Supervisory Council of Bank of Albania. The bank adheres to the decision communicated by the Governor and has maintained its capital adequacy ratio in line with additional capital buffer required under the current macroprudential framework, which for year 2024 was set at +2.5% over ICAAP targeted level. Regarding the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), as defined by Supervisory Council of Bank of Albania, the Bank has been deemed not subject to MREL requirements, considering its market position and the products and services it offers.

The Bank continuously monitors all regulatory imposed capital requirements throughout the reporting period and proactively assesses its future needs on an ongoing basis.

41. EVENTS AFTER THE REPORTING DATE

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