INTESA SANPAOLO BANK ALBANIA SH.A.

Financial Statements

For the year ended 31 December 2021

(with independent auditors’ report thereon)

CONTENTS

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Intesa Sanpaolo Bank Albania sh.a

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Intesa Sanpaolo Bank Albania sh.a (the "Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

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

Other matter

The financial statements of Intesa Sanpaolo Bank Albania sh.a. as at and for the year ending on 31 December 2020, were audited by another auditor, who issued an unqualified opinion on 15 March 2021.

Other information included in Intesa Sanpaolo Bank Albania sh.a 2021 Annual Report

Other information consists of the information included in Bank's 2021 Annual Report, prepared in accordance with articles 17, 18 and 19 of the Law no. 25/2018 "For Accounting and Financial Statements", other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2021 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Ernst & Young - Ekspert Kontabël i Autorizuar
Dega në Shqipëri
Ernst & Young Certified Auditors
29 March 2022
Tirana, Albania

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

Mario Vangjel
Auditues Ligjor

(in thousands of Lek)

Statement of financial position

	Notes	31 December 2021	31 December 2020 (Restated) (note 7)
Assets			
Cash and cash equivalents	15	29,643,298	32,432,194
Loans and advances to banks	16	33,853,071	26,721,728
Investment securities	17	74,135,379	71,920,406
Loans and advances to customers	18	52,967,843	50,902,837
Current tax assets	38	290,395	379,233
Property and equipment	19	1,974,017	1,915,582
Right-of-use assets	20	469,669	601,159
Intangible assets	21	517,811	489,831
Investment property	22	533,798	533,798
Inventory and other assets	23	503,339	482,534
Repossessed assets	24	359,008	668,996
Deferred tax assets	27	422,933	458,319
Total Assets		**195,670,561**	**187,506,617**
Liabilities			
Due to banks	25	1,476,439	2,273,426
Due to customers	26	169,461,419	159,507,095
Lease liabilities	20	468,760	602,986
Other liabilities	29	1,182,077	829,989
Deferred tax liabilities	27	220,618	259,345
Provisions	28	534,549	835,305
Total Liabilities		**173,343,862**	**164,308,146**
Equity			
Share capital	30	5,562,518	5,562,518
Share premium	30	1,383,880	1,383,880
Reserves	31	6,771,573	6,449,856
Retained earnings		8,608,728	9,802,217
Total Equity		**22,326,699**	**23,198,471**
Total Liabilities and Equity		**195,670,561**	**187,506,617**

* The comparative amounts were restated as disclosed in Note 7

These financial statements have been approved by the Board of Directors of Intesa Sanpaolo Bank Albania sh.a. on 24 February 2022 and signed on its behalf by:

Alessandro D'oria
Chief Executive Officer

Julian Cela
Chief Financial Officer

INTESA SANPAOLO BANK Albania
Ismail Qemali, Nr 27. Tirane
Nipt J61817006P

The Statement of financial position is to be read in conjunction with the accompanying notes on pages 6 to 76 forming an integral part of these financial statements.

(in thousands of Lek)

Statement of profit or loss and other comprehensive income

	Notes	2021	2020 Restated
Interest income	32	4,231,527	4,168,761
Interest expense	32	(940,494)	(937,196)
Net interest income		**3,291,033**	**3,231,565**
Fee and commission income	33	1,284,068	1,092,457
Fee and commission expense	33	(411,077)	(320,515)
Net fee and commission income		**872,991**	**771,942**
Net other income	34	783,084	588,588
Other operating expenses	35	**(478,369)**	**(453,168)**
Operating income		**4,468,739**	**4,138,927**
Net impairment loss on financial assets	11(v)	(983,890)	(126,879)
Impairment losses/write-backs to other financial activities	28	3,335	7,891
Write down to NRV of repossessed collaterals	24	(176,780)	(46,790)
Personnel expenses	36	(1,359,292)	(1,184,249)
Depreciation and amortization	19,20,21	(473,224)	(520,844)
Amortization of leasehold improvements	23	(15,516)	(15,891)
Impairment of Investment property	22	-	(11,758)
Other administration expenses	37	(960,105)	(914,283)
Provisions for risk and expenses	28	143,369	182,866
Total expenses		**(3,822,103)**	**(2,629,937)**
Net income before taxes		**646,636**	**1,508,990**
Income tax expense	38	(126,957)	(214,456)
Profit for the year		**519,679**	**1,294,534**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			**(Restated*)**
Change in fair value of investment securities at FVOCI		302,714	589,747
Related tax		19,004	(66,456)
Items that will not be reclassified to profit or loss			
Change in revaluation of properties		-	(284,426)
Related tax		-	42,664
Other comprehensive income for the year, net of tax		**321,718**	**281,529**
Total comprehensive income for the year, net of tax		**841,397**	**1,576,063**

* The comparative amounts were restated as disclosed in Note 7

The Statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes on pages 6 to 76 forming an integral part of these financial statements.

(in thousands of Lek)

Statement of changes in equity

	Share capital	Share premium	Legal and regulatory reserves	Fair value reserve	Revaluation reserve	Other capital reserve	Merger Reserve	Retained earnings	Total
Balance at 1 January 2021	**5,562,518**	**1,383,880**	**1,825,623**	**562,613**	**533,669**	**714,554**	**2,813,396**	**9,802,219**	**23,198,472**
Profit for the year	-	-	-	-	-	-	-	519,679	**519,679**
Other comprehensive income									**-**
Change in fair value of debt investment at FVOCI, net of income tax	-	-	-	321,718	-	-	-	-	**321,718**
Change in the Revaluation reserve	-	-	-	-	-	-	-	-	-
Change in the DTA of FTA reserve	-	-	-	-	-	-	-	(11,295)	(11,295)
Total comprehensive income for the year	**-**	**-**	**-**	**321,718**	**-**	**-**	**-**	**(11,295)**	**310,423**
Transaction with owners, recorded directly in equity									**-**
Dividends to equity holders	-	-	-	-	-	-	-	(1,701,875)	**(1,701,875)**
Total contributions by and distribution to owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,701,875)**	**(1,701,875)**
Balance at 31 December 2021	**5,562,518**	**1,383,880**	**1,825,623**	**884,331**	**533,669**	**714,554**	**2,813,396**	**8,608,728**	**22,326,699**

The Statement of changes in equity is to be read in conjunction with the accompanying notes on pages 6 to 76 forming an integral part of these financial statements.

(in thousands of Lek)

Statement of changes in equity (restated)

	Share capital	Share premium	Legal and regulatory reserves	Fair value reserve*	Revaluation reserve	Other capital reserve	Merger Reserve	Retained earnings	Total
				(Restated)					
Balance at 1 January 2020	**5,562,518**	**1,383,880**	**1,825,623**	**39,323**	**775,431**	**714,554**	**2,813,396**	**8,521,206**	**21,635,931**
Profit for the year	-	-	-	-	-	-	-	1,294,534	**1,294,534**
Other comprehensive income									**-**
Change in fair value of debt investment at FVOCI, net of income tax	-	-	-	523,291	-	-	-	-	**523,291**
Change in the Revaluation reserve					(241,762)				**(241,762)**
Change in the DTA of FTA reserve	-	-	-	-	-	-	-	(13,523)	**(13,523)**
Total comprehensive income for the year	**-**	**-**	**-**	**523,291**	**(241,762)**	**-**	**-**	**(13,523)**	**268,006**
Transaction with owners, recorded directly in equity									**-**
Dividends to equity holders	-	-	-	-	-	-	-	-	**-**
Total contributions by and distribution to owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2020	**5,562,518**	**1,383,880**	**1,825,623**	**562,614**	**533,669**	**714,554**	**2,813,396**	**9,802,217**	**23,198,471**

* The comparative amounts were restated as disclosed in Note 7

The Statement of changes in equity is to be read in conjunction with the accompanying notes on pages 6 to 76 forming an integral part of these financial statements.

(in thousands of Lek)

Statement of cash flows

	Notes	2021	2020
Net profit for the year		**519,679**	**1,294,534**
Adjustments for:			
Depreciation and amortization	19,20,21	473,224	520,844
Impairment of investment property	22	-	15,891
Disposal of property and equipment and intangibles		116	-
Net impairment reversal on loans and advances to customers	11 (v)	1,140,004	126,879
Write down of inventory		276,651	(565,988)
Net interest income	32	(3,447,148)	(3,231,565)
Net impairment loss on off-balance sheet items	28	(3,335)	(7,891)
Tax expense	38	126,957	214,456
Changes in			
Loans and advances to banks		(7,131,343)	2,409,731
Loans and advances to customers		(3,183,213)	(6,211,406)
Due to banks		(796,987)	38,229
Due to customers		9,961,977	8,617,998
Non-current assets held for sale		-	20,711
Inventory and other assets		530,782	(207,695)
Other liabilities and provisions		46,141	837,943
Deferred tax asset		131,932	(2,556)
Deferred tax liability		(92,855)	91,322
Interest received		4,301,674	4,276,139
Interest paid		(875,220)	(922,657)
Income taxes paid	38	(161,667)	(183,215)
Net cash from/(used) in operating activities		**1,817,369**	**7,131,704**
Cash flows from investing activities			
Acquisition of property and equipment	19	(217,004)	(233,255)
Acquisition of intangible assets	21	(184,516)	312,227
Net acquisitions of investments securities	17	(2,341,668)	(4,854,509)
Net cash used in investing activities		**(2,743,188)**	**(4,775,537)**
Cash flows from financing activities			
Dividend paid to shareholders	30	(1,701,875)	-
Repayment of lease liability	20	(161,202)	(164,088)
Net cash used in financing activities		**(1,863,077)**	**(164,088)**
Net increase in cash and cash equivalents		**(2,788,896)**	**2,192,079**
Cash and cash equivalents at 1 January	15	32,432,194	30,240,115
Cash and cash equivalents at 31 December	**15**	**29,643,298**	**32,432,194**

The Statement of cash flows is to be read in conjunction with the accompanying notes on pages 6 to 76 forming an integral part of these financial statements.

1. Reporting entity

Intesa Sanpaolo Bank Albania Sh.a, (the "Bank"), is a financial institution domiciled in Albania as joint stock company and involved primarily in corporate and retail banking. The Bank's registered office is at "Ismail Qemali" street, no. 27, and operates through a network of 35 branches and agencies, located in different cities of Albania: Tirana, Durres, Vlora, Elbasan, Fier, Berat, Gjirokastra, Korca, Lushnja, Shkoder, Lezhe, Kavaje (2020: 35 branches and agencies). The Bank had 659 employees as at 31 December 2021 (2020: 657).

2. Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). They were authorized for issue by Management 24 February 2022 for approval by the Board of Directors.

3. Basis of measurement

The financial statements are prepared on the amortized or historical cost basis except for financial assets at FVOCI, investment properties and own used properties, which are stated at fair value and inventory of repossessed collaterals which is measured at the lower of cost and net realizable.

4. Presentation of financial statements

The Bank presents its 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 14.

5. Functional and presentation currency

The financial statements are presented in Lek, which is the Bank's functional and presentation currency. Except as indicated otherwise, financial information presented in Lek has been rounded to the nearest thousand.

6. 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 financial statements continue to be prepared on the going concern basis.

7. Correction of error

During 2021, the Bank discovered that ECL allowance, net of tax, amounting Lek 147 million for FVOCI investment securities was accounted for as a reduction in the carrying amount of the assets rather than offsetting the fair value reserve in OCI.

Secondly, a foreign currency conversion transaction in suspense account on December 31, 2020 amounting to Lek 1,273 million has been erroneously presented both in other assets and other liabilities on a gross basis rather than on net.

The errors have been corrected by restating each of the affected financial statement line items for prior period as summarized below. There was no impact on net profit of the Bank for the year.

(in thousands of Lek, unless otherwise stated)

7. Correction of error (continued)

The effect on equity on 1 January 2020 is not material. The following table summarizes the impacts on the Bank's financial statements.

	Impact of correction of error		
	As previously reported	Adjustments	As restated
Investment securities	71,773,704	146,702	**71,920,406**
Inventory and other assets	2,425,088	(1,273,557)	**1,151,531**
Total assets	**74,198,792**	**(1,126,855)**	**73,071,937**
Other liabilities	2,103,547	(1,273,557)	**829,990**
Total liabilities	**2,103,547**	**(1,273,557)**	**829,990**
Reserves	6,303,153	146,702	6,449,855
Retained earnings	9,802,217	-	9,802,217
Total Equity	**16,105,370**	**146,702**	**16,252,072**

8. Comparative

Certain reclassification is made in order to obtain better presentation and disclosure in the financial statements as at 31 December 2021 and as at 31 December 2020. More specifically:

- "Placements with contractual maturity less than 3 months" of ALL 7,183 thousand was presented under "Due from Banks" in the statement of financial position for the year ended 31 December 2020, and for both periods ending on 31 December 2021 and 31 December 2020 these are presented under "Cash and cash equivalents". The respective disclosures in the notes to the financial statements have been made with respect to this reclassification.
- "Repossessed assets" of ALL 668,996 thousand was presented under "Inentory and other assets" in the statement of financial position for the year ended 31 December 2020, and for both periods ending on 31 December 2021 and 31 December 2020 these are presented in a separate line in Financial Statements. The respective disclosures in the notes to the financial statements have been made with respect to this reclassification.
- "Negative interest income" of ALL 58,345 thousand was presented under "Interest income" in the statement of profit and loss and other comprehensive income for the year ended 31 December 2020, and for both periods ending on 31 December 2021 and 31 December 2020 these are presented under "Interest expenses". The respective disclosures in the notes to the financial statements have been made with respect to this reclassification.
- "Write back of sold repossessed collaterals" of ALL 612,778 thousand was presented under "Write down to NRV of repossessed collaterals" in the statement of profit and loss and other comprehensive income for the year ended 31 December 2020, and for both periods ending on 31 December 2021 and 31 December 2020 these are presented under "Net other income". The respective disclosures in the notes to the financial statements have been made with respect to this reclassification.
- "Recoveries on written off loans" and "Rent income" presented ALL 180,181 thousand was presented under "Other operating expenses" in the statement of profit and loss and other comprehensive income for the year ended 31 December 2020, and for both periods ending on 31 December 2021 and 31 December 2020 these are presented under "Net other income". The respective disclosures in the notes to the financial statements have been made with respect to this reclassification.

9. Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates from this review are recognized prospectively.

(in thousands of Lek, unless otherwise stated)

9. Use of estimates and judgments (continued)

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes.

-Note 10.(f): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

-Note 10.(f).(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2021 is included in the following notes.

-Note 10.(f): impairment of financial instruments: determining inputs into the ECL impairment model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information

-Note 10.(g): determination of the fair value of financial instruments and non-financial assets with significant unobservable inputs

-Note 10.(e).(ii): recognition of deferred tax assets

-Note 10.(r): recognition and measurement of contingencies: key assumption about the likelihood and magnitude of an outflow of resources

-Note 10.(o): net realizable value of inventory: fair value measurement with significant unobservable inputs.

10. Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements by the Bank.

(a) Foreign currency

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized 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 was 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 recognized in profit or loss. Foreign currency differences arising from retranslation of transactions with owners are recorded directly in equity.

Effective Interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability

10. Significant accounting policies (continued)

(b) Interest

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The ‘gross carrying amount of a financial asset’ is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.
For information on when financial assets are credit-impaired, see Note 10.(f)(vii).

Presentation

Net interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- Other interest income presented in the statement of profit or loss and OCI includes interest income on lease receivables.

(c) Fees and commissions

Fees, 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 (see 10.(b)).

A contract with a customer that results in a recognized financial instrument in the Bank’s financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

(in thousands of Lek, unless otherwise stated)

10. Significant accounting policies (continued)

(c) Fees and commissions (continued)

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not include multiple performance obligations, as explained further in the notes below.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

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

Fees and commission earned for the provision of services over a period of time are accrued over that period. These fees include commission income, including collection and payment, account servicing fees, investment management fees, and guarantees fees.

ii. Fee income from providing financial services and earned at a point in time

Fees and commissions arising from negotiating or participating in the negotiation of a transaction with a third party, such as other fees and commission expense relating mainly to transaction and service fees including ATM and POS fees, advance liquidation of credit lines, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(d) Leases

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

i. Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of branches and offices premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

10. Significant accounting policies (continued)

(d) Leases (continued)

i. Bank acting as a lessee (continued)

Lease payment included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index of rate as the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is change in the Bank's estimate of the amount expected to payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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 is reduced to zero.

The Bank presents right-of-use assets in and lease liabilities in separate lines in the face of statement of financial position. The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Bank acts as a lessor, it determines at lease inception whether the lease is a financial lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(e) Income Tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI. Interest and penalties related to income taxes, including uncertain tax treatments, are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(i) Current Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

10. Significant accounting policies (continued)

(e) Income Tax (continued)

(ii) Deferred Tax

Deferred tax is recognized 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 assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans. 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 realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used. 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. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

(f) Financial assets and financial liabilities

(i) Recognition and initial measurement

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. Nostro transactions are recognized when the transaction is settled and cleared internally. All other financial instruments (including regular-way purchases and sales of financial assets) are initially recognized on the trade date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

On initial recognition, the Bank classified a financial asset as measured at amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows (Hold to collect mode);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (Hold to collect and sell model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

10. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(iii) Business model assessment

The Bank assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows; - leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans);
- and features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

(iv) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities as other financial liabilities, subsequently measured at amortized cost. See notes 10.(f)ii, 10.(p).

10. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iii) De-recognition

Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized (see (iii)) and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

10. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iv) Modification of financial assets and financial liabilities (continued)

Financial assets (continued)

Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see 10.f.(vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method (see 10 (b)).

Financial liabilities

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Off-setting

Financial assets and liabilities are offset, and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from Bank's similar transactions such as in the trading activity.

(vi) Impairment

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

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

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

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Bank does not apply the low credit risk exemption to any other financial instruments.

10. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vi) Impairment (continued)

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *cash and deposits*: is measured as 12-month ECLs which represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Due to the maturity of less than 12 months then the 12-month ECLs are the credit losses expected over the period to maturity.
- *financial guarantee contracts*: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See also Note 11(a).

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

10. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

In assessing whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability 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.
- 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, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortized cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn 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 component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; *and*
- *debt instruments measured at FVOCI*: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized against the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

The contractual amount outstanding on financial assets that were written off by the Bank as at 31 December 2021 and that were still subject to enforcement activity was LEK 186,006 thousand (2020: 109,508 thousand).

(g) Fair value measurement

The bank measures financial instruments such as FVOCI, and non-financial assets such as investment properties and buildings (part of property and equipment), at fair value at each balance sheet date.

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

10. Significant accounting policies (continued)

(g) Fair value measurement (continued)

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 consider in pricing a transaction.

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 entirely supported by observable market data or the transaction is closed out.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines and recognize whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of investment properties and buildings. Involvement of external valuers is determined by the Parent Bank.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the notes 12 and 13.

(h) Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, balances with banks, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to 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.

(i) Loans and advances

Loans and advances captions in the statement of financial position include loans and advances measured at amortized cost. They are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

10. Significant accounting policies (continued)

(i) Loans and advances (continued)

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 recognized in the Bank's financial statements.

(j) Investment securities

The "investment securities" caption in the statement of financial position includes

- debt investment securities measured at amortized cost (see f (ii)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- debt securities measured at FVOCI;

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest revenue using the effective interest method
- ECL and reversals, and
- Foreign exchange gains and losses

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

(k) Property and equipment

(i) Recognition and measurement

Equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Property are measured at revalued amounts, being the fair value at the date of revaluation less accumulated depreciation and any accumulated impairment losses. If significant parts of an item of property or equipment have different useful lives, then 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 is recognized within other income in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalized 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.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Land and art works are not depreciated.

The estimated useful live for the current and comparative periods are as follows:

	2021	**2020**
• Buildings	20-33 years	20-33 years
• IT and Electrical Equipment	4 to 8 years	4 to 8 years
• Furniture	3 to 10 years	3 to 10 years
• Other non-electrical assets	5 years	5 years

10. Significant accounting policies (continued)

(l) Intangible assets

Software, licenses and trademarks compose intangible assets and are stated at cost less accumulated amortization. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is charged on a straight-line basis in profit or loss over the estimated useful lives, from the date that it is available for use. The estimated useful lives for the current and comparative periods are as follows:

	2021	2020
• Software	5 years	5 years
• Licenses and trademarks	10 years	10 years

(m) Investment property

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognized in profit or loss within other income. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(n) Inventory

Inventory comprises repossessed assets acquired through enforcement of security over non-performing loans and advances to customers which do not earn rental, and are not used by the Bank and are intended for disposal in a reasonably short period of time, without significant restructuring. Repossessed assets are measured at the lower of cost and net realizable value and any write-down is recognized in the profit or loss.

(o) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amount of its non-financial assets (other than inventory and deferred tax assets) 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 recognized if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized 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 amortization, if no impairment loss had been recognized.

(p) Deposits

Deposits are the Bank's sources of debt funding. Deposits are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortized cost using the effective interest method.

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" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the Bank's financial statements.

(q) Provisions

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

10. Significant accounting policies (continued)

(r) Provisions (continued)

A provision for bank levies is recognized when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognized when that minimum activity threshold is reached.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(r) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.
- the Bank recognizes a loss allowance

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(s) Employee benefits

(i) Defined contribution plans

The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement. In Albania, the local authorities are responsible for providing the legally set minimum threshold for pensions under a defined contribution pension plan. The Bank's contributions to the benefit pension plan are expensed in profit or loss as incurred.

(ii) 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 recognized 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.

(t) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2021:

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

  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

10. Significant accounting policies (continued)

(t) Changes in accounting policy and disclosures (continued)

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

  There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. The amendments of reference rates or known as just benchmark rates had no impact on the financial statements of the Bank since the contracts are with Minimum rates and the replacement of reference interest rate with an alternative benchmark rate had no effects of changes to contractual cash flows. The assessment of the Bank in accounting implications of the implementation of the new requirements has started before the IBORs reform start. The Bank assessed for the IBOR reform that no impact in financial statements will results. The amendments of the replacement of reference interest rate of the contracts with Minimum rates with an alternative benchmark rate for the bank has results in no modification of the contracts and the de-recognitions of the assets has not been applied, since the contractual cash flows of financial assets and liabilities had no changes in order to require the effective interest rate to be adjusted.

(u) New standards and interpretation not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. The Bank has not early adopted them in preparing these financial statements.

The following amended standards are not expected to have a significant impact on the Bank's Financial Statements:

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

  The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. Management is currently assessing the impact the amendments will have on current practice. The Bank does presents its assets and liabilities in order of liquidity in the financial statements, but makes a current vs non current disclosure in the notes.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

10. Significant accounting policies (continued)

(v) New standards and interpretation not yet adopted (continued)

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments) (continued)**
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

  The amendments are not expected to have a material impact on the Bank.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

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

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

  The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. Management has assessed that the amendment will not have material impact on the Bank.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments are not expected to have a material impact on the Bank.

- **Deferred Tax related to Assets and Liabilites arising from a Single Transactions (Amendments to IAS 12)**

  The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. Management has assessed that the amendment will have no impact.

11. Financial Risk Management

The Bank is exposed to the following risks from financial instruments:

a. credit risk
b. liquidity risk
c. market risk
d. operational risk

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

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank's Governance Committees (Executive Directors Committee, Credit Committee, Asset Liability Committee, Operational Risk Committee, Credit Risk Governance Committee, Problematic Loans Committee and other committees) that have the authority for decision-making in their specified areas.

Risk Management Division is responsible for developing and monitoring the Bank's risk management policies in these areas. All the Bank's committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

(a) Credit Risk

In the normal course of its business, the Bank is exposed to credit risk on its loans and advances to customers and financial institutions, investment securities and other off-balance-sheet items. Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers, debt securities, on funds with other financial institutions and other off-balance sheet items. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank manages its exposure to credit risk on a regular basis by closely monitoring credit limits, its loan portfolio and concentration of exposure.

During 2020 in order to deal with the COVID-19 emergency the Bank implemented a moratorium on installments payments from March to September 2020 based on requests received by customers.

In addition, the bank has signed with the state of Albania two sovereign guarantees used to facilitate the credit granting to legal entities which have been impacted by the state lock down as a conservative measure derived by the pandemic or by the pandemic in overall.
The first Guarantee: **"Payroll Loans Under Sovereign Guarantee (Sovereign Guarantee 1) - Limit: 900,000,000 ALL,** aiming legal entities to obtain credit facilities to pay their staff employee's payroll. The second guarantee: **"Credit facilities Sovereign Guarantee for Working Capital and Investments (Sovereign Guarantee 2) - Limit: 1,200,000,000 ALL** aiming legal entities to obtain credit facility to finance their temporary liquidity gaps (Working Capital) or needed investments imposed by the pandemic.

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk

On the below table a summary of the exposures that were subject to moratoria for each stage is presented for end of December 2020, along with changes during 2021.

	Applied for Covid-19 Moratoria			
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage3**	**Total**
31 December 2020	16,754,699	576,496	102,802	**17,433,997**
Repayment	(4,080,649)	(350,621)	(633,950)	(5,065,220)
Transfer to Stage 1	57,375	(50,932)	(6,443)	-
Transfer to Stage 2	(541,257)	555,806	(14,549)	-
Transfer to Stage 3	(282,149)	(327,447)	609,596	-
Amounts written off	-	-	-	-
31 December 2021	**11,908,019**	**403,302**	**57,456**	**12,368,777**

(i) Management of credit risk

The Board of Directors has delegated responsibility for decision-making to Committees in Credit Area. The Risk Management Division, reporting to the CEO, is responsible for the oversight and management of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Reviewing and assessing credit risk*. The Bank's Underwriting Department assesses all credit exposures, before facilities are committed to customers by the Bank. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Bank's risk classifications* in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk classification is used in determining where impairment may be required against specific credit exposures.

According to the Bank's methodology, all exposures are classified between Performing (including Stage 1 and Stage 2) and Non- Performing exposures (Stage 3-including Past Due, Unlikely to Pay "UTP" and Doubtful). The bank classifies the performing portfolio in two clusters Stage 1 and Stage 2 based on a set of rules harmonized with the guidelines of Intesa Sanpaolo Group, driven by the signs of deterioration of the exposure as per below specifications:

Stage 1	Stage 2	Stage 3
• Performing exposures without days past due • Performing exposures with less than 30 days past due • Intragroup transactions	• Performing exposures with more than 30 days past due • Forborne performing exposures • Performing exposures showing Early Warning signals (orange, red and light blue) and PCM. • Low default portfolio based on residual maturitu and specific criteria as per group thresholds	• Exposures with more than 90 days past due under New DoD rules • Past Due in Probation Period • Unlikely to Pay • UTP in Probation Period • Doubtful • Forborne Non performing NPV test>1% in case of distressed restructuring

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(i) Management of credit risk (continued)

- *Developing and maintaining the Bank's risk classifications* (continued) The Non-Performing portfolio is classified by analyzing the exposures also based on a set of rules harmonized with the guidelines of Intesa Sanpaolo Group. These rules include objective evidence being: breach of contract (such as default or delinquency in interest or principal payments); significant financial difficulty of the borrower; and other significant adverse financial information relating to the customer.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries and product types. Detailed analyses are provided monthly to the Problem Assets Committee on the credit quality of customer exposures and specific actions are proposed.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.

(ii) Maximum Exposure to Credit Risk

The following table shows the current maximum exposure to credit risk for the applicable components of statement of financial position:

	Maximum Exposure	
	31 December 2021	**31 December 2020**
Cash and cash equivalents (excluding cash on hand)	28,121,532	30,928,554
Loans and advances to banks	33,853,071	26,721,728
Investment securities	74,135,379	71,920,406
Loans and advances to customers	52,967,843	50,902,837
Sundry debtors	29,520	54,197
Total on-balance-sheet risk	189,107,345	180,527,722
Undrawn credit commitments	5,887,122	7,136,265
Letters of credit	77,238	199,916
Guarantees in favor of customers	4,823,168	4,873,518
Total credit related commitments	10,787,528	12,209,699
Total Credit Risk Exposure	**199,894,873**	**192,737,421**

The balances are presented net of ECL. Where financial assets are recorded at fair value, the amounts shown represent the current credit risk exposure, but not the maximum risk exposure that could arise in the future as a result of changes in values. The Bank makes available to its customers guarantees which 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 commit the Bank to make payments on behalf of customers in the event of a specific act or event, generally related to the import or export of goods, and payment and performance guarantees.

Such commitments expose the Bank to similar credit risks, which are mitigated by the same control processes and policies. Every month, the Bank assesses the credit related commitments for impairment. Amounts subject to individual impairment assessment are non-cancellable commitments granted to non-performing customers or customers with restructured credit facilities.

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Credit Quality by class of financial assets

The following table sets out information about the credit quality of financial assets measured at amortized cost and FVOCI debt investments. 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, respectively. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 11(i).

				31 December 2021
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
Performing	50,960,371	1,901,218	-	52,861,589
Past Due	-	-	29,172	29,172
Unlikely to Pay	-	-	1,000,079	1,000,079
Doubtful	-	-	1,091,034	1,091,034
Total	**50,960,371**	**1,901,218**	**2,120,285**	**54,981,874**
Loss allowance	**565,290**	**326,592**	**1,122,149**	**2,014,031**
Carrying amount	**50,395,081**	**1,574,626**	**998,136**	**52,967,843**

				31 December 2020
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
Performing	49,824,618	716,989	-	**50,541,607**
Past Due	-	-	136,760	**136,760**
Unlikely to Pay	-	-	845,467	**845,467**
Doubtful	-	-	1,374,767	**1,374,767**
Total	**49,824,618**	**716,989**	**2,356,994**	**52,898,601**
Loss allowance	**480,387**	**229,916**	**1,285,461**	**1,995,764**
Carrying amount	**49,344,231**	**487,073**	**1,071,533**	**50,902,837**

				31 December 2021
	Stage 1	Stage 2	Stage3	Total
Financial guarantee and commitment				
Performing	9,842,804	1,043	-	**9,843,847**
Past Due	-	-	85	**85**
Unlikely to Pay	-	-	720	**720**
Doubtful	-	-	5,033	**5,033**
Total	**9,842,804**	**1,043**	**5,838**	**9,849,685**
Loss allowance	**37,561**	**91**	**5,523**	**43,175**
Carrying amount	**9,805,243**	**952**	**315**	**9,806,510**

				31 December 2020
	Stage 1	Stage 2	Stage3	Total
Financial guarantee and commitment				
Performing	11,118,263	38,507	-	**11,156,770**
Past Due	-	-	163	**163**
Unlikely to Pay	-	-	2,141	**2,141**
Doubtful	-	-	8,687	**8,687**
Total	**11,118,263**	**38,507**	**10,991**	**11,167,761**
Loss allowance	**34,792**	**2,086**	**10,085**	**46,963**
Carrying amount	**11,083,471**	**36,421**	**906**	**11,120,798**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Credit Quality by class of financial assets (continued)

				31 December 2021
PD Range	**Stage 1**	**Stage 2**	**Stage3**	**Total**
Loans and advances to customers				
0%-0.05%	-	-	-	**-**
0.05% -11.70%	50,676,763	1,129,921	-	**51,806,684**
11.70%-29.50%	283,608	-	-	**283,608**
29.50%-99.99%	-	771,297	-	**771,297**
100%	-	-	2,120,285	**2,120,285**
Total	**50,960,371**	**1,901,218**	**2,120,285**	**54,981,874**
Loss allowance	**565,290**	**326,592**	**1,122,149**	**2,014,031**
Carrying amount	**50,395,081**	**1,574,626**	**998,136**	**52,967,843**

				31 December 2020
PD Range	**Stage 1**	**Stage 2**	**Stage3**	**Total**
Loans and advances to customers				
0%-0.05%	-	-	-	**-**
0.05% -11.70%	49,824,618	-	-	**49,824,618**
11.70%-29.50%	-	-	-	**-**
29.50%-99.99%	-	716,989	-	**716,989**
100%	-	-	2,356,994	**2,356,994**
Total	**49,824,618**	**716,989**	**2,356,994**	**52,898,601**
Loss allowance	**480,387**	**229,916**	**1,285,461**	**1,995,764**
Carrying amount	**49,344,231**	**487,073**	**1,071,533**	**50,902,837**

				31 December 2021
	Stage 1	**Stage 2**	**Stage3**	**Total**
Loans and advances to banks*				
Performing	39,122,156	4,738,257	**-**	**43,860,413**
Total	**39,122,156**	**4,738,257**	**-**	**43,860,413**
Loss allowance	4,696	4,298		**8,994**
Carrying amount	**39,117,460**	**4,733,959**	**-**	**43,851,419**
Investment securities at FVOCI				
Performing	51,927,282	**-**	**-**	**51,927,282**
Total	**51,927,282**	**-**	**-**	**51,927,282**
Loss allowance**	576,112	**-**		**576,112**
Carrying amount	**51,351,170**	**-**	**-**	**51,351,170**
Investment securities at amortized cost				
Performing	21,042,803	2,028,440	**-**	**23,071,243**
Total	**21,042,803**	**2,028,440**	**-**	**23,071,243**
Loss allowance	282,560	4,474	-	**287,034**
Carrying amount	**20,760,243**	**2,023,966**	**-**	**22,784,209**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Credit Quality by class of financial assets (continued)

				31 December 2020
	Stage 1	**Stage 2**	**Stage3**	**Total**
Loans and advances to banks*				
Performing	38,062,282	2,529,732	-	40,592,014
Total	**38,062,282**	**2,529,732**	**-**	**40,592,014**
Loss allowance	14,022	630	-	**14,652**
Carrying amount	**38,048,260**	**2,529,102**	**-**	**40,577,362**
Investment securities at FVOCI				
Performing	36,983,154	737	-	36,983,891
Total	**36,983,154**	**737**	**-**	**36,983,891**
Loss allowance**	146,699	3	-	**146,702**
Carrying amount	**36,836,455**	**734**	**-**	**36,837,189**
Investment securities at amortized cost				
Performing	31,782,220	3,454,312	-	35,236,532
Total	**31,782,220**	**3,454,312**	**-**	**35,236,532**
Loss allowance	141,584	11,731	-	**153,315**
Carrying amount	**31,640,636**	**3,442,581**	**-**	**35,083,217**

*Loans and advances to banks include current accounts with banks, money market placements with contractual maturity less than 3 months (see Note 15) and deposits with correspondent banks (see Note 16).

**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 10 (f) (vii) Presentation of allowance for ECL in the statement of financial position).

The following table sets out information about the overdue status of gross amount of loans and advances to customers in Stages 1, 2 and 3.

				31 December 2021
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage3**	**Total**
Up to 30 days in arrears	50,960,371	1,831,879	970,856	**53,763,106**
30 to 90 days in arrears	-	69,339	26,118	**95,457**
More than 90 days	-	-	1,123,311	**1,123,311**
Total	**50,960,371**	**1,901,218**	**2,120,285**	**54,981,874**

				31 December 2020
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage3**	**Total**
Up to 30 days in arrears	49,824,618	341,198	568,750	**50,734,566**
30 to 90 days in arrears	-	375,791	27,550	**403,341**
More than 90 days in arrears	-	-	1,760,694	**1,760,694**
Total	**49,824,618**	**716,989**	**2,356,994**	**52,898,601**

All loans and advances to banks and investment securities fall in the overdue status of less than 30 days in arrears as of 31 December 2021 and 31 December 2020.

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Credit Quality by class of financial assets (continued)

The following table sets out the credit quality of debt securities and loans and advances to banks based on Moody's ratings, Staging and IFRS Category:

	Investment's debt securities		
	31 December 2021		
Sovereign	**Stage 1**	**Stage 2**	**Total**
Rate Baa2	**68,836,562**	**-**	**68,836,562**
FVOCI	48,076,319	-	**48,076,319**
AC	20,760,243	-	**20,760,243**
Rate B1	**2,743,193**	**2,023,966**	**4,767,159**
FVOCI	2,743,193	-	**2,743,193**
AC	-	2,023,966	**2,023,966**
	71,579,755	**2,023,966**	**73,603,721**
Financial Institutions			
Rated Aaa	**531,658**	**-**	**531,658**
FVOCI	531,658	-	**531,658**
Total carrying amount	**72,111,413**	**2,023,966**	**74,135,379**

	31 December 2020		
Sovereign	**Stage 1**	**Stage 2**	**Total**
Rate Baa2	**2,885,166**	**1,933,978**	**4,819,144**
FVOCI	2,885,166	-	2,885,166
AC	-	1,933,978	1,933,978
Rate B1	**64,895,333**	**1,509,337**	**66,404,670**
FVOCI	33,254,697	734	33,255,431
AC	31,640,636	1,508,603	33,149,239
	67,780,499	**3,443,315**	**71,223,814**
Financial Institutions			
Rated Aaa	**696,592**	**-**	**696,592**
FVOCI	696,592	-	696,592
Total carrying amount	**68,477,091**	**3,443,315**	**71,920,406**

	Loans and advances to Banks		
	31 December 2021		
	Stage 1	**Stage 2**	**Total**
Rated Aa3	10,726	-	**10,726**
Rated A1	2,457,955	33,482	**2,491,436**
Rated A2	7,693,467	50,969	**7,744,436**
Rated Baa1	19,783,949	903,687	**20,687,636**
Rated Ba2	782,652	3,745,822	**4,528,474**
Rated B1	717,403	-	**717,403**
Non rated	7,671,309	-	**7,671,309**
	39,117,460	**4,733,959**	**43,851,419**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Credit Quality by class of financial assets (continued)

	31 December 2020		
	Stage 1	Stage 2	Total
Rated Aa1	3,951,970	-	3,951,970
Rated Aa3	9,931	-	9,931
Rated A1	33,642	27,427	61,070
Rated A2	1,583,179	-	1,583,179
Rated A3	2,383,725	-	2,383,725
Rated Baa1	18,329,101	2,501,674	20,830,775
Rated Baa2	27,268	-	27,268
Rated Baa3	2,961,349	-	2,961,349
Rated Ba2	5,001,598	-	5,001,598
Rated B3	615,373	-	615,373
Non-rated	3,151,125	-	3,151,125
	38,048,261	**2,529,101**	**40,577,363**

(iv) Collateral held and other credit enhancements

The estimated cash flows derived from the collateral, including guarantees securing the exposures, are usually the main source of future cash flows from non-performing loans. Some of the valuation parameters used for the calculation are:

- *Realizable value of collaterals*, which is estimated by reducing the appraised market value of the collateral with a discount factor. This considers the characteristics of similar groups of collaterals. It presumes an average recoverable value of specific collateral, based on the Bank's experience.
- *Timing of the expected cash flow*, which represents the expected recovery time (in years) for a specific type of collateral.

The recovery costs are deducted from estimated future cash flows. Collateral, generally, is not held over loans and advances to financial institutions, except when securities are held as part of reverse repurchase and securities borrowing activity. Usually, collateral is not held against investment securities, and no such collateral was held at 31 December 2021 and 2020.

Below is a summary of loans and advances to customer portfolio by stage and collateral:

	Loans and advances to customers		Collateral		No-collateral	
	GBV	NBV	GBV	NBV	GBV	NBV
Stage 1	50,960,371	50,395,081	45,515,242	45,161,815	5,445,130	5,233,267
Stage 2	1,901,218	1,574,626	1,861,588	1,558,449	39,629	16,177
Stage 3 collectively	448,833	149,034	218,736	134,324	230,098	14,710
Stage 3 individually	1,671,452	849,102	1,664,524	849,101	6,927	-
Total	**54,981,874**	**52,967,843**	**49,260,090**	**47,703,689**	**5,721,784**	**5,264,154**

	Loans and advances to customers		Collateral		No-collateral	
	GBV	NBV	GBV	NBV	GBV	NBV
Stage 1	49,824,618	49,344,231	44,509,098	44,201,582	5,315,519	5,142,649
Stage 2	716,989	487,073	666,833	466,294	50,156	20,779
Stage 3 collectively	471,769	173,313	258,534	156,898	213,235	16,415
Stage 3 individually	1,885,225	898,220	1,799,137	898,220	86,089	-
Total	**52,898,601**	**50,902,837**	**47,233,602**	**45,722,994**	**5,664,999**	**5,179,843**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iv) Collateral held and other credit enhancements (continued)

Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated every year for corporate segment and every three years for retail segment. An estimate of the undiscounted and discounted fair value of collaterals and other security enhancements held against financial assets is shown below:

	Collateral of Loans and advances to customers			
	31 December 2021		31 December 2020	
	Undiscounted	Discounted	Undiscounted	Discounted
Against individually impaired				
Property	3,735,598	1,275,622	4,515,057	1,456,225
Debt securities	673,774	-	295,110	-
Cash	-	-	-	-
Pledges and guarantees	139,850	-	39,700	-
Other	-	-	-	-
Total	**4,549,222**	**1,275,622**	**4,849,867**	**1,456,225**
Net carrying amount		**849,102**		**898,220**

Net carrying amount represent loans which are individually assessed and in recovery amount is considered only eligible collateral.

The gross amount of collaterals includes the value of collaterals before testing the individually impaired loans. The net carrying amount shows the fair present value of the same collaterals under this test. The table below shows the total amount of collaterals for the loans assessed under the category of collectively impaired including all the Stage 3 exposures that are lower than EUR 100 thousand.

These collaterals do not undergo the same testing procedures as the above group.

The information on the table below provides information on how much the collectively impaired loans and advances to customers are secured against their respective collaterals. Only eligible collaterals are included in discounted collaterals.

	Collateral of Loans and advances to customers			
	31 December 2021		31 December 2020	
	Undiscounted	Discounted	Undiscounted	Discounted
Against Collectively Impaired				
Property	82,923,180	37,359,111	80,879,648	36,155,755
Pledges and guarantees	69,260,598	4,831,072	43,960,488	1,984,816
Cash	798,859	767,359	791,352	759,767
Debt securities	1,626,577	51,804	1,681,404	54,559
Other	1,084,230	-	1,092,724	-
Total	**155,693,444**	**43,009,346**	**128,405,616**	**38,954,897**
Net carrying amount		**46,854,588**		**44,824,774**

It is the Bank's policy to dispose of assets repossessed through the recovering process. The amounts collected from the proceeds are used to reduce or liquidate the carrying amount of the non-performing loans.

The table below sets out the carrying amount and the value of undiscounted collateral of the loans and advances to customers measured at amortized cost.

	31 December 2021		31 December 2020	
	Net carrying amount	Collateral	Net carrying amount	Collateral
Stage 1 and Stage 2	51,969,707	155,693,444	49,831,304	128,405,616
Stage 3	998,136	4,549,222	1,071,533	4,849,867
	52,967,843	**160,242,666**	**50,902,837**	**133,255,483**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iv) Collateral held and other credit enhancements (continued)

When the Bank holds repossessed assets in its ownership, their conversion into cash is the Bank's first aim, through marketing the properties for sale. If there is no satisfactory offer collected, the Bank's practice is to keep the asset for sale until receiving the best offer. The amounts of repossessed properties are disclosed in note 24.

Depending on operational needs and the suitability of the asset to fulfill those needs, management may decide to make use of the property; in such cases a reclassification into property and equipment (see note 19) of the Bank is performed. The breakdown of the gross book value of the loans and advances by class, along with the fair value of the collateral held by the Bank as security, are as follows:

31 December 2021	Over-collateralized portfolio		Under-collateralized portfolio	
	Gross book value of portfolio	Fair value of collateral	Gross book value of portfolio	Fair value of collateral
Mortgage Lending	10,037,610	27,371,176	1,939,594	185,544
Leasing	19,737	43,331	-	-
Personal loans	22,140	74,703	2,213,307	-
Overdrafts and credit cards	31,041	53,235	255,270	-
Loans to businesses	34,660,230	125,329,391	3,682,660	1,742,060
Total	**44,770,758**	**152,871,836**	**8,090,831**	**1,927,604**

31 December 2020	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	8,793,989	23,940,537	1,352,190	119,038
Leasing	21,268	47,031	-	-
Personal loans	34,589	98,517	2,198,274	-
Overdrafts and credit cards	48,789	75,890	282,648	66
Loans to businesses	31,963,760	99,762,369	5,846,099	3,055,534
Total	**40,862,395**	**123,924,344**	**9,679,212**	**3,174,639**

The table below shows the breakdown of the gross book value of credit impaired loans and advances given to customers by ranges of their collateral coverage:

31 December 2021	Over-collateralized portfolio		Under-collateralized portfolio	
	Credit impaired loans	Fair value of collateral	Credit impaired loans	Fair value of collateral
Mortgage Lending	232,559	1,042,932	9,467	-
Financial Leasing	-	-	-	-
Personal loans	-	-	196,408	200
Overdrafts and credit cards	1,195	1,418	24,205	483
Loans to businesses	1,484,888	4,257,817	171,563	140,376
Total	**1,718,642**	**5,302,167**	**401,643**	**141,059**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iv) Collateral held and other credit enhancements (continued)

31 December 2020	**Over-collateralized portfolio**		**Under-collateralized portfolio**	
	Credit impaired loans	**Fair value of collateral**	**Credit impaired loans**	**Fair value of collateral**
Mortgage Lending	323,997	1,778,688	8,671	-
Financial Leasing	-	-	-	-
Personal loans	318	3,374	178,310	200
Overdrafts and credit cards	1,325	1,565	25,449	495
Loans to businesses	1,403,664	4,051,058	415,260	321,122
Total	**1,729,304**	**5,834,685**	**627,690**	**321,817**

(v) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 10(f).(vi).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD, for loans to banks and investment securities only;
- qualitative indicators based on forbearance and early warning signals; and
- a backstop of 30 days past due.

New Definition of default "DoD"

The Bank considers a financial asset to be in default when one of the following is met:

- the borrower is in a state of insolvency (even though not legally insolvent) or in a de facto equivalent status. By "state of insolvency" the following shall be intended: structural and permanent (not transitory) inability to satisfy, regularly and through ordinary sources, the Counterparty's obligations due to lack of liquidity and/or access to external funding
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse to actions such as the enforcement of guarantees/ collateral.
- the borrower is more than 90 days past due as described in note 10(f).

Incorporation of forward-looking information

The Bank incorporates forward-looking information into the measurement of ECL. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between EBA (European Banking Authority) stress coefficients and credit losses. The Bank considers three economic scenarios: baseline, adverse scenario, as published by EBA, and best scenario, an internal estimate as a symmetrical reflection of adverse scenario toward baseline one.

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 10 (f)(iv).

Measurement of ECL (Expected Credit Losses)

The framework, IFRS 9 (International Financial Reporting Standard) – Financial Instruments, is based on the estimation of expected losses, different from the incurred losses used under IAS 39. When significant deterioration of the credit quality is recognized, the new concept of Lifetime expected loss is introduced.

Lifetime expected loss covers expected loss for the whole life IFRS 9 specifies that if the credit risk on a financial instrument has increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to Lifetime expected credit losses and if the credit risk on such instrument has not increased significantly, 12-months expected losses should be calculated instead.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of loss rates from defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Low Default Portfolio

A new category of financial instruments are considered for impairment purposes under the IFRS 9 rules, called “Low Default Portfolio”. It includes securities and loans to banks, and as defined by Parent Company consists of exposures with the following parties:

- Sovereign (Central Banks, Governments, Municipalities, Public Sector Entities);
- Institutions (Banks, and other financial institutions);

Intragroup exposures are exposures with the following parties:

- Parent Company;
- Other ISP subsidiaries.

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

Intragroup transactions are generally classified as Stage 1 with a 12- months ECL following the staging rules for Low Default Portfolio and intragroup exposures based on parent company driven methodologies including validation. Exposures are classified to Stage 2 based on the significant increase of credit risk criterion measured by Lifetime PD comparison. This criterion for Low Default Portfolio is defined based on the specific rating and residual maturity of exposure. Thresholds are provided by Parent Company.

The criteria used to access whether the debt securities credit quality deteriorated significantly since origination is Lifetime PDs comparison. The instrument issuer rating (counterparty rating) is used for the Lifetime PD comparison rather than rating of the single instrument (i.e. at the reporting date different instruments or tranches related to the same issuer will be assigned with the rating of the counterparty at a given date). Debt securities purchased in tranches PD at origination is determined through First In First Out (FIFO) methodology.

Debt securities include “Low Credit Risk Exemption” based on the assumption that the credit risk has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. Therefore, Investment grade instruments at the reporting date are classified to Stage 1.

This exemption is applicable only for instruments belonging to FVOCI portfolio upon the IFRS 9 transition. The following criteria are approved for each stage for Bonds residual maturity of the financial instrument.

Stage 1	Stage 2	Stage 3
• Debt with no significant credit quality deterioration Investment grade debts	• Debt with significant increase in PD since origination	• Defaulted Debt

For Stage 3 – Defaulted debt the impairment testing process for any individually securities is applied. If the fair value is less than the carrying amount or if the issuer is delinquent in its debtor obligations or defaults on payments as demonstrated by any one of the following events:

1. Default;
2. Bankruptcy proceedings;
3. Delinquency in interest or principal payments.

Where any one of these events occurs, given the gravity and the irreversibility of the confirmed situation, an impairment loss should be recorded directly. If the fair value is not more than 20% less than the carrying amount and no other impairment indicators are found, there is no need to test the securities further for impairment. The impairment test for this stage classification is performed according to the rules defined in the ISP Group accounting policy.

Both collective assessment and individual assessment on portfolio basis are approaches to impairment evaluation based on statistical methods by using credit risk parameters which are estimated based on historical data for homogenous groups of assets.

During 2021 the Bank has revised the Loss Given Default Sovereign model, using a model based in the relationship between recovery rates and income/wealth of the countries: the higher the income and wealth of a country, the higher the expected recovery rate in the event of default. The Bank has assessed the impact in Sovereign portfolio for 31 December 2020 was approximate LEK 619 million.

Loss allowances

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, as well as collectively assessed and less significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of expected losses that have not been identified.

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

Movements in impairment allowance funds for:

Loans and advances to banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**14,022**	**630**	**-**	**14,652**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**(2,987)**	**2,987**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial Assets that have been derecognized	(7,589)	-	-	**(7,589)**
Net remeasurement of loss allowances	(1,411)	(455)	-	**(1,866)**
New financial assets originated or purchased	2,934	1,135	-	**4,069**
Foreign exchange and other movements	(273)	1	-	**(272)**
Balances at 31 December 2021	**4,696**	**4,298**	**-**	**8,994**

Loans and advances to banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2020	**9,509**	**6,539**	**-**	**16,048**
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(6,488)	-	-	(6,488)
Net remeasurement of loss allowances	1,155	(5,880)	-	(4,725)
New financial assets originated or purchased	4,538	-	-	4,538
Foreign exchange and other movements	(80)	(51)	-	(131)
Balances at 31 December 2020	**8,634**	**608**	**-**	**9,242**

Investment securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**146,699**	**3**	**-**	**146,702**
Transfers between Stages	-	-	-	**-**
Financial Assets that have been derecognized	(93,662)	(3)	-	**(93,665)**
Net remeasurement of loss allowances	41,428	-	-	**41,428**
New financial assets originated or purchased	482,547	-	-	**482,547**
Foreign exchange and other movements	(900)	-	-	**(900)**
Balances at 31 December 2021	**576,112**	**-**	**-**	**576,112**

Investment securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2020	**5,517**	**-**	**-**	**5,517**
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(5,517)	-	-	(5,517)
Net remeasurement of loss allowances	-	-	-	-
New financial assets originated or purchased	146,903	3	-	146,906
Foreign exchange and other movements	(204)	-	-	(204)
Balances at 31 December 2020	**146,699**	**3**	**-**	**146,702**

Investment securities at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**141,584**	**11,731**	**-**	**153,315**
Transfers between Stages	**-**	**-**	**-**	**-**
Financial Assets that have been derecognized	(13,294)	(7,745)	-	**(21,039)**
Net remeasurement of loss allowances	154,521	488	-	**155,009**
New financial assets originated or purchased	-	-	-	**-**
Foreign exchange and other movements	(251)	-	-	(251)
Balances at 31 December 2021	**282,560**	**4,474**	**-**	**287,034**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

Investment securities at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2020	**301,928**	**6,594**	**-**	**308,522**
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(301,928)	(6,594)	-	(308,522)
Net remeasurement of loss allowances	-	-	-	-
New financial assets originated or purchased	141,706	12,215		153,921
Foreign exchange and other movements	(122)	(484)	-	(606)
Balances at 31 December 2020	**141,584**	**11,731**	**-**	**153,315**

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**480,387**	**229,916**	**1,285,461**	**1,995,764**
Transfer to Stage 1	2,258	(717)	(1,541)	**-**
Transfer to Stage 2	(115,333)	118,410	(3,077)	**-**
Transfer to Stage 3	(182,255)	(196,359)	378,614	-
Financial Assets that have been derecognized	(71,562)	(48,379)	(226,915)	**(346,856)**
Net remeasurement of loss allowances	260,273	56,110	(34,668)	**281,715**
New financial assets originated or purchased	209,224	164,535	116,378	**490,137**
Write offs	-	-	(392,103)	**(392,103)**
Foreign exchange and other movements	(14,626)	-	-	**(14,626)**
Balances at 31 December 2021	**565,290**	**326,592**	**1,122,149**	**2,014,031**

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2020	**710,116**	**136,858**	**1,167,339**	**2,014,313**
Transfer to Stage 1	20,548	(7,784)	(12,764)	**-**
Transfer to Stage 2	(40,679)	67,512	(26,833)	**-**
Transfer to Stage 3	(13,385)	(5,856)	19,241	**-**
Financial Assets that have been derecognized	(155,358)	(10,423)	(51,845)	**(217,626)**
Net remeasurement of loss allowances	(121,669)	7,195	111,773	**(2,701)**
New financial assets originated or purchased	68,464	42,180	244,951	**355,595**
Write offs	-	-	(166,722)	**(166,722)**
Foreign exchange and other movements	12,350	234	321	**12,905**
Balances at 31 December 2020	**480,387**	**229,916**	**1,285,461**	**1,995,764**

Loan commitments and financial guarantee contracts	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**34,792**	**2,086**	**10,085**	**46,963**
Transfer to Stage 1	**119**	**(34)**	**(85)**	**-**
Transfer to Stage 2	**(91)**	**91**		**-**
Transfer to Stage 3	**(440)**	**(14)**	**454**	**-**
Financial Assets that have been derecognized	(4,949)	(696)	(2,093)	**(7,738)**
Net remeasurement of loss allowances	3,181	(1,342)	(2,959)	**(1,120)**
New financial assets originated or purchased	5,402		121	**5,523**
Foreign exchange and other movements	(453)	-	-	(453)
Balances at 31 December 2021	**37,561**	**91**	**5,523**	**43,175**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2020	**47,527**	**262**	**6,653**	**54,442**
Transfer to Stage 1	**53**	**(2)**	**(51)**	
Transfer to Stage 2	**(1,002)**	**1,002**	**-**	**-**
Transfer to Stage 3	**(2,600)**	**(8)**	**2,608**	**-**
Financial Assets that have been derecognized	(3,624)	(0)	(346)	**(3,970)**
Net remeasurement of loss allowances	(10,045)	832	1,218	**(7,995)**
New financial assets originated or purchased	4,071	-	3	**4,074**
Foreign exchange and other movements	412	-	-	**412**
Balances at 31 December 2020	**34,792**	**2,086**	**10,085**	**46,963**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

Gross amount

The following tables show reconciliations from the opening to the closing balance of the gross amount by class of financial instrument.

Loans and advances to banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**38,062,282**	**2,529,732**	**-**	**40,592,014**
Transfer to Stage 2	**(3,242,573)**	**3,242,573**	**-**	**-**
Financial Assets that have been derecognized	(26,119,802)	-	-	**(26,119,802)**
Increase/Decerease of the exposure	2,034,890	(2,659,180)	-	**(624,290)**
New financial assets originated or purchased	28,387,359	1,625,132	-	**30,012,491**
Foreign exchange and other movements	-	-	-	**-**
Balances at 31 December 2021	**39,122,156.00**	**4,738,257.00**	**-**	**43,860,413.00**

Investment securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**36,836,454**	**734**	**-**	**36,837,188**
Transfer between stages	**-**	**-**	**-**	**-**
Financial Assets that have been derecognized	(24,742,205)	(712)	-	**(24,742,917)**
Increase/Decerease of the exposure	(301,213)	-	-	**(301,213)**
New financial assets originated or purchased	39,596,522	-	-	**39,596,522**
Foreign exchange and other movements	(38,388)	(22)	-	**(38,410)**
Balances at 31 December 2021	**51,351,170.00**	**-**	**-**	**51,351,170.00**

Investment securities at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**31,782,220**	**3,454,312**	**-**	**35,236,532**
Transfer between stages	**-**	**-**	**-**	**-**
Financial Assets that have been derecognized	(10,658,128)	(1,516,347)	-	**(12,174,475)**
Increase/Decerease of the exposure	(38,492)	106,461	-	**67,969**
New financial assets originated or purchased	-	-	-	**-**
Foreign exchange and other movements	(42,797)	(15,986)	-	**(58,783)**
Balances at 31 December 2021	**21,042,803.00**	**2,028,440.00**	**-**	**23,071,243.00**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

Gross amount (continued)

Loans and Advances to Customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**49,824,618**	**716,989**	**2,356,994**	**52,898,601**
Transfer to Stage 1	122,207	(69,887)	(52,320)	-
Transfer to Stage 2	(512,610)	520,755	(8,145)	-
Transfer to Stage 3	(362,378)	(302,378)	664,756	-
Financial Assets that have been derecognized	(6,781,538)	(109,142)	(917,216)	(7,807,896)
Increase/Decerease of the exposure	(4,781,434)	(89,889)	(144,918)	(5,016,241)
New financial assets originated or purchased	13,447,710	1,226,351	260,944	14,935,005
Foreign exchange and other movements	3,796	8,419	(39,810)	(27,595)
Balances at 31 December 2021	**50,960,371**	**1,901,218**	**2,120,285**	**54,981,874**

OFF BALANCE SHEET	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**11,118,263**	**38,507**	**10,991**	**11,167,761**
Transfer to Stage 1	**19,990**	**(19,990)**	**-**	**-**
Transfer to Stage 2	**(1,043)**	**1,043**	**-**	**-**
Transfer to Stage 3	**2,062**		**(2,062)**	**-**
Financial Assets that have been derecognized	(1,701,420)	(17,553)	(2,307)	**(1,721,280)**
Increase/Decerease of the exposure	(1,011,814)	(942)	(1,408)	**(1,014,164)**
New financial assets originated or purchased	1,417,247	-	121	**1,417,368**
Foreign exchange and other movements	(481)	(22)	503	**-**
Balances at 31 December 2021	**9,842,804**	**1,043**	**5,838**	**9,849,685**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

The following table provides for the year 2021 and 2020 a reconciliation between opening and closing balances of loss allowance per class of financial instrument:

	Loans and advances to banks	**Loans and advances to customers**	**Investment securities at FVOCI**	**Investment securities at amortized cost**	**Total**
Net remeasurement of loss allowance	(9,455)	(65,141)	(52,237)	133,970	**7,137**
New financial assets originated or purchased	4,069	490,137	482,547	-	**976,753**
Balances at 31 December 2021	**(5,386)**	**424,996**	**430,310**	**133,970**	**983,890**

	Loans and advances to banks	**Loans and advances to customers**	**Investment securities at FVOCI**	**Investment securities at amortized cost**	**Total**
Net remeasurement of loss allowance	(2,138)	(220,327)	(5,517)	(308,522)	**(536,504)**
New financial assets originated or purchased	6,961	355,595	146,906	153,921	**663,383**
Balances at 31 December 2020	**4,823**	**135,268**	**141,389**	**(154,601)**	**126,879**

(vi) Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when the Bank's Board of Directors determines that the loans are uncollectible. This is generally the case when the Board of Directors determines that significant changes in the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(vii) Concentration of Credit Risk

The Bank monitors concentration of credit risk by sector and location. An analysis of credit risk at the reporting date is shown below:

	Net Loans and advances to customers	
Concentration by sector	**31 December 2021**	**31 December 2020**
Energy	12,771,689	9,772,663
Services	7,303,022	7,917,671
Wholesale	9,106,404	10,491,366
Construction	5,728,502	2,177,959
Manufacturing	2,439,035	5,962,678
Real Estate	471,135	379,108
Other	859,361	1,603,084
Corporate total	**38,679,148**	**38,304,529**
Mortgage	11,934,543	10,141,005
Consumer	2,354,152	2,457,303
Retail total	**14,288,695**	**12,598,308**
Carrying amount	**52,967,843**	**50,902,837**

	Loans and advances to banks	
Concentration by sector	**31 December 2021**	**31 December 2020**
Related parties bank	22,199,347	25,830,612
Other EU countries	18,969,807	11,603,048
Local banks	2,682,265	3,143,702
Carrying amount	**43,851,419**	**40,577,362**

	Investment securities	
Concentration by sector	**31 December 2021**	**31 December 2020**
Sovereign (Note 17)	73,603,707	71,223,814
Other Financial Institutions	531,672	696,592
Carrying amount	**74,135,379**	**71,920,406**

The following concentrations of credit risk arise in the Bank's credit-risk portfolio.

	31 December 2021	**Exposure In %**	**31 December 2020**	**Exposure In %**
Republic of Albania securities	68,260,450	36%	66,257,971	36%
Balances with Bank of Albania	18,123,184	10%	17,072,920	9%
Total direct Albanian Sovereign risk	**86,383,634**	**45%**	**83,330,891**	**45%**
Largest bank	15,499,342	8%	16,025,744	9%
Largest customer	2,412,904	1%	4,592,685	3%
Total largest bank and customer	**17,912,246**	**9%**	**20,618,429**	**12%**
Total on-balance-sheet risk	**104,295,880**	**55%**	**103,949,320**	**57%**

The largest exposure toward the banks is exposure to the Group parent and the largest customer is a private company operating in energy sector.

Republic of Albania securities includes securities invested with Government of Albania classified as FVOCI and AC.

Balances with Bank of Albania include current account and mandatory reserve with Bank of Albania

11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(viii) Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honor its obligations to deliver cash, securities or other assets as contractually agreed. The settlement risk with financial institutions and government counterparties is included within a system of limits for all the transactions with such counterparties and is subject to daily monitoring, defined and regulated in the internal documents "ISBA Credit Autonomy Level" and "ISBA Rules for the management and maintenance of the FI-s limits" and the Central Bank of Albania regulation "On risk management arising from the large exposures of the Bank".

Following the approval with the aim to prevent any breaches of local regulatory counterparty limits with Financial Institutions, generated by fluctuations of exchange rates, the bank has integrated warning level limits (soft limits), 23.4 % of regulatory capital for the exposures toward ISP Group and 18.7 % of regulatory capital for the exposures toward other Financial Institutions/Governments, as approved by Financial risk committee ("RCO") on 24 January 2017 and reapproved the same level of soft limits by ALCO 21 March 2019. The Bank of Albania regulation "On risk management arising from the large exposures of Bank" was revised in force in March 2015 has been complied for the year ended 31 December 2021.

(b) Liquidity Risk

Liquidity risk is defined as the possibility that an institution is unable to meet its payment obligations due to its incapacity to liquidate assets or obtain adequate funding from the market (funding liquidity risk), or due to the difficulty of easily unwinding positions in financial assets without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions.

(i) Management of liquidity risk

The Bank's approach to managing liquidity risk is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank defines the guidelines for liquidity risk management and the contingency liquidity plan, which are subject to review by Group structures and approval by the Bank's Financial Risk Committee and Board of Directors. The Treasury and ALM Department is responsible for liquidity management and the Risk Management Division is responsible for monitoring indicators and verifying adherence to the limits and the Bank's Regulation on Liquidity Risk Management is annually updated.

The Bank monitors liquidity, in accordance with this regulation, in order to manage its obligations when they fall due and activate emergency procedures in case of escalation.

A balanced ratio should be maintained between incoming sources and outflows, in both the short and medium-long term. This target is organized through the use of the following specific metrics "Liquidity Coverage Ratio up to 30 days" and "Net Stable Funding Ratio".

- **Liquidity Coverage Ratio (LCR)** up to 30 days: aims to ensure that the Bank maintains an adequate level of unencumbered high-quality liquid assets (HQLA) to meet its short-term liquidity needs under liquidity stress scenario (LCR≥105%).
- **Net Stable Funding Ratio (NSFR):** aims to guarantee an adequate liquidity position over a medium/long-term time horizon. It establishes a minimum "acceptable" amount of funding over one-year horizon in relation to the needs arising from the liquidity characteristics and the residual maturities of assets and off-balances exposures (NSFR≥102.5%).

Holding reserves of liquid assets (so-called Liquidity Buffer) is one of the main tools for mitigating liquidity risk. For the purpose of identifying and measuring this risk, both short and medium-long term, the classification of highly-liquid assets takes on crucial importance.

Furthermore, the Bank prepares liquidity scenarios, based on assumptions provided by the Group guidelines, such as market or firm specific crisis situations, monitors "Early Warning LCR" threshold and additional monitoring tools. The short-term indicator (LCR) shows a very well level of liquidity of the bank, under a liquidity stress scenario.

11. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

(i) Management of liquidity risk (continued)

In its Liquidity Policy, the Bank projects an LCR indicator of up to 3 months by including the estimated market effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis, based on assumptions provided by the Group's guidelines, LCR up to 3 months≥90. This indicator was on force up to December 2020, and it was substituted by a new indicator "Survival Period" measures the first day in which the Net Liquidity Position (NLP) of the Bank turns negative, namely when the additional liquidity to cover the simulated net liquidity outflows is no longer available. Under the stressed condition, the "Survival Period" should be always positive at least up to 90 days.

A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limits established by the Bank of Albania, which should be above 20% for all currencies and foreign currencies and above 15% for the local currency.

As per new BOA regulation, No. 27, "On the Liquidity Coverage Ratio", the Bank must be compliant also with the following 1M Liquidity Coverage Ratio limits:

- A limit of total currencies LCR is defined at least 100% and
- for total significant foreign currencies LCR the limit is gradually set as follows:

LCR TOTAL SIGNIFICANT CURRENCY (Euro +Usd)

- 1st Mar 2020 50%
- 1st Jan 2021 70%
- 1st Jan 2022 80%

In the ALCO meeting held on 26th August 2020 the following single currency limits are approved:
LCR limits for Lek, Eur and USD :

- 1st Mar 2020 50%
- 1st Jan 2021 70%
- 1st Jan 2022 80%

(ii) Compulsory reserve

On 7 February 2018 Bank of Albania approved the decision no.14 for the change on the Compulsory Reserve requirement. These changes have entered in force during June 2018 up to August 2019 and consist of the following:

- Decrease for the obligatory reserve requirement rate for local currency liabilities to 7.5% and 5% (previous rate applied: 10%).
- The new obligatory reserve requirement rate for foreign currency liabilities is 12.5% and 20%. Liabilities in foreign currency up to 50% of the total liabilities have a 12.5% requirement rate and for the part of above 50% of the total liabilities the requirement rate is 20% (previous rate applied: 10 %).

All the above liquidity ratios are periodically monitored by the Bank with reference to the Group internal limits and guidelines and to the Bank of Albania requirements. During the year 2021, the bank has been within the internal and regulatory limits.

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

The table enclosed shows breakdown by the earliest contractual residual maturity of undiscounted balances of financial assets and liabilities. The securities portfolio in Level 1 is classified as less than 1 months since they are traded in active markets. The other securities are classified as per remaining maturity, since are considered as not liquid assets. Behavioral coefficients of ISP Group are applied for the drawdown percentages for off-balance-sheet categories such as committed credit lines and guarantees. The breakdown considers the cash flows in/out of the Bank for on and off-balance-sheet financial assets and liabilities, according to the earliest contractual residual maturity and not reflecting any retention history assumptions or earlier repayment.

31 December 2021	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Assets (Cash Flow IN)	**108,039,462**	**7,297,992**	**22,791,218**	**45,736,588**	**17,761,153**	**201,626,413**
Cash on hand	1,520,918	-	-	-	-	1,520,918
Minimum reserve requirements	-	-	-	17,518,407	-	17,518,407
Advances to banks	13,831,198	-	-	-	-	13,831,198
Investment Securities FVOCI	64,109,984	-	-	-	-	64,109,984
Other Investment Securities	75,234	3,247,617	3,679,169	7,154,766	2,118,515	16,275,301
Loans to banks	14,102,946	2,490,382	12,611,126	-	-	29,204,454
Loans and advances to customers (gross performing loans)	14,399,182	1,559,993	6,500,923	21,063,415	15,642,638	59,166,151
31 December 2021						
Liabilities (Cash flow OUT)	**(124,155,805)**	**(8,402,992)**	**(20,540,730)**	**(18,479,508)**	**(174,693)**	**(171,753,728)**
Deposits from banks and customers- Current accounts	(119,603,837)	-	-	-	-	(119,603,837)
Current accounts with banks	(115,731)	-	-	-	-	(115,731)
Current accounts with customers	(119,488,106)	-	-	-	-	(119,488,106)
Deposits from banks	(1,360,882)		-	-	-	(1,360,882)
Deposits from customers- Time deposits	(3,191,086)	(8,402,992)	(20,540,730)	(18,479,508)	(174,693)	(50,789,009)
Total gap on-balance sheet	**(16,116,343)**	**(1,105,000)**	**2,250,488**	**27,257,080**	**17,586,460**	**29,872,685**
Off-Balance sheet (Cash flow in)	-	-	-	-	-	-
Off- Balance sheet (Cash flow out)	(347,797)	-	-	-	-	(347,797)
Total gap off-balance sheet	**(347,797)**	**-**	**-**	**-**	**-**	**(347,797)**
Total gap 31 December 2021	**(16,464,140)**	**(1,105,000)**	**2,250,488**	**27,257,080**	**17,586,460**	**29,524,888**
Cumulated gap 31 December 2021	**(16,464,140)**	**(17,569,140)**	**(15,318,652)**	**11,938,428**	**29,524,888**	**-**

The Bank manages liquidity positions in accordance with Central Bank rules and regulations and it is compliant with all liquidity ratios. Contractual maturities of liabilities, particularly those up to one month are high due to significant current accounts of customers. However, the rate of renewal of the current accounts is significantly high and settlement in not expected in the short term.

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

31 December 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Assets (Cash Flow IN)	**102,882,562**	**17,322,864**	**16,459,873**	**47,883,656**	**14,497,399**	**199,046,354**
Cash on hand	1,503,763	-	-	-	-	1,503,763
Minimum reserve requirements	-	-	-	16,207,078	-	16,207,078
Advances to banks	14,474,947	-	-	-	-	14,474,947
Investment Securities	62,836,512	-	-	-	-	62,836,512
Other Investment Securities	167,730	8,894,176	1,209,094	10,800,086	795,697	21,866,783
Loans to banks	10,960,420	6,995,150	7,237,197	-	-	25,192,767
Loans and advances to customers (*gross performing loans*)	12,939,190	1,433,538	8,013,582	20,876,492	13,701,702	56,964,504
31 December 2020						
Liabilities (Cash flow OUT)	**(112,500,550)**	**(8,749,685)**	**(22,768,840)**	**(19,199,127)**	**(186,169)**	**(163,404,371)**
Deposits from banks and customers- Current accounts	**(107,338,175)**	**-**	-	-	-	**(107,338,175)**
Current accounts with banks	(20,695)	-	-	-	-	(20,695)
Current accounts with customers	(107,317,480)	-	-	-	-	(107,317,480)
Deposits from banks	(1,679,382)	-	-	-	-	(1,679,382)
Deposits from customers- Time deposits	(3,482,993)	(8,749,685)	(22,768,840)	(19,199,127)	(186,169)	(54,386,814)
Total gap on-balance sheet	**(9,617,988)**	**8,573,179**	**(6,308,967)**	**28,684,529**	**14,311,230**	**35,641,983**
Off-Balance sheet (Cash flow in)	-	-	-	-	-	-
Off- Balance sheet (Cash flow out)	(332,357)	-	-	-	-	(332,357)
Total gap off-balance sheet	(332,357)	-	-	-	-	(332,357)
Total gap 31 December 2020	**(9,950,345)**	**8,573,179**	**(6,308,967)**	**28,684,529**	**14,311,230**	**35,309,626**
Cumulated gap 31 December 2020	**(9,950,345)**	**(1,377,166)**	**(7,686,133)**	**20,998,396**	**35,309,626**	**-**

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

The information provided relates to cash flows deriving from financial off-balance-sheet liabilities, therefore it considerably differs from the face of the statement of financial position. The analysis does not include non-financial liabilities and equity and comprises of cash flows of contractual interest.

The table below shows the Bank's financial contingent liabilities and financial commitments.

31 December 2021	**1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**>5 Years**	**Total**
Commitments	5,887,122	-	-	-	-	**5,887,122**
Guarantees	4,900,405	-	-	-	-	**4,900,405**
31 December 2020						
Commitments	4,868,368	-	-	-	-	**4,868,368**
Guarantees	5,773,011	-	-	-	-	**5,773,011**

The Bank expects only a small part of the commitments to be demanded within one month and guarantees to be closed at maturity date. (Refer also to note 37 Commitment and contingencies)

Reconciliation between contingent liabilities and commitments maturity table and note 39 Commitment and contingencies is as follows:

	31 December 2021	**31 December 2020**
Commitments	**5,887,122**	**4,868,368**
Un-drawn credit facilities	5,887,122	4,868,368
Guarantees	**4,900,405**	**5,773,011**
Letters of credit	77,238	1,316,966
Guarantees in favor of customers	4,823,168	4,456,045

(c) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risks

The Bank holds its securities portfolio in accordance with IFRS 9 as either Held to Collect (HTC) or Held to collect and sell (HTCS). ISBA Security Portfolio is managed by "ISBA Financial Portfolio Policy "which defines the below specific limits:

- According to the ISBA Financial Portfolio Policy, approved in ISBA Board of Directors on 30 June 2020 April 2020, the bank is not allowed to invest in the Hold to Collect Portfolio.
- According to the provision of the Capital Adequacy Ratio as of 01/01/2021, the assigned risk for the securities issued by the Albanian Government in foreign currency will be increased from 50% to 100%, with exceptions for securities issued in foreign currency by Albanian Government in years 2020 and 2021, risk weight to be applied 0%, decision taken from the Supervisory council of Bank of Albania
- The security portfolio should obey the specific limits related to type of issuer limits presented on the below table
- The overall portfolio must comply with some pre-defined type of issuer limits, which are categorized based on the issuer type, rating and currency.

11. Financial Risk Management (continued)

(b) Market Risk (continued)

Management of market risks

- Investments in Portuguese and Greek government securities and covered bonds of the same countries are not allowed. For all the investments in debt securities, classified as HTCS or HTC, issued by countries considered “at risk” according to ISP Country Risk Guidelines (i.e. countries not belonging to euro area with an internal rating lower than AA-), the approval process and authorization procedure required by the guidelines in force must be followed. The HTCS security portfolio should be in within a VaR Limit, which was a requirement of the ISP Risk management department. The limit has been defined from ISP Risk management using the historical data of securities portfolio of ISBA. The methodology used for the calculus of the VaR is based on the simulation method applied in full-revaluation and supported by the architecture of HO IBM's “Mark-to-Future”. This limit has been introduced and is monitored by ISP Financial and Market Risks Head Office Department/Risk Monitoring & Governance Office on daily basis. In the case of limit violation, they will inform accordingly ISBA structures, ISP Treasury and ISBA Local Risk in order to take all necessary steps to get back to limits. The limit assigned to Intesa Sanpaolo Bank Albania are:

HTCS Securities Portfolio Limits	Limit	Currency
HTCS Early Warning VaR	2,100,000	EUR
HTCS Soft Limit VaR	2,480,000	EUR
HTCS Managerial Alert (Stressed VAR)	3,040,000	EUR
HTCS Early Warning Stressed VaR	3,800,000	EUR

(i) Exposure to Foreign Exchange rate risk

Foreign exchange rate risk is defined as the possibility that foreign exchange rate fluctuations will produce significant changes, both positive and negative, in the Bank’s statement of financial position. The key sources of exchange rate risk consist of:

- Foreign currency loans and deposits held by corporate and retail customers;
- Investment securities in foreign currencies;
- Trading of foreign banknotes;
- Collection and/or payment of interest, commissions, administrative costs, etc. in foreign currencies.

The Bank’s exposure to exchange rate risk is monitored on a daily basis by Market and Operational Risk Office ensuring compliance with the internal and regulatory limits. Internal regulations set limits for each open currency position, global open position, maximum loss and Value at Risk (VaR).

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(c) Market Risk (continued)

(i) Exposure to Foreign Exchange rate risk (continued)

Assets	**LEK**	**USD**	**EUR**	**OTHER**	**TOTAL**
Cash and cash equivalents	2,717,704	3,558,202	21,274,255	2,093,137	**29,643,298**
Loans and advances to banks	4,351,554	1,778,070	27,291,362	432,085	**33,853,071**
Investment securities at FVOCI	43,863,387	531,671	6,956,111	-	**51,351,169**
Investment securities at amortized cost	19,189,974	2,023,966	1,570,269	-	**22,784,209**
Loans and advances to customers	17,013,254	2,589,832	33,364,622	135	**52,967,843**
Property and equipment's	1,974,017	-	-	-	**1,974,017**
Right of use	469,669	-	-	-	**469,669**
Intangible assets	517,813	-	-	-	**517,813**
Investment Property	533,798	-	-	-	**533,798**
Deferred tax assets	422,933	-	-	-	**422,933**
Current tax assets	290,395	-	-	-	**290,395**
Other assets	436,559	12,768	412,811	210	**862,348**
Total Assets (1)	**91,781,057**	**10,494,509**	**90,869,430**	**2,525,567**	**195,670,563**
Liabilities					
Due to Banks	1,232,568	-	235,103	8,768	**1,476,439**
Due to customers	66,314,174	10,194,036	90,450,127	2,503,082	**169,461,419**
Provisions	298,655	31,343	204,551	-	**534,549**
Lease liabilities	3,791	-	464,969	-	**468,760**
Other liabilities	719,062	28,774	429,125	5,118	**1,182,079**
Deferred tax liabilities	220,618	-	-	-	**220,618**
Net Equity	22,239,930	(1,419)	88,188	-	**22,326,700**
Total Liabilities (2)	**91,028,798**	**10,252,734**	**91,872,063**	**2,516,968**	**195,670,564**
Net FX Position at 31 December 2021 (1)-(2)	**752,259**	**241,775**	**(1,002,633)**	**8,599**	**(0)**
Off balance sheet Assets	15,640,001	5,373,081	140,472,310	-	161,485,392
Off balance sheet Liabilities	15,510,159	5,613,526	140,361,707		161,485,392
Net Off BSH FX Position at 31 December 2021	**129,842**	**(240,445)**	**110,603**		
Total Net FX Position at 31 December 2021	**882,101**	**1,330**	**(892,030)**	**8,599**	**-**
Balance sheet Assets as at 31 December 2020	16,088,144	3,471,474	130,015,985	123,155	149,698,758
Balance sheet Liabilities as at 31 December 2020	16,193,803	3,506,857	129,998,098	-	149,698,758
Net Off BSH FX Position at 31 December 2020	**(105,659)**	**(35,383)**	**17,887**	**123,155**	**-**
Total Net FX Position at 31 December 2020	**(75,102)**	**6,581**	**(56,833)**	**125,354**	**-**

11. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk

The principal Interest Rate risk to which the Bank's portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of the change in market interest rates. This risk arises primarily from securities portfolio, retail and corporate banking. Interest rate risk is managed principally through periodic monitoring of interest rate spreads between the Bank's assets and liabilities and also preparing related scenario analysis on interest rates for decision making purposes.

The method used to measure Interest Rate risk of the Bank's assets and liabilities is based on the sensitivity analysis. The measurement system adopted by the Bank must ensure that the risk profile can be examined from two distinctive but complementary points of view:

- the economic value perspective (EVE - Economic Value of Equity), that evaluates the impact of interest rates shocks (and their volatilities) on the present value of future cash flows;
- the net interest income perspective (NII - Net Interest Income), that evaluates the impact of interest rates shocks (and their volatilities) on net interest income.

The Bank's financial assets and liabilities have mainly variable interest rate or have a re-pricing date of less than one year, except for Albanian Securities and for certain non-Albanian securities investment, which have fixed coupon rates between 0.19% - 6.87% for USD denominated securities (2020: 0.3% - 6.9%) and between 0.17% - 3.50% for EUR denominated securities (2020: 0.3 – 3.6%)

The Bank's Regulation on Interest Rate Risk Management, "ISBA Guidelines on the governance of IRRBB" and "ISBA Rules on the measurement and control of IRRBB" have been approved by the ISBA ALCO June 2021 and ISBA Board of Directors on October 2021.

These documents implement the latest regulatory provisions, recently defined in the Guidelines issued by the Parent Company on March 2021, based on the EBA regulation (EBA/GL/2018/02), and keeping the provisions of the Bank of Albania guideline "On managing interest rate risk in the banking book", approved as per decision No. 33, dated 30 April 2013. Interest rate risk generated by the Bank's assets and liabilities, as measured through shift sensitivity of Fair Value analysis of ± 100 basis points, registered at the end of December 2021 a value of ALL 825 million (for +100 basis points) compared to the end of year 2020 ALL -732 million.

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk (continued)

The table below shows the currency breakdown of the shift sensitivity for the year end 2021 and 2020.

Shift sensitivity

31-Dec-21	**Increase in basis points**	**Total**	**Sensitivity of Profit & Loss**	**Sensitivity of Equity**
EUR	**+100 b.p. / -100 b.p.**	(456,323)/356,880	(313,945)/239,403	(142,378)/117,477
USD	**+100 b.p. / -100 b.p.**	(61,806)/67,675	(60,780)/66,638	(1,025)/1,037
ALL	**+100 b.p. / -100 b.p.**	(308,653)/307,721	136,681/(131,670)	(445,334)/439,391
Other (GBP & CHF)	**+100 b.p. / -100 b.p.**	1,423/(1,451)	1,423/(1,451)	0/0
31-Dec-20	**Increase in basis points**	**Total**	**Sensitivity of Profit & Loss**	**Sensitivity of Equity**
EUR	+100 b.p. / -100 b.p.	(341,674)/152,055	(293,238)/134,943	(48,036)/17,112
USD	+100 b.p. / -100 b.p.	(82,404)/90,163	(80,201)/87,930	(2,203)/2,234
ALL	+100 b.p. / -100 b.p.	(309,602)/311,968	(25,205)/54,590	(284,397)/257,378
Other (GBP & CHF)	+100 b.p. / -100 b.p.	891/(959)	891/(959)	0/0

The limits on shift sensitivity of Fair Value (EVE) for shock +100bp and the NII Sensitivity for shocks +/-50bp are part of the RAF limits for ISBA 2021.

The NII sensitivity records the NII effects generated by the market rates movement on the renewal/re-pricing of the banking book. It quantifies the short-term impact on the net interest income of a parallel, instantaneous, permanent shock of ±50 basis points to the interest rate curve. This measure highlights the effect of variations in market rates on the interest margin generated by the portfolio that is being measured, excluding potential effects deriving from the new operations and future changes in the mix of assets and liabilities. The reference time horizon is typically limited to 1 year and according to the hypothesis that the institution is able to continue its activities ("going concern" approach).

The Interest rate risk generated by the Bank’s assets and liabilities, as measured through shift sensitivity of Net Interest Income analysis of ± 50 basis points, registered at 31 December 2021a value of Lek 315 million (for +50 basis points) and a value of Lek -326 million (for -50 basis points), compared to December 2020 Lek 270 million (for +50 basis points) and a value of Lek -304 million (for -50 basis points).

The sight positions with customers in ALL and EUR are treated based on behavioral model for the NII sensitivity defining the customer interest rate in the long-term and including the behavioral features and delayed reaction to market interest rates (in the short-term) resulting from the model. The behavioral model is developed by ISP Financial and Market Risks Head Office Department, based on the ISBA historical data provided from the Local Risk structure. The model results have been update based on the latest historical data of ISBA sight position (sight loans and sight deposits) by the HO above structure. The updated parameters results approved in GFRC November 2019 and ISBA BOD August 2020, are under implementation in the ALMPro risk system.

A different method used to measure Interest Rate risk is required by the Bank of Albania, which consists of quarterly monitoring of the interest rate risk exposure towards a parallel shock of ±200 basis points of the interest rate curve. For all the financial categories of assets and liabilities divided into either fixed or floating rate, their present value is calculated and is distributed in 14-time buckets. The total present value is then multiplied accordingly with the estimated modified duration of each time bucket. The limit for this exposure is 20% of the Bank’s regulatory capital. The Bank has been within the limit with the interest rate risk exposures at 31 December 2021 being 9.6% of the Bank’s regulatory capital (31 December 2020: 10%).

The Bank has been within the limits in accordance with Bank of Albania regulation and the internal regulation during the year 2021.

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk (continued)

The tables below summarize the Bank's interest-bearing financial assets and liabilities with both fixed and floating interest rates, as reported to Parent company and management of the Bank.
Based on the management of Interest Rate risk regulation, the carrying amount of each financial instrument is mapped to the repricing gap based on contractual undiscounted cash –flows or behavioral re-pricing date. The contractual includes instruments where the Bank knows exactly when the maturity or next re – pricing takes place.

31-Dec-21		**O/N**	**0-3 months**	**3-18 months**	**18m - 3 years**	**3 - 5 years**	**>5 years**	**Total**
Assets	**Interest rate type**							
Loans and advances to banks	Fix rate	15,910,894	33,333,961	12,626,979	-	-	-	61,871,834
	Floating rate	-	-	-	-	-	-	-
Loans and advances to customers	Fix rate	13,119,322	852,384	3,442,928	2,364,878	1,408,885	1,687,421	22,875,818
	Floating rate	305,128	4,895,905	26,398,560	366,730	347,434	515,790	32,829,547
Financial investments	Fix rate	-	13,429,206	38,249,049	10,291,043	9,062,094	2,623,183	73,654,575
	Floating rate	-	1,673,964	1,571,224	4,674	-	-	3,249,862
Other financial assets	Fix rate	89,016	128,722	361,313	154,873	186,565	118,654	1,039,143
	Floating rate	1,520,918	-	-	-	-	-	1,520,918
Total financial assets (interest-bearing)		**30,945,278**	**54,314,143**	**82,650,053**	**13,182,198**	**11,004,977**	**4,945,049**	**197,041,697**
Liabilities		-	-	-	-	-	-	-
Deposits to banks	Fix rate	(115,731)	(1,140,055)	-	(220,827)	-	-	(1,476,613)
	Floating rate	-	-	-	-	-	-	-
Due to customers	Fix rate	(119,965,860)	(11,408,175)	(24,579,319)	(11,669,354)	(2,760,793)	(175,317)	(170,558,818)
	Floating rate	-	-	-	-	-	-	-
Other liabilities	Fix rate	(631,720)	(67,591)	(591,493)	(238,964)	(215,029)	(80,556)	(1,825,353)
	Floating rate	-	-	-	-	-	-	-
Total financial liabilities (interest-bearing)		**(120,713,311)**	**(12,615,820)**	**(25,170,812)**	**(12,129,146)**	**(2,975,822)**	**(255,873)**	**(173,860,782)**
Interest sensitivity gap		**(89,768,033)**	**41,698,321**	**57,479,241**	**1,053,053**	**8,029,156**	**4,689,175**	**23,180,913**

The behavioral includes instruments whose residual life and/or interest rate have high levels of uncertainty that may depend on specific behaviors by customers, as the sight loans (advances to banks and advances to customers) and sight deposits (current accounts to customers) are positioned in the O/N (on demand) bucket, until the definition of behavioral coefficients. The reprising gap is calculated according to the internal rules on Interest rate risk as the difference between interest-bearing assets and interest-bearing liabilities in a given time bucket. Other financial assets/liabilities, capital and reserves, are items not included in the reprising gap, not considered interest-bearing.

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk (continued)

31 December 2020		O/N	0-3 months	3-18 months	18m - 3 years	3 - 5 years	>5 years	Total
Assets	**Interest rate type**							
Loans and advances to banks	Fix rate	17,314,251	33,088,722	7,237,197	-	-	-	57,640,170
	Floating rate	-	-	-	-	-	-	-
Loans and advances to customers	Fix rate	11,491,088	947,276	5,060,632	2,476,423	1,304,973	1,412,930	22,693,322
	Floating rate	1,237,287	4,234,608	24,137,760	360,812	318,346	495,151	30,783,964
Financial investments	Fix rate	-	11,343,991	37,711,095	11,335,030	8,483,676	2,142,990	71,016,782
	Floating rate	-	3,552,167	513,347	11,649	692	-	4,077,855
Non-Performing Loans	Fix rate	(117,858)	323,448	560,263	32,006	62,178	154,576	1,014,613
Other financial assets	Fix rate	1,503,763	-	-	-	-	-	1,503,763
Total financial assets (interest-bearing)		**31,428,531**	**53,490,212**	**75,220,294**	**14,215,920**	**10,169,865**	**4,205,647**	**188,730,469**
Liabilities								
Deposits to banks	Fix rate	(596,923)	(1,362,000)	-	-	(317,333)	-	(2,276,256)
	Floating rate	-	-	-	-	-	-	-
Due to customers	Fix rate	(107,332,135)	(11,622,982)	(25,860,053)	(10,548,007)	(5,539,387)	(188,288)	(161,090,852)
	Floating rate	-	-	-	-	-	-	-
Other liabilities	Fix rate	(490,149)	(36,473)	(283,989)	(128,761)	(90,347)	(39,456)	(1,069,175)
	Floating rate	-	-	-	-	-	-	-
Total financial liabilities (interest-bearing)		**(108,419,207)**	**(13,021,455)**	**(26,144,042)**	**(10,676,768)**	**(5,947,067)**	**(227,744)**	**(164,436,283)**
Interest sensitivity gap		**(76,990,676)**	**40,468,757**	**49,076,252**	**3,539,152**	**4,222,798**	**3,977,903**	**24,294,186**

11. Financial Risk Management (continued)

(c) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. This definition includes: legal risk, or the risk of losses resulting from violations of law or regulations, from contractual or constructive liability or from other disputes; model risk, defined as the potential loss which can be suffered by an entity, resulting from decisions mainly based on the results of internal models, caused by errors occurred during their development, implementation or use; Compliance risk, defined as the risk to incur judicial or administrative penalties, relevant financial losses resulting from the violation of mandatory rules or self-regulation; ICT risk (Information and Communication Technology, or simply computer risk), defined as the risk to incur economic losses related to the use of information and communication technology. Strategic and reputational risks are excluded.

The Bank's Board of Directors has approved the guidelines on the overall operational risk management framework adopting a policy and an organizational process for measuring, managing and controlling operational risk. The Bank's Regulation on Guideline for Operational Risk Management is fully in compliance with the Group Guidelines on Operational Risk Management issued on December 2014.

The Bank's Operational Risk Management Committee (hereinafter as ORCO) is responsible for the management of the operational risk of the Bank in terms of reviewing operational risk governance documentation and approving changes, preparing policies, standards and methodologies regarding operational risk management. One of the tools introduced for the management of operational risk is the definition of Operational Risk Key Indicators (KRIs). The final list of KRIs and thresholds was approved in ISBA Operational Risk Committee on October 2015. Since their approval, the Internal KRIs have been monitored and reported on quarterly bases in the ORCO and BoD meetings. The Internal KRIs are subject of an annual review process in order to ensure that they are aligned with the dynamic of the operational context and the significant risks that the Bank faces. Any amendment on KRIs policy will be submitted in ORCO and BoD for approval.

Thresholds for Bank of Albania KRI-s are defined and integrated within "ISBA KRIs Policy", approved in ISBA BOD 4 May 2018. The KRI-s are monitored on quarterly basis as per regulation BoA "On Operational Risk Management" in place, and reported in ORCO and BoD meetings.

The Bank's Risk Management Division is responsible for the identification, assessment, management and mitigation of operational risks, the verification of mitigation effectiveness and reporting to the Bank Senior Management and Group Risk Management with the aim of assessing the potential economic impact of particularly serious operational events.

The Bank carries out an annual assessment campaign set up by Intesa Sanpaolo Group, Self-Diagnosis process, which consists on the operational risk identification and assessment linked to the activity of each single unit within a structure.

The objectives of the Self Diagnosis process are to identify, measure, monitor, and mitigate operational risks. The Self Diagnosis process contributes to the spread of risk - control culture within the Bank. This process is composed of phases relative to the Assessment of the Business Environment, which determines the quality of each structure's risk control profile through the analysis of the importance and the level of management of risk factors in the operating context and phases relative to Scenario Analysis, which determine the size of each structure's risk profile by collecting estimated quantitative data from Business and Operational Units Responsible.

The Bank has the same responsibilities towards the Bank of Albania, based on the regulation on management of operational risk, entered into force on January 2011. The Bank reports regularly on the key indicators and classifications of effective operational losses as per business lines according to the regulatory requirements.

(in thousands of Lek, unless otherwise stated)

11. Financial Risk Management (continued)

(d) Capital Management

The Bank's lead regulator, the Central Bank of Albania, sets and monitors capital requirements for the Bank. The Bank's policy is to maintain the capital base within limits, capitalizing all activity earnings so as to sustain future development of the business recognizing the impact of the level of capital on shareholders' return. The Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Implementing the current capital requirements, the Central Bank of Albania requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets and off-balance sheet items, at a minimum level of 12%. During financial year 2021 the Bank achieved an adequacy ratio well above the minimum required which as at 31 December 2021 is calculated 23.77% (2020: 21.54%).

The modified capital adequacy ratio, which represents the ratio of base capital to risk-weighted assets and off-balance sheet items, is another limit set by the Central Bank of Albania at a level of 6%. Throughout the period, there were no material changes in the Bank's management of capital and all externally imposed capital requirements were complied with.

Regulation on Capital Adequacy Ratio entered into force in March 2015 and is based on Basel II criteria and in line with the European Directives for Financial Institutions.

	Note	31 December 2021	31 December 2020
Tier 1 capital - CET1			
Share capital	30	5,562,518	5,562,518
Share premium	30	1,383,880	1,383,880
Legal and regulatory reserves	31	1,825,623	1,825,623
Regulatory retained earnings		11,866,348	10,368,316
		20,638,369	**19,140,337**
Deductions:			
Regulatory intangible assets		(655,023)	(607,690)
Total qualifying Tier 1 capital		**19,983,345**	**18,532,647**
Risk-weighted assets:			
On and off-balance sheet		75,106,060	77,289,895
Risk assets for operational risk		8,963,432	8,762,143
Total risk-weighted assets		**84,069,492**	**86,052,038**
Tier I capital to risk- weighted asset ratio (Capital adequacy ratio)		**23.77%**	**21.54%**

As at 31 December 2017, the Bank of Albania the guideline "On the internal capital adequacy assessment process" entered in force which set out the requirements for banks on drafting and implementing the Internal Capital Adequacy Assessment Process (ICAAP), as well as the expectations of the supervisor on the structure and content of the regulatory report of this process. ICAAP, which is independently realized by the bank and approved from its governing bodies by acknowledging also regulatory requirements, shall ensure the assessment of the current and future levels of capital adequacy, based on its risk profile and strategies ICAAP has been prepared by the Bank starting from year 2013 following also the ISP Group requirement and also have been timely submitted to the regulator within April 2021.

(in thousands of Lek, unless otherwise stated)

12. Fair value measurement

The following table provides the fair value measurement hierarchy of the bank's assets and liabilities.

		Fair value measurement using							
		31-Dec-21				31-Dec-20			
		Total	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	Total	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
Assets measured at fair value:	**Date of valuation**		**(Level 1)**	**(Level 2)**	**(Level 3)**		**(Level 1)**	**(Level 2)**	**(Level 3)**
Investment securities at FVOCI	**12/31/2021**	**51,351,170**	8,119,315	43,231,855	-	**36,837,189**	3,851,213	32,985,976	-
Property and equipment (Buildings)	**12/31/2021**	**1,274,659**	-	-	1,274,659	**1,320,839**	-	-	1,320,839
Investment property	**12/31/2021**	**533,798**	-	-	533,798	**533,798**	-	-	533,798
		53,159,627	**8,119,315**	**43,231,855**	**1,808,457**	**38,691,826**	**3,851,213**	**32,985,976**	**1,854,637**

(in thousands of Lek, unless otherwise stated)

13. Financial Assets and Financial Liabilities

(a) Fair values of financial assets and financial liabilities

		Carrying Amount					Fair Value			
31 December 2021	**Note**	**Investment securities at amortized cost**	**Investment securities at FVOCI**	**Loans and advances to banks**	**Other financial liabilities**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans and advances to banks	16	-	-	33,853,071	-	**33,853,071**	-	-	33,853,071	**33,853,071**
Investments securities at amortized cost	17	22,784,209	-	-	-	**22,784,209**	3,628,000	19,443,242	-	**23,071,242**
Investment securities at FVOCI	17	-	51,351,170	-	-	**51,351,170**	8,119,315	43,231,855	-	**51,351,170**
Total		**22,784,209**	**51,351,170**	**33,853,071**	**-**	**107,988,450**	**11,747,315**	**62,675,097**	**33,853,071**	**108,275,483**
Deposits from customers	26	-	-	-	169,461,419	**169,461,419**	-	-	170,031,068	**170,031,068**
Total		**-**		**-**	**169,461,419**	**169,461,419**	**-**	**-**	**170,031,068**	**170,031,068**
31 December 2020	**Note**	**Investment securities at amortized cost**	**Investment securities at FVOCI**	**Loans and advances to banks**	**Other financial liabilities**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans and advances to banks	16	-	-	26,721,728	-	26,721,728	-	-	26,721,728	26,721,728
Investments securities at amortized cost	17	35,083,217	-	-	-	**35,083,217**	3,581,023	31,655,512	-	35,236,536
Investment securities at FVOCI	17	-	36,837,189	-	-	36,837,189	3,851,213	32,985,976	-	36,837,189
Total		**35,083,217**	**36,837,189**	**26,721,728**	**-**	**98,642,134**	**7,432,236**	**64,641,488**	**26,721,728**	**98,795,453**
Deposits from customers	26	-	-	-	159,507,095	**159,507,095**	-		160,237,369	**160,237,369**
Total		**-**	**-**	**-**	**159,507,095**	**159,507,095**	**-**	**-**	**160,237,369**	**160,237,369**

HTC Albanian Government securities are fixed and floating rate bonds. The floating rate bond is given as the average yield of the last three Treasury bill auctions with the maturity of one year plus the spread. The measurement of the fair value for these securities is performed using the mark-to-market model valuation technique, by discounting all future cash flows deriving from such instruments. The rest of the HTC foreign securities denominated in foreign currencies represent Banks and Financial Institutions' securities whose fair value is measured according the "ISBA fair value internal rules". Loans and advances to customers have carrying amount, which is considered also their fair value, as the major part of portfolio is based on floating interest rates. The fair value of Time Deposits from customers is re-priced using the net present value. The interest rates applied are the market interest rates published from Bank of Albania. These rates are an estimate of the market rates. The fair value of current accounts, savings accounts is considered to approximate their carrying amount, given they have short-term maturity.

(in thousands of Lek, unless otherwise stated)

13. Financial Assets and Financial Liabilities (continued)

(b) Classification of financial assets and financial liabilities

See accounting policies in Notes 10 (f).

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

	Note	Amortized cost	FVOCI	Total carrying amount
31 December 2021				
Financial Assets				
Cash and cash equivalents	15	29,643,298	-	29,643,298
Loans and advances to banks	16	33,853,071	-	33,853,071
Investment securities	17	22,784,209	51,351,170	**74,135,379**
Loans and advances to customers	18	52,967,843	-	**52,967,843**
Total		139,248,421	51,351,170	**190,599,591**
Financial Liabilities				
Due to banks	25	1,476,439	-	**1,476,439**
Due to customers	26	169,461,419	-	**169,461,419**
Total		170,937,858	-	**170,937,858**

	Note	Amortized cost	FVOCI	Total carrying amount
31 December 2020				
Financial Assets				
Cash and cash equivalents	15	32,432,194	-	32,432,194
Loans and advances to banks	16	26,721,728	-	26,721,728
Investments securities	17	35,083,217	36,837,189	**71,920,406**
Loans and advances to customers	18	50,902,837	-	50,902,837
Total		145,139,976	36,837,189	**181,977,165**
Financial Liabilities				
Due to banks	25	2,273,426	-	**2,273,426**
Due to customers	26	159,507,095	-	**159,507,095**
Total		161,780,521	-	**161,780,521**

(in thousands of Lek, unless otherwise stated)

14. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities presented according to their contractual maturity. Due to customers portfolio within 12 months are renewable and is expected to be recovered or settled after one year.

		31 December 2021		
Assets	**Note**	**Within 12 months**	**After 12 months**	**Total**
Cash and cash equivalents	15	29,643,298	-	29,643,298
Loans and advances to banks	16	33,853,071	-	33,853,071
Investment securities	17	42,835,118	31,300,261	74,135,379
Loans and advances to customers	18	12,510,566	40,457,277	52,967,843
Current tax assets	38	-	290,395	290,395
Property and equipment	19	-	1,974,017	1,974,017
Right- of use	20		469,669	469,669
Intangible assets	21	-	517,811	517,811
Investment property	22	-	533,798	533,798
Inventory and other assets	23	-	503,339	503,339
Repossessed assets	24	-	359,008	359,008
Deferred tax assets	27		422,933	422,933
Total Assets		**118,842,053**	**76,828,508**	**195,670,561**
Liabilities				
Due to banks	25	1,476,439	-	1,476,439
Due to customers	26	151,278,236	18,183,183	169,461,419
Lease liability	20	-	468,760	468,760
Other liabilities	29	-	1,182,077	1,182,077
Deferred tax liabilities	27	-	220,618	220,618
Provisions	28	-	534,549	534,549
Total Equity	30,31	-	22,326,699	22,326,699
Total Liabilities and Equity		**152,754,675**	**42,915,886**	**195,670,561**

		31December 2020		
Assets	**Note**	**Within 12 months**	**After 12 months**	**Total**
Cash and cash equivalents	15	32,432,194	-	32,432,194
Loans and advances to banks	16	26,721,728	-	26,721,728
Investment securities	17	36,519,038	35,401,368	71,920,406
Loans and advances to customers	18	11,943,692	38,959,145	50,902,837
Current tax assets	38	-	379,233	379,233
Property and equipment	19	-	1,915,582	1,915,582
Right- of use	20		601,159	601,159
Intangible assets	21	-	489,831	489,831
Investment property	22	-	533,798	533,798
Inventory and other assets	23	-	503,339	482,534
Repossessed assets	24	-	359,008	668,996
Deferred tax assets	27		422,933	458,319
Total Assets		**107,616,652**	**79,565,396**	**187,506,617**
Liabilities				
Due to banks	23	2,273,426	-	2,273,426
Due to customers	24	140,859,786	18,647,309	159,507,095
Lease liability	19	-	602,986	602,986
Other liabilities	25	-	829,989	829,989
Deferred tax liabilities	26	-	259,345	259,345
Provisions	27	-	835,305	835,305
Total Equity		-	23,198,471	23,198,471
Total Liabilities and Equity		**143,133,212**	**44,373,405**	**187,506,617**

(in thousands of Lek, unless otherwise stated)

15. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2021 and 31 December 2020 are detailed as follows:

	31 December 2021	31 December 2020
Cash on hand	1,521,766	1,503,640
Current accounts with banks	13,847,919	14,479,756
Unrestricted balances with Bank of Albania	588,994	873,574
Money market placements	13,690,431	15,584,399
Less impairment loss allowance	(5,812)	(9,175)
Total	**29,643,298**	**32,432,194**

16. Loans and advances to banks

Loans and advances to banks as at 31 December 2021 and 31 December 2020 are composed as follows:

	31 December 2021	31 December 2020
Compulsory reserve with Bank of Albania	17,534,190	16,199,346
Deposits with correspondent banks	15,604,577	9,632,548
Repurchase agreement	717,486	895,311
Less impairment loss allowance	(3,182)	(5,477)
Total	**33,853,071**	**26,721,728**

In accordance with the Bank of Albania requirements, the Bank at the reporting date should maintain a minimum of compulsory reserve as per percentages determined by the regulator.

Such reserves are maintained in original currency for due to customer balances denominated in local currency. For due to customer balances denominated in foreign currency the Bank is obliged to maintain in original currency.

The amount required to be deposited is calculated monthly in arrears. According to the Bank of Albania regulation 70% of this reserve in Lek is available for daily use by the Bank.

The remuneration interest rate of obligatory reserve denominated in Lek is 70% of repurchase agreements rate equal to 1.00% for 31 December 2021 (31 December 2020: 1.00%).

The remuneration interest rate of the obligatory reserve in EUR is equal to the European Central Bank base rate equal to minus 0.50% for EUR for 31 December 2021 (31 December 2020: minus 0.50%).

Deposits with banks comprise money market placements with an original maturity of over three months, which are not part of cash and equivalents.

17. Investment securities

	31 December 2021	31 December 2020
Investment securities measured at FVOCI-debt instruments	51,351,170	36,837,189
Investment securities measured at amortized cost- debt instruments	22,784,209	35,083,217
Total	**74,135,379**	**71,920,406**

Investment securities measured at FVOCI as at 31 December 2021 and 31 December 2020 can be detailed as follows:

	31 December 2021	31 December 2020
Sovereign issuers		
Republic of Albania	**48,074,914**	**33,254,316**
Unlisted	43,231,855	32,985,976
Listed	4,843,059	268,340
EU member states	**2,744,584**	**2,886,267**
Listed	2,744,584	2,886,267
Other Financial Institutions	**531,672**	**696,606**
Listed	531,672	696,606
Total	**51,351,170**	**36,837,189**

(in thousands of Lek, unless otherwise stated)

17. Investment securities (continued)

Investment securities measured at amortized cost as at 31 December 2021 and 31 December 2020 can be detailed as follows:

	31 December 2021	31 December 2020
Sovereign issuers		
Republic of Albania	**20,760,243**	**33,149,239**
Unlisted	19,189,974	31,516,092
Listed	1,570,269	1,633,147
US and EU member states	**2,023,966**	**1,933,978**
Listed	2,023,966	1,933,978
Total	**22,784,209**	**35,083,217**

As at 31 December 2021 and 31 December 2020 no Albanian Government securities have been pledged as collateral for repurchase agreements.

18. Loans and advances to customers

Loans and advances to customers measured at amortized cost are composed as follows:

	31 December 2021	31 December 2020
Loans	41,701,801	40,921,737
Overdrafts	12,965,298	11,628,570
Financial lease	482,897	502,934
Deferred disbursement fees	(168,122)	(154,640)
Gross amount	**54,981,874**	**52,898,601**
Less impairment loss allowance	(2,014,031)	(1,995,764)
Total net amount	**52,967,843**	**50,902,837**

The Bank leases out certain equipment under finance leases in its capacity as a lessor.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	31 December 2021	31 December 2020
Less than one year	6,281	2,157
Between one and five years	473,048	487,534
Over 5 years	3,568	13,243
Gross finance lease	**482,897**	**502,934**
Less impairment allowance	4,494	4,037
Total	**478,403**	**498,897**

The following table sets out presentation of loans and advances to customers as per loan category.

	2021			2020		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Retail customers	**27,467,998**	**1,023,893**	**26,444,105**	**24,422,811**	**963,457**	**23,459,354**
Mortgage lending	12,219,230	284,687	11,934,543	10,442,823	257,883	10,184,940
Personal loans	15,200,563	731,550	14,469,013	13,928,539	699,839	13,228,700
Credit cards	28,468	6,266	22,202	30,181	4,475	25,706
Leasing	19,737	1,390	18,347	21,268	1,260	20,008
Corporate customers	**27,513,876**	**990,138**	**26,523,738**	**28,475,790**	**1,032,307**	**27,443,483**
Investment loans	24,389,408	836,436	23,552,972	23,218,348	823,176	22,395,172
Working capital	2,661,308	150,598	2,510,710	4,775,776	206,354	4,569,422
Leasing	463,160	3,104	460,056	481,666	2,777	478,889
Total	**54,981,874**	**2,014,031**	**52,967,843**	**52,898,601**	**1,995,764**	**50,902,837**

(in thousands of Lek, unless otherwise stated)

19. Property and Equipment

Property and Equipment as at 31 December 2021 and 31 December 2020 is as follows:

	Land and Building	IT and Electrical Equipment	Furniture and Fine Art Works	Other non-Electrical Assets	Assets acquired not put into use	Total
Cost						
Balance as at 1 January 2020	**1,780,893**	**1,125,311**	**158,808**	**238,914**	**268,327**	**3,572,253**
Additions	1,890	118,989	8,713	16,968	7,199	153,759
Disposals	-	-	-	-	-	-
Adjustment of Revaluation	(461,944)	-	-	-	-	(461,944)
Balance as at 31 December 2020	**1,320,839**	**1,244,300**	**167,521**	**255,882**	**275,526**	**3,264,068**
Additions	-	147,448	19,898	14,037	47,776	**229,159**
Disposals	-	(17,666)	(17,536)	(7,931)	-	**(43,133)**
Adjustment of Revaluation	-	-	-	-	-	-
Balance as at 31 December 2021	**1,320,839**	**1,374,082**	**169,883**	**261,988**	**323,302**	**3,450,094**
Accumulated Depreciation						
Balance as at 1 January 2020	**116,866**	**925,260**	**115,497**	**203,114**	**-**	**1,360,737**
Depreciation for the year	61,422	77,076	12,565	14,973	-	166,036
Disposals	-	-	-	-	-	-
Used on the Impairment loss	(178,288)	-	-	-	-	(178,288)
Balance as at 31 December 2020	**-**	**1,002,336**	**128,062**	**218,087**	**-**	**1,348,485**
Depreciation for the year	46,180	76,444	11,450	20,278	-	**154,352**
Disposals	-	(4,614)	(14,216)	(7,930)	-	**(26,760)**
Used on the Impairment loss	-	-	-	-	-	-
Balance as at 31 December 2021	**46,180**	**1,074,166**	**125,296**	**230,435**	**-**	**1,476,077**
Carrying amount						
At 31 December 2020	**1,320,839**	**241,964**	**39,459**	**37,794**	**275,526**	**1,915,582**
At 31 December 2021	**1,274,659**	**299,915**	**44,587**	**31,553**	**323,303**	**1,974,017**

The fair value of land and building was determined by external, independent property valuers, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Bank's own-used property portfolio every three years and its fair value measurement is categorized as a Level 3 fair value based on the inputs to comparable approach used.

(in thousands of Lek, unless otherwise stated)

20. Right of use of assets and lease liability

A. Leases as lessee

The Bank leases a number of branch and office premises. This leases typically run for a period of 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some lease provides for additional rent payments that are based on changes in local price indices. The Bank also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Bank has elected not to recognize right-of-use assets and lease liabilities for these leases. Previously, these leases were classified as operating leases under IAS 17. The information about leases for which the Bank is a lessee is presented below:

	Right-of-use assets		
	Buildings	**Other tangible assets**	**Total**
Cost			
At 1 January 2020	**579,609**	**12,560**	**592,169**
Additions	253,574	54,691	308,265
Modifications	-	-	-
Disposal/Transfer	(87,837)	-	(87,837)
At 31 December 2020	**745,346**	**67,251**	**812,597**
Additions	32,787	-	32,787
Modifications	-	-	-
Disposal/Transfer	(41,212)	-	(41,212)
At 31 December 2021	**736,921**	**67,251**	**804,172**
Accumulated Depreciation			
At 1 January 2020	**(126,073)**	**(5,212)**	**(131,285)**
Depreciation charge	(150,272)	(11,863)	(162,135)
Depreciation charge for disposals	82,566	(584)	81,982
At 31 December 2020	**(193,779)**	**(17,659)**	**(211,438)**
Depreciation charge	(148,218)	(14,119)	(162,337)
Depreciation charge for disposals	39,272	**-**	**39,272**
At 31 December 2021	**(302,725)**	**(31,778)**	**(334,503)**
Net book amount			
At 31 December 2020	**551,567**	**49,592**	**601,159**
At 31 December 2021	**434,196**	**35,473**	**469,669**
Average Discount rate	**1.75%**	**0.66%**	

The Bank has rental agreements with renewal options for its offices in Albania. During 2021, the amount of Lek 17,160 thousand thousand was recognized as operating lease expense under IAS 17 in respect of lease rentals (2020: 15,789).

i. Extension options

Some leases of office premises contain extension options exercisable by the Bank up to one year before the end of the non-cancellable contract period. Where applicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

(in thousands of Lek, unless otherwise stated)

20. Right of use of assets and lease liability (continued)

Lease Liability

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

	2021	2020
At 1 January	**602,986**	**445,944**
Additions	32,746	308,912
Disposals	(1,911)	(3,858)
Modifications	-	-
Accrual of interest	8,756	8,721
Lease payment	(161,202)	(164,088)
Revaluation effect	(12,615)	7,355
At 31 December	**468,760**	**602,986**

The maturity analysis of lease liabilities is disclosed in Note 13.

21. Intangible Assets

Intangible assets as at 31 December 2021 and 31 December 2020 are as follows:

	Software and Licenses	Advances for Software	Total
Cost			
Balance as at 1 January 2020	**2,049,250**	**169,620**	**2,218,870**
Additions during period	131,120	-	131,120
Transfers	-	(49,593)	(49,593)
Balance as at 31 December 2020	**2,180,370**	**120,027**	**2,300,397**
Additions during period	162,728	21,787	184,515
Transfers	-	-	-
Balance as at 31 December 2021	**2,343,098**	**141,814**	**2,484,912**
Amortization and Impairment Losses			
Balance as at 1 January 2020	**1,617,893**	-	**1,617,893**
Amortization charge for the year	192,673	-	192,673
Disposals	-	-	-
Balance as at 31 December 2020	**1,810,566**	-	**1,810,566**
Amortization charge for the year	156,535	-	**156,535**
Disposals	-	-	**-**
Balance as at31 December 2021	**1,967,101**	**-**	**1,967,101**
Carrying amount			
At 31 December 2020	**369,804**	**120,027**	**489,831**
At 31 December 2021	**375,997**	**141,814**	**517,811**

22. Investment property

The Bank holds investment property as consequence of acquisitions through enforcement of security over loans and advances. As at 31 December 2021, the investment property represents a foreclosed collateral repossessed during 2017. During 2021, investment property rentals of Lek 15,146 thousand (2020: Lek 4,179 thousand) have been recognized in other income. Based on the agreement between parties the annual rent for the first year is calculated 2.8% of the historical cost. The annual rent change over the period based on the payment of instalment for purchase of the property.

(in thousands of Lek, unless otherwise stated)

22. Investment property (continued)

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

	2021	2020
Balance at 1 January	**533,798**	**545,556**
Acquired during the year	-	-
Assets sold during the year	-	-
Net changes in fair value	-	(11,758)
Balance at 31 December	**533,798**	**533,798**

The fair value of investment property was determined by external, independent property valuers, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Bank's investment property portfolio every year and its fair value measurement is categorized as a Level 3 fair value based on the inputs to comparable approach used.

Description of valuation techniques used and key inputs to valuation of investment property is as following:

		2021	2021
Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	
Discounted cash flow method (DCF)	Estimated rental value per sqm per month	1,167 - 12,376 EUR	1,167 - 12,376 EUR
	Discounted rate	9%	9%

Using the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of Ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset.

23. Inventory and other assets

Other assets as at 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Sundry debtors	42,076	60,246
ATM & POS transactions	81,151	50,529
Leasehold improvements	77,080	92,913
Prepayments	22,226	41,780
Cheques for collection	7,425	14,637
VAT Receivable	175,217	144,113
Others	98,164	78,316
Total	**503,339**	**482,534**

The movement of leasehold improvements during the reporting period is presented as follows:

	31 December 2021	31 December 2020
At beginning of the period	**92,913**	114,999
Additions during period	6,075	17,914
Write off	-	(614)
Amortization of the period	(15,516)	(15,891)
Transfer for Integration	(6,392)	(23,495)
At end of the period	**77,080**	**92,913**

(in thousands of Lek, unless otherwise stated)

24. Repossessed assets

Inventory represents repossessed assets acquired in the process of collection of defaulted loans. The movement of "repossessed assets" item during the reporting period is presented as follows:

	2021	2020
At beginning of the period	668,996	1,308,124
Additions during period	36,681	13,460
Disposals of the period	(161,274)	(623,250)
Write back/(down) to net realizable value	(176,799)	(46,790)
Effect of movements in foreign exchange	(8,596)	17,452
At end of the period	**359,008**	**668,996**

25. Due to banks

Due to banks as at 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Correspondent banks		
Current accounts	**336,423**	**335,190**
Resident	*7,778*	7,705
Non-resident	*328,645*	327,485
Deposits	**1,140,016**	**1,362,008**
Resident	1,140,016	1,362,008
Non-resident	-	-
Current Accounts with Central Bank		**576,228**
Total	**1,476,439**	**2,273,426**

As at 31 December 2021 and 31 December 2020, no Albanian Government securities have been pledged as collateral for repurchase agreements.

(in thousands of Lek, unless otherwise stated)

26. Due to customers

Due to customers as at 31 December 2021 and 31 December 2020 are composed as follows:

	31 December 2021			31 December 2020		
Current accounts	**Local Currency**	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Retail	13,225,273	27,531,909	40,757,182	11,987,612	23,172,065	35,159,677
Corporate	14,876,537	32,170,681	47,047,218	13,629,866	28,624,327	42,254,193
	28,101,810	**59,702,590**	**87,804,400**	**25,617,478**	**51,796,392**	**77,413,870**
Deposits						
Retail	36,917,950	40,199,260	77,117,210	37,038,300	40,009,412	77,047,712
Corporate	1,294,413	3,245,396	4,539,809	1,114,365	3,931,148	5,045,513
	38,212,363	**43,444,656**	**81,657,019**	**38,152,665**	**43,940,560**	**82,093,225**
Total	**66,314,173**	**103,147,246**	**169,461,419**	**63,770,143**	**95,736,952**	**159,507,095**

Balances due to customers by maturity and currency type are as follows:

	31 December 2021			31 December 2020		
	Local Currency	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Current Accounts	**28,101,810**	**59,702,590**	**87,804,400**	**25,617,478**	**51,796,392**	**77,413,870**
Deposits						
On demand	6,330,861	25,457,736	31,788,597	4,777,472	19,807,463	24,584,935
One month	307,529	66,315	373,844	2,490,773	2,347,266	4,838,039
Three months	471,070	1,129,399	1,600,469	3,028,586	6,000,625	9,029,211
Six months	1,460,054	1,849,714	3,309,768	3,761,328	4,216,905	7,978,233
Nine months	87,997	30,878	118,875	4,199,641	6,075,213	10,274,854
Twelve months	8,545,461	12,545,936	21,091,397	3,518,010	3,631,322	7,149,332
Twenty-four months	4,452,010	1,694,361	6,146,371	3,585,348	1,417,011	5,002,359
Other	16,557,381	670,317	17,227,698	12,791,507	444,755	13,236,262
	38,212,363	**43,444,656**	**81,657,019**	**38,152,665**	**43,940,560**	**82,093,225**
Total	**66,314,173**	**103,147,246**	**169,461,419**	**63,770,143**	**95,736,952**	**159,507,095**

(in thousands of Lek, unless otherwise stated)

26. Due to customers (continued)

For current accounts (for which is paid interest) and time deposits, the annual published interest rates applicable for the various fixed terms were:

2021	ALL (%)	USD (%)	EUR (%)
Current accounts and demand deposits	0.05 - 1.53	0.05 - 0.1	0.20 - 0.65
Time deposits – 1 month	0.20 - 0.20	0.05 - 0.10	0.00 - 0.00
Time deposits – 3 months	0.20 - 0.30	0.10 - 0.20	0.00 - 0.00
Time deposits – 6 months	0.20 - 0.40	0.10 - 0.25	0.00 - 0.00
Time deposits – 9 months	0.40 - 0.40	-	0.00 - 0.00
Time deposits – 10 months	0.50 - 0.50	0.35 - 0.35	-
Time deposits – 12 months	0.20 - 0.75	0.10 - 0.30	0.00 - 0.00
Time deposits – 13 months	0.80 - 0.80	-	-
Time deposits – 15 months	0.85 - 0.85	0.45 - 0.45	-
Time deposits – 18 months	0.90 - 0.95	0.20 - 0.20	0.00 - 0.00
Time deposits – 21 months	0.95 - 0.95	-	-
Time deposits – 24 months	1.05 - 1.10	0.20 - 0.30	0.00 - 0.00
Time deposits – 30 months	1.20 - 1.20	-	-
Time deposits – 36 months	1.40 - 1.40	0.25 - 0.25	0.00 - 0.00
Time deposits – 60 months	2.26 - 2.50	0.25 - 0.25	0.00 - 0.00
Time deposits – 84 months	3.09 - 3.25	-	-
2020	**ALL (%)**	**USD (%)**	**EUR (%)**
Current accounts and demand deposits	0.05 - 1.73	0.05 - 1.42	0.00 - 0.65
Time deposits – 1 month	0.20 - 0.20	0.05 - 0.10	0.00 - 0.002
Time deposits – 3 months	0.20 - 0.40	0.10 - 0.20	0.00 - 0.002
Time deposits – 6 months	0.20 - 0.50	0.10 - 0.25	0.00 - 0.005
Time deposits – 9 months	0.40 - 0.40	-	0.00 - 0.006
Time deposits – 12 months	0.20 - 0.90	0.10 - 0.30	0.00 - 0.01
Time deposits – 24 months	1.05 - 1.35	0.20 - 0.30	0.00 - 0.05
Time deposits – 36 months	1.40 - 1.60	0.25 - 0.25	0.00 - 0.10
Time deposits – 60 months	2.26 - 2.75	0.25 - 0.25	0.00 - 0.10
Time deposits – 84 months	3.09 - 3.25	-	-

All individual and cooperate customer deposits, in accordance with the Law No. 52, dated 25.05.2014 “On the Insurance of Deposits” amended, are protected without any cost for customers, up to the amount of Lek 2,500,000 (or in Lek equivalent if in foreign currency) with the Deposit Insurance Agency (DIA).

27. Deferred Tax

Recognized deferred tax assets and liabilities are attributable to the following:

	31 December 2021			31 December 2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Investment securities measured at FVOCI	-	54,392	(54,392)	-	73,396	(73,396)
Allowance for expected credit losses	91,002	-	91,002	102,298	-	102,298
Investment Property	-	1,599	(1,599)	-	1,599	(1,599)
Repossessed assets	148,944	-	148,944	173,816	-	173,816
Properties	-	94,177	(94,177)	-	94,177	(94,177)
Right-of-use assets	70,569	70,450	118	90,449	90,173	276
Equipment and intangible assets	112,418	-	112,418	91,756	-	91,756
Net deferred tax assets	**422,933**	**220,618**	**202,315**	**458,319**	**259,345**	**198,974**

(in thousands of Lek, unless otherwise stated)

27. Deferred Tax (continued)

Movements in temporary differences during the year are as follows:

31 December 2021	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Closing Balance
Investment securities measured at FVOCI	(73,396)	-	19,004	(54,392)
Allowance for expected credit losses	102,298	-	(11,295)	91,003
Investment Property	(1,599)	-	-	(1,599)
Repossessed assets	173,816	(24,872)	-	148,944
Properties	(94,177)	-	-	(94,177)
Right-of-use assets	274	(156)	-	118
Equipment and intangible assets	91,758	20,660	-	112,418
Total	**198,974**	**(4,368)**	**7,709**	**202,315**

31 December 2020	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Closing Balance
Investment securities measured at FVOCI	(6,112)	-	(67,284)	**(73,396)**
Allowance for expected credit losses	115,821	-	(13,523)	**102,298**
Investment Property	(1,599)	-	-	**(1,599)**
Repossessed assets	256,457	(82,641)	-	**173,816**
Properties	(136,841)	-	42,664	**(94,177)**
Right-of-use assets	(2,241)	2,515	-	**274**
Equipment and intangible assets	92,518	(760)	-	**91,758**
Total	**318,003**	**(80,886)**	**(38,143)**	**198,974**

28. Provisions

Mvements in provisions during the year are as follows:

	Tax Litigation	Other Litigations	Off-Balance Sheet	Integration costs	Total
Balance at 1 January 2021	**282,008**	**365,755**	**46,964**	**140,578**	**835,305**
Provisions made/(reversed) during the year	-	(143,608)	(3,335)	239	(146,704)
Provisions used during the year	(127,914)	-	-	(22,183)	(150,097)
Effect of movements in foreign exchange	-	(3,501)	(454)	-	(3,955)
Balance at 31 December 2021	**154,094**	**218,646**	**43,175**	**118,634**	**534,549**

29. Other liabilities

Other liabilities as at 31 December 2021 and 31 December 2020 are composed as follows:

	31 December 2021	31 December 2020
Accrued expenses	511,039	379,812
Sundry creditors	98,988	26,052
Suspense accounts	235,551	183,562
Bank cheques issued and payments in transit	179,216	135,741
Other tax liabilities	127,104	82,443
Due to third parties	24,957	22,377
Other accrued expenses	5,222	2
Total	**1,182,077**	**829,989**

(in thousands of Lek, unless otherwise stated)

30. Share capital and share premium

The issued share capital comprises one class of shares as follows:

	Number of Shares (In number)	Nominal Value (In Lek)	Total Shares Value (In Lek)
Share Capital at 31 December 2020 and 2021	**15,581,282**	**357**	**5,562,517,674**

Share premium represents the amount paid from the shareholder in excess of the registered share capital. Intesa Sanpaolo S.p.A is the sole shareholder and also ultimate parent and there are no changes in the number of shares for year ended 31 December 2021 and 2020. An amount of Lek 1,702 thousand were recognized as distribution to the ultimate parent during the year ended 31 December 2021 (2020: 0).

31. Reserves

As at 31 December 2020 and 31 December 2019, the reserves were:

	31 December 2021	31 December 2020
Regulatory reserve (*refer to a below*)	1,125,443	1,125,443
Legal reserve (*refer to b below*)	700,180	700,180
Fair value reserve (*refer to c below*)	884,331	562,614
Revaluation reserve (*refer to d below*)	533,669	533,669
Other capital reserve (*refer to e below*)	714,554	714,554
Merger reserve (*refer to f below*)	2,813,396	2,813,396
Total	**6,771,573**	**6,449,856**

Nature and purpose of the reserves

a. The regulatory reserve was established according to the Central Bank of Albania regulation "On the Bank's Regulatory Capital", no.69, dated 18 December 2014. Banks and branches of foreign banks are required to create reserves of 1.25% to 2% of total risk-weighted assets, by appropriating one fifth of the profit after taxes and before payment of dividends, until the balance on this measure reaches at least 1.25% of total risk-weighted assets. At 31 December 2021, the regulatory reserve represented 1.34% of total risk-weighted assets (2020: 1.38%).

b. The legal reserve was established according to the provisions of the Commercial Law requiring the creation of reserves of 5% of the Bank's net income after deduction of accumulated losses from previous years, until the balance of this reserve reaches 10% of the Bank's share capital. At 31 December 2020, the balance represented 10% of the Bank's share capital (2020: 10%). This threshold is not mandatory, when the existing reserves are not less than one tenth of the Bank's share capital.

c. The Fair value reserve represent the cumulative net change in fair value of the securities at FVOCI until the asset are derecognized or reclassified.

d. The revaluation reserve relates to the revaluation of owed used property. The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognized or impaired.

e. Other capital reserve represents the differences arising from the conversion of the Bank's share capital from USD to Lek. Out of this balance, the amount of Lek 297,666 thousand was received as at 1 January 2008 from the merger with former BIA, as raised by the same denomination currency change of the share capital.

f. The merger reserve represents the contribution by owner equal to the net assets transferred considering that the Bank did not pay anything to acquire net assets of VBA (refer also to note 1).

(in thousands of Lek, unless otherwise stated)

32. Net Interest income

Interest income calculated using the effective interest method are as following:

Interest income	**2021**	**2020**
Loans and advances to customers	2,113,699	2,056,351
Investment securities at amortized cost	1,115,343	1,702,886
Loans and advances to banks	37,972	53,930
Investment securities at FVOCI	964,513	355,594
Total interest income	**4,231,527**	**4,168,761**
Interest expenses		
Demand and time deposits	680,855	700,641
Deposits from banks	154,902	126,414
Current accounts of customers	31,812	43,075
Lease liability (note 20)	8,756	8,721
Negative interest on interest bearing assets	64,169	58,345
Total interest expenses	**940,494**	**937,196**
Net interest income	**3,291,033**	**3,231,565**

33. Net fee and commission income

	2021			2020		
	Retail Banking	**Corporate Banking**	**Total**	**Retail Banking**	**Corporat e Banking**	**Total**
Fee income earned from services that are provided over time:						
Collection and payment services	261,054	316,371	577,425	231,872	277,307	509,179
Active current accounts	221,823	24,973	246,796	221,014	25,055	246,069
Arrangement fees and others	3,054	9,886	12,940	3,473	12,700	16,173
Guarantees given	921	25,794	26,715	502	19,040	19,542
Fee income from providing financial services at a point in time:						
ATMs and POSs	295,728	84,436	380,164	220,493	55,399	275,892
Unused/advanced liquidated credit lines	17,123	22,905	40,028	10,788	14,814	25,602
Fee and commission income	**799,703**	**484,365**	**1,284,068**	**688,142**	**404,315**	**1,092,457**
ATMs and POSs	274,542	89,220	**363,762**	225,018	51,727	276,745
Banking services-foreign branches	567	8,166	**8,733**	599	7,819	8,418
Collection and payment services	12,752	22,067	**34,819**	13,956	17,773	31,729
Guarantees received	-	3,763	**3,763**	-	3,623	3,623
Fee and commission expenses	**287,861**	**123,216**	**411,077**	239,573	80,942	320,515
Net fee and commission income	**511,842**	**361,149**	**872,991**	**448,569**	**323,373**	**771,942**

Fee and commissions do not include fees received for loans and advances to customers (transaction costs), which are adjusted on initial recognition for the carrying value of these financial assets as per effective interest rate method. Fee and commission income from contracts with customers are measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to only a customer. The Bank provides banking services only to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis.

(in thousands of Lek, unless otherwise stated)

34. Net other income

	2021	2020
Foreign exchange gains	587,565	535,697
Recoveries on written off loans	165,035	32,642
Rent income	15,146	4,179
Gain on sale of repossessed assets	10,289	11,658
Other	5,049	4,412
Total	**783,084**	**588,588**

35. Net other operating expenses

	2021	2020
Premium on deposits insurance	432,195	417,909
Loss on sundry net operational	46,174	35,259
Total	**478,369**	**453,168**

36. Personnel expenses

	2021	2020
Salaries	1,073,596	975,085
Social Insurance	142,385	132,662
Total salaries and social insurance	**1,215,981**	**1,107,747**
Personnel on secondment	87,206	57,058
Training & similar	1,440	800
Termination indemnities and others	54,665	18,644
Total	**1,359,292**	**1,184,249**

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

	2021	2020
Board of Directors	6,796	6,345
Executive Management	360,384	321,914
Other personnel	848,801	779,488
Total	**1,215,981**	**1,107,747**

For the year ended 31 December 2021 the Bank had an average number of 659 employees (2020: 657).

37. Other administrative expenses

	2021	2020
Software maintenance	389,114	376,030
Maintenance and repair	100,104	99,598
Security	78,135	66,705
Indirect Taxes	77,636	86,051
Telephone and electricity	63,502	47,399
Consulting, legal and professional fees	61,498	37,189
Stationery	43,725	46,943
Transport and security services	39,413	39,951
Advertising and publications	36,923	20,140
Integration Fees	29,695	35,712
Insurance	13,576	12,946
Operating lease expenses	8,918	15,789
Travel and business trips	1,580	792
Other	16,286	29,038
Total	**960,105**	**914,283**

Consulting, legal and professional fees for the year ended 31 December 2021 include statutory and non-statutory audit fees amounting to Lek 11,918 Million (2020: Lek 13,352 Million).

(in thousands of Lek, unless otherwise stated)

38. Income tax expenses

The components of income tax expense for the year ended 31 December 2021 and 2020 are:

	2021	2020
Current year	122,591	133,569
Current income tax in respect of prior years	-	-
Current tax expense	**122,591**	**133,569**
Origination and reversal of temporary differences	4,366	80,887
Deferred tax income	**4,366**	**80,887**
Income tax expense/(benefit)	**126,957**	**214,456**

Reconciliation of the income tax expense with the accounting profit for the year ended 31 December 2021 and 2020 is presented as follows:

	2021		2020	
Accounting Profit before tax		**646,636**		**1,508,990**
Income tax at domestic corporate tax rate	15.0%	96,995	15.00%	226,349
Tax effect of prior year taxes recognition	0.0%	-	0.00%	-
Non-deductible expenses	15.7%	101,822	3.7%	55,957
Income exempted from income tax	-11.8%	(76,227)	-9.9%	(148,736)
Origination and reversal of temporary differences	0.7%	4,367	5.36%	80,886
Income tax Expense	**19.6%**	**126,957**	**14.21%**	**214,456**

Non-deductible expenses are detailed as follows:

	2021	2020
Representations and Sponsorships expenses	294	56
Sundry operational losses	8,332	1,606
Operating leases expenses	3,587	2,149
Personnel expenses	26,848	5,579
Office expenses	6,356	6,565
Other provisions expenses	200,373	167,580
Litigation expenses	239	2,684
Losses on unrecoverable loans and overdrafts	393,922	134,162
Depreciation and amortization expenses	34,971	50,443
IFRS 16 impact	3,894	2,221
Total	**678,816**	**373,045**
At 15%	**101,822**	**55,957**

Income exempted from income tax are detailed as follows:

	2021	2020
Write down of inventory	(156,607)	(563,235)
Recovery of accruals litigation cases	(143,608)	(185,550)
Reversal of accruals related to prior years	(59,837)	(152,637)
Allowance reversals for expected credit losses	(148,129)	(90,151)
Total	**(508,181)**	**(991,573)**
At 15%	**(76,227)**	**(148,736)**

The Bank prepaid income tax in the amount of Lek 161,667 thousand were paid during 2021 (2020: Lek 183,215 thousand).

(in thousands of Lek, unless otherwise stated)

39. Commitments and contingencies

Commitments and contingencies as at 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Contingent Assets	**150,697,865**	**137,489,060**
Guarantees received from credit customers	127,478,196	119,062,721
Guarantees received from Government	5,758,534	3,370,000
Money market future dated deals	2,500,300	114,460
Forward foreign exchange contracts	633,717	108,007
Other	14,327,118	14,833,872
Contingent Liabilities	**10,787,528**	**12,209,699**
Guarantees in favor of customers	4,823,168	4,873,518
Un-drawn credit facilities	5,887,122	7,136,265
Letters of credit	77,238	199,916

Guarantees are mainly represented by bid and performance bonds. Guarantees and letters of credit are collateralized by cash and deposits. The Bank issues guarantees to its customers. These instruments bear a credit risk similar to that of loans granted.

Contingent assets, like letters of credit and un-drawn credit facilities, are off-balance sheet items representing future commitments where the Bank acts as the beneficiary. Forward foreign exchange contracts are off- balance sheet items used to offset currency fluctuations and the effect on the income statement is reflected on the maturity date when the contract is executed.

Litigation

The Bank is defending an action related to a partial payment of a bank guarantee amounting EUR 4,830 thousand. The guarantee was issued in favor of an Albanian entity upon the request of its Parent Company Intesa Sanpaolo S.P.A. The Bank has successfully defended itself in a legal process, in which both the First Instance Court and Court of Appeal judged in favor of the Bank.

The plaintiff has appealed to the Supreme Court which has not yet issued its decision. Management does not consider that there are any legal grounds for the existing judgments in its favor to be overturned.

Nevertheless, given the complexity of the case, involving also the Italian Jurisdiction, and taking into consideration no other cases of that kind have been ever judged in the Albanian courts, some operational risks may occur. In the ordinary course of business, the Bank may be involved in other various claims and legal actions which in the opinion of management, the ultimate settlement of these matters will not have a material adverse effect on the Bank’s financial position or changes in net assets, other than those for which a provision has already been included in these financial statements.

40. Related parties

The Bank’s immediate parent is Intesa Sanpaolo S.p.A, which ultimately holds a 100% interest. The Bank, therefore, considers that it has a related-party relationship, in accordance with International Accounting Standard 24 Related Party Disclosures (“IAS 24”) with the following:

Shareholders and parties related to shareholders:

- Intesa Sanpaolo S.p.A and its subsidiaries and associates

Key management personnel and parties related to key management personnel:

- Supervisory Board members, Management Board members and other key management personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director (whether executive or otherwise) of the Bank, collectively “key management personnel”, close family members of key management personnel, and companies and un-incorporated businesses controlled, or jointly controlled by key management personnel and/or their close family members.

(in thousands of Lek, unless otherwise stated)

40. Related parties (continued)

The following transactions have taken place during the year ended 31 December 2021 and 31 December 2020:

	ISP Group companies		Key management personnel and Other related parties	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Assets at end of year	**13,771,556**	**14,644,700**	**117,836**	**50,922**
Loans and advances to credit institutions	13,757,203	14,624,359	-	-
Impairment losses	(1,435)	(1,575)	-	-
Loans and advances to customers	-	-	117,836	50,922
Impairment losses	-	-	(926)	(508)
Other assets	14,353	20,341		-
Liabilities at end of year	**76,739**	**82,908**	**463,156**	**453,982**
Loans and advances from credit institutions	-	-	-	-
Customer deposits	-	-	463,156	453,982
Invoices to be received	76,739	82,908	-	-
Off balance sheet	**4,322,616**	**2,373,497**	-	-
Letter of credit/Letter of Guarantees given	62,464	249,535	-	-
Letter of credit/Letter of Guarantees received	1,919,653	1,923,600	-	-
Foreign currency contracts and money market deals	2,340,499	200,362	-	-
Commitments given	-	-	-	-
Collaterals	-	-	-	-
Income for year ending	**69,199**	**60,892**	**2,844**	**1,588**
Interest income	7,118	10,815	2,333	1,208
Commission Income	62,081	50,077	511	380
Expenses for the year ending	**329,505**	**292,968**	**209**	**328**
Interest expense	54,056	39,340	209	328
Commission expense and others	24,914	22,337	-	-
Net impairment loss on financial assets (including off-balance sheet)				
Other Administrative Costs	250,535	231,291	-	-
Compensation of Key Managers	**-**	-	**176,869**	**129,454**
Net Salary	-	-	97,583	74,791
Net Bonus paid	-	-	16,678	22,392
Social & Health Insurance	-	-	5,572	4,345
Other expenses (Lecoip)	-	-	20,846	13,387
Other expenses	-	-	36,190	14,539

41. Subsequent events

In February 2022, following the military conflict between Russia and Ukraine, Albania was joining EU and Western sanctions on Russia over the invasion of Ukraine, presenting its raft of measures. Economic sanctions include measures in the finance, energy, transport and technology fields. Albania also joined the EU and UK in closing its airspace to all aircraft registered in Russia.

The impact of the above events may affect in longer-term the macro-economic conditions in Albania where the Bank operates and may will impact in the trading volumes, cash flows and profitability.

The bank does not have direct exposures to Ukraine/Russia/Belarus and no material indirect effects are expected in the foreseeable future. The Bank consider these events as non-adjusting events after the reporting period of 31 December 2021.

Currently, the Bank management is analyzing the possible impact of changing macroeconomic conditions on the Bank's financial position and results of operations on the future.