



INTESA SANPAOLO BANK

Albania

ANNUAL REPORT 2016
INTESA SAN PAOLO BANK



Hendrik Frans van Lint

A view of La Salute with Punta della Dogana
around 1750

Intesa Sanpaolo collection
Gallerie d'Italia - Palazzo Leoni Montanari, Vicenza



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Letter of the Chief Executive Officer



Silvio Pedrazzi
Chief Executive Officer

2016 was a challenging year for Intesa Sanpaolo Bank Albania. Macroeconomic environment is gradually improving in Albania, as economic activity is supported by investments in large FDI-financed energy-related projects (the Trans Adriatic Pipeline and the Statkraft/Devoll hydropower project), pickup in private consumption and higher tourism revenues.

Domestic interest rates remained at very low level in 2016 and only in August 2016, we saw the first increase in short-term interest rates in nearly a three year time horizon.

The net profit of ALL 2.3 billion in 2016 reflects progress in all key business indicators like: loan growth, business activity, credit quality improvement and cost management:

The main achievements can be summarized in:

- Growth in performing loans outperforming the market average
- NPL reduction, both in absolute amount and in percentage
- Return on equity well above the market average

Unfavorable conditions with regards to interest rates are persisted and were still the main factor for Net Interest Income reduction in 2016. Considerable part of such adverse impact was offset from the growth we delivered in performing loans especially in SME, Small Business and retail.

The downward pressure on the interest margins, both in local and foreign currencies, have significantly affected the Bank's results and the adopted strategies, in order to mitigate the long lasting expected impacts Intesa Sanpaolo Bank Albania has devoted its main effects in pursuing:

- Increase in the stock of performing loans portfolio, exclusively in the domestic market, and focusing in the most promising sector i.e. real economy, tourism, energy as well as infrastructures.
- Increase of its presence in the householders market
- Growth on fees based businesses
- Further enhancement of the loans portfolio quality, improving the collection ability and the management of all the nonperforming assets, this way reducing significantly the cost of risk.
- A more effective segmentation of the customers' base, aiming to provide clients with tailor made solutions to them needs. 2016 can be considered as the best year even in term of "care commercial performance"

The implementation strategy allowed the Bank to fast a double digits growth in all the segments representing the backbone in those segments of Albanian economy;

The stock of performing loans in those segments, year to date, show the following results:

- Individuals: +11%
- Small Business: +32%
- SME: +35%
- Corporate segment was substantially stable.

On the other hand the Bank achieved results in the reduction of NPLs showing the following results:

- NPL Portfolio Stock reduction by 29% (from ALL 8.9 billion to ALL 6.3 billion) meanwhile the Banking System is increased by ALL 2.9 billion (data for banking sector AGAAP).
- NPL ratio reduction by 5.9% to 13.9%, while the banking system recorded different results (from 18.22% to 18.23%, AGAAP).

The recorded performance confirms the validity of all the efforts spent in the last year in building additional collection capacity and implementing Risk Policies and tools.

We are investing in process optimization that will contribute in further NPL management such as Early Warning Systems. In addition we further modernized our technology and infrastructure aiming at compliance with best risk management practices

We pursue our goals with honesty, fairness and responsibility in the full and true respect of the rules and professional ethics. In year 2016 the Bank went successfully through a full scope tax inspection covering 2013-2015 and partial BoA examination. We ensured full provisions for one important tax litigation and made respective adjustment to our repossessed assets in compliance with Intesa Sanpaolo Group Accounting Manual and Bank of Albania regulation.

Our capital base is strong; our Common Equity Tier 1 capital ratio is well above current regulatory requirements. Additionally, our liquidity position is strong and we have significant sources of reliable funding and totally indifferent from the Group funding.

Our focus this year and going forward, will be on supporting domestic real economy sectors with particular emphasis on SME and Small Business, to continue to earn the loyalty of our customers and encouraging greater use of our digital banking services.

When we look at where we stand today, our Bank is stronger, simpler, and better positioned to deliver long-term value to our shareholders, thanks to the straightforward way in which we serve our customers. For year 2017, we aim to deliver financial solutions, technology, products and services that exceed our clients' expectations. We invested in new layout for the main branch as we are confident that by reshaping the branch network we can better serve our clients' needs.

Our goal is to be among the most respected financial services provider across all customer segments in Albania.

We value our people and give all employees the support they need to build a secure career, achieve their goals, and have the resources they need to improve their lives and the lives of their families. During 2016 we had a particular focus on investing to improve the quality of working conditions for our personnel.

Our confidence rests on the core strength of our sound business model and the depth of our client relationships; these in turn reflect the proven quality of our staff.

I take this opportunity to thank our staff for their diligence and hard work and for the good operating performance we have achieved in many areas. Together, we are building a better Bank which sustainably delivers value for our clients and our shareholder.

SENIOR MANAGEMENT PROFILES



Board of Directors



Vojko Čok - Chairman
Chairman of the Board
of Directors
Independent Member



Paolo Genovese
Independent Member



Mr. Marco Santini
Member
Head of Corporate
Banking, International
Subsidiary Banks Division,
Intesa Sanpaolo



Salvatore Catalano
Independent Member



Elena Breno
Head of Business
Planning, Market Analysis
and Country Advisory,
International Subsidiary
Banks Division, Intesa
Sanpaolo, Italy



Silvio Pedrazzi
Chief Executive Officer,
Intesa Sanpaolo Bank
Albania



Ilir Panda
Independent Member

Audit Committee



Florion Tefiku
Chairman of the Audit Committee
Ufficio Banche Estere CEE, CIS & SM,
Direzione Internal Auditing, Intesa
Sanpaolo Italy



Livio Mannoni
Independent Member
Special projects Coordination Office,
Governance Systems Service Unit
Resources & Governance Department,
International Subsidiary Banks Division,
Intesa Sanpaolo

Senior Management



Silvio Pedrazzi
Chief Executive Officer

Mr. Pedrazzi took office as Chief Executive Officer and Board Member of Intesa Sanpaolo Bank Albania on 1st October 2013.

Mr. Pedrazzi was previously the Head of Commonwealth of Independent States (CIS) & South Mediterranean Area Department of Intesa Sanpaolo, in charge to coordinate the Subsidiaries located in the Russian Federation, Ukraine and Egypt.

He started his career in the banking sector in 1978 working in different Italian savings banks and he joined Intesa Sanpaolo Group in 2000. In Italy, he held the duty of General Manager of Cassa di Risparmio di Spoleto and of Cassa di Risparmio di Ascoli Piceno. In 2006 he was appointed First Deputy Chairman of the Management Board of Banca Intesa Beograd (Serbia) and in 2008 as Chairman of the Supervisory Board of Pravex-Bank (Ukraine).

Apart from working for Intesa Sanpaolo Group, he is actively involved in the following key associations:

- President of Foreign Investors Association of Albania (FIAA)
- Deputy Chairman of Albanian Association of Banks (AAB)
- Board Member of the Italian Chamber of Commerce in Albania
- Board Member of Albanian Investment Development Agency (AIDA)



Julian Çela
Chief Financial Officer

Mr. Cela holds the position of Chief Financial Officer.

Mr. Cela is responsible for coordinating the preparation and monitoring of Strategic Plan and annual budgets, presenting and reporting accurate and timely financial information, asset liability management and treasury as well as accounting and procurement activities. He joined the Bank (former American Bank of Albania) in 2004. His prior work experience was at Procredit Bank in Internal Audit Department.

Mr. Cela has graduated in Finance and Banking at University of Tirana, Economic Faculty. In 2003-2004 he completed an accelerated finance and banking curriculum, a Georgetown University Program, at University of Wisconsin.



Ervin Xhomo
Head of Corporate & SME Division

Mr. Xhomo is currently the Division Head of Corporate and SME leading the Corporate, SME, Product Development and CRM & Network Support. Previous experiences of Mr. Xhomo include the management positions at Banca Italo Albanese (BIA) in Credit Office leading it for 2 years, Treasury Responsible at BIA and at Emporiki Bank and BIA Main branch management.

Since 2008, by the merger of Banca Italo Albanese with American Bank of Albania, Mr. Xhomo was first appointed as Head of Corporate Department followed by the promotion as Division Head since 2009 thanks to his consolidated experience and know how in commercial business and credit risk management, associated with a thorough knowledge of treasury products.

Mr. Xhomo holds a bachelor's degree in Business Administration from University of Tirana and a Master Degree in Business Administration from Nebraska University in cooperation with University of Tirana.



Klodiana Piqani
Head of Retail Division

Mrs. Piqani holds the position of Head of Retail, covering the whole network of the Bank including Individual segment and Small Business, as well as other supporting departments for the development of these client segments. Mrs. Piqani joined Intesa Sanpaolo Bank in 2013, initially in the Risk Management Division holding for three years the position of Head of Risk Analysis, and later the current position.

Before joining the Bank, Mrs. Piqani has developed an extensive experience in other Banks such as ProCredit and Societe generale Albania, in the latter holding important managerial positions such as Branch manager of Main Branch of Tirana as well as Head of Department for the Business Promotion.

Mrs. Piqani graduated in Finance & Accounting in the University of Economics of Tirana, and is in the process of finalizing a Masters Degree in European economic Studies at the University of Tirana in conjunction with Bamberg University. During these years she has followed and has been certified in various courses and trainings in the banking field.



Jola Dima
Head of Risk Management Division

Mrs. Dima holds the position of Head of Risk Management Division, covering the areas of Underwriting, Non-Performing Loans, Credit, Market and Operational Risks.

Following her initial experience in a Group member Bank in Milan, she joined the Bank (former American Bank of Albania) in 2005, initially at CFO Division and later managing Market, Operational and Credit Risk Departments.

Ms. Dima is Deputy Chairman of ISBA committees, including Credit, Financial, Underwriting, Asset Quality and Operational Risk Committees.

Ms. Dima graduated with Laude in Business Economics at the University of Bologna, Italy in 2001 and later completed two master degrees, in Management and Information Technology (ALMAWEB, Bologna) and Banking Risk Management (UNSBC, Tirana).

During these years she has lectured in different private universities and followed professional training courses related to her area of interest.



Albina Mançka
Head of Operations Division

Mrs. Mançka holds the position of Head of Operations Division, covering the areas of Backoffice, Procurement & Real Estate and Security.

Mrs. Mançka has a twenty year successful experience in management, project financing and coordination in financial institution(s) and private companies. Prior to joining the Bank (former American Bank of Albania) in 2007, she worked for seven years for Albanian-American Enterprise Fund, where she managed the biggest and most important investments of the Fund in Real Estate area. Mrs. Mançka's experience also includes management of a private telecommunication company, managing position in different USAID projects, private consulting company as well as lecturing at the State Economic Faculty.

Mrs. Mançka graduated at the University of Tirana, Economic Faculty. In 1995 she was awarded a Fulbright Scholarship and in 1997 she obtained her MBA from Wisconsin University, USA.



Alketa Lamçe
Head of IT Division

Mrs. Lamçe holds the position of Head of IT Division, where her responsibilities include development of IT strategies, IT applications and infrastructure, IT projects and IT services support.

Mrs. Lamçe joined the Bank (former American Bank of Albania) in 1999 and she has worked in different leading positions, such as Head of Information System Department and Deputy Head of IT. She has an over twenty years of experience in the field.

Before joining the bank, Mrs. Lamçe worked as a Developer at INIMA and IT specialist at Savings Banks of Albania.

Mrs. Lamçe has a degree in Applied Mathematics, Faculty of Natural Sciences, University of Tirana and completed the Master in Business Administration, University of Tirana (Nebraska University Program). Throughout her outstanding career, in addition to the bank key project successful management she has attended numerous advanced trainings on IT, Banking and Leadership Development Program



Ledia Plaku
Head of Legal Department

Mrs. Plaku holds the position of Head of Legal Department.

Mrs. Plaku has a long and remarkable career in the Bank, which starts back on year 2000 at former American Bank of Albania and includes managerial positions such as Head of Legal, Compliance, Human Resources, General Secretariat and Physical Security Department(s). Before that, she used to work for PMU/Immovable Properties Registration System as Head of Legal Department and has also taught Law at the Faculty of Law, University of Tirana.

Mrs. Plaku graduated in Law at the University of Tirana and completed the Master of Laws at Queens' University, Canada (full time). She has attended advanced courses on Leadership such as Executive Program, Emerging Leaders at London Business School, U.K and Leadership Development Program organized by Intesa Sanpaolo Group.

Ms. Ledia Plaku is member of Tirana Bar Association since May 2003.



Jorida Skënderaga
Head of Internal Audit Department

Mrs. Bezhani held the position of Head of Internal Audit.

Since February 2005 she was appointed Head of Internal Audit of former Banca Italo Albanese and she maintained the same responsibility after the reorganization of Intesa Sanpaolo Bank Albania sh.a. Mrs. Bezhani started her professional career in 1998 as credit officer in former Banca Italo Albanese where she remained for four years mainly working for corporate lending and special projects. In September 2002 she joined Internal Audit Department in charge of auditing all Bank's areas and branches.

Mrs. Bezhani graduated with honors in Finance and Accounting from University of Tirana, Faculty of Economy. In 1997 she attended a student exchange program at University of Macerata in Italy and a post graduated course in credit risk analyses organized by Banca IMI Rome. During 1999-2000 she lectured Finance & Banking at University of Tirana.

She is Vice President of Internal Audit Committee of Albanian Association of Banks and one of the first members of "Albanian Association of Internal Auditors", active in promoting the internal audit profession and achievement of international standards.



Markeljan Riska

Head of Compliance and AML Department

Mr. Riska holds the position of the Head of Compliance and AML Department.

Mr. Riska joined the Bank (former American Bank of Albania) in April, 2004 and has held different positions such as Head of Legal Affairs Unit and Deputy Head of Legal Department. In September 2002, he was admitted at Tirana Bar Association where he still is a member.

Following a successful experience as Attorney at Law, he was appointed Head of Legal Department and Public Relationship at Albanian Shares Register, a position held until 2004. His vast experience in Legal Departments enabled him to accrue a depth of professional expertise and proficiency. Mr. Riska has taught several Law Courses during his career.

Mr. Riska graduated in Law at the University of Bucharest, Romania. He has attended the Leadership Development Program and Compliance Function Training organized by Intesa Sanpaolo Group.



Entela Zigori

Head of Human Resources and
General Secretariat Department

Mrs. Zigori holds the position of Head of Human Resources and Organization Department.

Mrs. Zigori started her professional career in the Bank (former Banca Italo Albanese) in June 1993.

Through the years Ms. Zigori has been part of the management team of the Bank holding the position of Responsible of Administration Division in charge of Financial Control & Accounting Department, HR Department, IT Department and Treasury Back Office. In March 2008, following the reorganization of Intesa Sanpaolo Bank Albania sh.a., she was appointed as Head of Human Resources. Her main contribution is dedicated to the development and growth of the Human Resources capital.

Mrs. Zigori has a Bachelor Degree in Industry Economics, Faculty of Economy at Tirana University. She has also gained other qualifications through many courses and programs including Leadership Development Program, Business Communications, IFRS and Banking & Finance.



Iris Bakllamaja

Head of PR & Marketing
Communication Department

Mrs. Bakllamaja held the position of Head of PR & Marketing Communication Department.

Ms. Bakllamaja joined the Bank in 2014 with over 15 years of dynamic experience from New York to Paris and in recent years in Albanian corporate environment. Prior experiences as: Marketing & PR professional included start-ups and new brand launches in some of the largest companies, local and international.

Ms. Bakllamaja received her BA in International Trade & Marketing with honors, from Fashion Institute of Technology in New York. She also holds a Master's Degree in International Commerce, school of Int'l Exchange & Administration, from French University Val-de-Marne Paris XII.

Macroeconomic
Environment and
Banking Sector



General Overview

The Albanian economy improved its growth rates in 2016, reaching the highest level since 2010. According to INSTAT, the year 2016 ended with an average Gross Domestic Product (GDP) growth of 3.37%, compared to 2.23% of the previous year, driven by improved service and trade activity from major energy projects, the construction of the Trans Adriatic Pipeline (TAP) and the hydropower plants on the Devoll River, as well as the growth of internal constructions.

After many anemic years, 2016 marked a revival of the wholesale and retail trade sector, such as the infrastructure improvement and the increased flow of tourists in the country. The processing industry continued to suffer the conjuncture of the unfavorable prices in the international markets.

Consumption rose sharply, marking the highest rates of growth at least since 2010. The acceleration of the private consumption growth rate during 2016 was favored by the expansion of the available income and by an environment with decreasing insecurities, according to estimates of the Bank of Albania.

The positive economic trend continued in the first quarter of 2017, where the annual growth rate, according to INSTAT's preliminary estimates, reached 3.94%.

At the beginning of 2017, INSTAT revised in reduction the economic growth estimates in 2014-2015. For 2014, the final estimate was 1.77%, from the 1.83 % that was previously. In 2015, the semi-final estimate dropped from 2.61% to 2.23%.

The Consumer Price Index in 2016 continued to stay below the target of the Bank of Albania by nearly 3% for the fifth consecutive year. The consumer revival was not enough to put pressure on the price increase, but significant impact was exerted by the imported low inflation, with the euro zone, which nearly went into deflation in the first half of 2016. Average annual inflation for 2016 fell to 1.29%, from 1.90%, which was a year earlier. Especially the first half of 2016 showed very low inflationary rates, with a high

impact exerted by the imported inflation, mainly from the euro zone countries. In February-April 2016, inflation fluctuated in the range of 0.2-0.3%. It, then, accelerated in the months to come, to close the 2016 at 2.2%. The Consumer Price Index continued to remain at these levels in the first 6 months of 2017, fluctuating between 1.9 and 2.8%.

The low inflation environment enabled the Bank of Albania to pursue the mitigating monetary policy for the sixth consecutive year by lowering the key interest rate twice during 2016 and ending the year with a historic minimum level of 1.25%. The Bank of Albania has signaled that it will continue to maintain its monetary policy at least until the end of 2017, although it is not expected to make any further reductions.

Direct foreign investments in Albania marked a 10.46% increase on an annual basis in 2016, reaching a record level of 983 million Euros. After a weak start of the year, reflecting the high dependence on the oil industry, which lowered the investments due to the unfavorable price conjuncture in international markets, they increased significantly in the second half of the year as TAP pipeline started and works continued on the construction of hydropower plants on the Devoll River by Statkraft Energy. International institutions have raised the need for the necessity of diversifying the foreign investments, as these two major projects are expected to have a short-term impact on the economy and their termination will lead to declining investments if no new funding sources with foreign capital are available.

In 2016, the rating agencies maintained a stable and positive assessment for Albania, continuing to emphasize the Albanian government's efforts for fiscal consolidation and macroeconomic stability, following the signature, in the beginning of 2014, of a three-year program and a loan agreement EUR 377.3 million with the International Monetary Fund (IMF), as well as Albania's involvement in the IMF program. In February 2017, the three-year extended Fund (EFF) was concluded, and the IMF formally entered a post-monitoring phase of the program, where

it will remain closely involved in monitoring the economic developments.

In February 2016, Standard & Poor's re-evaluated Albania's rating on B + with a consistent perspective. In December 2016, Moody's kept the B1 rating for Albania with steady expectations, but the rating agency stressed that the country remains before major debt management challenges due to its magnitude and is also expected to face substantial demand for gross borrowing. In April 2017, Moody's maintained the same rating, with stable prospects for Albania's public debt, stating that the country recorded a strong fiscal performance in 2016.

In the Global Competitiveness Report 2016-2017, Albania improved considerably with 13 countries, ranking 80th out of 138 countries in the world. Albania left behind Montenegro, Serbia and Greece, while it is behind Macedonia and Croatia. Albania marked an improvement in 3 of the 4 main pillars, namely strengthening of the institutions, macroeconomic environment, and health and education services. Albania lags behind in the index of innovation and sophistication, where it is 105th and the size of markets, where it is 109th.

In the World Bank Report "Doing Business 2017" (referring to 2016), Albania ranked 58th, improving with 32 seats and recovering from the last year's defeat, when it went worse with 35 seats. The biggest improvement was the acquisition of construction permits, which improved by 80 positions, as this indicator penalized Albania in last year's report because the government decided to temporarily suspend the issuance of building permits throughout the country. Although Albania marked a significant improvement, it had again the worst ranking in relation to other countries in the region, leaving only Bosnia and Herzegovina and Kosovo behind.

The unemployment rate for the population aged 15 and above, reached 14:20% in 2016, dropping by 3.1 percentage points compared with the previous year, according to data from the Labor Force Survey. The improvement has come from employment growth mainly in the non-agricultural private sector, where services played the main role.

According to the Bank of Albania estimates, private investments continued to grow in 2016. According to the investment structure, indirect data show a positive contribution from their two main categories: construction activity and investments in machinery and equipment. Increased investments in the economy were supported by easing financial conditions, improved capacity utilization rates, increased business confidence, improved financial situation, and increased foreign direct investments.

During 2016, the imports of 'Machinery, Equipment and Spare Parts', an indicator of investments in the economy, increased by 11.65%, while 'Construction Materials and Metals' expanded by 12.53%. Both groups were influenced by works on major energy projects.

Macroeconomic environment in 2016

The growth rates of the Albanian economy accelerated in the first and second quarters, slowing down in the third, to recover again in the last three months of the year.

In the first quarter of 2016, the growth of domestic production was 3.46%, keeping almost the same rates in the second quarter, with 3.18%. Trade, construction, information and communications and other services were the engine of the economy in the first and second quarters. In the third quarter, the main impact was again exerted by trade, followed by the construction and insurance activities, although growth slowed to 2.70%. In the fourth quarter, growth accelerated to 4.13%, again affected by trade and services, as well as an accelerated construction activity. The latter continued two-digit growth rates in the first quarter of 2017, impacting 1 percentage point on the economic growth, while trade contribution slowed to 0.51%.

The 'wholesale and retail trade' has been the sector that has shown the best economic performance in 2016. This sector grew 5.48% on an annual basis in 2016, marking the highest rates, at least since 2010. Improvement of the employment index, restoration of confidence in the economy, returning the country to a favorite tourist destination have affected the improvement of this indicator.

In the same line, service activities have marked the highest expansion rates in the last three years, led by 'Information and Communication', 'Financial and Insurance Activities' and 'Real Estate Activities', with 4.39%, 6.76% and 2.30% respectively.

Even construction, despite a slight slowdown compared to the previous year, has been an important contributor to economic growth. Construction grew 5.58% in 2016, following an expansion of 6.64% in 2015 and a sharp decline of -13.33% in 2014. Unlike 2015, where construction took off from public works, in 2016 this sector was stimulated by works on

large energy projects and was supported by investments related to new constructions. In 2016, 455 construction permits were issued all over the country, an increase of 172% compared to the previous year, which is an indicator that this sector will increase in the medium term.

Private consumption increased by 2.88% in 2016, the highest level since at least 2010. Private consumption was particularly high in the second quarter, reaching 5.66%, to slow down slightly in the summer to 1.99% and to flourish again to 2.19% in the last three months of the year. Final public administration consumption showed a higher growth of 3.78%. The Bank of Albania estimates that the expansion of private consumption has also contributed to the growth of domestic demand, extending the range of supporting factors of economic growth and strengthening its sustainability.

In the first half of the year, the extraction industry has suffered the conjuncture of unfavorable prices in international markets, and then recovered itself in the second half of the year. The growth of the industry sector in total slowed to 1.50% in 2016, down from 2.26% a year earlier. The processing industry's slowdown has been the most considerable, from 7.87% to 1.55%. The announcement of bankruptcy of one of the largest companies in the country, Kurum International, with steel processing activity, gave the main impact on this slowdown.

The agriculture sector continued to be weak in 2016, marking a growth of less than 1.00% for the second consecutive year. The unfavorable weather with frost and flooding has adversely affected this sector, which contributes with almost 20% of the Gross Domestic Product. In the second quarter, agriculture was positive, while in the other three quarters it did not grow to more than 1.45%. Agriculture is a sector that has attracted the attention of recent investors, but it continues to suffer structural problems, such as low productivity due to lack of economies of scale and fragmentation of land, as well as fragmentation of the production cycle chain.

The Consumer Price Index has fluctuated between 0.20% and 2.20% during 2016, being at lower levels compared to the previous year, especially

in the first half of the year. In the second half of the year, inflation accelerated, driven by the reduction of disinflation from abroad and improved internal activity. This trend was helped by increased employment and increased use of production capacities by businesses.

'Foods, non-alcoholic beverages' have fueled the general price growth in the second half of 2016, following a negative contribution to the first quarter. Price increase for fuels also had a positive effect on the acceleration of inflation. In the summer months, the category 'Services' has also marked an increasing contribution, mainly from the rise in the prices of transport services.

The Consumer Price Index continues to be below the Bank of Albania target of close to 3.00%, reflecting low imported inflation, especially in the first half of 2016, and still poor consumption, despite the revival in 2016.

The Bank of Albania emphasized that the improvement of the aggregate demand and better utilization of productive capacities conditioned an upward trend in basic inflation during 2016. The improvement of the cyclical position of the economy was reflected in the gradual narrowing of the negative production gap by strengthening inflationary pressures by the domestic demand side during 2016.

The Bank of Albania has continued its stimulus policy to reduce the cost of money in the economy. The key interest rate was reduced twice by 2016, by 0.25 percentage points, respectively in April and May (the second time in history that the bank lowered the key interest rate in two consecutive meetings) with a cumulative effect of 0.5 percentage points, closing the year at a level of 1.25%. Also, the Bank of Albania has announced that it has narrowed the interbank market interest rate corridor, has intensified the communication of the expected direction of the monetary policy and has continued the injection of liquidity into the interbank market.

During the first half of 2017, the Bank of Albania kept the key interest rate unchanged at minimal historical levels, since the base rate level seems to have reached the bottom. The Bank of Albania has signaled that it will continue to use the

monetary policy in view of its objective of keeping the inflation at around 3% in the medium term, by implementing the inflation targeting regime. The relief monetary policy was transmitted mainly by lowering the cost of lending ALL, during 2016, differently from the previous years, when it was reflected both in terms of deposits and the credit. The average monthly rate of new loans in ALL dropped to 5.53% in December 2016, from 8.28% in December 2015, reaching minimum record levels. However, loan-taking in the economy has remained weak, owing to the still tight lending conditions of banks, poor demand from large firms and lack of feasible projects. By contrast, the interest rates for the time deposits in ALL have shown an upward trend, reflecting the increase of treasury bill yields in the first half of the year, but also an attempt from the banks to attract the depositors, who left as a result of low interest rates. In December 2016, the average rate of new time deposits (1-60 months) in ALL was 0.88%, from 0.60% in December 2015.

Exports recorded a weak performance for the second consecutive year. After a decline of 4.93% in 2015, they increased by only 0.12% in 2016, on an annual basis. The disadvantageous international conjuncture, with the reduction of oil and mineral prices, was again the main reason for this trend, while the group of 'construction materials and metals' was also down. After a disappointing first part, the exports of these groups revived in the second half of the year, halting the annual decline. The textiles and footwear have been back for two years as the main export group in the country.

The 'Minerals, Fuels, Energy' group saw a sharp decline in exports of 27.81%. This group marked the third consecutive year of shrinkage, reflecting the unfavorable price conjuncture in international markets. 'Minerals, fuels and energy' were again the second largest group in the country, with 19.1% of the total, from 26.53%, a year earlier. The weight of this group has fallen sharply, compared to the maximum level of 40.31% achieved in 2013.

Exports of 'Textile and Footwear' recovered in 2016, following a poor growth in the previous year. This group, whose main advantage is the free workforce, increased by 18.33% on

an annual basis, as a result of the increase of contracts with Italian customers, which is the main market for processed products in Albania. "Textile and footwear" have returned for two years, as the largest export group in Albania, with 43.78% of the total, from 37.05% in 2015. The group of 'Construction Materials and Metals', the third largest, with 13.09% of the total, dropped by 9.60% in 2016, owing to the poor performance of metals, following the problems that the biggest processing company of metals in the country, which in February 2016 declared bankruptcy.

Exports of 'Food, Beverages, Tobacco' marked a strong double digit growth of 20.31%, while for the other groups, which occupy a low share in total exports, their performance was relatively modest.

Italy continued to be the country's main partner in terms of exports, with 54.57% of the total, an increase of 3.71 percentage points from the previous year as a result of the expansion of sales to this country by 7.42% on an annual basis. Textiles and footwear account for about 63.00% of exports to the neighboring country.

Kosovo continued to be the second trading partner of the country for the third consecutive year, with 6.81% of the total, despite sales to this country fell by 20.63% on an annual basis in 2016. 'Minerals, Fuels and Energy' and 'Construction Materials and Metals' are products that have found their market in Kosovo.

Greece fell back as the third partner of Albania in terms of exports, after losing its second place as a result of the debt crisis that the Hellenic state went through. Exports to Greece increased by 17.23% in 2016, accounting for 4.58% of the total. As in the case of Italy, textiles and footwear are the most exported group, with 42.58% of the total.

Germany climbed up as the fourth country partner, with 3.40% of the total, following an increase in exports to the strongest European economy by 9.43%.

Sales to Malta and Spain, which up to a year ago were on the list of major export partners, dropped

by 28.48% and 36.59% respectively. Mainly crude oil is exported to these two countries and the sales performance is very volatile depending on the contracts that are being concluded with the Albanian oil extraction companies.

Trade balance deteriorated sharply in 2016, down by -11.38%, as a result of the stagnation of exports and the high growth of imports. Import coverage ratio with exports declined again to 42.04%, from 44.65%, which was a year earlier.

In the first half of 2017, the export trend was quite the opposite compared to 2016. For the period from January to June 2017, exports increased by 13.48% on an annual basis, as a result of the positive performance of all main groups: 'Textile and footwear' by 7.82%; 'Minerals, fuels and energy' by 11.05% and 'Construction materials and metals', with 41.73%.

The average exchange rate of the euro against the domestic currency in 2016 was ALL 137.40 per one euro, depreciating by 1.65% against the previous year. The Euro has shown different behaviors over 2016. In the first part of the year, the euro was relatively strong, being traded between ALL 138 and ALL 139. In the second half of the year, the euro began to lose points rapidly, down to ALL 134.99 in December 2016, the lowest level in the last nine years, affected by the depreciation of the euro on international markets and from internal factors related to the foreign currency supply. The devaluation trend of the common currency continued in the first part of 2017, where for the period from January to June 2017, the average rate for one euro was ALL 135.11, reflecting mainly the high offer for foreign currency in the domestic market.

The dollar was also depreciated in 2016, averaging 124.10 ALL, down from 125.90 ALL, which was the previous year's average, reflecting mostly the overvaluation of the domestic currency.

Throughout 2016, the Bank of Albania did not intervene in the domestic foreign exchange market.

The inflows of immigrants in 2016 amounted to 615 million Euros, marking a slight increase of 2.84%, on an annual basis. This is the third

consecutive year that remittances increase, as they reached the lowest historical level in 2013. In the first half of 2016, they fell by 4.60% as a result of the continuation of the impact from the Greece's debt crisis, which in the summer of 2015 risked to exit from the euro zone, and the economic slowdown in Italy. In the second half of 2016, the improvement of the economy of the two neighbors, where more than 1 million Albanian emigrants live and work and the revival of the immigration phenomenon, contributed to the increase of migrants' inflows by 10.54% on an annual basis for the period July- December.

The unemployment rate reached 14.20% at the end of 2016, from 17.30% in 2015, according to data from the Labor Force Survey. The unemployment rate has shown a steady

decline throughout the quarters, reflecting the improvement in economic activity. The strongest drop was marked by unemployment among young people aged 15-29, by 4.1 percentage points, however, youth unemployment remains high at 28.10%. The improvement of service activity is the main factor that has contributed to improving the youth employment indicator.

The average monthly gross salary in the state sector during 2016 was ALL 54,487.50. The annual change in the average monthly gross salary for an employee in the state sector was 0.90%. In real terms, the growth of the average monthly gross salary for an employee in the state sector was negative by -0.40%, due to higher inflation rates (+ 1.30%) than the nominal wage growth (+0.90%).

MAIN MACROECONOMIC DATA 2006-2016

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Annual inflation (%) end of year	2.50	3.10	2.20	3.70	3.37	1.68	2.70	1.90	0.70	2.00	2.20
Unemployment rate (%)	13.78	13.37	13.05	13.76	14.04	13.98	13.35	15.93	17.50	17.10	14.20
Real GDP increase rate (%)	5.40	5.90	7.50	3.30	3.71	2.55	1.42	1.00	1.83	2.61	3.37
GDP at current prices (billion ALL)	882.20	966.60	1089.30	1143.90	1239.60	1300.60	1332.80	1350.60	1400.50	1444.70	1501.90
GDP per capita (USD)	2854.00	3394.00	4436.20	4101.30	4094.60	4437.50	4247.50	4410.70	4587.40	3953.00	4183.10
Public debt (% of GDP)	56.10	53.50	54.70	59.70	57.70	59.40	62.20	70.40	71.80	72.50	71.01
Budget Deficit (% of GDP)	-3.30	-3.50	-5.50	-7.00	-3.10	-3.50	-5.00	-4.90	-5.20	-4.00	-1.80
Average exchange rate (ALL per 1 EUR)	123.08	123.62	122.80	132.06	137.78	140.30	138.80	140.26	139.90	139.70	137.40
Average exchange rate (ALL per 1 USD)	98.10	90.43	83.89	94.98	103.90	100.90	108.20	105.67	105.50	129.50	124.10

Source: Ministry of Finance, BOA, INSTAT

The total budget revenues significantly improved their performance in 2016, following a weak performance in 2015, expanding by 7.3%, on an annual basis.

The income from the Value Added Tax (VAT) and profit had the most positive performance, increasing by 4.50% and 16.80% respectively. All other items of tax and customs revenues were

positive. VAT remains the item that brings the largest share of budget revenues, with 32.28% of the total. Social and health insurance income also had a good performance, which expanded by 10.90%.

Revenue growth and control over expenditures (which decreased by 0.80% on an annual basis) diminished the budget deficit, compared to the previous year.

However, capital expenditures were low. They were reduced by 5.70% on a yearly basis in relation to 2015, while gross domestic product reached the lowest level in the last 10 years.

The government has been engaged in the process of fiscal consolidation, which was one of the conditions set in the agreement with the International Monetary Fund. Revenue growth and control over spending allowed the government to lower its budget deficit, which dropped to 1.80% of the GDP in 2016, from 4.10% in 2015.

Public debt reached 71.01% of GDP in 2016, with a reduction by 1.65 percentage points from 2015. The continued decline in the budget deficit and the primary surplus will allow the government to gradually reduce public debt by 59.30% in 2019. In its strategy, the Ministry of Finance aims to increase the share of external debt, aiming to reduce pressure and dependence on domestic market financing.

PERFORMANCE OF CURRENT ACCOUNT BALANCE SHEET ACCORDING TO ITEMS 2006 - 2016

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current account (mio EUR)	-471.00	-831.00	-1370.00	-1329.00	-1018.00	-1185.00	-1022.00	-1049.00	-1287.00	-1105.00	-1030.00
Current account (% against GDP)	-7.30	-10.40	-15.60	-15.30	-11.30	-13.20	-10.20	-10.60	-11.90	-11.20	-12.10
Imports (mio EUR)	-2290.00	-2890.00	-3349.00	-3054.00	-3254.00	-3647.00	-3525.00	-3695.55	-3944.85	-3889.92	-4215.78
Exports (mio EUR)	631.00	786.00	917.00	751.00	1172.00	1406.00	1525.00	1732	1826	1737.02	1772.18
Trade balance sheet (mio EUR)	-1659.00	-2104.00	-2431.00	-2304.00	-2082.00	-2242.00	-2000.00	-1963.55	-2118.85	-2152.89	-2443.60
Trade balance sheet (% against GDP)	-22.69	-26.56	-26.60	-24.40	-20.80	-23.10	-18.60	-17.80	21.12	20.81	22.35
Remittances from emigrants	937.00	952.00	833.00	782.00	696.00	669.00	680.00	545.00	592.00	598.00	615.00

Source: Bank of Albania, INSTAT, Ministry of Finance

Banking sector

The banking system showed signs of revival during 2016 in almost all indicators, while 2015 had marked a modest activity. Growth rates of the banking system assets accelerated to the highest levels of the last 6 years, deposits revived and credit was positive, although its growth remains anemic and in a considerable part, it went to foreign trade entities. Non-performing loans failed to be reduced due to large bankruptcies that deteriorated bank portfolios, but the process of canceling and restructuring non-performing loans continued to intensify.

According to the data of the Bank of Albania, the total assets of the system at the end of 2016

were ALL 1.41 trillion, with an increase of 6.79% (the expansion of assets was only 1.86% a year earlier). In 2016, unlike the previous year, when the system invested free money in other financial institutions, banks preferred buying government bonds, which contributed to nearly 68% of the assets growth.

At the end of December 2016, the credit stock of the economy reached ALL 547.60 billion, with a slight increase of 0.15%, but still following a reduction of 2.41% in the previous year. Excluding the effect of loan cancellations, credit to the economy expanded by 3.43%. During 2016, the phenomenon of the significant growth of credit

abroad was observed. The loan stock abroad increased by ALL 26 billion for 2016, from ALL 19 billion, which was the total expansion. The Bank of Albania has announced that the rapid growth of financing sources, in the absence of sufficient investment options in the country, has driven the loan abroad, whose rapid growth has sparked concern from the central monetary institution, as the monitoring is difficult.

Banks continued their orientation towards lending in ALL, while the share of foreign currency lending declined significantly to 53% in December 2016, from 71% that was 10 years ago.

The total deposits amounted to ALL 1.01 trillion, with an annual growth of 2.90%, after a slight increase of only 1.00% in the previous year. The increase in interest rates from banks and the improvement of economic activity affected the return of savings to the system. For the first time, foreign currency deposits exceeded those in ALL in 2016. In December, deposits in foreign currency (mainly euro) accounted for 52.01% of the total.

In March 2017, the Bank of Albania declared the initiative to reduce the high level of Euroization in the country. In a joint strategy with the Ministry of Finance and the Financial Supervisory Authority, the necessary conditions and incentives are intended to be created in order to gradually but steadily influence the reduction in the rate of using the foreign currencies and, as a result, strengthening the rate of using the national currency, the financial system and the domestic economy, in line with the goal of strengthening the monetary policy effectiveness and maintaining financial stability.

The system profit for 2016, reported to local standards, was ALL 9.27 billion (about EUR 67 million), down 41% in the previous year. The high increase in provision expenses and the decline in the interest income were the main reasons leading to this strong shrinkage of profits.

The decline in profits also affected the deterioration of profitability indicators. Return on Assets (RoA) dropped from 1.20% at the end of 2015 to 0.69% in December 2016 and Return

on Equity (RoE) deteriorated from 13.16% in 2015 to 7.15% at the end of 2016. The Capital Adequacy Ratio continued to decline for the third consecutive year, falling from 16.04% in 2015 to 15.71% in December 2016.

Non-performing loans were 18.27% at the end of the year, with a slight increase compared to 18.22%, for this indicator at the end of 2015. In the first half of the year, outstanding short-term loans grew rapidly, reaching the highest level of 21.44% in August, but then fell again. Growth is mainly due to some major bankruptcies, while the improvement in the second half of the year came as a result of loan cancellations of more than three years that are not returned by the banks and the loan restructuring process in major problematic companies. The decline in the non-performing loan indicator continued in the first half of 2017, reaching 15.86% in May.

By the end of 2016, the banking system had 16 banks; two of them have Albanian capital and others with foreign capital; The latter occupy 85.50% of the assets. The banking system continues to be well diversified according to the origin of capital: 26.98% from Turkey, 18.83% from Austria, 13.74% from Greece, 12.70% from Italy, 14.54% are Albanian-owned banks; 5.66% are French; German 2.32%; US 2.57% and 2.64% from other states. In June 2017, the Italian group Intesa Sanpaolo SpA acquired some assets and liabilities of Veneto Banca SpA, including Veneto Bank in Albania, which reduces the number of banks in the Albanian banking system to 15.

By the end of 2016, the banking system had 503 branches, 15 branches less than a year earlier. The number of employees was 6,950, decreasing by 28 employees.

DATA ON BANKING SECTOR 2007 - 2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total assets (million ALL)	742,543.20	833,681.50	886,309.00	990,631.00	1,120,168.10	1,187,983.00	1,234,321.00	1,293,721	1,317,843	1,407,286
Total assets against GDP (%)	75.60	76.63	77.20	81.00	86.40	88.24	90.89	91.50	91.22	93.70
Total loans against GDP (%)	29.75	35.72	38.52	39.30	41.20	41.20	40.35	39.61	37.82	36.46
Total deposits against GDP	62.28	56.96	57.92	63.94	66.60	69.10	69.96	69.13	68.34	67.53
Loan to economy against total assets (%)	39.10	47.20	49.60	48.70	48.37	46.70	44.39	43.28	41.47	38.93
Total loans (in millions ALL)	293,863.70	396,264.33	440,397.35	483,130.00	541,899.80	554,732.00	547,928.00	559,987	546,451	547,602
Loan weight in ALL	27.70%	28.80%	31.90%	32.60%	34.80%	38.50%	40.14%	41.69%	43.99%	47.40%
Loan weight in foreign currency	72.30%	71.20%	68.10%	67.40%	65.20%	61.50%	59.86%	58.31%	56.01%	52.60%
Total deposits (in million ALL)	602,653.40	619,790.40	662,426.00	785,225.00	875,230.00	930,703.00	950,088	977,421	987,267	1,014,197
Deposits' weight (in million ALL)	58.30%	57.90%	55.70%	51.15%	51.60%	51.20%	52.02%	51.63%	49.95%	48.10%
Deposits' weight in foreign currency	41.70%	42.10%	44.30%	48.85%	48.40%	48.80%	47.98%	48.37%	50.05%	51.90%
Net results (in billion ALL)	10.20	7.30	3.50	6.70	0.71	3.76	6.56	11.19	15.69	9.27
Return on assets (%)	1.57	0.91	0.42	0.72	0.07	0.33	0.54	0.89	1.20	0.69
Return on equity (%)	20.74	11.35	4.58	7.58	0.76	3.78	6.43	10.53	13.16	7.15
Capital Adequacy Ratio (%)	17.08	17.23	16.17	15.38	15.56	16.17	17.96	16.84	15.72	15.71
Non-performing loans level (% against total)	3.31	6.46	10.27	13.61	18.94	22.76	23.22	22.76	17.66	18.26
Money outside depositing corporates (billion ALL)	154.00	195.00	209.00	195.00	194.90	192.70	198.90	217.66	230.60	249.25
Money supply-money liabilities (billion ALL)	757.00	815.00	871.00	980.00	1070.00	1123.40	1148.90	1,195.08	1,218.10	1,263.45
Money outside Banks/money supply (%)	20.30	23.90	24.00	20.00	18.20	17.15	17.31	18.21	19.93	19.73

Source: Bank of Albania

(Data Source: Quarterly Publications of GDP, INSTAT; Labor Force Survey and Labor Market, 2016, INSTAT; Banking System Data; Bank of Albania; Association of Banks; Business Confidence Index, Bank of Albania, Fiscal Statistics, 2016, Ministry of Finance).

Domestic Environment

Albania continues to demonstrate a sustainable growth and remains one of the countries with the highest GDP growth in the region, without any major recession event.

GDP showed a growth of some 3% in the first 9 months of 2016 (yoy), mainly driven by large energy-related FDI projects and consumption. Net exports decrease due to lower oil exports. The revival of domestic demand has been driven by improving confidence and easing monetary policy stance.

Inflation remained low during 2016 supported by external disinflationary pressures and low commodity prices. While significant improvements have been made for correcting macroeconomic imbalances, public debt is still high and external deficit still large.

The BoA policy rate reached a historical low point in May, 1.25%, and remain unchanged. The yields on government securities followed a decreasing trend during the first half of 2016 and started to increase in the second half of the

year. The interest rates on deposits followed a decreasing trend as the market continue to be very liquid.

Notwithstanding a drop in profitability and capital adequacy, the banking sector is quite liquid and well capitalized. Even so, banks continued to face important challenges to spur profitability. Interest rates remained at extraordinarily low levels; business volumes, despite gradually recovering, were still low; and competition was high among banks.

During 2016, the increase in NPL due to two large corporate bankruptcies was offset by reduction in NPL due to Mandatory write offs. Therefore the NPL ratio in December 2016 resulted 18.27%, very closed to December 2015: 18.22%.

Lending to economy is showing signs of recovery while Banks are shifting their portfolio from large corporate and foreign currency toward SME, Small Business and Individuals.

Financials at Glance



FINANCIALS AT A GLANCE

	2013	2014	2015	2016
Income Statement				
Net Interest Income	4,833,364	4,453,877	4,545,726	4,257,405
Net Fees and Commissions	630,347	604,295	783,972	704,326
Pre-tax Income	1,219,399	2,483,816	2,668,971	2,767,228
Taxes	237,582	428,899	457,876	483,508
Profit	981,817	2,054,917	2,211,096	2,283,719
Balance Sheet				
Total Assets	139,189,602	148,030,490	141,427,369	149,528,532
Loans	50,912,100	47,188,237	45,000,001	45,239,962
Securities	58,526,165	61,278,982	56,320,615	57,980,881
Due from Banks	21,027,977	25,343,535	23,902,937	17,106,968
Deposits	114,700,816	121,279,675	118,842,127	125,974,220
Capital	17,999,512	19,283,626	19,432,580	19,504,474
Total Liabilities	121,190,090	128,746,864	121,994,789	130,024,058
Indicators				
Profit / Assets	0.71%	1.39%	1.56%	1.53%
Profit / Total Capital	5.45%	10.66%	11.38%	11.71%
Income from interest / Assets	5.71%	4.52%	4.03%	3.20%
Interest expense / Liability	2.57%	1.73%	0.95%	0.60%
Capital Adequacy	20.95%	18.18%	16.58%	17.57%
Net Assets / Employee	227,374	227,468	214,026	224,955
Number of employees	533	566	570	578

Amounts in ALL/1,000

INTESA SANPAOLO BANK ALBANIA KEY FIGURES

	2015	2016	Change	Change in %
Net Interest Margin	4,546	4,257	-288	-6.3%
Non Interest Income	1,074	813	-261	-24.3%
Total Revenue	5,620	5,071	-549	-9.8%
Operating Expenses	(2,176)	(2,147)	-29	-1.3%
Loan Provisions	663	213	876	-132.1%
Net Income	2,211	2,284	73	3.3%
Return on Average Assets	1.5%	1.6%	-0.0%	
Return on Equity	11.6%	11.9%	0.3%	
Cost/Income Ratio	38.7%	44.5%	5.8%	
	0.14	0.13		
Total Assets	141,427	149,529	8,101	5.7%
Total Loans (gross)	45,000	45,240	240	0.5%
Customer Deposits	118,842	125,974	7,132	6.0%
Total Shareholders' Equity	19,433	19,504	72	0.4%



Management Discussion

Management Discussion

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Intesa Sanpaolo Bank Albania 2016 Main Challenges and Achievements

Decreasing 2016 interest rates continued to decrease and putted further pressure on Bank's Net Interest Income. Domestic demand for loans continue to be weak while the Bank encounter difficulties in placing qualitative loans

However, year 2016 was one of the best years in terms of commercial activity. The bank delivered significant growth in terms of loans and transactions in almost all business units.

The Bank made significant progress during 2016 in the following aspects:

A very good return was maintained: 3.4% increase in net profit impacting positively the improvement in ROE by 0.3% to 11.9% for 2016.

Solid capital position: while pursuing the Bank's strategy for 100% dividend distribution, the capital adequacy ratio was further improved in 2016 reaching 17.57% putting ISP Albania in a much comfortable position for taking advantage of organic growth opportunities

Credit quality: further improvement: The NPL stock in 2016 decreased by a significant amount of ALL 2,611 mln or some 29%. The later together with the increase in performing loans pushed further down the NPL ratio by 5.9% reaching 13.9% in December 2016.

Commercial activity: robust growth and a well-established groundwork for a new commercial model focus on higher growth businesses such as SMEs, Small Business and Retail. Double digit growth shown in 2016 in all three business segments made last year one of the best years in terms of lending growth.

Low cost-to-income ratio below 45%: which means managing assets even more efficiently. Several cost saving initiatives and sound control systems in place ensured another year driven by operational efficiency.

Manage risk well

Credit Risk

New lending leveraged on acquired know-how and awareness of sectors' specificities, predefined solutions, policies & products, mainly mentioning Energy and Agribusiness as components of volumes increase. Such results involved also partnerships and risk sharing agreements with experienced players such as IFC and EBRD.

The Bank, in compliance with Group rules, has in place a **Risk Appetite Framework (RAF)** with regards to the control of main risks such as Credit Concentration risk, Real Estate risk, Sovereign risk, Foreign Exchange credit risk, etc.

During 2016 the Bank established **Proactive Credit Exposures Management (PCEM)** process with the aim to implement a more proactive credit quality monitoring and address credit deterioration since the first signals.

A new **framework on Credit Control activities** has been established by setting up **1st and 2nd level** controls on credit area. These controls are aimed at a prompt and better identification of any inadequate credit practices and mechanisms as well as ensuring effective corrective actions.

The Bank is under **adoption of IFRS 9** standard regarding recognition in terms of impairment, by December 2017, of lifetime credit losses for entire balance sheet credit exposures.

NPL management

In 2016 the Bank further consolidated the significant improvement in loan portfolio quality. The Bank continues to be the best in the Banking sector regarding the reductions of NPL having lowered their percentage well below the market average (13.47% vs 18.27% as of December 2016). These results mainly refer to:

- **NPL stock Reduction** to healthy levels enabled by **good collection results**, which in return **enabled the moving off balance sheet** of staled positions as per Central Bank regulations.
- **Early intervention on restructuring/**

rescheduling positions avoiding portfolio deterioration combined with support/involvement by Under-writing team and the new PCEM role, in defining solutions from early revision stages to later deteriorated ones.

- **Reposessed Assets structure** within NPL Management Department was further enhanced with additional resources. It has started to generate positive results with regards to assets marketing and sale.

Other Risks

The Bank, in compliance with Group rules, implemented the most updated Basel III provisions on Liquidity Risk and Interest Rate Risk measurement and monitoring.

Retail Banking

The challenging business environment during 2016 as well as the ever increasing customer expectations regarding banking products and services, naturally dictated a re-shift of focus towards the further improvement not only of banking products and services but also on preserving and developing customer relations and proactivity.

In the framework of its engagement to serve all customer categories and especially to segments which have fewer opportunities of access to financing, in close cooperation with EBRD and supported by a dedicated analysis of the customer base, the Bank launched its dedicated approach for Women in Business, making Intesa Sanpaolo Bank Albania the only bank in the market promoting this kind of approach towards such businesses be they small, medium or big.

The Western Balkans Women in Business Program is an initiative which aims to tackle the multidimensional nature of the obstacles faced by women led enterprises. The purpose of this initiative is to assist Women in Business as well as enable them better opportunities to access financing, to strengthen and expand their managerial skills and enable programs that stimulate their demand for financial and non-financial products. In view of this approach, two dedicated loan products and two packages designed to meet the specific needs and size of the business were created. Alongside the banking

products, these businesses can simultaneously profit from the non-financial services provided by the dedicated team of EBRD. Customer benefits in being part of this program are related primarily to easing of collateral requirements, fulfillment of financial and non-financial needs as well as counseling services to improve their managerial skills.

Also this year was characterized by the launch of new products. In the lending aspect it's worth mentioning the Fast Loan product with approval within 24 hours, which was more than welcomed by customers and had a considerable success in both terms of numbers and volumes, as well as the consumer loan product which was revised in terms of collateral requirements based on customer category, thus making this product more attractive and suitable to anyone's real needs. From deposits' perspective, in order to complete its range of products, the bank launched the 18 and 36 months' time deposits as well as 5 and 7 years deposits, the latter two characterized by increasing interest rates and flexibility in interest repayment, thus providing to all customers apart from attractive interest rates also a fuller choice of maturities.

In the framework of network optimization, as part of the bank's continuous efforts to better serve its customers, was completed the relocation of the QTU branch to Brunes premises having better quality and a new layout. On the other hand, the initiative undertaken by the group and embraced by the Bank involving the adaptation and remodeling of the Head Offices in order to make them more accessible, useful and functional for its own customers, enabled within 2016 the completion of the full renovation of Head Offices, the visible and invisible part. This transformation has brought alongside innovation in conceptualization, also a unique style in the Albanian banking system.

Another aspect which maintained the same level of importance during 2016, was the improvement and shortening of processes as a necessity to reduce the servicing time for operational activities and optimization of time dedicated to sales activities. A number of initiatives and investments undertaken internally for this purpose at central, branch or electronic

platforms level, have impacted and are expected to further impact in the improvement of customer journey, increased efficiency and consequently profit.

The Small Business Segment was further consolidated during 2016. An important role in its consolidation was played by the strengthening of relationships with customers, completion and on-going development of the range of product offered, review and adaptation to market conditions as well as periodical training of the sales force.

In relation to the agribusiness sector, in order to expand the partnership and to create synergies in terms of creation and extension of access to finance, during 2016 were organized a series of meetings with key organizations and institutions in the agribusiness sector. Additionally for the second year in a row, the Bank organized a dedicated conference to support innovation in the business sector with the participation of a number of important actors in the field.

The professional use of the CRM platform has significantly eased the customer portfolio management, customer categorization as well as reporting process. On the other hand, the successful implementation of campaigns for dedicated banking products and services through a wide selection of channels has influenced in the increase of cross-selling in both segments of the division.

Corporate Banking & SME

Remaining a growing contributor in terms of overall revenues to Intesa Sanpaolo Bank Albania, Corporate & SME succeeded for the second year in a row to improve market share on performing loans, while playing a significant role in the improvement of Bank's loan portfolio quality ratios during 2016

Considerable focus was given to business development and expansion of customer base, lending and non-lending. The Bank continued its participation in HPP projects, Tourism Development, increased its portfolio of Education and Wholesale/Retail Trade

Further enhancements in terms of products'

flexibility and diversification, as well as the quality of services offered, had an important role in increasing visibly the transaction banking revenues, especially from SME.

During 2016, the Bank registered a double digit growth in SME segment lending; being the focus of the last 3 years, especially in human capital investment, SME has consolidated its position in the specific market with a specific aim of achieving higher than average sustainable growth both in lending and non lending revenues and market share

Enhancements in CRM platform impacted also the increase of the non-lending revenues, apart from interest's commissions. Moreover, the overall expansion of the human resources throughout Corporate & SME Division enhanced our abilities in improving transaction banking activity. In our focus has also been the building of synergies aiming to improve the cross-selling with other business segments of the Bank.

Finance and Capital Market

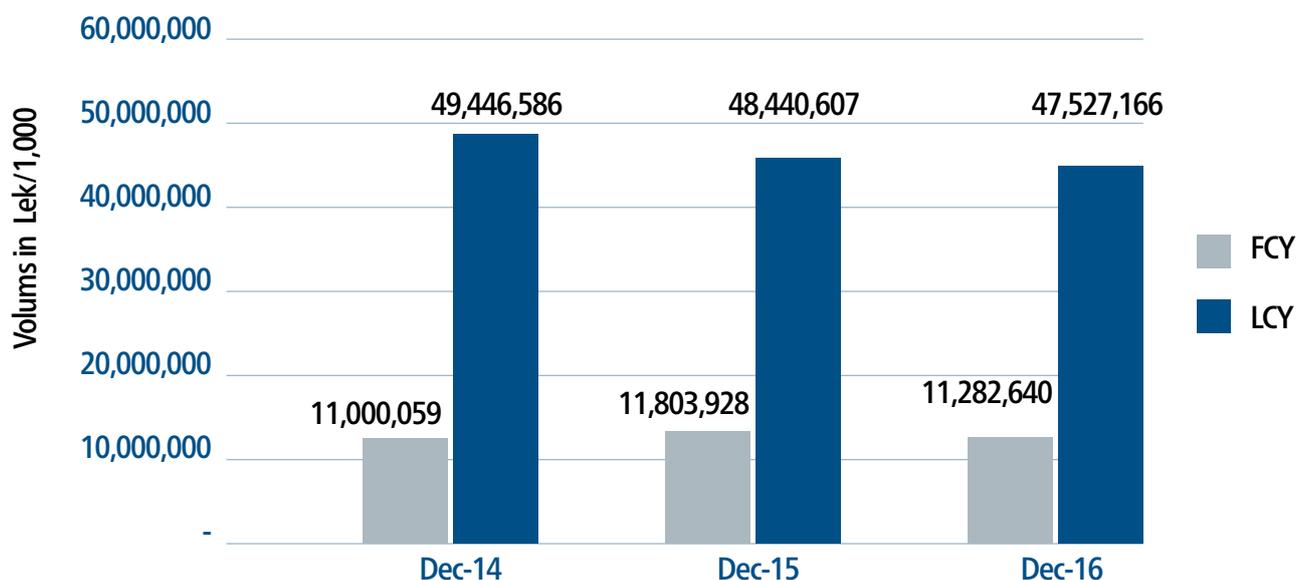
Treasury and ALM Department during the year 2016, despite the steep drop to the lowest

historical level of the interest rates of the securities issued by the Albanian Government in local currency, managed to deliver a sustainable flow of income by being able to minimize of the negative effect from such drop in the net interest income.

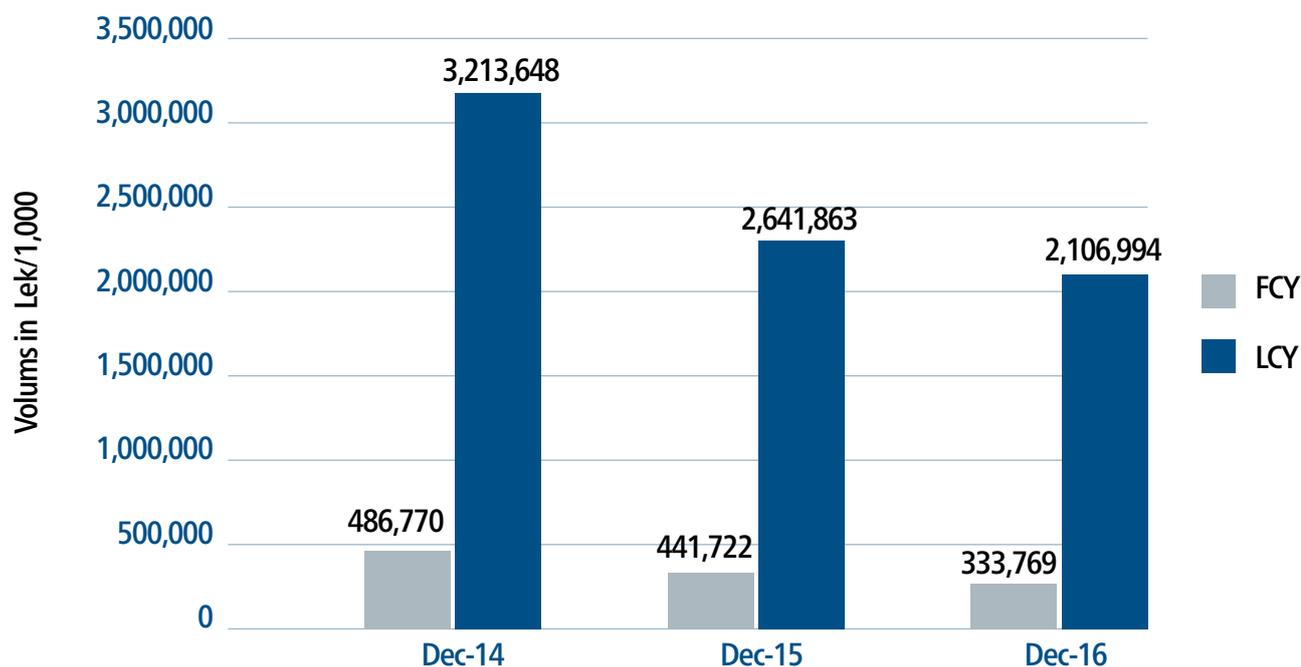
Moreover as it relates to the activity of such Department with the Corporate & SME or Retail Customers, it has been very active and competitive in offering financial instruments as foreign Exchange transactions Spot and Forward and trading in the retail market of the securities issued by the Albanian Government, an activity which increased in comparison with last year.

During the year 2016, Treasury & ALM has continued to be focused on the asset liability management with the aim of managing the bank exposure towards the Foreign Exchange risk, interest rate risk and in particular toward liquidity risk without neglecting the management of negative effect in the net interest income from the revaluation effect in an interest rate decline scenario in both domestic and international market.

Volume of Securities Portfolio (Balance of yearly average)



Revenues from Securities



ICT Management

The ICT division started 2016 following a year full of challenges and heavy project portfolio, made of many internal & strategic initiatives of the ISP Group which were successfully executed during 2015 and were made fully operative in 2016.

The strategy of implementing modular information systems, as building blocks of the same platform, has resulted of great advantage both from the perspective of implementation and integration within the existing technical infrastructure, as well as for the simplicity of adopting new systems and functionalities within the existing business processes.

Many of the initiatives came from the internal needs of the Bank to supply our customers with technologically advanced and secure services. Particular importance is paid in introducing features that enable a personalized interaction with customers through the enhancement of the electronic channels of bank service.

Initiatives driven from the parent company were in part focused in fulfilling regulatory requirements from ECB, Bank of Italy, and ISP Group governance. These requirements were fulfilled through enhancement and customizations of ISP

Group Information Systems which are currently implemented in ISBA and among all subsidiaries as part of the ISP Group Harmonization Strategy. Various systems were subject of changes and enhancements, affecting also related interacting systems.

Subject of these changes were integration of the World-Check List Management (WLM) within the modern platform of Anti Money Laundering of ISP Group, as well as integration of Know Your Customer process within the same platform, resulting into a robust solution in support of the Customers' Due Diligence processes. Enhancements of the ALM system through implementation of new functionalities. A new Implementation of an integrated Fund Transfer Pricing (FTP) solution and Management Information System (MIS).

In addition the year 2016 started with two major new challenges for ICT Division:

The Co-Operation project: The Co-Operation project in Albania was part of the Co-Operation Program (Wave III), launched by the Parent Company (ISP), and aimed transferring the technological infrastructure to the modern data

centre of ISP Group. System administration though still remains in charge of ISBA ICT division. The project presents many advantages for ISBA and ISP Group with regards to the optimization of resources, creation of synergies, sharing of best technologies, standards, and practices. It will also provide compliance with both internal & external requirements in the area of Business Continuity Management (BCM).

Following migration in the new data center on 14th of November 2016, most of the infrastructure of ISP Albania is operating in the new modern data center in Italy.

The migration of the Data Center project lasted 9 months, from February 2016 – November 2016, and was acknowledged as a very successful project from the Co-operation program management. The success of this highly complex project was made possible due to the strong commitment of the Bank, due to the professionalism and strong collaboration with the IT colleagues in Italy, and close internal collaboration of all ISBA & ISP structures involved.

Implementation of the new ICT Organizational Structure. After many years of operating according to a purely functional ICT organizational structure, it was time to rearrange the ICT activities, processes and roles according to a higher standard organizational structure much closely aligned to the structure of ISP Group which presents many advantages for IT in terms of the segregation of duties, IT process streamlining, and service quality assurance.

Project Portfolio 2016. Despite of having to allocate most of the ICT efforts in the Co-Operation project, ICT Division successfully managed to engage in the ISP Strategic project portfolio, and internal initiatives of the Bank.

An important strategic project launched in 2016 is BIG Financial Data, aiming to react to the challenging business environment that requires a “data-centric” approach. On this purpose the ISP Group has defined at Group level a new Data Governance Model and will implement an innovated IT Architecture Data Governance Structure for all ISP Group subsidiaries.

Several additional initiatives were started in

2016 aiming release of new services, and improvement of existing ones, with the focus on the card business, and electronic channel services are expected to be released in the early 2017. Among these are included Implementation of Credit Cards. Additional functionalities introduced in the electronic channels to increase interaction with customers. Improved layout of the electronic channels, and implementation of new services.

It is worth mentioning that during 2016 ISBA made significant improvement regarding the security of ICT infrastructure through implementation of a modern and very efficient SIEM solution (Security Incident Event Monitoring), and implementation of other systems aiming fulfillment of Information Security requirements and policies established by ISP Group and ISBA.

Operations

Safety Security Requirements/ Head Quarter Refurbishment and Branch Rebranding in Rruga I.Qemali, Head Quarter Refurbishment and Branch Rebranding is a project that started the implementation in Rruga I.Qemali on November 2015 and was finalized on December 2016. The project is realized through a strong and fruitful collaboration of Real Estate/Operation Division, Group’s Real Estate team and Retail Division.

The refurbished offices in Head Quarters offer to the staff natural light, fresh air, ergonomic chairs, lighting and relax colors and on the top of that a better and efficient usage of the surface in the bank. Furthermore, the staff have more facilities in the daily work like the meeting rooms created almost for each division, “relax area” where the staff can enjoy the coffee with colleagues when discussing for business issues, printing” and “facility area” is a colorful area unified at all the corners of the bank, kitchen is a new and modern design with more space created for the staff.

The reconstructed area are of a modern and temporary design uses the industrial ceiling which helped on the increase of the air volume and the light. Brand new lighting and heating system contribute to energy saving thus cost reduction in addition to better quality of air and optimal lighting needed for business environment.

Main Branch Rebranding was performed as per new branch layout, the 'revolution' that came from the Group, and Intesa Sanpaolo Bank Albania was one of the first Subsidiaries that implemented this ideology that started in Italy and reached than the ISBD network.. "A new way of banking aimed at making people feel 'at home' by focusing on a welcoming customer service and human relationship, with the branch at the heart of the relation with customers. The new layout is based on the idea that the branch is an open place for dialogue, meetings, communication and work and stems from the need to redesign the customer experience and make it consistent with the evolution of the multichannel approach. In this branch model, the reception area is the gateway for all the possibilities offered by the branch. The new layout makes people feel 'at home' by focusing on friendly customer service and strengthening human relations. The new branch becomes a place of partnership instead of a unilateral transactional area. Customization is the key word of the new branch model, customization that happens also in the new physical space where each target customer (mass, affluent and small business) has its own dedicated area. The informal atmosphere is best perceived by the common spaces where the advisor can meet the client, such as the community table. Another important feature is the new customer experience in a multifunctional space: it is not only a physical place but also a pool of remote channels as it gives customers the chance to join Wi-Fi and make transactions by using the new touch points of the Bank (Internet, Mobile, Self). Last but not least, the new layout offers many diversions while waiting to be served: besides internet access, clients can also read one of the many books available for consultation, enjoy a good cup of coffee in a very relaxed environment while listening to the background music, which mitigates the surrounding 'working' noise.

The project will continue on 2017 in Rruga e Barrikadave location in Head Quarters premises and Branch Rebranding.

Reward for Health & Safety, Albanian Labor Inspectorate, Ministry of Social Welfare and Youth granted an award for: "Creation, organization and correct functioning of the Council for Safe and Health at work". Intesa Sanpaolo Bank Albania is a leading institution in Albania in meeting

the Health and Safety requirement in terms of respecting the legislation and not only. Health and Safety Committee in his function is helped by the High Management, Operation Division and other structures of the bank to operate as an effective and active instrument in respecting the health, security and safety of the staff, clients and collaborators.

Outsourcing of internal security guard – Increase of efficiency, safety and security, Intesa Sanpaolo Bank Albania in order to increase efficiency, safety and security and to be compliant with the Rules and Regulation of Bank of Albania, decided to outsource the internal security guards to licensed security companies. This is an initiative that we believe will increase the efficiency and security in this area.

Financial Performance Review



Financial Review

In 2016, ISP Albania reported a net profit of ALL 2,284 million. Compared to 2015, net revenues decreased slightly, mainly driven by lower cost of risk, partially offset by lower net interest income. The increase in transaction-based revenues reflected growth in commercial activity, partially offset by higher commission expenses from card. Operating cost were maintained under strict control. Credit quality significant improvement drove the cost of risk to be much better compared to 2016.

Yet year 2016 was another challenging year for Intesa Sanpaolo Bank Albania. Revenues were under pressures mainly due to the following macroeconomic factors:

- Decreasing domestic interest rates and persisted negative rates in EURO
- Credit expansion is low, although the banking system is well capitalized and liquidity and profitability indicators stand at adequate levels. The sluggish credit performance reflects the weak credit demand and the banks' conservative approach.

The increase in net profit in 2016 of ALL 2,284 million and ALL 72 million million compared to ALL 2,211 in 2015, was primarily driven by loan charge ups occurred in 2016 as a result of improved credit risk.

Results 2016 Highlights – one of the most profitable year

- Net Interest Income at ALL 4,257 mln, down 6% (2015: ALL 4,546 mln)
- Net Commissions at ALL 704 mln, down 10% (2015: ALL 784 mln)
- FX result at ALL 366 mln, down 30% (2015: ALL 526 mln)
- Net Operating Margin at ALL 5,071 mln, down 10% (2015: ALL 5,620 mln)
- Operating Costs at ALL 2,147 mln, down 1% (2015: ALL 2,176 mln)
- Net Operating Profit at ALL 2,924 mln, down 15% (2015: ALL 3,444 mln)
- Net Profit after tax at ALL 2,284 mln, up 3% (2015: ALL 2,211 mln)

Lending Revival – entirely generated in domestic market

- Total performing loans in Dec-2017 at ALL 44,707 mln, up 14.8% from Dec-2016

Out of which:

- Large Corporate performing loans in Dec-2017 at ALL 24,964 mln, up 15% from Dec-2016
- Small Business performing loans in Dec-2017 at ALL 3,864 mln, up 21% from Dec-2016
- Individual performing loans in Dec-2017 at ALL 7,700 mln, up 24% from Dec-2016

Credit quality - further improvement

- Total performing loans in Dec-2016 at ALL 38,935 mln, up 8% from Dec-2015

Out of which:

- SME performing loans in Dec-2016 at ALL 7,256 mln, up 25% from Dec-2015
- Small Business performing loans in Dec-2016 at ALL 3,187 mln, up 32% from Dec-2015
- Individual performing loans in Dec-2016 at ALL 6,200 mln, up 11% from Dec-2015

- Regulatory Capital in Dec-2016 at ALL 14,500 million, up by 13% from Dec-2015

Credit quality - further improvement

- Enhanced credit quality, with a decline in the NPL ratio in almost all business untis segment. Total Nonperforming loans in Dec-2016 at ALL 6,305 mln, down 29% from Dec-2015

Out of which:

- SME nonperforming loans in Dec-2016 at ALL 843 mln, down 29% from Dec-2015
- Small Business nonperforming loans in Dec-2016 at ALL 303 mln, down 43% from Dec-2015
- Individual nonperforming loans in Dec-2016 at ALL 1,066 mln, down 32% from Dec-2015

¹ The analysis is made based on 2016 and 2015 results according to IFRS. If otherwise stated, all figures are presented in millions of ALL.

Strengthened capital position notwithstanding 100% dividend distribution

- Capital Adequacy Ratio at 17.57%, up by 1% (Dec 2015: 16.58%)

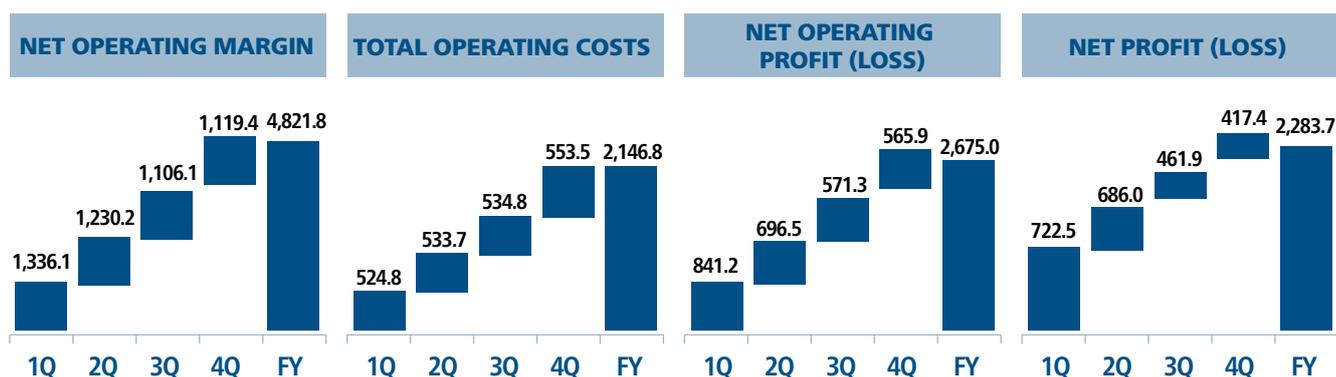
Cost discipline and efficiency measures to maintain a low cost income ratio

- Cost income ratio at 42.3%, up 3.6 % (2015: 38.7%)

		Change	
		amount	%
NET PROFIT (LOSS)	2,211 2,284	73	3%
Merger and restructuring related charges (net of taxes)	-31	3	
Income taxes	-458 -481	23	5%
NET PROFIT (LOSS) BEFORE INCOME TAXES	-2,669 -2,767	98	4%
Profit (loss) from investments and HTM financial assets	-103 34	-137	404%
Net write-ups/ downs for impairment of other assets	-167 -294	126	76%
Net write-ups/ downs for impairment of other assets	-663 213	-876	-132%
Net Provisions for risks and charges	22 28	6	28%
NET OPERATING PROFIT (LOSS)	2,924 3,444	-520	-15%
TOTAL OPERATING COSTS	-2,176 -2,147	-29	-1.3%
Amortization of fixed/ intangible assets	-349 -324	-24	-7.0%
Other general and administrative expenses	-758 -779	21	3%
Personnel Expenses	-1,070 -1,043	-26	-2%
NET OPERATING MARGIN	5,620 5,071	-549	-10%
Other Operating Income (Expenses)	-236 -258	21	9%
Profit (Loss) from trading activities	526 366	-160	-30%
Commission income/expense	784 704	-80	-10%
Net Interest Income	4,546 4,257	-288	-6%

Y 2015
 Y 2016

Quarterly development of main consolidated income statement figures (ALL in min)

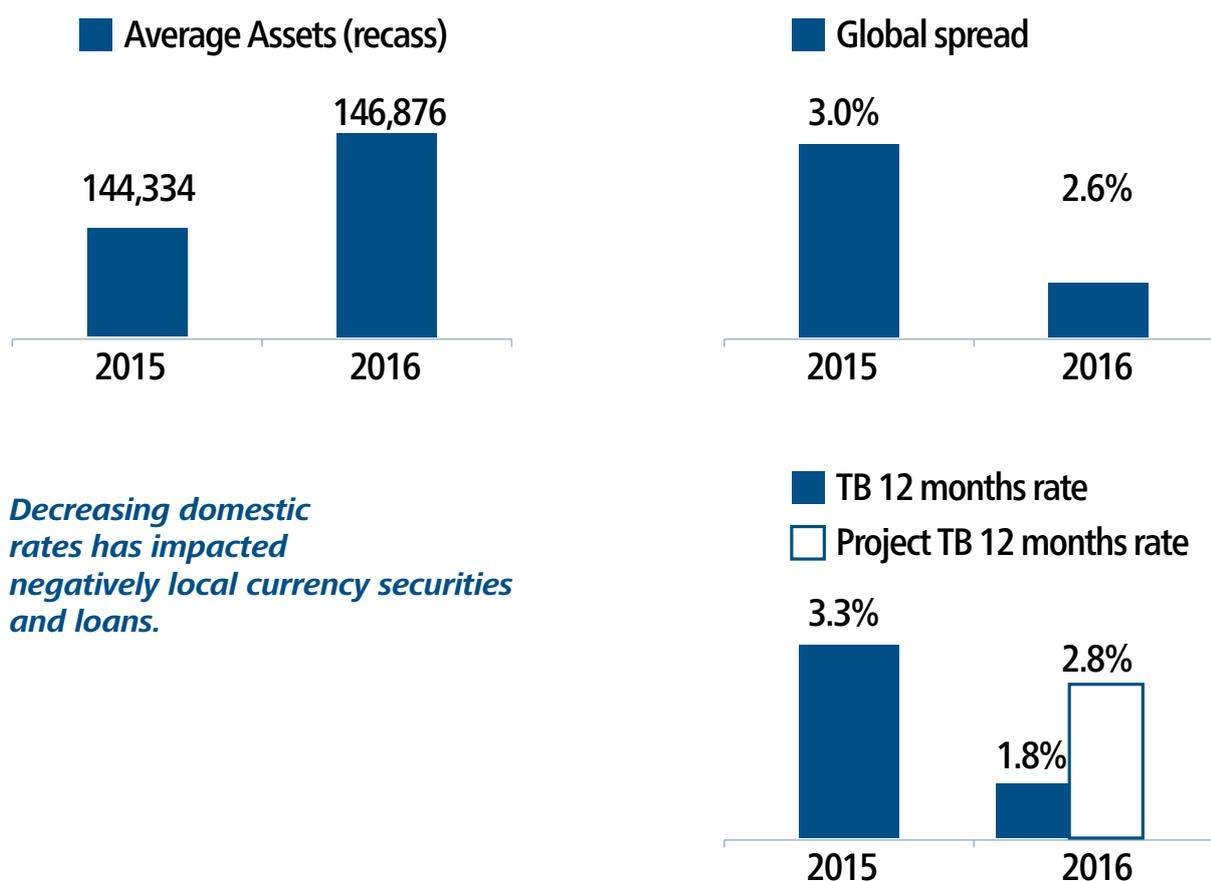


Net Operating Margin

Net Operating Margin dropped in 2016 by 14%, primarily driven by lower of net interest income ALL 5,071 million or 10% lower than 2015 as a result of:

- **Lower net interest income**

Net interest income decreased, reflecting significant downward pressures from interest rates decline, partially offset by lower deposit margins on slightly higher average deposit rates and higher volumes on loans and securities.



- **Higher commissions income in core commercial categories**

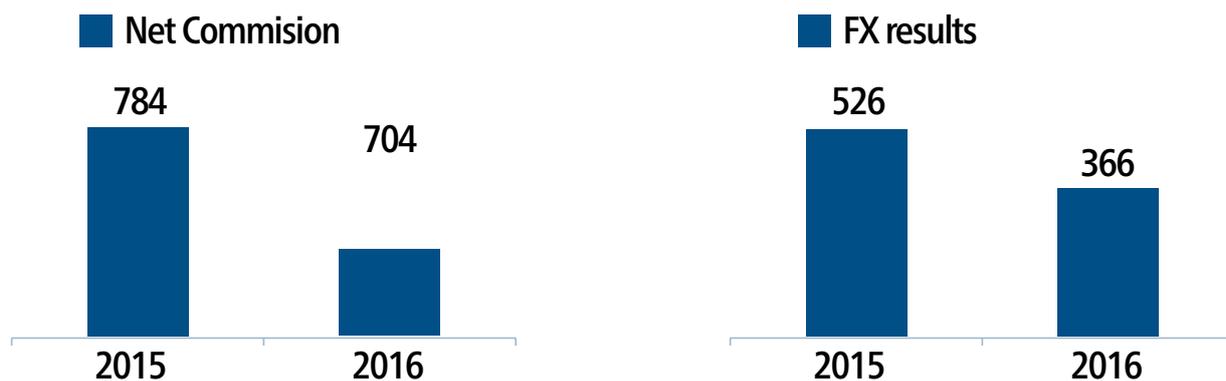
In 2016 we has a significant increase in core commercial categories mainly as a result of increased number of transitions:

- Current Account Commissions increased by 4% in 2016 compared to 2015 driven by the increase in customers number by 4%
- Payment commissions increased by 7% in 2016 compared to 2015

However, net commission felt by 5% in 2016 mainly due to nonrecurring positive impact in 2015. In addition, during 2016, the increased pricing from MasterCard and Visa had a negative impact on card business performance.

On the other side, higher commission income were generated from transition related to service fees as ISP Albania was selected as financial agent for TAP project (Trans-Adriatic gas Pipeline).

FX result related to commercial activities in 2016, normalized for nonrecurring positive impact in 2015, showed an increase of 4% compared to 2015.



• **Lower other operating expenses**

Other operating expenses went up 9% in 2016 primarily due to nonrecurring positive impact in 2015 and higher expenses on deposit insurance in 2016.

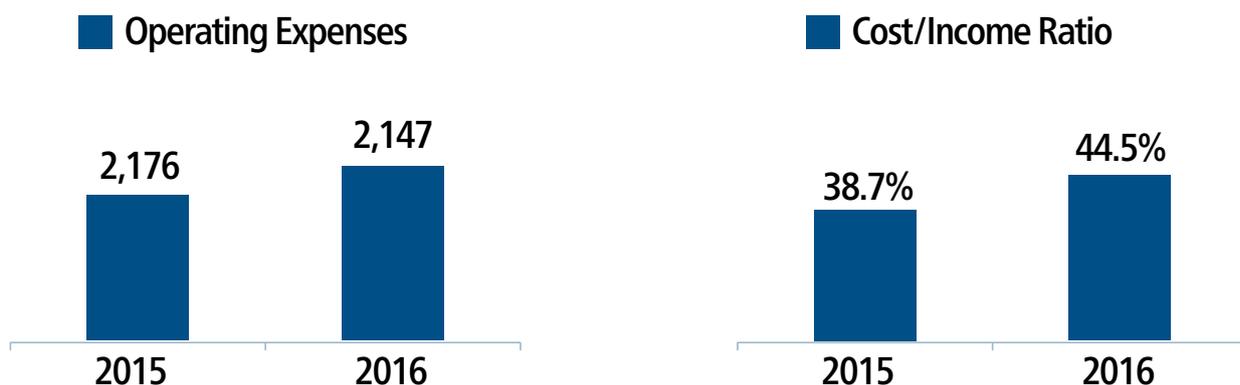
Total Operating Costs

Operating cost resulted 1.3% lower than 2015.

During 2016 the Bank managed to maintain a low cost income ratio, albeit higher ICT maintenance costs related to recent ICT investments and higher security and legal expenses in 2016. Reallocated some branches at a better locations and a lower costs has proven to be successful in 2016 as well. Cost reductions compared to 2015 were delivered for most of cost categories mainly through:

- Target-oriented procurement activities, the Bank has negotiated better terms in almost all administrative costs.
- Enhanced cost control for all cost centers

In addition, in line with Bank’s strategy, the bank continue to have particular focus in lowering the “run the bank” costs by leveraging on the development of economies of scale through ISG Central Procurement.



Improved credit risk

As NPL ratio was further reduced significantly in 2016, the Bank benefited from a negative cost of risk. While moving off balance sheet some exposure due to regulatory requirements has asked for additional impairment charges, the improvement of some NPL and closing NPL exposures through cash collections and collateral executions has contributed in loan impairment release.

	Dec 2013	Dec 2014	Dec 2015	Dec 2016
NPL ratio	33.7%	26.5%	19.9%	13.9%
NPL coverage ratio	40.6%	51.0%	44.9%	36.6%
Cost of risk	5.8%	2.4%	2.3%	-0.5%

Legal Disputes

On December 2016, the Bank had nineteen outstanding litigations.

The internal Policy for “Operating Rules for Accounting for Provisions on Contingent Liability and Contingent Assets” approved by Board of Directors on July 2014 outlines the rules for establishment of provision on litigations as well as the actors involved in the process.

Based on the above policy, provisions have been duly recognized when present obligation have been evidenced or when a probable outflow of resources has been estimated to settle the probable obligation.

Forward looking statement

In line with 2016 results and following the strategic guidelines set Business Plan, we are confident that the Bank is poised for following its key strategic guidelines in 2017:

Commercial activity: robust growth

- Diversification of lending portfolio by proactively targeting low to mid-size Business customers, main focus on lending to well-known and profitable customers.
- Enhance non-cash financing products and offer tailored products to existing and new clients aiming to increase the transaction banking volumes
- Enhance growth enablers and explore opportunities through investments in Credit

Cards Business, Assets Under Management, Leasing, etc.

Revenues: Maintain a sustainable level of profitability through quality growth

We recognized that stable growth in commercial activities remains the main source for offsetting the negative impact in net interest income as a result of unfavorable interest rates environment. Further enhancing the asset liability management is becoming crucial for facing the stiff competition and adverse money market conditions.

Improve Credit quality: maintain high quality of future origination

We will continue to keep at minimum level the NPL inflow through Early Warning System and maintaining sound credit risk practices in place. We expect further reduction of NPL by tackling big NPL exposures through detailed action plans.

Operating Cost (Efficiency)

We aim at maintaining a strong control over costs through enhancement of cost monitoring processes and obtain cost reduction through attaining economies of scale and improving the expenditure process.

Enhance Human Resources

The Bank is committed to invest in human resources so that to expand training for strengthening sales and customer service quality as well as fine tuning incentive schemes (performance based) to promote sales.

The background of the page is a painting of a harbor scene. It depicts numerous boats of various sizes, including galleons and smaller vessels, on a body of water. People are visible on the boats, some appearing to be engaged in maritime activities. The scene is set in a harbor with buildings and structures visible in the background. The overall tone is historical and detailed.

Statement on Compliance
with Corporate
Governance Code

Statement on compliance with Corporate Governance Code

Shareholders Structure of the Intesa Sanpaolo Bank Albania Sh.a

Bank's Shareholders as of 31 December 2016		
Structure by owner type	Share All/1.000 (*)	Stake %
Intesa Sanpaolo S.p.A.	5,562,517	100

(*) Share ALL is a value of the held shares of Intesa Sanpaolo Bank Albania Sh.a, expressed in the nominal value of ALL multiplied by number of the shares held.

Statutory Bodies of the Bank

According to Article 15 of the "Statute", the Statutory Bodies of Intesa Sanpaolo Bank Albania Sh.a are as follows:

- General Shareholders' Assembly;
- Board of Directors;
- Chief Executive Officer;
- Audit Committee.

General Shareholders' Assembly

Except for the cases when it is otherwise provided by the Law no. 9901, dated 14/4/2008 "On Entrepreneurs and Commercial Companies", the rights of the shareholders for the issues related to the activities and operation of the Bank are exercised through the General Shareholders' Assembly.

The General Shareholders' Assembly is Ordinary or Extraordinary in accordance with the Law and "Statute" of the Bank.

Among others, the "Ordinary Assembly" takes decisions on the definition of Business Strategies, appointment and dismissal of Board of Directors members, Audit Committee members and external auditors. Whereas the "Extraordinary Assembly" takes decisions on Statute amendment, increase or decrease of the registered capital, reorganization of the Bank (merger or division), Bank's dissolution (liquidation in solvency) and distribution of annual profits.

General Shareholders Assembly takes its decisions with simple or qualified majority in accordance with the "Statute" of the Bank.

Board of Directors

The Board of Directors is composed of an odd number of individuals, not less than five and not more than nine members. Its members are appointed by the General Shareholders' Assembly for a mandate of no longer than four years with the right to re-election for the same mandate without limitation.

The Board of Directors is a decision-making and supervisory body and, among others, decides on: the election of the Chairman and Deputy Chairman of the Board of Directors; appointment and dismissal of the Chief Executive Officer; approval of the governance and business strategies of the Bank; organizational, administrative and operational structure and activities; Bank management related issues.

The Board of Directors meetings are held at least four times a year. Meetings may be validly held also by the use of remote connection systems through different means of communication, including electronic ones.

The members of the Board of Directors in 2016 are as follows:

Vojko Čok - Chairman

Chairman of the Board of Directors
Independent Member

Paolo Genovese

Independent Member

Marco Santini

Head of Corporate Banking, International Subsidiary Banks Division, Intesa Sanpaolo, Italy

Salvatore Catalano

Independent Member

Elena Breno

Head of Business Planning, Market Analysis and Country Advisory, International Subsidiary Banks Division, Intesa Sanpaolo, Italy

Silvio Pedrazzi

Chief Executive Officer

Ilir Panda

Independent Member

Chief Executive Officer

The activity of the Bank is directed and organized on continuous basis by the Chief Executive Officer (CEO).

The Chief Executive Officer is responsible for the management of the Bank within the limits of the powers granted by the Board of Directors and "Statute" of the Bank who has the right to submit the proposals to the Board of Directors and to the Committees set up by the Board of Directors and ensures the enforcement of the decisions of the Board of Directors and General Shareholders' Assembly.

Mr. Silvio Pedrazzi is the Chief Executive Officer of the Bank.

Audit Committee

The Bank has an Audit Committee composed of three members appointed by General Shareholders' Assembly for a 4-year period, with the right to re-election. The Audit Committee reports to the Board of Directors and supports the latter in the decision-making and supervision process of the Bank.

The Audit Committee conducts its supervisory and controlling activities based on the "Statute" of the Bank and the local Laws and legislation.

Relations between the Bank and its Shareholders

The Bank observes the provisions of the Law no. 9901, dated 14/04/2008 "On Entrepreneurs and Commercial Companies" and other relevant valid legislation applicable for the protection of Shareholders' rights, as well as the regulation on timely provision of all the relevant information on the company and provisions on convening and conducting its Shareholders' Assembly meetings.

The Bank applies the principle of shareholders rights, equal access to information for all shareholders and other relevant principles pursuant to the Code of Ethics and Code of Conduct.

Corporate
Social Responsibility
2016



CORPORATE SOCIAL RESPONSIBILITY 2016

Intesa Sanpaolo Bank Albania joins Intesa Sanpaolo Group efforts to provide qualitative banking and financial services to its customers and activates ways to promote development in all the areas in which the bank operates. Our commitment is the continuous improvement of relationships with all the actors interacting with our Bank; the society and all our stakeholders; our employees, our customers, our suppliers, our shareholders and our environment. We pay special focus to the community where the bank operates, believing that building strong relations of confidence and trust, will further facilitate and improve our growth toward future economic challenges. We promote a style of growth that focuses on sustainable results and the creation of a process based on the trust deriving from customer and shareholder satisfaction, a sense of belonging on the part of our employees and close monitoring of the needs of the community and the local area. We take responsibility for prudent savings management, we commit to expanding access to credit and financial instruments to everyone, and we support sustainable development of the entrepreneurial system, aware that our decisions have a significant direct and indirect impact on the natural environment and on the community. In providing its best services to all parties the bank is guided by the Code of Ethics, which is a governance tool, and part of the wider vision of the bank's social and environmental responsibility and attributes primary importance to our relations with our stakeholders. We consider the Code of Ethics as our constitutional charter, a governance tool containing voluntary commitments, beyond those required by Legislative rules in order to merit the trust of our stakeholders. From constructive dialogue with our stakeholders springs a process that activates a circle of continuous improvement, through listening to requests and balancing them with respect to company strategy.

RELATIONSHIP WITH CUSTOMERS

In a challenging environment we confirm our strong attention to Customer Experience and Satisfaction topics by listening to Banks' customers and enhancing the quality of their experience across the different channels. During 2016 we

have run and followed two streams of surveys related the Customer Experience measurements:

- **Ad hoc surveys to get fast and reliable information on specific topics leveraging the internal sources.** 'New acquired' consumers and 'New Mobile' users were surveyed about their sentiments towards the bank service. Results are addressed to 2 categories: 'Sentiments towards customer service' and 'Understanding the customer opinions and needs'. The studies referred to data collected over period Jan-June 2016. The pool of interviewers was composed from 6.300 new clients and 1.940 New Mobile users. The validation of internal findings from insight data analysis with tailored customer surveys allowed us to optimize the experience of individual customers, leading to direct enhancements in satisfaction, loyalty and revenues.
- **Survey carried out in cooperation with the ISBD for examining Customer Experience in relation to channels.** The participants in the survey included over 1.500 banking customers from segments: SB, Magnifica and Mass. The quality of the interaction by the different touch points must be carefully and effectively monitored by the Bank, as it could ultimately **make difference between failure and success**. The survey looked at:
 - **Usage** of different channels by customers: these are all touch points which will influence, ultimately, main customer experiences.
 - **The relative happiness** of the customers with the service they received in each of these channels. It demonstrates the client's perception during those 'moments of truth' when the customer needs a response from the bank that is speedy, simply and effective.
 - **To complete the survey**, customers were quizzed about their likely banking habits in terms of preferred channels.
 - Finally, the participants were asked **how likely they were to recommend the bank**.

ISP Albania customers have more confidence with a “human touch” than a digital one: the branch - with face-to-face approach – is still the preferred channel of communication with the bank. Digital collaboration (“anytime, anywhere, any device”) stays unexplored for most of customers but opportunities are wide according to Albanians levels usage of internet (2015 – 63,3%*) and mobile cellular subscriptions (2015 – 106,4%). While the e-channel clients preferences could consider low (5%), its relation with ‘Magnifica’ clients drive us to consider the e-channel investment in our plans. The top reasons cited by clients for switching to another Bank are almost communications-related. We have already started working with e-channels and are constantly working for growth and improving their digitalization and offered functionalities. For mentioning is ATM as a channel, its noted not a fairly alignment between channel usage and preferences. We realized that ATM deserve a special attention as a lower satisfaction level is recorded for ATM channel, that is something expected from the Bank as results some urgent actions are undertaken and some others are in pipeline in terms of old ATM replace as well as the ATM network expand.

- **The value based segmentation approach in Small-Business.** Over 2016 the new ISBD standard Value-based Segmentation has been implemented in Small Business customer base. Segmenting customer base using an approach based on the value of the client (actual and potential) enables bank to differentiate the value proposition and service level among high and low value customers: it drives down the cost to serve by enabling a closer match of branch resources with the needs of the highest value segment and enhances at the same time customer satisfaction, by addressing customers’ requirements more accurately in the branch. The expected business value of this approach is to save the Relationship Managers’ time. Another important aspect of the project is that it enables to identify new customers and ‘nurture’ the relationship from the very beginning. On several occasions, when predicting value, it was observed how much the initial period of the relationship is important and how much more likely the business can grow when a customer is relatively new to the Bank. The first results

show that, thanks to the introduction of the Value-based Segmentation, the Small Business network is now more focused on high value clients (‘Invest’ and ‘Develop’ sub segments): in fact, with reference to those clients, the whole number of contacts, meetings in branch and volume of new products sold have increased.

- Confirming the **significance that ISP Albania gives to Corporate and SME customers** as a strong potential for the bank, during 2016 a new structure is created within the Corporate and SME Division - “CRM and Network Support”. This structure’s objective is to contribute in the intensification of Corporate and SME’ customers’ relationship with the bank, with final purpose to better meet business’ needs and improve consequently customer’s satisfaction. Maintaining existing customer relationships is just as important for the bank as acquiring new customers. This is why we give importance and analyse data from each interaction with Corporate & SME customers, in order to support Relationship Mangers to anticipate customers’ necessities and provide personalized service, building so a loyal customer base for the bank. Through our CRM system, we monitor the overall health of the customers’ business, which enables us to create accurate forecasts, monitor proactively developments, and allocate properly resources, to improve service toward our Corporate & SME customers. Identification of the key phenomena of these customers’ segments, drive to the improvement of penetration and usage of transaction banking products, leading to high clients activity rate and contribution to the bank’s revenues.
- In **terms of technology** improvements the Bank launched another project during the year for enhancing the integration of e-channels with ‘Customer Interaction’ application. Mobile Banking Service penetration has reached in a short period of time very good figures: 5% for Consumers; 14% for SB. Mobile Banking users are active in terms of service usage, making this channel very attractive for running marketing campaigns. The bank has already started to benefit from the usage of the e-channel through the launch of marketing campaigns in these channels and collection the clients

interest in CRM application (Lead generation). With the purpose of enhancing the services provided through Internet and Mobile Banking the Bank is working for:

- Implementation of Product catalogue on Internet and Mobile Banking: The idea is to introduce the Banks products information to clients and collecting their interest on our products straight away, simple by clicking on the button "Contact me" through the channel that the client is interacting with the Bank, in such case a 'lead' is generated.

- Implementation of a new feature that enables **filling of Permission Marketing Questionnaires** in Internet and Mobile banking platform.

- Book Meeting with RM: Since all customers have assigned Relationship Manager, this one-to-one connection enables the direct scheduling of meetings among customer and Relationship Manager over Internet or Mobile banking application in order to facilitate Omni-channel approach.

RELATIONSHIP WITH EMPLOYEES

Through the years Intesa Sanpaolo Bank Albania sh.a. considers Employees as the pulse of the corporate who cope daily the business activities and the innovation. They are a crucial resource for the growth of the bank by displaying the common Group ethical values, providing customers with the best products and services in the market and succeeding in goals assigned in support of the company's strategic objectives in terms of social, economic and commercial value generation. The bank on its part manages the business and inspires the employees.

The **enhancement of bank employees and the establishment of the sense of belonging** has been the approach of HR strategies during year 2016 in order to find ways of **motivation and retention, enrichment of professional skills and competences by continuing to invest in trainings**. We deem that growing and expanding knowledge and skills are additional values and goals indispensable to the achievement of our business approach. With that intent the employees are faced with new professional challenges and

are offered more complex positions.

Among various professional trainings and courses organized for the employees internally and/or in cooperation with ISBD or local providers we may recap:

- "Proactive Relationship" - Joint Tellers;
- "Developing Sales Skills - Approaching Women in Business" – Branch Managers, Small Business Relationship Managers & Agro Relationship Managers;
- "Insurance Intermediary" with target the Branch Managers whom have received the license for agent in Non Life;
- "Common Reporting Standard - FATCA" – for all Branch staff;
- "Security Issues training" – all Branch staff;
- Trainings through MyLearning platform for promoting Commercial campaigns, banks' new products, strengthen regulatory requirement on Deposit Insurance Agency, increasing awareness on IT Security and Anti Money Laundering.

Leadership development is an essential issue of the HR strategy. For our Managers we invest in ways which intend at leadership skills growth and strengthening, from the point of view of bringing more sense of visionary, coaching, affiliation, and being the leaders of innovation.

An important initiative was the *Managerial Assessment* which had the aim of helping our middle managers to reflect and focus on the key points for their own growth and development related to the managerial competencies used by the Group. A modular development plan customized for each competence was provided to our managers for their own development to reinforce the areas of improvement (1-2 competences) identified for each competence.

Another important development initiative was the 360 Excellence, organized at Group level focused on the Executive Directors. This engagement aimed in raising the awareness of the effectiveness of the managerial action that drives better business results; providing the managers with a concrete tool for their personal and professional development based on the feedback received, supporting and fostering the cultural change built on common managerial model and values.

In the context of **encouraging and respecting the human rights** of persons with disabilities and their complete inclusion and participation in society, as well as in the framework of Corporate Social Responsibility and in the framework of the positive experience of the training held in the previous year, the HR department of the bank in cooperation with the Albanian Disability Rights Foundation reorganized during the month of June 2016 a training involving about 45 colleagues from our branches staff in Elbasan, Shkodra and Vlora.

The bank is involved also in promoting **mobility of the employees within the internal and/or group structures by using the internal & Group job opportunities**. This process offered professional opportunity to employees who have expressed interest and motivation to undertake a growth path and who have the characteristics meeting the position offered.

The bank acknowledges the employees work & dedication and they feel motivated for adding value day-to-day. Even during year 2016 the bank was engaged in the **performance appraisal** of employees with the same transparency and impartiality by recognizing and rewarding the employees performance and achievement. Over again the bank esteemed highly the best performers of year 2016 by the awarding ceremony at the end of the year corporate event.

The ongoing progress of the **Climate Survey Action Plan** pursued to improve issues related to the Adequate Environment, Contribution to Innovation, Clarity of Roles, Improvement of work-life balance and Appreciation of Merit. In terms of protecting employee's **health and safety at work** and at the same time of all the stakeholders in the working bank premises, the bank has especially evaluated and conducted the new redesign, refurbishment of offices and a particular attention was given to improvement of factors related to microclimate, lighting and noise of new workplaces.

The initiative of the CEO of the bank **"Open Talk Session"** that was organized in June 2016 continued with a presentation prepared by HR & Organization department regarding the new organizational structure changes. At this event

to all participants was explained shortly the new structure, the main reasons that brought these changes-making the structure more compatible with the Bank strategy, focused specifically on the business enabling an increased specialization of several functions.

RELATIONSHIP WITH SHAREHOLDERS

The Bank has established a specific relation with its shareholders, based on transparency and full mutual trust. We act in such a way that the value of all shareholders' capital invested in Intesa Sanpaolo Bank Albania is protected and increased in a sustainable manner. Intesa Sanpaolo Bank Albania believes that the Shareholders' Meetings represent a good opportunity to establish a successful dialogue, in compliance with the principle of fair information and regulations regarding price-sensitive information.

It invests in enhancing this trust with information flow through different communication channels as: the publication of the financial statements after each semester, annual reports and press releases in the Bank's website, keeping the continuous correspondence and organizing frequent meetings with the Shareholders Assemblies in writing or in their physical presence.

All the financial communications of Intesa Sanpaolo Bank Albania, as well as those submitted to the Supervisory and Control Authorities, both domestic and international, are based on the transparency, thoroughness and timeliness of the information, as well as on full respect for the law and the self-governance codes adopted. The Bank's capacity to generate constant growth in profitability is also determined by high liquidity, the further improvement of the capital base, the reduction of operating costs, rigorous and prudent provisioning policy as well as the continuous and careful crediting to support the economy.

The creation of sustainable values brings the qualitative improvement of a long lasting relationship between the bank and its shareholder, in which the bank invests day by day, rigorously with efficiency and transparency.

THINKING “ENVIRONMENT FRIENDLY!”

Remodeling of Main Branch and Head Office premises: From 1st of December 2016 the clients of Intesa Sanpaolo have performed their banking operations in new and very modern premises of the Main Branch. At the same time, highly functional new working spaces were enabled for all employees working in Head Office. The project of remodeling of Headquarters and Main Branch, began implementation in November 2015, was finalized in December 2016 and will continue further with the remodeling of branch located at Rr. Barrikadave. The new branch model is a new way of the perception of the Bank, making people feel “at home”, focusing on new connections, welcoming customers by providing also proper consulting. This model is based on the idea that the branch is open to dialogue, meetings, and communications according the customer needs, driven by the desire to modernize the relationship with customers. Premises at Headquarters were remodeled with a contemporary design, with industrial ceiling which enables increasing height and providing more air and space. LED lighting and air conditioning system were completely renovated and offer the possibility of changing the temperature controls in each room; there are systems that enable energy savings. In this project, Intesa Sanpaolo Bank Albania has respected the rules and principles of environmental protection, under the concept of thinking “Environment friendly”!

World Environment Day! GO WILD FOR LIFE-ZERO TOLERANCE FOR THE ILLEGAL WILDLIFE TRADE: (WED) is the United Nations’ most important day for encouraging worldwide awareness and action for the protection of our environment. Intesa Sanpaolo Bank Albania as every year promotes this special day! Target audiences involved were all employees of the Bank and the customers that use ISBA ATMs. The activities aim was to increase awareness among colleagues for the world environment day through some interesting materials, facts and curiosities on the wild life, a postcard and email footer. The postcard was also placed in our ATM network for increasing awareness of our customers.

Finance renewable energy project – Green loans: The agreement of Intesa Sanpaolo Bank with IFC that was matured on June 2016, enabled the Bank that based on training and know-how gained, to continue to grant “Green Loans”, using its own capacities. During 2016, the bank has approved 5 new projects (2 of which are already formalized) for the construction of the Hydro-Power Plants with a total installed power of 54 MW. Bank’s financing is about Euro 26 mio. (49%).

RESPONSIBLE MANAGEMENT OF THE SUPPLY CHAIN

Intesa Sanpaolo Bank Albania criteria on supplier and technology selection are part of the process to have a better environment and energy efficiency equipment. The Bank is now part of the Procurement Centralization by applying the ISP Group standards; the project also proposes greater awareness of social and environmental responsibility issue. Tenders are regularly published in the bank’s website. This is a transparent process enabling all the interested suppliers to be part of the cooperation with the Bank. Furthermore, the local appendix of Procurement Manual, Corporate Social Responsibility of Suppliers, is an additional request for promoting to the suppliers social and environmental responsibility. As a best practice we can mention the tender related to the Stationeries supplies, where the participants were invited to fill in a Social Responsibility questionnaire. Also to the suppliers has been requested to submit also a certification of origin for the products used. As per documents provided by the current stationery supplier based on the info provided by manufactures, the goods were in compliance with ISO standards: 9001 (Quality management) & 14001 (environmental management system). In addition from the information gathered results that the paper A4 used for printing is produced in line with responsible forest management.

CONTRIBUTIONS TO THE COMMUNITY

We the People for the Global Goals! During 2016 Intesa Sanpaolo Bank Albania aimed at raising awareness of all on the Sustainable Development Goals (SDG). Some of the most important activities organized during the year according to these objectives were:

GOAL 1 NO POVERTY

International day of Charity - 5th of September:

On this day, the colleagues of Fier Branch (SDG#1- No poverty) visited a family in very difficult financial and economic conditions and donated voluntarily clothes and food packages for them.

For the End of Year: Colleagues of Intesa Sanpaolo Bank answered voluntarily to the call for help regarding two girls with disabilities living in very difficult financial conditions. Packages containing detergents and basic foods were prepared and delivered to them during the last days of the year.

On 1st of June: Intesa Sanpaolo employees in two Branches of Tirana, TEG and HoxhaTahsim, collected clothing for the orphan children.

GOAL 2 ZERO HUNGER

On the 1st of June: Colleagues of Compliance and Anti Money Laundering Department collected food packages for the persons with disabilities in financial difficulties, in collaboration with Red Cross Albania.

GOAL 3 GOOD HEALTH AND WELL- BEING

Blood Donation: Donate Blood, save a life!:

For the seventh consecutive year ISBA colleagues donated blood in two periods during the 2016, in May and in November, in collaboration with Albanian Blood Donors Association. The initiative occurred during the working hours in two special areas within the Bank premises (adopted for such initiative in the specific days). 50 donations are made from Bank's employees. The donated blood is used mostly (70-80% of cases) for helping Albanian children suffering from Thalassemia.

Breast Cancer Awareness Campaign: Intesa Sanpaolo Bank Albania joined the awareness campaign of YWCA Albania for the Breast Cancer, delivering information to all the colleagues for increasing the attention dedicated toward periodical controls in order to save life! This activity was followed from several posts in the Bank social pages in Facebook and LinkedIn and a dedicated "cover" photo was active for one week.

Charity Event Run4Children!: Intesa Sanpaolo Bank Albania joined the "Run for Children 2016" event organized by MRDC & Vodafone Foundation on December 4th 2016. The funds collected by

this activity will be used for the medical treatment for children fighting cancer! Many colleagues responded through direct contribution in cash without participating at the race while some other colleagues participated in the run. One of our colleagues, won the medal of the second place at this event. Also one other colleague was listed as the seventh at the 10K run!

World No-Tobacco Day-31st of May!: On this specific day the Bank employees in the Branches of Gjirokastra, Lushnja and Hoxha Tahsim avoided smoking during the whole day for raising awareness on the damages than the smoke can cause to everybody's health.

GOAL 4 QUALITY EDUCATION

Volunteer mentoring: In collaboration with Junior Achievement Albania, Intesa Sanpaolo Bank Albania during 2016 organized for the second consecutive year the "volunteer mentoring", addressed to all the colleagues with distinguished lecturer and eloquent skills, for being volunteer mentors in Albanian high schools (class 11 and 12) offering their practical skills from business field in educating entrepreneurial learning for young people. During the year 2016, in the fair of the young students entrepreneurs, the team mentored from ISBA won the price "The Best Business Plan".

Leader for 1 day!: Intesa San Paolo Bank sponsored the "Leader for a Day" ceremony for the fourth year in a row. Stakeholders of JA also include the Ministry of Education and Sports and Ministry of Social Welfare and Youth. In the event "Leader for a Day" forty-five new high school graduates experienced a unique day by attending a typical day of work with executives and dignitaries in the public sector as well as with prominent representatives of the business community in Albania.

Theory into practice!

During 2016 were organized two meetings with student groups from Albanian Universities, welcomed in Intesa Sanpaolo Bank premises for two different themes: "Financial Statements and respective analysis", organised by the colleagues of CFO Division, for the students of "Luarasi" University, and "Internal Audit and future challenges" organised in Intesa Sanpaolo Bank Albania training premises in Lapraka, with the

students of “New York” University, for the main challenges of Internal Audit structure and its function.

International Mother Language day-21st of February!: On this day, the colleagues of the Branch at Vlora S.Zotaj, together with some clients, with the slogan: “Donate a book - donate knowledge-donate love!” delivered books for the children of the State Orphanage in Vlora.

International Literacy Day - 8th of September!: the colleagues of Intesa Sanpaolo Bank, the Branch Blv Zogu I, donated books for ROMA Children in collaboration with “Shkej” association.

Feast of our Lady of Good Council – 26.04.2016: Intesa Sanpaolo Bank supported the Catholic University NSBC to organize its yearly Ceremony as a great opportunity to network between students, stakeholders and strategic partners.

GOAL 5 GENDER EQUALITY

International Day for the Elimination of Violence against Women- 25th of November!:

Our Bank supported the International day for Elimination of Violence against Women through increasing awareness for this day by delivering to all the employees a postcard with key facts about the women in Albania that experienced violence, stating the fact that violence against women and girls is not inevitable. Prevention of violence is possible and essential. Also in all the ATMs network is delivered a postcard with the UN slogan: Orange the World!

Participation in the EBRD Program “Woman in Business”

ISBA signed an agreement with EBRD, for participating in one of the top strategic priority program of EBRD, becoming a Partner Financial Institution (“PFI”) on the Western Balkans Women in Business Program, which was created for the purpose of supporting Women in Business Micro, Small and Medium-sized Enterprises in the Western Balkans. Although the limited amount of the loan - EUR 2 million, this operation would have an important impact at local level, furthermore it offer a positive prospective for empowerment of young women.

GOAL 8 DECENT WORK AND ECONOMIC GROWTH

Job Fairs: Intesa Sanpaolo Bank Albania participated at several job fairs organised during the year 2016. To be mentioned is the “Career Fair” organised in 26th of April by the non-public university Epoka and also the Job and Career Fair organised in Tirana European University, where the Bank collected CV of the best students, delivered its contacts and provided to a great number of interested students the way how to apply for internship practices or employment at ISBA.

Preferential terms for TAP Project Affected People:

INTESA SANPAOLO BANK performs the financial transaction related to the LEA (Land Easement and Acquisition) process implementation for one of the most important investments in Albania, Trans-Adriatic Pipeline (TAP) Project. Taking into consideration that most of this people living in the villages that will be affected from the TAP Project, are in financial difficulties, ISBA prepared a package of basic bank’ products and services with Preferential terms, to be applied to this category of customers.

Enhance financing on Agribusinesses sectors:

ISBA pays a special focus toward Agribusiness. Our bank is one the Banks selected from EBRD and Government of Albania that signed with EBRD the memorandum of understanding for Risk Sharing facility in Agribusiness. According to this agreement, EBRD will take the risk for agribusiness loans from 50% to 70% of losses incurred. The EBRD and Albanian Government will aim to provide in aggregate up to 100 million Euro in financing and risk sharing instrument to support Financial institutions in expanding their lending to the agribusiness sector in Albania. The agribusiness customer’s part of this program can benefit also advisory services.

To Intesa Sanpaolo Bank Albania was granted an award from the Albanian Labor Inspectorate, Ministry of Social Welfare and Youth for: **“Creation, organization and correct functioning of the Council for Safe and Health at work”**. The event was organized from the Ministry of Social Welfare and Youth with the participation of different representatives of all businesses in Albania. In this ceremony, inspired by the slogan: “Decent work, guaranteed success”, 11 prizes were delivered for

the most successful businesses in the country for the year 2016 with regards to fulfillment of labor standards and health and safety at work.

GOAL 10 REDUCED INEQUALITIES

Encouraging and respecting the human rights of persons with disabilities: ISBA encourages the respect for human rights of people with disabilities and their full inclusion and participation in society. In this context, in cooperation with the Albanian Disability Rights Foundation was organised a training involving many colleagues from our Branches. It was discussed about the ethics, communication and interaction with persons with disabilities and were given basic notions of law with regard to work, employment and the Law on Protection from Discrimination. We have to emphasize the fact that our Bank is the first nonpublic institution in Albania organizing such training.

GOAL 11 SUSTAINABLE CITIES AND COMMUNITIES

GALA ITALIA – 16 July 2016: The Bank supported the Consulate General of Italy in Vlova in organizing the cultural activities including the fourth edition of their annual Gala Event at the Marina Oricum, Italian marina on the outskirts of the city, to promote Italian culture told through fashion and music.

A new tradition in a 2400 years old city: Intesa Sanpaolo Bank Albania supported also during 2016 the Multicultural Festival of Berat participating with its stand at the “Book, Agro & Artisanal Fair” held during all the three days of the Festival in “Bulevardi Republika” in Berat.

The Bank sponsored the **Municipality of Korca for the creation of city map project**, and supported the Italian Consulate of Vlova for organizing the event “Festa della Republica”.

GOAL 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Sponsorship for the event “Justice Reform”: Intesa Sanpaolo Bank supported the conference “Justice Reform, a key pre-condition for boosting and attracting foreign investments in Albania”, organized by FIAA in Cooperation with the Delegation of European Union in Albania. Justice Reform approval in Albania is considered by the foreign Investors as one the most crucial conditions which would ensure sustainability of their investments in the country.

Audited Financial Statements



INTESA SANPAOLO BANK ALBANIA SH.A.

**Financial Statements as at
31 December 2016**

(with independent auditors' report thereon)

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Independent Auditors' Report

To the Shareholders of Intesa Sanpaolo Albania Sh.a

Opinion

We have audited the financial statements of Intesa Sanpaolo Albania Sh.a ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and with Institute of Authorized Chartered Auditors of Albania Code of Ethics (IEKA Code), together with the ethical requirements of the Law No. 10091, dated 5 March 2009 "On the statutory audit and the organization of the statutory auditors and chartered accountants professions", amended that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and IEKA Code.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report prepared by management in accordance with Article 53 of the Law. No. 9662, dated 18 December 2006 "On banks in the Republic of Albania", amended, but does not include the financial statements and our auditors' report thereon. The annual



report is expected to be made available to us after the date of this auditors' 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 IFRS 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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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 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.

Fatos Beqja
Statutory Auditor

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Tirana, Albania

Tirana, 3 February 2017

Financial Statements 2016

Intesa Sanpaolo Bank Albania Sh.a.

Statement of financial position

As at 31 December 2016*(in thousands of Lek)*

	Notes	2016	2015
Assets			
Cash and cash equivalents	7	27,269,197	16,341,358
Loans and advances to banks	8	17,106,968	23,902,937
Financial investments available for sale	9	7,251,448	4,457,428
Financial investments held to maturity	10	50,729,433	51,863,186
Loans and advances to customers	11	42,542,151	40,627,846
Property and equipment	12	1,172,243	1,202,269
Intangible assets	13	591,902	590,563
Deferred tax assets	17	82,092	82,103
Current tax assets		282,007	282,007
Inventory and other assets	14	2,500,378	2,077,698
Total Assets		149,527,819	141,427,395
Liabilities			
Due to banks	15	2,885,233	1,953,032
Due to customers	16	125,974,220	118,842,126
Current tax liabilities		25,259	110,676
Deferred tax liabilities	17	290	46
Provisions	18	350,379	379,808
Other liabilities	19	786,564	709,127
Total Liabilities		130,021,945	121,994,815
Equity			
Share capital	20	5,562,518	5,562,518
Share premium	20	1,383,880	1,383,880
Legal and regulatory reserves	21	1,825,623	1,825,623
Other reserve	22	1,643	259
Other comprehensive items	22	714,555	714,555
Retained earnings		10,017,655	9,945,745
Total Equity		19,505,874	19,432,580
Total Liabilities and Equity		149,527,819	141,427,395

The notes on pages 6 to 58 are an integral part of these financial statements.

Financial Statements 2016

Intesa Sanpaolo Bank Albania Sh.a.**Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2016***(in thousands of Lek)*

	Notes	2016	2015
Interest income		4,825,966	5,704,319
Interest expense		(817,350)	(1,158,593)
Net interest income	23	4,008,616	4,545,726
Fee and commission income		910,143	953,522
Fee and commission expense		(204,494)	(169,550)
Net fee and commission income	24	705,649	783,972
Net other income	25	366,342	569,073
Other operating expenses, net	26	(278,023)	(243,911)
Operating income		4,802,584	5,654,860
Net impairment reversal/(loss) on financial assets	11	398,713	(637,533)
Net impairment loss on off-balance sheet	18	(12,533)	(18,369)
Write down of inventory	14	(293,553)	(167,221)
Personnel expenses	27	(1,048,209)	(1,069,290)
Operating lease expenses	31	(164,626)	(173,946)
Depreciation and amortization	12, 13	(324,257)	(348,587)
Amortization of leasehold improvements	15	(7,751)	(8,406)
Other administration expenses	28	(614,400)	(584,238)
Provisions for risk and expenses	18	27,890	21,701
Total expenses		(2,038,726)	(2,985,889)
Net income before taxes		2,763,858	2,668,971
Income tax expense	29	(480,853)	(457,876)
Profit for the year		2,283,005	2,211,095
Other comprehensive income			
Change in fair value of available-for-sale investment securities, net of income tax		1,384	(88,233)
Other comprehensive income for the year, net of tax		1,384	(88,233)
Total comprehensive income for the year, net of tax		2,284,389	2,122,862

The notes on pages 6 to 58 are an integral part of these financial statements.

Financial Statements 2016

Intesa Sanpaolo Bank Albania Sh.a.**Statement of changes in equity
For the year ended 31 December 2015**
(in thousands of Lek)

	Share capital	Share premium	Legal and regulatory reserves	Other reserves	Other comprehensive items	Retained earnings	Total
Balance at 1 January 2015	5,562,518	1,383,880	1,744,615	88,492	714,555	9,789,567	19,283,627
Profit for the year	-	-	-	-	-	2,211,095	2,211,095
Other comprehensive income							
Net change in fair value of available-for-sale investment securities, net of tax	-	-	-	(88,233)	-	-	(88,233)
Total comprehensive income for the year	-	-	-	(88,233)	-	2,211,095	2,122,862
Transaction with owners, recorded directly in equity							
Dividends to equity holders	-	-	-	-	-	(1,973,909)	(1,973,909)
Total contributions by and distribution to owners	-	-	-	-	-	(1,973,909)	(1,973,909)
Other movements within equity							
Appropriation of retained earnings	-	-	81,008	-	-	(81,008)	-
Appropriation of retained earnings	-	-	81,008	-	-	(81,008)	-
Balance at 31 December 2015	5,562,518	1,383,880	1,825,623	259	714,555	9,945,745	19,432,580

The notes on pages 6 to 58 are an integral part of these financial statements.

Financial Statements 2016

Intesa Sanpaolo Bank Albania Sh.a.**Statement of changes in equity (continued)****For the year ended 31 December 2016***(in thousands of Lek)*

	Share capital	Share premium	Legal and regulatory reserves	Other reserves	Other comprehensive items	Retained earnings	Total
Balance at 1 January 2016	5,562,518	1,383,880	1,825,623	259	714,555	9,945,745	19,432,580
Profit for the year	-	-	-	-	-	2,283,005	2,283,005
Other comprehensive income							
Net change in fair value of available-for-sale investment securities, net of tax	-	-	-	1,384	-	-	1,384
Total comprehensive income for the year	-	-	-	1,384	-	2,283,005	2,284,389
Transaction with owners, recorded directly in equity							
Dividends to equity holders	-	-	-	-	-	(2,211,095)	(2,211,095)
Total contributions by and distribution to owners	-	-	-	-	-	(2,211,095)	(2,211,095)
Other movements within equity							
Appropriation of retained earnings	-	-	-	-	-	-	-
Appropriation of retained earnings	-	-	-	-	-	-	-
Balance at 31 December 2016	5,562,518	1,383,880	1,825,623	1,643	714,555	10,017,655	19,505,874

The notes on pages 6 to 58 are an integral part of these financial statements.

Financial Statements 2016

Intesa Sanpaolo Bank Albania Sh.a.

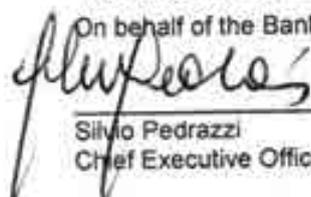
Statement of cash flows

For the year ended 31 December 2016*(in thousands of Lek)*

	2016	2015
Net profit for the year	2,283,005	2,211,095
Adjustments for:		
Depreciation and amortization	324,257	348,587
Disposal of property and equipment	56	78,754
Net impairment (reversal)/loss on loans and advances to customers	(398,713)	637,533
Write downs of inventory	293,553	167,221
Net interest income	(4,008,616)	(4,545,726)
Net impairment loss on off-balance sheet items	12,533	18,369
Tax expense	480,853	457,876
Changes in		
Loans and advances to banks	6,796,979	1,441,059
Loans and advances to customers	(1,369,956)	(555,291)
Due to banks	932,201	(3,710,107)
Due to customers	7,132,094	(2,437,549)
Inventory and other assets	(716,232)	397,605
Other liabilities and provisions	60,542	(436,805)
Interest received	4,642,223	5,196,104
Interest paid	(817,350)	(1,158,593)
Income taxes paid	(566,259)	(427,481)
Net cash from/(used) in operating activities	15,081,170	(2,317,349)
Cash flows from investing activities		
Acquisition of property and equipment	(160,978)	(120,646)
Acquisition of intangible assets	(134,648)	(146,455)
Net collections from investment securities held to maturity	1,209,172	5,574,955
Net acquisitions of investments securities available-for-sale	(2,850,815)	(554,287)
Net cash (used in)/from investing activities	(1,937,269)	4,753,567
Cash flows from financing activities		
Dividends paid	(2,211,095)	(1,973,909)
Net cash from financing activities	(2,211,095)	(1,973,909)
Net increase in cash and cash equivalents	10,932,806	462,309
Cash and cash equivalents at 1 January	16,341,358	15,890,476
Effect of exchange rate fluctuations on cash and cash equivalents held	(4,967)	(11,427)
Cash and cash equivalents at 31 December	27,269,197	16,341,358

The notes on pages 6 to 58 are an integral part of these financial statements.

On behalf of the Bank, these financial statements are signed on 3 February 2017 by:


 Silvio Pedrazzi
 Chief Executive Officer


 Julian Cela
 Chief Financial Officer

Notes to the financial statements for the year ended 31 December 2016

1. Reporting entity

Intesa Sanpaolo Bank Albania Sh.a, (the "Bank"), is a company domiciled in Albania. The Bank's registered office is at "Ismail Qemali" street, no.27, and operates through a network of 32 branches and agencies, located in different cities of Albania: Tirana, Durrës, Vlorë, Elbasan, Fier, Berat, Gjirokastra, Korça, Lushnjë, Shkoder, Lezhe, Kavajë (2015: 32 branches and agencies).

The Bank was incorporated on May 1998, and is primarily involved in banking activities in Albania. The Bank started operations on 24 September 1998.

The Bank had 578 employees as at 31 December 2016 (2015: 567).

2. Basis of accounting

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). These financial statements were authorized for issue by Management on 3 February 2017 for approval by the Board of Directors.

(b) Basis of measurement

The financial statements are prepared on the amortized or historical cost basis except for Available-for-sale financial assets, which are stated at fair value.

(c) 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.

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3. 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 translation of available-for-sale equity instruments are recognized in other comprehensive income. Foreign currency differences arising from retranslation of transactions with owners are recorded directly in equity.

(b) Interest

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 and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instruments, but no future credit losses.

The calculation of effective interest includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of profit and loss include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- Interest on available-for-sale investment securities calculated on an effective interest basis.

(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 (b)).

Other fee and commission income, including account servicing fees, investment management fees, sales commission and placement fees are recognized as the related services are performed. If a loan commitment is not expected to result in a draw-down of a loan, then the related loan commitment fees are recognized on a straight line basis over the commitment period.

Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3. Significant accounting policies (continued)

(d) Leases

The determination of whether an arrangement is a lease or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. The Bank enters into leases only as a lessee, and in this respect has entered only into operating lease agreements, payments under which are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(e) Income Tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(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. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax payable also includes any tax liability arising from the declaration of dividends.

(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.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilized. 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. Unrecognised 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.

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Additional taxes that arise from the distribution of dividends by the Bank are recognized at the same time as the liability to pay the related dividend is recognized.

(iii) Tax exposure

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such determination is made (see note (5)(d)).

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3. Significant accounting policies (continued)**(f) Financial assets and financial liabilities****(i) Recognition**

The Bank initially recognizes loans and advances, deposits and borrowings on the date on which they are originated. Regular purchases and sales of financial assets are recognized on the trade date on which the Bank commits to purchase or sell the asset. All other financial assets and liabilities 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**Financial Assets**

The Bank classifies its financial assets in one of the following categories:

- loans and receivables, subsequently measured at amortised cost;
- held-to-maturity, subsequently measured at amortised cost; or
- available-for-sale, subsequently measured at fair value.

See notes 3 (g),(h) and (i).

Financial liabilities

The Bank classifies its financial liabilities as other financial liabilities, subsequently measured at amortised cost.

See notes 3 (n) and (o).

(iii) De-recognition**Financial Assets**

The Bank derecognises 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 derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iii) De-recognition (continued)

Financial liabilities

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

(iv) 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.

(v) Amortized cost measurement

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

(vi) Fair value measurement

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

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 maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The 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 recognised 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.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

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3. Significant accounting policies (continued)**(f) Financial assets and financial liabilities (continued)****(vii) Identification and measurement of impairment**

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

Objective evidence that financial assets are impaired can include: significant financial difficulty of the borrower or issuer; default or delinquency by a borrower; restructuring of a loan or advance by the Bank because of financial difficulties experienced by the client and on terms which the Bank would not otherwise consider; indications that a borrower or issuer will enter bankruptcy; the disappearance of an active market for a security, or other nationally or locally observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group; or a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for individual impairment. Those financial assets found not to be individually impaired are then collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss. Expected cash flows from impaired loans and advances include the estimated proceeds from the realization of collateral. Proceeds from collateral are estimated by applying discounts (haircuts) to estimated market values and establishing a timeframe for collection, depending on the collateral type.

When possible the Bank seeks to restructure/renegotiate loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. If the terms of a financial asset are renegotiated or modified, or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then the asset is assessed for individual impairment. All customers with any restructured credit remain so for a period of at least 2 years from the restructuring date, independently from the payments performed pursuant to the new terms of repayments. Management continuously reviews renegotiated loans to ensure all criteria are met and to ensure future payments are likely to occur.

Impairment losses are recognized in profit or loss and are reflected in an allowance account against loans and advances or available-for-sale investment securities, if any. When an event occurring after the impairment was recognized causes the amount of impairment on loans and advances loss to decrease, the decrease in impairment loss is reversed through profit or loss.

In case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the instruments below its cost is considered in determining whether the assets are impaired. Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses previously recognized in other comprehensive income to profit or loss. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss.

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

Changes in impairment provisions attributable to the application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise any increase in fair value is recognized through other comprehensive income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognized in other comprehensive income.

(g) 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 classified as loans and receivables and carried at amortized cost in the statement of financial position.

(h) Loans and advances

'Loans and advances to banks and customers' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value and subsequently measured at amortized cost plus incremental direct transaction costs, using the effective interest method. After initial measurement, they are subsequently measured at amortized cost using effective interest rate, less allowance for impairment. The amortization is included in the interest income in profit or loss. The losses arising from impairment are recognized in profit or loss in net impairment loss on financial assets.

(i) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

(i) Held-to-maturity

'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method less any impairment losses. Any sale or reclassification of more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as Held-to-maturity for the current and following two financial years.

(ii) Available-for-sale

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition. Interest income is recognised in profit or loss using the effective interest method.

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3. Significant accounting policies (continued)**(i) Investment securities (continued)**

Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss. Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(j) Property and equipment**(i) Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized with other income in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably.

(iii) Depreciation

Depreciation is recognized in profit or loss using the straight-line method over the estimated useful life of each part of an item of property and equipment. Land and art work are not depreciated. The estimated useful live for the current and comparative periods are as follows:

	2016	2015
• Buildings	20 years	20 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

3. Significant accounting policies (continued)

(k) Intangible assets

Software, licences 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:

	2016	2015
• Software	5 years	5 years
• Licences and trademarks	10 years	10 years

(l) 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.

(m) 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.

(n) 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.

3. Significant accounting policies (continued)

(o) 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.

(p) 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.

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3. Significant accounting policies (continued)**(q) New standards and interpretation not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016. However, the Bank has not early applied the following new or amended standards in preparing these financial statements.

New or amended standards	Summary of the requirement	Possible impact on financial statements
IFRS 9 <i>Financial Instruments</i>	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances. The Bank, in liaison with Intesa Sanpaolo Group, will implement a parallel running in the beginning of 2017 and assess the potential impact.
IFRS 15 <i>Revenue from Contracts with Customers</i>	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The core principle in that framework is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 replaces existing revenue recognition guidance standard, including IAS 18 <i>Revenue</i> , IAS 11 <i>Construction Contracts</i> and IFRIC 13 <i>Customer Loyalty Programmes</i> . IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Bank's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Bank's financial statements. The timing and measurement of the Bank's revenues are not expected to change under IFRS 15 because of the nature of the Bank's operations and the types of revenues it earns.

Financial Statements 2016

3. Significant accounting policies (continued)**(q) New standards and interpretation not yet adopted (continued)**

New or amended standards	Summary of the requirement	Possible impact on financial statements
IFRS 16 Leases	<p>IFRS 16 Leases, published by the IASB in January 2016 replaces the existing IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity.</p> <p>The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.</p> <p>IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.</p>	<p>The Bank is assessing the potential impact on its financial statements resulting from application of IFRS 16. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities.</p>

Other amended standards that are not expected to have a significant impact of the Bank's financial statements are as follows:

- *Disclosure Initiative (Amendments to IAS 7);*
- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12);*
- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).;*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);*
- *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4);*
- *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration;*
- *Transfers to and from investment property (Amendments to IAS 40);*
- *Outdated exemptions for first-time adopters of IFRS are removed (Amendments to IFRS 1);*
- *Disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution (Amendments to IFRS 12);*
- *Measurement options for investments in associate or joint venture by venture capital organisations, or other qualifying entities (Amendments to IAS 28).*

4. 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, Financial Risk 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.

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).

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4. Financial Risk Management (continued)**(a) Credit Risk (continued)**

- *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 and Non- Performing exposures (including Past Due, Unlikely to Pay and Doubtful). The Bank classifies the Non-Performing portfolio by analyzing the exposures 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.

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:

	Gross Maximum Exposure	
	31 December 2016	31 December 2015
Cash and cash equivalents (excluding cash on hand)	25,968,849	15,241,271
Loans and advances to banks	17,106,968	23,902,937
Financial assets available-for-sale	7,251,448	4,457,428
Financial assets held-to-maturity	50,729,433	51,863,186
Loans and advances to customers	42,542,151	40,627,846
Sundry debtors	57,462	57,498
Total on-balance-sheet risk	143,656,311	136,150,166
Undrawn credit commitments	4,977,785	5,804,593
Letters of credit	355,827	279,391
Guarantees in favour of customers	4,664,841	5,230,505
Total credit related commitments	9,998,453	11,314,489
Total Credit Risk Exposure	153,654,764	147,464,655

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.

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4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Credit Quality by class of financial assets

The tables below show the credit quality of the financial assets exposed to credit risk, based on the Bank's internal ratings. In the Past Due classification below, loans and advances include exposures more than 90 days past due and collectively impaired (2015: 90 days). The collective impairment is allocated in accordance with the default rate of the group with similar credit risk characteristics where customers belong. The financial assets in the tables below are gross of impairment allowances for both financial years ended as at 31 December 2016 and 31 December 2015:

31 December 2016	Neither past due nor individually impaired	Past due, not individually impaired	Individually impaired	Total
Cash and cash equivalents (excluding cash on hand)	25,968,849	-	-	25,968,849
Loans and advances to banks	17,106,968	-	-	17,106,968
Commercial lending	31,954,224	365,585	4,719,307	37,039,116
Mortgage lending	5,931,119	647,781	468,523	7,047,423
Consumer lending	1,107,970	44,177	1,277	1,153,424
Loans and advances to customers:	38,993,313	1,057,543	5,189,107	45,239,963
	82,069,130	1,057,543	5,189,107	88,315,780
Listed financial institutions	5,775,300	-	-	5,775,300
Unlisted financial institutions	1,476,148	-	-	1,476,148
Financial Assets available-for-sale:	7,251,448	-	-	7,251,448
Listed companies	2,959,900	-	-	2,959,900
Government securities	47,769,533	-	-	47,769,533
Financial Assets held to maturity:	50,729,433	-	-	50,729,433
Total	140,050,011	1,057,543	5,189,107	146,296,661
31 December 2015	Neither past due nor individually impaired	Past due, not individually impaired	Individually impaired	Total
Cash and cash equivalents (excluding cash on hand)	15,241,271	-	-	15,241,271
Loans and advances to banks	23,902,937	-	-	23,902,937
Commercial lending	29,756,498	420,868	6,901,868	37,079,234
Mortgage lending	4,762,792	666,384	887,888	6,317,064
Consumer lending	1,500,214	3,082	100,407	1,603,703
Loans and advances to customers:	36,019,504	1,090,334	7,890,163	45,000,001
	75,163,712	1,090,334	7,890,163	84,144,209
Listed financial institutions	3,146,034	-	-	3,146,034
Unlisted financial institutions	1,311,394	-	-	1,311,394
Financial Assets available-for-sale:	4,457,428	-	-	4,457,428
Listed companies	3,491,625	-	-	3,491,625
Government securities	48,371,561	-	-	48,371,561
Financial Assets held to maturity:	51,863,186	-	-	51,863,186
Total	131,484,326	1,090,334	7,890,163	140,464,823

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4. Financial Risk Management (continued)**(a) Credit Risk (continued)****Credit Quality by class of financial assets (continued)**

Loans and advances to customers are the only class of financial assets resulting in non-performing categories which are not necessarily subject to individual impairment assessment. During 2016 and 2015, the Bank complied with the "Handbook on the Rules and Criteria for Classification of Credit Exposure for Consolidation Purposes" issued by the Group classifying loans and advances to customers in four main categories being a) performing; b) past due; c) unlikely to pay and d) doubtful.

Assessments for impairment are made in accordance with the ISP Individual Assessment Handbook according to which the performing category is subject to collective assessment for impairment, while the other three categories can be subject to either individual or collective assessment for impairment. A significance threshold is applied all non performing categories, based on which an individual assessment for impairment is performed for all exposures exceeding the threshold. Assessment on a portfolio basis using the statistical approach for impairment, is applied to the Past Due category not exceeding the significance threshold.

An ageing analysis of loans considered neither past due nor individually impaired as at 31 December 2016 and 2015 is shown in the tables below:

	Less than 30 days	31 to 60 days	61 to 90 days	Total
31 December 2016				
Loans and advances to customers:				
Commercial lending	31,417,303	217,310	313,855	31,948,468
Mortgage lending	1,080,203	21,414	7,259	1,108,876
Consumer lending	5,533,373	293,809	108,787	5,935,969
Total	38,030,879	532,533	429,901	38,993,313
31 December 2015				
Loans and advances to customers:				
Commercial lending	28,858,701	512,362	379,294	29,750,357
Mortgage lending	4,494,320	148,597	124,545	4,767,462
Consumer lending	1,477,841	17,593	6,251	1,501,685
Total	34,830,862	678,552	510,090	36,019,504

An ageing analysis of loans considered past due as per Bank internal policy but not individually impaired as at 31 December 2016 and 2015 is shown in the tables below:

	91 to 180 days	more than 180 days	Total
31 December 2016			
Loans and advances to customers:			
Commercial lending	6,900	358,685	365,585
Mortgage lending	146,572	501,209	647,781
Consumer lending	14,411	29,766	44,177
Total	167,883	889,660	1,057,543
31 December 2015			
Loans and advances to customers:			
Commercial lending	152,604	268,264	420,868
Mortgage lending	258,754	407,630	666,384
Consumer lending	2,331	751	3,082
Total	413,689	676,645	1,090,334

4. Financial Risk Management (continued)

(a) Credit Risk (continued)

Credit Quality by class of financial assets (continued)

Impaired loans and securities

Impaired loans and securities are the ones for which the Bank determines that it is probable that it will be unable to collect all principal and interest due, according to the contractual terms of the agreement(s). The Bank classifies loans and advances to customers in performing and non-performing categories as described above and performs impairment tests for all loans that show objective evidence for impairment, estimating their discounted future cash flows and comparing them with the respective carrying amount of the loans. Within the non-performing categories, for individually significant exposures, individual assessment for impairment is performed. While for the non-performing exposures which are not individually significant an individual assessment on a portfolio basis is applied. Loans that do not show objective evidence for individual impairment are assessed collectively for impairment using indicative information on annual default rates, loss rates and loss confirmation period compiled by the Bank for the groups of loans with similar risk characteristics. Collective impairment is also applied to the non-performing individually significant exposures for which full recovery is expected under the individual assessment approach and to the exposures which are tested individually, but resulted with no need for individual impairment.

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.

Allowances for impairment

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 losses that have been incurred, but have not been identified on loans subject to individual assessment for impairment.

The table below shows the net loans and advances to customers categorized within two main groups: Individually and Collectively Impaired.

	Net Exposure to Loans and advances to customers	
	31 December 2016	31 December 2015
Individually impaired		
Gross amount	5,189,107	7,890,163
Allowance for impairment	(2,139,442)	(3,966,066)
Carrying amount	3,049,665	3,924,097
Collectively impaired		
Gross amount	40,050,856	37,109,838
Allowance for impairment	(558,370)	(406,089)
Carrying amount	39,492,486	36,703,749
Total carrying amount on Loans and advances to customers	42,542,151	40,627,846

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4. Financial Risk Management (continued)**(a) Credit Risk (continued)****Credit Quality by class of financial assets (continued)**

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired loans by risk classification:

	Individually Impaired Loans and advances to customers	
	Gross	Net
31 December 2016		
Performing	-	-
Past Due	108,100	85,903
Unlikely to Pay	3,005,664	1,649,999
Doubtful	2,075,343	1,313,763
Total	5,189,107	3,049,665
31 December 2015		
Performing	151,705	150,398
Past Due	249,255	146,996
Unlikely to Pay	2,617,781	1,174,930
Doubtful	4,871,422	2,451,773
Total	7,890,163	3,924,097

Set out below is the carrying amount of restructured loans and advances to customers, net of impairment allowances, by product:

	31 December 2016	31 December 2015
Commercial lending	1,560,093	1,418,714
Mortgage lending	148,285	151,994
Total	1,708,378	1,570,708

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. The loan is classified as lost for regulatory reporting purpose for a period of at least 3 years. The Bank's policy is also in compliance with the amended Regulation no.62 dated 14.09.2011 "On Administration of Credit Risk for Banks and Foreign Banks Subsidiaries".

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 takes into account 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 2016 and 2015. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated every three years.

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4. Financial Risk Management (continued)**(a) Credit Risk (continued)**

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		Collateral of Loans and advances to customers	
	31 December 2016		31 December 2015	
	Undiscounted	Discounted	Undiscounted	Discounted
Against individually impaired				
Property	10,509,462	3,117,472	16,379,285	7,065,201
Debt securities	729,694	88,135	818,012	254,166
Pledges and guarantees	94,414	8,778	7,729,568	149,938
Other	-	-	54,912	-
Total	11,333,570	3,214,385	24,981,777	7,469,305
Net carrying amount		3,049,665		3,924,097

The gross amount of collaterals includes the value of collaterals before testing the individually impaired loans. The net amount shows the present value of the same collaterals under this test.

Allowances for impairment

The table below shows the total amount of collaterals for the loans assessed under the category of collectively impaired. These collaterals do not undergo the same testing procedures as the above group, hence only their gross value is presented. 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.

	Collateral of Loans and advances to customers		Collateral of Loans and advances to customers	
	31 December 2016		31 December 2015	
	Undiscounted	Discounted	Undiscounted	Discounted
Against Collectively Impaired				
Property	67,976,883	29,985,533	73,595,312	26,427,885
Pledges and guarantees	8,170,061	3,643,476	18,031,206	4,352,121
Cash	1,268,998	1,226,859	2,411,938	2,340,468
Debt securities	4,546,960	1,487,527	3,873,025	1,425,575
Other	-	-	2,622,097	-
Total	81,962,902	36,343,395	100,533,578	34,546,049
Net carrying amount		39,492,486		36,703,749

It is the Bank's policy to dispose off 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.

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. 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 of the Bank is performed. The amounts of repossessed properties are disclosed in note 14.

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4. Financial Risk Management (continued)**(a) Credit Risk (continued)**

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 2016	31 December 2015
Services	17,012,528	16,328,756
Wholesale	9,016,937	8,422,368
Construction	2,802,533	3,487,760
Manufacturing	4,501,193	3,959,989
Real Estate	113,078	150,256
Other	1,289,844	937,710
Corporate	34,736,113	33,286,839
Mortgage	6,721,178	5,851,935
Consumer	1,084,860	1,489,072
Retail	7,806,038	7,341,007
Carrying amount	42,542,151	40,627,846
Loans and advances to banks		
Concentration by sector	31 December 2016	31 December 2015
Bank	17,106,968	23,902,937
Carrying amount	17,106,968	23,902,937
Financial Investments		
Concentration by sector	31 December 2016	31 December 2015
Sovereign	55,554,462	53,263,462
Bank	1,789,549	3,057,152
Other Financial Institutions	636,870	-
Carrying amount	57,980,881	56,320,614

The credit quality of the maximum credit exposure of debt securities based on Moody's ratings, where applicable, is as follows:

Financial Investments (debt securities)		
	31 December 2016	31 December 2015
Sovereign		
Rated Aaa	-	961,469
Rate Aa1	404,876	-
Rate Baa2	6,266,433	4,238,737
Rate B1	48,883,153	48,613,729
	55,554,462	53,813,935
Financial Institutions		
Rated Aaa	2,261,888	1,671,467
Rate Baa2	164,531	835,212
	2,426,419	2,506,679
Total carrying amount	57,980,881	56,320,614

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4. Financial Risk Management (continued)**(a) Credit Risk (continued)****Concentration of Credit Risk**

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

	31 December 2016	Exposure In %	31 December 2015	Exposure In %
Republic of Albania securities	48,883,153	34%	48,613,730	36%
Balances with Bank of Albania	12,235,288	8%	11,121,210	8%
Total direct Albanian Sovereign risk	61,118,441	42%	59,734,940	44%
Largest bank	13,224,058	9%	10,079,644	7%
Largest customer	5,715,588	4%	5,989,326	4%
Total largest bank and customer	18,939,646	13%	16,068,970	11%
Total on-balance-sheet risk	80,058,087	55%	75,803,910	55%

The largest exposure toward the banks is with the Group and the largest customer is a local state-owned company.

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 honour 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 regulation "ISBA Counterparty limits for Financial Institutions" and the Central Bank of Albania regulation "On risk management arising from the large exposures of the Bank".

The Bank of Albania regulation "On risk management arising from the large exposures of Bank" was revised during 2014 and entered in force in March 2015. On 3 October 2016 the limit for large exposures, not more than 25% of Regulatory Capital, as required by BoA for Intesa Sanpaolo Group counterparty was breached at the level of 25.56% on which BoA has been informed. The breach was due to the overall increase of the cash balance with Intesa Sanpaolo Bank Milan. The Bank decreased the exposure and entered within the required limit on 4 October 2016.

4. Financial Risk Management (continued)

(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.

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.

The Bank's Regulation on Liquidity Risk Management is updated on December 2016. The new policy implements the latest regulatory provisions issued through the so-called 'Delegated Regulation' and by the Basel Committee (BCBS October 2014).

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 \geq 90%).
- **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 \geq 90%).

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.

In its Liquidity Policy, the Bank projects a 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.

A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limits established by the Central Bank of Albania, which should be above 20% for all currencies and above 15% separately for the local currency and foreign currencies. The Central Bank of Albania regulation requires that the Bank keeps 10% of its customer deposits with maturity less than 2 years as an obligatory reserve with the Central Bank.

All the above liquidity ratios are periodically monitored by the Bank with reference to the Group internal limits and guidelines and to the Central Bank of Albania requirements.

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4. Financial Risk Management (continued)**(b) Liquidity Risk (continued)**

The table enclosed shows the liquidity situation of the Bank as currently monitored by the Bank's management, based on internal local regulations and Group Liquidity Guidelines, as at 31 December 2016 and 2015. The information is not reconcilable as it is provided by management and adjusted as explained below.

It considers the undiscounted cash flows in/out of the Bank for on and off-balance-sheet financial assets and liabilities, according to contractual maturity and not reflecting any retention history assumptions or earlier repayment. It reflects assumptions of one scenario as: liquidity reserves 1st line, 2nd line and 3rd line reserve, behavioural coefficients applied for current accounts and overdrafts to customers, and drawdown percentages for off-balance-sheet categories such as committed credit lines and guarantees.

	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
31 December 2016						
Assets (Cash Flow IN)	75,259,512	20,021,699	13,299,182	35,543,560	8,191,195	152,315,148
Net Cash	1,302,925	-	-	-	-	1,302,925
Minimum reserve requirements	1,312,852	-	-	11,522,585	-	12,835,437
Advances to banks	12,457,383	-	-	-	-	12,457,383
Held-to-maturity and Available-for-sale Investment Securities – 1st line reserves	46,383,198	-	-	-	-	46,383,198
Other Held-to-maturity and Available-for-sale Investment Securities – 3rd line reserves	154,400	11,320,024	1,310,494	3,224,737	429,226	16,438,881
Loans to banks	6,070,335	6,795,073	5,628,130	-	-	18,493,538
Loans and advances to customers (gross performing loans)	7,578,419	1,906,602	6,360,558	20,796,238	7,761,969	44,403,786
31 December 2016						
Liabilities (Cash flow OUT)	(19,720,276)	(14,944,682)	(40,626,395)	(54,227,214)	(29,531)	(129,548,098)
Deposits from banks and customers- Current accounts	(11,070,674)	(5,143,480)	(11,039,376)	(45,139,051)	-	(72,392,581)
Current accounts with banks	(1,008,354)	-	-	-	-	(1,008,354)
Current accounts with customers	(10,062,320)	(5,143,480)	(11,039,376)	(45,139,051)	-	(71,384,227)
Deposits from banks	(1,886,323)	-	-	-	-	(1,886,323)
Deposits from customers - Time deposits	(6,763,279)	(9,801,202)	(29,587,019)	(9,088,163)	(29,531)	(55,269,194)
Total gap on-balance sheet	55,539,236	5,077,017	(27,327,213)	(18,683,654)	8,161,664	22,767,050
Off- Balance sheet (Cash flow in)	(250,025)	-	-	-	-	(250,025)
Off- Balance sheet (Cash flow out)	(250,025)	-	-	-	-	(250,025)
Total gap off-balance sheet						
Total gap 31 December 2016	55,289,211	5,077,017	(27,327,213)	(18,683,654)	8,161,664	22,517,025
Cumulated gap 31 December 2016	55,289,211	60,366,228	33,039,015	14,355,361	22,517,025	

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4. Financial Risk Management (continued)**(b) Liquidity Risk (continued)**

	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
31 December 2015						
Assets (Cash Flow IN)	69,684,144	19,430,671	14,006,235	32,523,841	6,730,943	142,375,834
Net Cash	1,100,646	-	-	-	-	1,100,646
Minimum reserve requirements	713,181	-	-	10,883,187	-	11,596,368
Advances to banks	8,650,220	-	-	-	-	8,650,220
Heid-to-maturity and Available-for-sale Investment	46,221,948	-	-	-	-	46,221,948
Securities – 1st line reserves	191,467	9,291,373	2,410,032	3,190,938	455,679	15,539,489
Other Heid-to-maturity and Available-for-sale Investment	5,506,941	8,223,681	5,687,110	-	-	19,417,732
Securities – 3rd line reserves						
Loans to banks						
Loans and advances to customers (gross performing loans)	7,299,741	1,915,617	5,909,093	18,449,716	6,275,264	39,849,431
31 December 2015						
Liabilities (Cash flow OUT)	(16,584,292)	(15,143,442)	(46,635,526)	(43,208,117)	(19,052)	(121,590,429)
Deposits from banks and customers- Current accounts	(8,215,239)	(4,188,979)	(8,967,493)	(36,261,877)	-	(57,633,588)
Current accounts with banks	(82,569)	-	-	-	-	(82,569)
Current accounts with customers	(8,132,670)	(4,188,979)	(8,967,493)	(36,261,877)	-	(57,551,019)
Deposits from banks	(1,870,520)	-	-	-	-	(1,870,520)
Deposits from customers- Time deposits	(6,498,533)	(10,954,463)	(37,668,033)	(6,946,240)	(19,052)	(62,086,321)
Total gap on-balance sheet	53,099,852	4,287,229	(32,629,291)	(10,684,276)	6,711,891	20,785,405
Off- Balance sheet (Cash flow in)	(264,965)	-	-	-	-	(264,965)
Off- Balance sheet (Cash flow out)	(264,965)	-	-	-	-	(264,965)
Total gap off-balance sheet	52,834,887	4,287,229	(32,629,291)	(10,684,276)	6,711,891	20,520,440
Total gap 31 December 2015	52,834,887	57,122,116	24,492,925	13,808,549	20,520,440	
Cumulated gap 31 December 2015						

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4. 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.

	1	1-3	3-12	1-5	>5	Total
	Month	Months	Months	Years	Years	
31 December 2016						
Commitments	4,977,785	-	-	-	-	4,977,785
Guarantees	5,020,668	-	-	-	-	5,020,668
31 December 2015						
Commitments	6,268,006	-	-	-	-	6,268,006
Guarantees	5,509,896	-	-	-	-	5,509,896

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 30 Commitment and contingencies)

Reconciliation between contingent liabilities and commitments maturity table and note 30 Commitment and contingencies is as follows:

	31 December 2016	31 December 2015
Commitments	4,977,785	6,268,006
Un-drawn credit facilities	4,977,785	6,268,006
Guarantees	5,020,668	5,509,896
Letters of credit	355,827	279,391
Guarantees in favor of customers	4,664,841	5,230,505

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 IAS 39 as either Held-to-maturity or Available-for-sale portfolio.

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4. Financial Risk Management (continued)**c) Market Risk (continued)****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). A detailed analysis was carried out on a one year historical data in order to confirm/establish the aforementioned limits. The local regulatory limits refer to a maximum of 20% of the regulatory capital for each open currency position and 30% for the overall open currency position.

The VaR methodology introduced in the internal procedure is based on the weighted historical simulation technique. The weights used in the model are assigned employing an exponentially declining function with a decay factor of 0.992 and the time window covers a period of 250 days, which is in line with the Group Guidelines. The 1-day, 99% VaR was Lek 1.7 million as of 31 December 2016, with an average of Lek 0.9 million during the year (December 2015: Lek 1.2 million and average Lek 0.6 million).

The effectiveness of the VaR calculations was monitored daily via backtesting by comparing the estimates of value at risk with the end of day unrealized losses. The backtesting indicates that the VaR accurately predicts the amount of unrealized daily losses. The VaR level was within the limit during 2016 and 2015, and the Stop Loss limit was within the limit during 2016 and 2015.

The Bank has been within the limits in accordance with Bank of Albania regulation during the year 2016.

Financial assets denominated in foreign currencies are disclosed in each relevant note to the financial statements.

4. Financial Risk Management (continued)

c) Market Risk (continued)

	Lek	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	1,287,913	6,025,449	18,950,440	1,005,395	27,269,197
Loans and advances to banks	4,180,116	1,194,268	11,732,584	-	17,106,968
Financial Investments Available-for-sale	725,207	1,899,092	4,099,821	527,328	7,251,448
Financial Investments Held-to-maturity	45,657,986	2,555,024	2,516,423	-	50,729,433
Loans and advances to customers	14,597,822	1,479,762	26,464,489	78	42,542,151
Property and equipment	1,172,243	-	-	-	1,172,243
Intangible assets	591,902	-	-	-	591,902
Deferred tax assets	82,092	-	-	-	82,092
Current tax assets	282,007	-	-	-	282,007
Inventory and other assets	641,761	20,311	1,838,099	207	2,500,378
Total Assets	69,219,049	13,173,906	65,601,856	1,533,008	149,527,819
Liabilities					
Due to Banks	1,927,017	917,402	25,439	15,375	2,885,233
Due to customers	47,899,374	12,231,789	64,329,802	1,513,255	125,974,220
Provisions	304,918	3,442	42,019	-	350,379
Other liabilities	635,709	10,663	139,722	470	786,564
Current tax liabilities	25,259	-	-	-	25,259
Deferred tax liabilities	290	-	-	-	290
Net Equity	19,503,941	(5,899)	1,484	6,348	19,505,874
Total Liabilities and equity	70,296,508	13,157,397	64,538,466	1,535,448	149,527,819
Net Open Position at 31 December 2016	(1,077,459)	16,509	1,063,390	(2,440)	-
Off balance sheet Assets	10,644,726	5,996,642	109,092,989	7,433	125,741,790
Off balance sheet Liabilities	10,578,557	5,966,095	109,198,396	(1,258)	125,741,790
Net Off balance sheet FX Position at 31 December 2016	66,169	30,547	(105,407)	8,691	-
Total Net FX Position at 31 December 2016	(1,011,290)	47,056	957,983	6,251	-
Balance sheet Assets as at 31 December 2015	67,682,049	12,850,117	59,553,571	1,341,658	141,427,395
Balance sheet Liabilities and equity as at 31 December 2015	69,552,544	12,698,843	57,834,868	1,341,140	141,427,395
Net Off balance sheet FX Position at 31 December 2015	(81,134)	(109,192)	189,450	876	-
Total Net FX Position at 31 December 2015	(1,951,629)	42,082	1,908,153	1,394	-

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4. Financial Risk Management (continued)**c) Market Risk (continued)****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.

i) Shift sensitivity of fair value quantifies the change in economic value of a financial portfolio resulting from adverse movements in the interest rates. The adverse movement is defined as a parallel and uniform shift of ± 100 basis points of the interest rate curve. This measure highlights the effect of the variation in market interest rates on the portfolio being measured, with the assumption of no future changes in the mix of assets and liabilities. The sensitivity of equity is calculated by revaluing the available-for-sale securities portfolio. 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 coupon rates between 0.9 - 6.9%, for USD denominated securities (2015: 1.2 - 6.9%), between 0.5 - 5.8% for EUR denominated securities (2015: 1.4 - 5.8%) and between 1.2 - 2.6% for GBP denominated securities (2015: 1 - 5.6%).

Interest rate risk generated by the Bank's assets and liabilities, as measured through shift sensitivity analysis of Fair Value analysis of ± 100 basis points, registered at the end of December 2016 a value of (ALL 710 million) (for +100 basis points) compared to the end of year 2015 (ALL 761 million). The table below shows the currency breakdown of the shift sensitivity for the year end 2016 and 2015.

The Bank's Regulation on Interest Rate Risk Management is under revision in order to fully comply with the new Group Interest Rate Risk Guideline issued on July 2015.

Shift sensitivity 31 December 2016	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	+100 b.p. / -100 b.p.	(222,369)/ 225,848	(192,000)/ 218,504	(30,369)/7,343
USD	+100 b.p. / -100 b.p.	(190,681)/ 211,274	(184,714)/ 205,247	(5,967)/ 6,027
ALL	+100 b.p. / -100 b.p.	(292,471)/ 306,044	(292,471)/ 306,044	
Other (GBP & CHF)	+100 b.p. / -100 b.p.	(4,703)/ 3,358	1,147/(1,571)	(5,849)/ 4,930

Shift sensitivity 31 December 2015	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	+100 b.p. / -100 b.p.	(291,356)/81,254	(281,490)/84,199	(9,867)/(2,945)
USD	+100 b.p. / -100 b.p.	(229,040)/255,359	(206,062)/233,459	(22,978)/21,900
ALL	+100 b.p. / -100 b.p.	(234,626)/24,6587	(234,626)/246,587	
Other (GBP & CHF)	+100 b.p. / -100 b.p.	(6,395)/7,119	1,855/(1,259)	(8,251)/8,378

ii) Shift sensitivity of the Net Interest Income 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 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 2016 a value of (Lek 112 million) (for -50 basis points).

4. Financial Risk Management (continued)

c) Market Risk (continued)

Exposure to Interest Rate risk

A different method used to measure Interest Rate risk is required by the Central 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. For the year 2016 the Bank has been within the limit with the interest rate risk exposures at 31 December 2016 being 2.7% of the Bank's regulatory capital (31 December 2015: 0.8%).

4. Financial Risk Management (continued)

c) Market Risk (continued)

Exposure to Interest Rate risk

The tables below summarize the Bank's financial assets and liabilities analysed according to repricing periods (determined as earlier as of the remaining maturity or the contractual pricing). Included in the tables are the Bank's monetary assets and liabilities with both fixed and non-fixed interest rates:

31 December 2016	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total
Assets							
Cash and cash equivalents	27,269,197	-	-	-	-	-	27,269,197
Loans and advances to banks	8,628,563	5,012,202	3,466,203	-	-	-	17,106,968
Loans and advances to customers	7,793,002	2,045,060	3,154,192	3,154,192	19,696,407	6,699,296	42,542,151
Financial investments available-for-sale	6,141	628,873	1,685,921	1,194,590	2,486,351	1,249,572	7,251,448
Financial investments held to maturity	-	3,154,075	4,828,137	21,732,172	17,553,523	3,461,526	50,729,433
Other financial assets	-	46,395	57,462	75,469	-	-	179,326
Total financial assets	43,696,903	10,886,605	13,191,915	26,156,423	39,736,281	11,410,396	145,078,523
Liabilities							
Deposits to banks	(2,885,233)	-	-	-	-	-	(2,885,233)
Due to customers	(77,304,556)	(3,159,515)	(6,381,017)	(31,461,214)	(7,667,917)	-	(125,974,219)
Other liabilities	(217,235)	(491,892)	-	-	-	-	(709,127)
Total financial liabilities	(80,407,024)	(3,651,407)	(6,381,017)	(31,461,214)	(7,667,917)	-	(129,568,579)
Interest sensitivity gap	(36,710,121)	7,235,198	6,810,898	(5,304,791)	32,068,364	11,410,396	15,509,944
31 December 2015							
Assets							
Cash and cash equivalents	16,341,358	-	-	-	-	-	16,341,358
Loans and advances to banks	12,056,374	7,003,365	4,843,198	-	-	-	23,902,937
Loans and advances to customers	7,442,333	1,953,036	3,012,260	3,012,260	18,810,111	6,397,846	40,627,846
Financial investments available-for-sale	-	-	-	142,205	3,399,744	915,479	4,457,428
Financial investments held to maturity	4,468	5,955,845	-	-	34,371,059	11,531,814	51,863,186
Other financial assets	-	57,598	57,498	96,920	-	-	212,015
Total financial assets	35,844,533	14,969,844	7,912,956	3,251,385	56,580,914	18,845,139	137,404,771
Liabilities							
Due to banks	(1,953,032)	-	-	-	-	-	(1,953,032)
Due to customers	(56,072,826)	(6,705,518)	(9,031,820)	(37,697,034)	(9,334,928)	-	(118,842,126)
Other liabilities	(217,235)	(491,892)	-	-	-	-	(709,127)
Total financial liabilities	(58,243,093)	(7,197,410)	(9,031,820)	(37,697,034)	(9,334,928)	-	(121,504,285)
Interest sensitivity gap	(22,398,560)	7,772,434	(1,118,864)	(34,445,649)	47,245,986	18,845,139	15,900,486

4. Financial Risk Management (continued)

d) 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). Market and Operational Risk Office in collaboration with the Business Owners defined internally 15 Key Risk Indicators, which have been measured and monitored for 6 months on monthly basis. Based on the statistical data of the measurement monitoring period, 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 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.

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.

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4. Financial Risk Management (continued)**e) 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 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 2016 the Bank achieved an adequacy ratio well above the minimum required which as at 31 December 2016 is calculated at 17.57% (2015: 16.58%).

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.

In March 2015 new regulation on Capital Adequacy Ratio entered into force. The new regulation is based on Basel II criteria and is in line with the European Directives for Financial Institutions. Regardless that the new regulation and the countercyclical measures increase the level of risk weighted assets the Capital Adequacy Ratio remained well above the minimum level required during 2016.

As of reporting period the bank capital levels, risk weighted assets and the capital adequacy ratio as per Bank of Albania regulations are as follows:

	Note	31 December 2016	31 December 2015
Tier 1 capital - CET1			
Share capital	20	5,562,518	5,562,518
Share premium	20	1,383,880	1,383,880
Legal and regulatory reserves	21	1,825,623	1,825,623
Regulatory retained earnings		6,419,968	4,782,718
		<u>15,191,989</u>	<u>13,554,739</u>
Deductions:			
Regulatory intangible assets		(692,374)	(718,191)
		<u>14,499,615</u>	<u>12,836,548</u>
Total qualifying Tier 1 capital			
Risk-weighted assets:			
On balance sheet		72,470,562	66,922,458
Risk assets for operational risk		10,032,850	10,485,163
Total risk-weighted assets		<u>82,503,412</u>	<u>77,407,621</u>
Tier I capital to risk-weighted asset ratio		17.57%	16.58%

5. Use of estimates and judgements

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

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

Management discusses with the Group Management the development, selection and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of material adjustment within the next financial year and critical judgments in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements are disclosed below. These disclosures supplement the commentary on financial risk management (see note 4).

(a) Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances that have been assessed individually and found not to be impaired, and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from loan portfolio (such as credit quality, levels of arrears, credit utilization, etc.) and other concentrations of risks and economic data. The impairment losses on loans and advances are disclosed in more details in note 11.

(b) Net realizable value of inventory

The Bank has established a policy with respect to the fair values of repossessed assets which are being measured at the lower of cost and net realizable value. The fair value measurement includes the use of external independent property valuers that have appropriate recognized statutory professional qualifications, which is subsequently reviewed from the Bank Management for significant unobservable inputs and any required write down adjustments.

(c) Held-to-maturity investments

The Bank follows the guidance of International Accounting Standard 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

(d) Determination of control over investees

Management applies its judgement to determine whether the Bank controls investees. In assessing whether the Bank controls the investees, the Bank performs the power analysis and takes into consideration purpose and design of the investee, the evidence of practical ability to direct the relevant activities of the investees etc.

As a result, the Bank concluded that it does not control and therefore should not consolidate its special purpose vehicles and entities with receivables in default, as the Bank does not have power over the relevant activities of those entities.

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5. Use of estimates and judgments (continued)**(e) Fair value of financial instruments**

Where the fair values of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data when possible, and if they are not available, judgment is required to establish fair values. For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The valuation of financial instruments is disclosed in more detail in note 6. The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The analysis of financial instruments recorded at fair value by hierarchy level is presented below:

31 December 2016	Level 1	Level 2	Level 3	Total
Financial investments Available-for-sale				
Quoted investments				
Government debt securities	4,099,821	-	-	4,099,821
Other debt securities	2,426,419	-	-	2,426,419
Unquoted investments	-	-	725,208	725,208
Total	6,526,240	-	725,208	7,251,448
31 December 2015	Level 1	Level 2	Level 3	Total
Financial investments Available-for-sale				
Quoted investments				
Government debt securities	1,708,643	-	-	1,708,643
Other debt securities	1,437,390	1,069,226	-	2,506,616
Unquoted investments	-	-	242,169	242,169
Total	3,146,033	1,069,226	242,169	4,457,428

Available-for-sale and Held-to-maturity 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 Available-for-sale and Held-to-maturity foreign securities denominated in foreign currencies represent Banks and Financial Institutions' securities. Their fair value is provided from either Bloomberg or State Street depending on where the custody of the bond is, or in the case of Austria Republic (EUR) and Italian Government International bonds (GBP), since prices are not found within State Street, values are taken from Bloomberg.

During the year there were no transfers between the categories, as there were no changes in the methodology used in determining the levels of fair value hierarchy nor changes in market activities of financial instruments.

5. Use of estimates and judgments (continued)**(f) Deferred tax assets**

Deferred tax assets arising from tax losses and temporary differences are recognized as an asset when it is probable that future taxable income would be sufficient to allow the benefit of the loss to be realized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits and future tax planning strategies. Refer to notes 3 (e) and 17 for more details.

(g) Litigation risk

The Bank Management has established an internal process with respect to recognition and measurement of provisions and contingencies due to actual or threatened litigations. Key assumptions about the likelihood and magnitude of an outflow of resources are based on the internal and external legal advice following the respective successful defense strategies against resulting actions. Each action and corresponding risk is assessed on its merits and the underlying constructive or legal obligation, and the estimate of cash outflows considered payable are independently approved from the Bank's CEO. Management believes, that existing or potential future litigation are remote, however due to causes beyond legal background and framework further risks might be triggered.

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6. Financial Assets and Liabilities

Accounting classification and fair values of financial assets and liabilities not carried at fair value:

	Note	Held-to-Maturity	Carrying Amount			Fair Value			
			Loans and advances to banks	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total
31 December 2016									
Loans and advances to banks	7	-	17,106,968	-	17,106,968	-	-	17,106,968	17,106,968
HTM investment securities	10	50,729,433	-	-	50,729,433	4,666,485	404,875	46,695,062	51,766,422
Total		50,729,433	17,106,968	-	67,836,401	4,666,485	404,875	63,802,030	68,873,390
Deposits from customers	16	-	-	125,974,220	125,974,220	-	-	-	126,033,512
Total		-	-	125,974,220	125,974,220	-	-	-	126,033,512

The major part of portfolio of loans and advances to customers is based on floating interest rates and it is re-priced on a quarterly, semiannually or yearly basis.

Management considers it impracticable to perform a calculation of the fair value of loans and advances to banks, loans and advances to customers and deposits from banks and it believes that the fair values approximate the carrying amount. Expected future losses are not taken into account.

6. Financial Assets and Liabilities (continued)

	Note	Held-to-Maturity	Carrying Amount			Fair Value			
			Loans and advances to banks	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total
31 December 2015									
Loans and advances to banks	7	-	23,902,937	-	23,902,937	-	-	23,902,937	23,902,937
Investment securities HTM	10	51,863,186	-	-	51,863,186	5,392,184	410,991	47,515,131	53,318,306
Total		51,863,186	23,902,937	-	75,766,123	5,392,184	410,991	71,418,068	77,221,243
Deposits from customers	16	-	-	118,842,126	118,842,126	-	-	119,100,186	119,100,186
Total		-	-	118,842,126	118,842,126	-	-	119,100,186	119,100,186

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7. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2016 and 31 December 2015 are detailed as follows:

	31 December 2016	31 December 2015
Cash on hand	1,300,348	1,100,087
Current accounts with banks	12,413,055	8,640,132
Unrestricted balances with central bank	738,403	244,147
Money market placements	12,817,391	6,356,992
Total	27,269,197	16,341,358

8. Loans and advances to banks

Loans and advances to banks as at 31 December 2016 and 31 December 2015 are composed as follows:

	31 December 2016	31 December 2015
Compulsory reserve with central bank	11,496,885	10,877,063
Deposits with correspondent banks	5,610,083	13,025,874
Total	17,106,968	23,902,937

In accordance with the Bank of Albania requirements, the Bank should maintain a minimum of 10% of amounts due to customers with original maturities up to two years as a compulsory reserve with the Central Bank. Such reserves are maintained in currencies that match the related due to customers balances. The amount required to be deposited is calculated monthly in arrears. According to the Bank of Albania regulation 40% of this reserve in Lek is available for daily use by the Bank.

The obligatory reserve rate denominated in Lek is 70% of repurchase agreements rate and theremuneration interest rate of the obligatory reserve in EUR is equal to the European Central Bank base rate The reserve had an interest rate of 0.875% for Lek and (0.40%) for EUR for 31 December 2016 (31 December 2015: 1.23% for Lek and nil for EUR).

Deposits with banks comprise money market placements with an original maturity of over three months.

9. Financial investments available for sale

Financial investments available-for-sale as at 31 December 2016 and 31 December 2015 can be detailed as follows:

	31 December 2016	31 December 2015
Corporate issuers		
Bank issuers	1,789,549	2,506,679
Listed	1,427,022	1,437,453
Unlisted	362,527	1,069,226
Sovereign issuers		
Albanian Government:	1,113,620	242,169
Unlisted	1,113,620	242,169
EU member states	3,711,409	1,708,580
Listed	3,711,409	1,708,580
Other Financial Institutions	636,870	-
Listed	636,870	-
Total	7,251,448	4,457,428

The Bank reviews its debt securities classified as availablefor-sale investments at each reporting date to assess whether there is any objective evidence that they are impaired.

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10. Financial investments held to maturity

Financial investments held to maturity as at 31 December 2016 and 31 December 2015 can be detailed as follows:

	31 December 2016	31 December 2015
Corporate issuers		550,477
Bank issuers	-	550,477
Listed	-	550,477
Sovereign issuers	50,729,433	51,312,709
Republic of Albania	47,769,533	48,371,561
Unlisted	47,769,533	48,371,561
US and EU member states	2,959,900	2,941,148
Listed	2,959,900	2,941,148
Total	50,729,433	51,863,186

11. Loans and advances to customers

Loans and advances to customers are composed as follows:

	31 December 2016	31 December 2015
Loans	31,493,287	29,515,687
Overdrafts	13,858,107	15,589,425
Deferred disbursement fees	(111,431)	(105,111)
Gross amount	45,239,963	45,000,001
Allowance for impairment	(2,697,812)	(4,372,155)
Total net amount	42,542,151	40,627,846

Movement in the allowance for impairment losses on loans and advances to customers is as follows:

	2016	2015
Specific allowance for impairment		
Balance at 1 January	4,000,730	6,381,418
Charge for the year	1,703,658	4,283,376
Recoveries	(2,121,069)	(3,553,505)
	(417,411)	729,871
Effect of movements in foreign exchange	(40,514)	28,581
Write-offs	(1,231,963)	(3,139,140)
Balance at 31 December	2,310,842	4,000,730
Collective allowance for impairment		
Balance at 1 January	371,425	465,425
Charge for the year	25,325	-
Recoveries	(6,627)	(92,338)
	18,698	(92,338)
Effect of movements in foreign exchange	(3,153)	(1,662)
Balance at 31 December	386,970	371,425
Total allowance for impairment	2,697,812	4,372,155
Total (reversal)/charge for the year	(398,713)	637,533

12. Property and Equipment

Property and Equipment as at 31 December 2016 and 31 December 2015 is as follows:

Cost	Land and Building	IT and Electrical Equipment	Furniture and Fine Art Works	Other non-Electrical Assets	Assets acquired not put into use	Total
Balance as at 1 January 2015	1,631,770	1,217,419	184,544	259,166	158,258	3,451,157
Additions	11,752	92,715	3,761	12,418	-	120,646
Disposals	-	(37,302)	(6,331)	(25,449)	(78,674)	(147,756)
Balance as at 31 December 2015	1,643,522	1,272,832	181,974	246,135	79,584	3,424,047
Additions	-	28,451	12,083	6,460	113,984	160,978
Disposals	-	(10,537)	(15,404)	(4,642)	-	(30,583)
Balance as at 31 December 2016	1,643,522	1,290,746	178,653	247,953	193,568	3,554,442
Accumulated Depreciation						
Balance as at 1 January 2015	734,152	922,695	162,043	233,830	-	2,052,720
Depreciation for the year	80,226	140,824	6,648	10,362	-	238,060
Disposals	-	(37,230)	(6,331)	(25,441)	-	(69,002)
Balance as at 31 December 2015	814,378	1,026,289	162,360	218,751	-	2,221,778
Depreciation for the year	78,033	97,004	5,529	10,382	-	190,948
Disposals	-	(10,500)	(15,402)	(4,625)	-	(30,527)
Balance as at 31 December 2016	892,411	1,112,793	152,487	224,508	-	2,382,199
Carrying amount						
At 1 January 2015	897,618	294,724	22,501	25,336	158,258	1,398,437
At 31 December 2015	829,144	246,543	19,614	27,384	79,584	1,202,269
At 31 December 2016	751,111	177,953	26,166	23,445	193,568	1,172,243

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13. Intangible Assets

Intangible assets as at 31 December 2016 and 31 December 2015 are as follows:

	Software and Licenses	Advances for Software	Total
Cost			
Balance as at 1 January 2015	1,188,153	238,828	1,426,981
Additions during period	-	146,455	146,455
Transfers	286,538	(286,538)	-
Balance as at 31 December 2015	1,474,691	98,745	1,573,436
Additions during period	109,596	25,052	134,648
Transfers	-	-	-
Balance as at 31 December 2016	1,584,287	123,797	1,708,084
Amortisation and Impairment Losses			
Balance as at 1 January 2015	872,346	-	872,346
Amortisation charge for the year	110,527	-	110,527
Disposals	-	-	-
Balance as at 31 December 2015	982,873	-	982,873
Amortisation charge for the year	133,309	-	133,309
Disposals	-	-	-
Balance as at 31 December 2016	1,116,182	-	1,116,182
Carrying amount			
At 1 January 2015	315,807	238,828	554,635
At 31 December 2015	491,818	98,745	590,563
At 31 December 2016	468,105	123,797	591,902

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14. Inventory and other assets

Other assets as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Inventory	2,298,654	1,837,084
Sundry debtors	57,462	57,498
ATM & POS transactions	31,743	48,264
Leasehold improvements	22,398	28,598
Prepayments	46,395	57,598
Cheques for collection	8,377	11,458
Others	35,349	37,198
Total	2,500,378	2,077,698

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:

	2016	2015
At beginning of the period	1,837,084	2,111,434
Additions during period	1,076,525	517,947
Disposals of the period	(306,733)	(584,459)
Write down to net realizable value	(293,553)	(167,221)
Effect of movements in foreign exchange	(14,669)	(40,617)
At end of the period	2,298,654	1,837,084

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

	31 December 2016	31 December 2015
At beginning of the period	28,598	28,924
Additions during period	1,551	8,080
Amortization of the period	(7,751)	(8,406)
At end of the period	22,398	28,598

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15. Due to banks

Due to banks as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Correspondent banks		
Current accounts	999,095	82,958
Resident	888,890	1,197
Non-resident	110,205	81,761
Deposits	1,886,138	1,870,074
Resident	1,886,138	1,870,074
Non-resident	-	-
Total	2,885,233	1,953,032

16. Due to customers

Due to customers as at 31 December 2016 and 31 December 2015 are composed as follows:

	31 December 2016			31 December 2015		
	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total
Current accounts						
Retail	6,774,797	12,844,916	19,619,713	4,797,296	10,519,154	15,316,450
Corporate	9,993,204	23,587,330	33,580,534	9,417,355	19,131,669	28,549,024
	16,768,001	36,432,246	53,200,247	14,214,651	29,650,823	43,865,474
Deposits						
Retail	30,335,152	38,208,519	68,543,671	32,170,499	37,965,346	70,135,845
Corporate	796,230	3,434,072	4,230,302	896,993	3,943,814	4,840,807
	31,131,382	41,642,591	72,773,973	33,067,492	41,909,160	74,976,652
Total	47,899,383	78,074,837	125,974,220	47,282,143	71,559,983	118,842,126

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

	31 December 2016			31 December 2015		
	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total
Current Accounts						
On demand	3,183,356	13,285,724	16,469,080	2,786,679	9,421,436	12,208,115
One month	965,784	448,121	1,413,905	1,953,263	816,407	2,769,670
Three months	928,928	2,230,587	3,159,515	1,128,779	2,806,483	3,935,262
Six months	2,657,242	3,723,775	6,381,017	3,183,337	5,849,099	9,032,436
Nine months	2,282	7,442	9,724	39,655	5,079	44,734
Twelve months	12,514,768	18,936,722	31,451,490	17,850,819	19,803,251	37,654,070
Twenty four months	5,985,458	1,682,463	7,667,921	4,092,080	1,794,639	5,886,719
Other	4,893,564	1,327,757	6,221,321	2,032,880	1,412,766	3,445,646
	31,131,382	41,642,591	72,773,973	33,067,492	41,909,160	74,976,652
Total	47,899,383	78,074,837	125,974,220	47,282,143	71,559,983	118,842,126

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16. 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:

2016	ALL (%)	USD (%)	EUR (%)
Current accounts and demand deposits	0.01 – 2.07	0.01 – 0.53	0.002 – 0.997
Time deposits – 1 month	0.40 – 0.90	0.05 – 0.05	0.002 – 0.030
Time deposits – 3 months	0.40 – 1.20	0.10 – 0.20	0.000 – 0.050
Time deposits – 6 months	0.45 – 1.50	0.15 – 0.25	0.000 – 0.050
Time deposits – 9 months	0.40 – 1.10		0.006 – 0.070
Time deposits – 12 months	0.60 – 1.90	0.20 – 0.30	0.000 – 0.100
Time deposits – 24 months	1.15 – 2.15	0.20 – 0.30	0.020 – 0.100
Time deposits – 36 months	1.20 – 2.40		0.070 – 0.100
Time deposits – 60 months	2.38 – 2.56		
Time deposits – 84 months	3.41 – 3.60		

2015	ALL (%)	USD (%)	EUR (%)
Current accounts and demand deposits	0.09 – 2.72	0.01 – 0.50	0.001 – 1.00
Time deposits – 1 month	0.60 – 0.90	0.05 – 0.05	0.03 – 0.05
Time deposits – 3 months	0.50 – 1.55	0.10 – 0.20	0.05 – 0.20
Time deposits – 6 months	0.50 – 2.10	0.10 – 0.25	0.05 – 0.35
Time deposits – 9 months	1.10 – 1.55	-	0.07 – 0.15
Time deposits – 12 months	0.50 – 2.30	0.10 – 0.30	0.06 – 0.40
Time deposits – 24 months	1.80 – 2.75	0.20 – 0.30	0.07 – 0.30
Time deposits – 36 months	2.20 – 3.05	-	0.07 – 0.40

All individual customer deposits, in accordance with the Law No. 52, dated 25.05.2014 "On the Insurance of Deposits", 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). During 2016, DIA enlarged the deposit insurance scheme with corporate customers.

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17. Deferred Tax

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

	31 December 2016			31 December 2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Financial assets available-for-sale	-	290	(290)	-	46	(46)
Equipment and intangible assets	82,092	-	82,092	82,103	-	82,103
Net deferred tax assets	82,092	290	81,802	82,103	46	82,057

Movements in temporary differences during the year are as follows:

	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Closing balance
31 December 2016				
Financial assets available-for-sale	(46)	-	(244)	(290)
Equipment and intangible assets	82,103	(11)	-	82,092
Total	82,057	(11)	(244)	81,802
31 December 2015				
Financial assets available-for-sale	-	-	(46)	(46)
Property and equipment and intangible assets	76,962	5,141	-	82,103
Total	76,962	5,141	(46)	82,057

18. Provisions

Movements in provisions during the year are as follows:

	Tax Litigation	Other Litigations	Off-Bsh Provision	Total
Balance at 1 January 2016	213,441	124,870	41,497	379,808
Provisions made during the year	64,653	-	25,463	90,116
Provisions reversed and reclassified during the year	-	(92,543)	(12,930)	(105,473)
Provisions used during the year	-	(11,761)	-	(11,761)
Effect of movements in foreign exchange	-	(1,470)	(841)	(2,311)
Balance at 31 December 2016	278,094	19,096	53,189	350,379

The provisions amounting to Lek 64,653 thousand made during the year related to an ongoing tax litigation related to former-BIA. During 2016, provisions reversed of Lek 92,543 thousand include an amount of Lek 86,382 thousand been reclassified as an inventory write down. The provision was set up in previous years and related to dispute with respect of foreclosed assets. Given that the Bank in 2016 lost the dispute, the provision was released and the asset derecognized.

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19. Other liabilities

Other liabilities as at 31 December 2016 and 31 December 2015 are composed as follows:

	31 December 2016	31 December 2015
Accrued expenses	542,032	491,891
Sundry creditors	151,123	33,676
Suspense accounts	17,749	71,472
Bank cheques issued and payments in transit	24,039	44,288
Other tax liabilities	33,759	37,541
Due to third parties	17,091	16,653
Other accrued expenses	771	13,606
Total	786,564	709,127

20. Share capital and 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 2016	15,581,282	357	5,562,517,674

Intesa Sanpaolo S.p.A is the sole shareholder at 31 December 2016 and 31 December 2015.

21. Legal and regulatory reserves

As at 31 December 2016 and 31 December 2015, the reserves were:

	31 December 2016	31 December 2015
Regulatory reserve	1,130,983	1,130,983
Legal reserve	694,640	694,640
Total	1,825,623	1,825,623

The regulatory reserve was established according to the 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 2016, the regulatory reserve represented 1.45% of total risk-weighted assets (2015: 1.5%).

The provisions of the Commercial Law require 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 2016, the balance represented 10% of the Bank's share capital (2015: 10%). This threshold is not mandatory, when the existing reserves are not less than one tenth of the Bank's share capital.

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22. Other reserves**Other comprehensive items**

Other comprehensive items represent 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.

Other reserve

Other reserves represent the fair value reserve which comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired. The changes during the financial year ended 31 December 2016 amounted to an increase of Lek 1,384 thousand (2015: decrease Lek 88,233 thousand).

23. Net Interest income

	2016	2015
Interest income		
Loans and advances to customers	2,284,667	2,436,734
Financial investments held to maturity	2,367,719	2,968,744
Loans and advances to banks	100,535	183,999
Financial investments-available-for-sale	73,045	114,842
Total interest income	4,825,966	5,704,319
Interest expenses		
Demand and time deposits	696,612	958,554
Deposits from banks	66,480	79,348
Current accounts of customers	54,258	120,691
Total interest expenses	817,350	1,158,593
Net interest income	4,008,616	4,545,726

24. Net fee and commission income

	2016	2015
Collection and payment services	436,714	486,308
Active current accounts	205,513	198,089
ATMs and POSs	214,865	208,409
Guarantees given	15,424	16,816
Unused/advanced liquidated credit lines	24,922	30,341
Arrangement fees and others	12,705	13,559
Fee and commission income	910,143	953,522
ATMs and POSs	191,957	157,745
Banking services-foreign branches	9,553	10,513
Collection and payment services	1,990	574
Guarantees received	994	718
Fee and commission expenses	204,494	169,550
Net fee and commission income	705,649	783,972

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.

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25. Net other income

	2016	2015
Foreign exchange gains	366,033	443,889
Other	309	125,184
Total	366,342	569,073

26. Other operating expenses, net

	2016	2015
Premium on deposits insurance	241,636	235,431
Loss/(gain) on sale of fixed assets	100,866	(3,573)
(Gain)/loss on sundry net operational	(64,479)	12,053
Total	278,023	243,911

27. Personnel expenses

	2016	2015
Salaries	861,642	875,128
Personnel on secondment	59,175	94,175
Social Insurance	94,747	80,888
Training & similar	5,240	-
Termination indemnities and others	27,405	19,099
Total	1,048,209	1,069,290

28. Other expenses

	2016	2015
Software maintenance	182,305	187,173
Telephone and electricity	82,214	89,724
Advertising and publications	30,627	47,201
Maintenance and repair	51,823	56,561
Stationery	35,695	39,279
Consulting, legal and professional fees	56,247	49,985
Security	38,237	32,825
Transport and security services	25,717	27,628
Travel and business trips	9,844	8,209
Insurance	23,052	20,992
Other	78,639	24,661
Total	614,400	584,238

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29. Income tax expenses

The components of income tax expense for the year ended 31 December 2016 and 2015 are:

	2016	2015
Current year	480,842	463,017
Adjustment for prior years	-	-
Over provided in prior years	-	-
Current tax expense	480,842	463,017
Origination and reversal of temporary differences	11	(5,141)
Deferred tax expenses/(income)	11	(5,141)
Income tax expense	480,853	457,876

Reconciliation of the income tax expense with the accounting profit for the year ended 31 December 2016 and 2015 is presented as follows:

	2016		2015	
Accounting Profit before tax		2,763,858		2,668,971
Income tax at domestic corporate tax rate	15.00%	414,579	15.00%	400,346
Non-deductible expenses	2.40%	66,263	2.35%	62,671
Origination and reversal of temporary differences	0.00%	11	(0.19%)	(5,141)
Income tax Expense	17.37%	480,853	17.16%	457,876

Non-deductible expenses are detailed as follows:

	2016	2015
Depreciation and Amortization	9,720	44,919
Sundry operational losses	11,593	3,343
Office expenses	8,262	5,057
Rent apartments	2,384	6,101
Personnel costs	103	6,928
Representation	1,151	3,938
Losses on unrecoverable loans and overdrafts	158,686	151,712
Impairment of assets acquired through legal process	293,553	167,221
Prior year adjustment	(139,083)	-
Litigation	64,653	12,296
Others	30,731	16,294
Total	441,753	417,809
At 15%	66,263	62,671

Following a tax audit during 2016, the Bank, provided during 2016 a prior year adjustment related to restatement of the 2013 tax return. The Bank 2016 prepaid income tax is in the amount of Lek 455,583, thousand (2015: Lek 352,341 thousand).

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30. Commitments and contingencies

Commitments and contingencies as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Contingent Assets	121,076,950	119,795,402
Guarantees received from credit customers	109,250,300	107,337,280
Guarantees received from Government	5,200,000	5,200,000
Un-drawn credit facilities	4,977,785	5,804,593
Letters of credit	355,827	279,391
Money market future dated deals	241,793	568,612
Forward foreign exchange contracts	1,025,360	601,278
Other	25,885	4,248
Contingent Liabilities	4,664,841	5,230,505
Guarantees in favor of customers	4,664,841	5,230,505

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 favour 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 favour of the Bank. The plaintiff has appealed to the Supreme Court during the year. The Supreme Court has not yet issued its decision. Management does not consider that there are any legal grounds for the existing judgements in its favour 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.

The Bank has ongoing legal proceedings, claims, and litigation that arise in the ordinary course of business. Management believes that any existing or potential future litigation are remote and will not have a material adverse effect on Bank's financial position, results of operations, or cash flows.

31. Lease commitments and operating lease expenses

The Bank's operating lease commitments as lessee as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Less than one year	125,193	152,482
Between one and five years	229,081	321,072
More than five years	11,918	25,482
Total	366,192	499,036

The Bank has rental agreements with renewal options for its offices in Albania. During 2016, the amount of Lek 164,626 thousand was recognized as expense in respect of lease rentals (2015: Lek 173,946 thousand). Operating lease contracts are cancellable, if notified for a period of 180 days in advance.

Financial Statements 2016

32. 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.

The following transactions have taken place during the year ended 31 December 2016 and 31 December 2015:

	ISP Group companies		Key management personnel and Other related parties	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Assets at end of year	12,197,494	10,108,151	155,476	177,589
Loans and advances to credit institutions	12,152,936	10,080,859	-	-
Loans and advances to customers	-	-	155,476	177,589
Other assets	44,558	27,292	-	-
Liabilities at end of year	61,242	16,391	403,570	300,249
Loans and advances from credit institutions	44,170	3,263	-	-
Customer deposits	-	4,766	403,570	300,249
Invoices to be received	17,072	8,362	-	-
Off balance sheet	2,843,263	2,689,533	-	-
Letter of credit/Letter of Guarantees given	424,707	889,669	-	-
Letter of credit/Letter of Guarantees received	1,219,078	1,073,625	-	-
Foreign currency contracts	1,199,478	726,239	-	-
Collaterals	-	-	-	-
Income for year ending	90,457	228,585	4,002	6,870
Interest income	40,799	85,130	3,533	6,549
Commission income	49,658	143,455	469	321
Expenses for the year ending	71,579	101,441	1,099	2,020
Interest expense	10,007	-	1,099	2,020
Commission expense and others	19,276	51,407	-	-
Other Administrative Costs	42,296	50,034	-	-
Compensation of Key Managers			136,797	154,944
<i>Net Salary</i>			79,766	82,144
<i>Net Bonus paid</i>			20,652	21,021
<i>Social & Health Insurance</i>			4,254	4,431
<i>Other expenses (Lecolp)</i>			13,859	27,284
<i>Other expenses</i>			18,266	20,064

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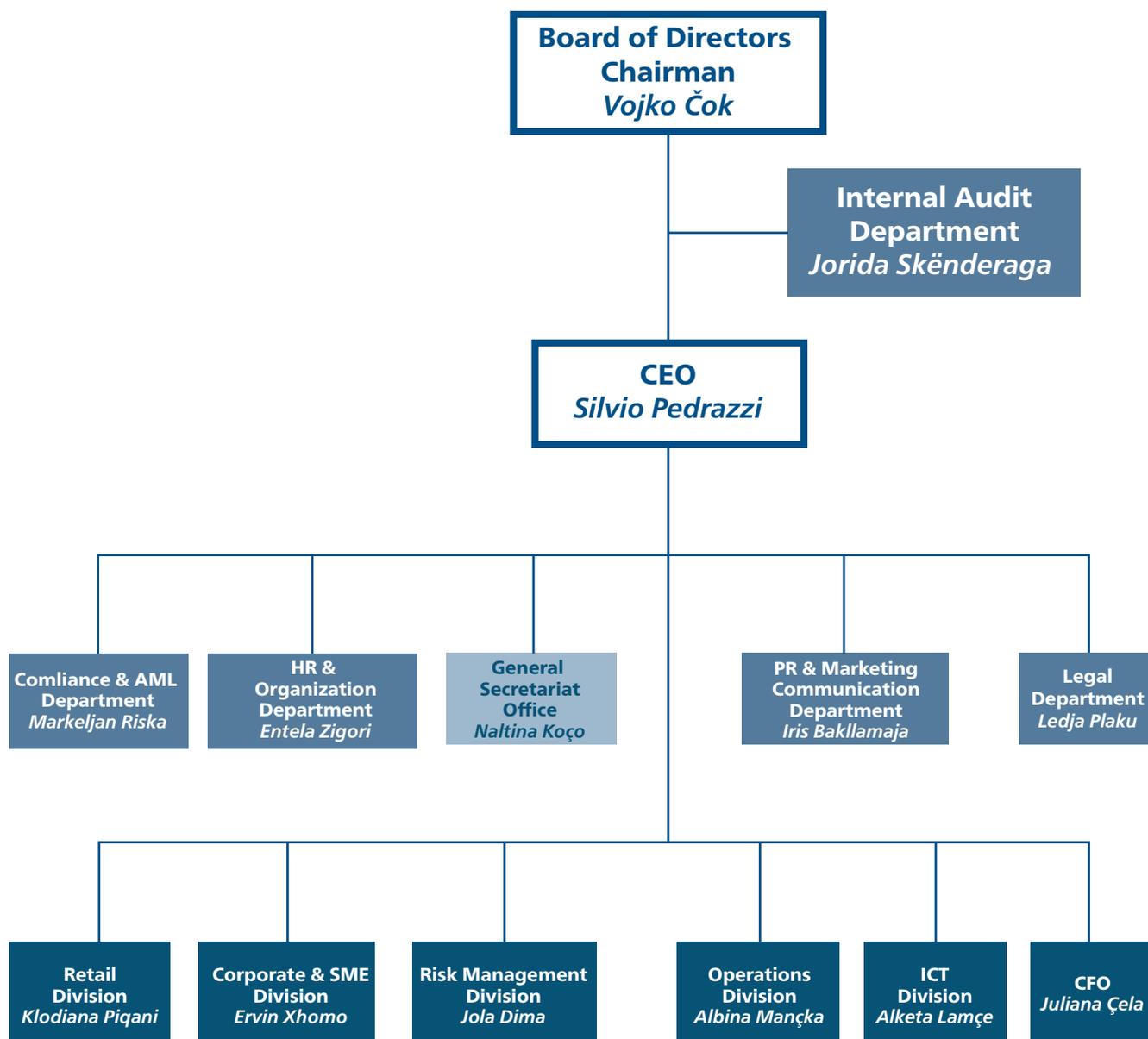
33. Subsequent events

The management of the Bank is not aware of any subsequent events that would require either adjustments or additional disclosures in the financial statements.

Organizational Structure of the Bank



Organizational Structure of Intesa Sanpaolo Bank Albania in 2016



LEGEND



Division



Department



Office

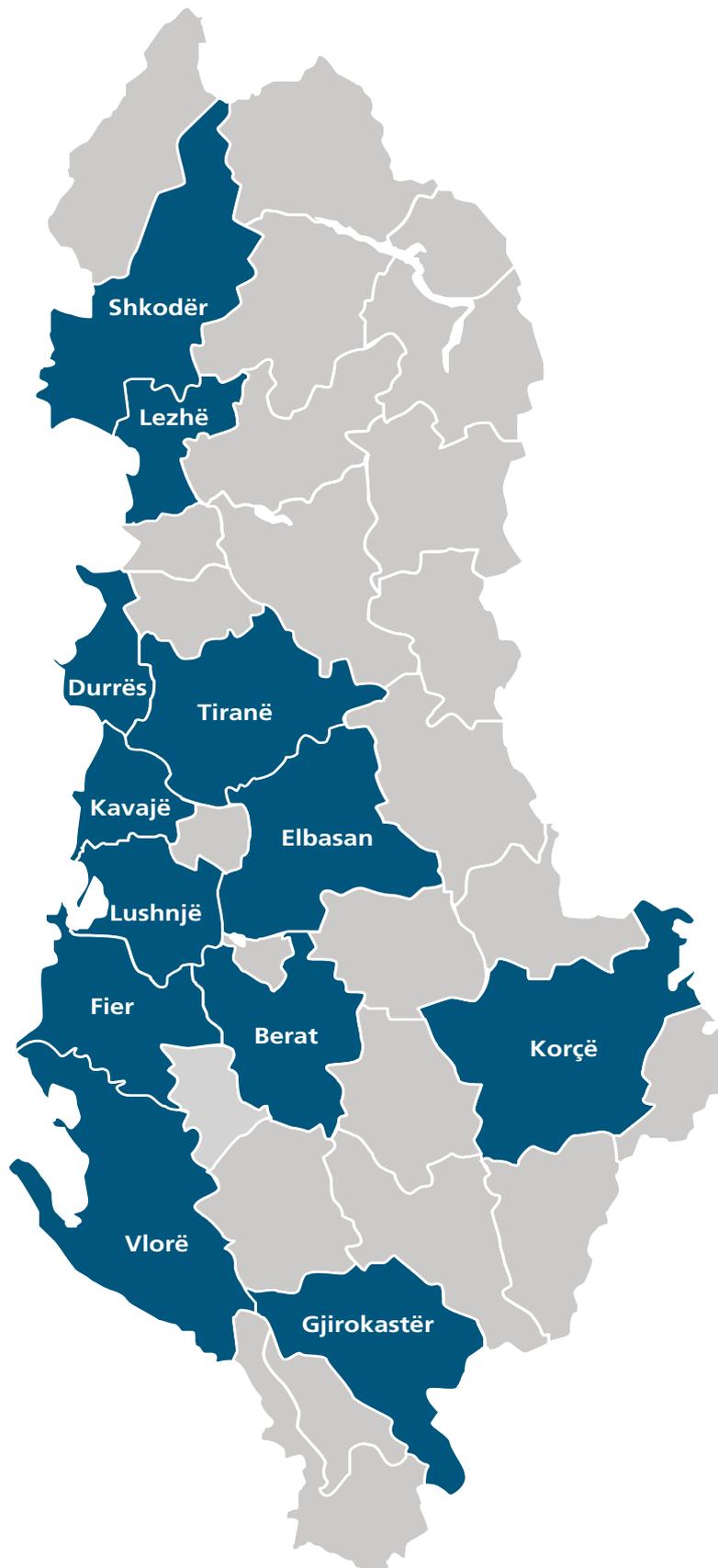
Bank Business Network



Intesa Sanpaolo Bank Albania Business Network

Nr.	City	Branch	Address	
1.	Tirana	Head Offices & Main Branch	Str. "I.Qemali", Nr. 27 P.O. Box 8319	Call Center: 08006000 (Free from Altelecom & Eagle) +355 4 22 76 000 / +355692080903
2.	Tirana	Rr. Barrikadave Branch	Str. "Barrikadave"	+355 4 2390808/810/812/816/821 +355 4 2390830/831/832/833/834
3.	Tirana	Lapraka Branch	Str. "Dritan Hoxha" Nd 203 H 1	+355 687573520/2/3/4/8
4.	Tirana	Rr. Elbasanit Branch	Str. "Elbasanit", crossroad with Str. Jul Variboba	+355 4 22 76 313/310/324/304 /302/303/300
5.	Tirana	Rinas Branch	International Airport "Nënë Tereza" (Mother Tereza)	+355 4 453 99 66 / 8
6.	Tirana	Bldv. "Zogu I" Branch	Bldv. "Zogu I" Train Station	+355 4 24 19 761 / 2 +355 4 22 69 972
7.	Tirana	BRUNES Branch	Tirana Durrës Highway, km 7	+355 48 33 2246 / 43
8.	Tirana	TEG Branch	Commercial Center Tirana East Gate - TEG, Farka	+355 48 845 116/117
9.	Tirana	Rr. e Kavajës Branch	Str. "Kavajës", Gurten Center (Volkswagen)	+355 4 22 39 555/ 042425228/9
10.	Tirana	Rr. e Durrësit Branch	"Rilindja" Square Str. "Duresit"	+355 (0)687573560/1/2/3/4/5/6
11.	Tirana	Bldv. "B. Curri" Branch	Bldv. B.Curri (Tiranë e Re)	+355 4 22 13 039
12.	Tirana	Rr. e Dibrës Branch	Str. "Dibrës", in front of Vila Gold	+355 4 2419 715 / 766/ 767
13.	Tirana	Komuna e Parisit Branch	Str. "Medar Shtylla", Nd. 27 H. 4 (Tiranë e Re)	+355 4 24 66 981 / 3 / 4
14.	Tirana	Kombinat Branch	Str. "E Qelqit"	+355 4 24 77 300 / 2
15.	Tirana	H.Tahsim Branch	Rr. "H.Tahsim"	Relocated in February 2017
16.	Tirana	U.S.A Embassy Branch	(Only for the Embassy) Rr. "Elbasanit"	+355 4 22 93 375
17.	Tirana	Italian Embassy Branch	(Only for the Embassy) Rr. "L. Dukagjini"	--
18.	Durrës	Durrës Main Branch	Lgj.No 1, Str. "Taulantia", Suqare "M.Ulqinaku"	+355 52 220 151/2/3/4
19.	Durrës	Train Station Branch	Str. "Kristaq Rama" near the Train Station	+355 52 22 45 28; +355 52 22 00 50 +355 687573830/2/3/4/6
20.	Durrës	Branch at the Beach	Lgj. 13, Hekurudha Plazh	+355 52 262 367
21.	Durrës	A.Goga Branch	Str. "A.Goga"	+355 52 220 121; 238 150
22.	Elbasan	Elbasan Branch	Bvd. "Qemal Stafa"	+355 54 242 243
23.	Fier	Fier Branch	Lgj. "15 Tetori"	+355 68 757 3880 / 3881
24.	Lushnja	Lushnja Branch	Sheshi para Bashkise (Municipality Square)	+355 35 225 830 / 1 / 4 / 5
25.	Korça	Korça Branch	Bldv. "Republika", Korça	+355 82 252 838
26.	Vlora	Vlora Main Branch	Lagjia Pavarësia-Skelë, Hotel Vlora Internacional	+355 33 229 548 / +355 33 228 380
27.	Vlora	Rr. "Sadik Zotaj" Branch	Str. "Sadik Zotaj"	+355 33 225 925 / 912
28.	Gjirokastra	Gjirokastra Branch	Lgj. "18 Shtatori"	+355 84 268 282
29.	Lezha	Lezha Branch	Bldv. "Gjergj Fishta" P. Rest. Jolly	+355 21 524 97 4 / 5
30.	Shkodra	Shkodra Branch	Str. "13 Dhjetori"	+355 22 246 065; 248 184
31.	Kavaja	Kavaja Branch	Bldv. "Indrit Cara"	+355 55 242 663/5; +355 687573960/2
32.	Berat	Berat Branch	Lgj. "22 Tetori", Bldv. "Republika"	+355 32 236 170 / 1

Intesa Sanpaolo Bank Albania Business Network Map



Intesa Sanpaolo
Group Network



Intesa Sanpaolo Group Italian Network



NORTH WEST

Intesa Sanpaolo		Subsidiaries	
Branches	Company	Branches	
1,222	Fideuram	89	
	Banca Prossima	29	
	Mediocredito Italiano	1	
	Banca IMI	1	

CENTRE

Intesa Sanpaolo		Subsidiaries	
Branches	Company	Branches	
606	Banca CR Firenze	289	
	Fideuram	41	
	Banca Prossima	10	
	Banco di Napoli	4	
	Banca Apulia	2	
	Mediocredito Italiano	2	
	Banca IMI	1	
	Banca Nuova	1	

NORTH EAST

Intesa Sanpaolo		Subsidiaries	
Branches	Company	Branches	
603	CR del Veneto	297	
	CR in Bologna	153	
	CR del Friuli Venezia Giulia	94	
	CR di Forlì e della Romagna	88	
	Fideuram	56	
	Banca Prossima	16	
	Mediocredito Italiano	2	

SOUTH

Intesa Sanpaolo		Subsidiaries	
Branches	Company	Branches	
96	Banco di Napoli	549	
	Banca Apulia	92	
	Fideuram	27	
	Banca Prossima	20	
	Banca Nuova	20	
	Mediocredito Italiano	2	

ISLANDS

Intesa Sanpaolo		Subsidiaries	
Branches	Company	Branches	
209	Banca Nuova	72	
	Fideuram	10	
	Banca Prossima	9	
	Mediocredito Italiano	1	

Figures as at 31 December 2017

Intesa Sanpaolo Group International network



EUROPE

Direct Branches	Representative Offices ⁽²⁾
Frankfurt	Brussels ⁽¹⁾
Istanbul	Moscow
London	
Madrid	
Paris	
Romania ⁽²⁾	
Warsaw	

Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania Veneto Banka Albania	32 15
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	54
Croatia	Privredna Banka Zagreb Veneto Banka Croazia	195 6
Czech Republic	VUB Banka	1
Hungary	CIB Bank	76
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Banca Fideuram Intesa Sanpaolo Bank Luxembourg	1 1
Romania	Intesa Sanpaolo Bank Romania	30
Russian Federation	Banca Intesa	37
Serbia	Banca Intesa Beograd	158
Slovakia	VUB Banka	230
Slovenia	Banka Koper	52
Switzerland	Intesa Sanpaolo Private Bank (Suisse)	1
The Netherlands	Intesa Sanpaolo Bank Luxembourg	1
Ukraine	Pravex	50
United Kingdom	Banca IMI Banking Intesa Sanpaolo Private	1 1

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	172

AMERICA

Direct Branches	Representative Offices ⁽³⁾
New York	Washington D.C.

Country	Subsidiaries	Branches
Brazil	Intesa Sanpaolo Brasil	1

OCEANIA

Representative Offices
Sydney

ASIA

Direct Branches	Representative Offices
Abu Dhabi	Beijing
Doha	Beirut
Dubai	Ho Chi Minh City
Hong Kong	Jakarta
Shanghai	Mumbai
Singapore	Seoul
Tokyo	

Figures as at 31 December 2017

(1) International and Regulatory Affairs

(2) 19 branches in Romania deriving from the Aggregate Set of Veneto Banca

(3) The Representative Office of Santiago ceased to operate on 17 January 2018

