INTESA SANPAOLO BANK ALBANIA SH.A.

Financial Statements

For the year ended 31 December 2022

(with independent auditors' report thereon)

Contents

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Intesa Sanpaolo Bank Albania sh.a

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Intesa Sanpaolo Bank Albania sh.a (the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

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

Other information included in Intesa Sanpaolo Bank Albania sh.a 2022 Annual Report

Other information consists of the information included in Bank's 2022 Annual Report, prepared in accordance with articles 17, 18 and 19 of the Law no. 25/2018 "For Accounting and Financial Statements", other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2022 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Ernst & Young - Ekspert Kontabël i Autorizuar
Dega në Shqipëri

Ernst & Young Albania

10 March, 2023
Tirana, Albania

NIPT: K61911012I
Tirane

Mario Vangjel
Certified Auditor

Intesa Sanpaolo Bank Albania sh.a.
Statement of financial position as at 31 December 2022
(in thousands of Lek)

Statement of financial position

	Notes	31 December 2022	31 December 2021
Assets			
Cash and cash equivalents	13	25,989,152	29,643,298
Loans and advances to banks	14	34,425,463	33,853,071
Investment securities	15	73,197,467	74,135,379
Loans and advances to customers	16	54,267,232	52,967,843
Current tax assets	36	154,092	290,395
Other assets	21	602,978	503,339
Investment property	20	502,498	533,798
Repossessed assets	22	275,759	359,008
Property and equipment	17	1,886,036	1,974,017
Right-of-use assets	18	515,150	469,669
Intangible assets	19	604,206	517,811
Deferred tax assets	25	376,559	422,933
Total Assets		**192,796,592**	**195,670,561**
Liabilities			
Due to banks	23	1,017,783	1,476,439
Due to customers	24	167,115,012	169,461,419
Lease liabilities	18	495,621	468,760
Other liabilities	27	1,322,464	1,182,077
Deferred tax liabilities	25	-	220,618
Provisions	26	481,071	534,549
Total Liabilities		**170,431,951**	**173,343,862**
Equity			
Share capital	28	5,562,518	5,562,518
Share premium	28	1,383,880	1,383,880
Reserves	29	5,557,574	6,771,573
Retained earnings		9,860,669	8,608,728
Total Equity		**22,364,641**	**22,326,699**
Total Liabilities and Equity		**192,796,592**	**195,670,561**

These financial statements have been approved by the Board of Directors of Intesa Sanpaolo Bank Albania sh.a. on 22 February 2023 and signed on its behalf by:

Alessandro D'oria
Chief Executive Officer

Julian Cela
Chief Financial Officer

INTESA SANPAOLO BANK Albania
Rr. Ismail Qemali, Nr. 27, Tiranë
NIPT J81817006P

The Statement of financial position is to be read in conjunction with the accompanying notes on pages 6 to 78 forming an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

	Notes	2022	2021
Interest income	30	4,595,107	4,231,527
Interest expense	30	(907,009)	(940,494)
Net interest income		**3,688,098**	**3,291,033**
Fee and commission income	31	1,443,864	1,284,068
Fee and commission expense	31	(488,998)	(411,077)
Net fee and commission income		**954,866**	**872,991**
Net other income	32	738,755	783,084
Other operating expenses	33	(486,876)	**(478,369)**
Operating income		**4,894,843**	**4,468,739**
Net impairment loss on financial assets	9 (v)	(161,956)	(983,890)
Impairment losses/write-backs to other financial activities	26	(28,354)	3,335
Write down to NRV of repossessed collaterals	22	(91,421)	(176,780)
Personnel expenses	34	(1,512,559)	(1,359,292)
Depreciation and amortization	17,18, 19	(483,414)	(473,224)
Amortization of leasehold improvements	21	(17,422)	(15,516)
Impairment of Investment property	20	(31,300)	-
Other administration expenses	35	(1,096,348)	(960,105)
Provisions for risk and expenses	26	45,514	143,369
Total expenses		**(3,377,260)**	**(3,822,103)**
Net income before taxes		**1,517,583**	**646,636**
Income tax expense	36	(227,820)	(126,957)
Profit for the year		**1,289,763**	**519,679**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of investment securities at FVOCI		(1,437,812)	302,714
Related tax		223,813	19,004
Items that will not be reclassified to profit or loss			
Change in revaluation of properties		-	-
Related tax		-	-
Other comprehensive income for the year, net of tax		**(1,213,999)**	**321,718**
Total comprehensive income for the year, net of tax		**75,764**	**841,397**

The Statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes on pages 6 to 78 forming an integral part of these financial statements.

(in thousands of Lek)

Statement of changes in equity

	Share capital	Share premium	Legal and regulatory reserves	Fair value reserve	Revaluation reserve	Other capital reserve	Merger Reserve	Retained earnings	Total
Balance at 1 January 2022	**5,562,518**	**1,383,880**	**1,825,623**	**884,331**	**533,669**	**714,554**	**2,813,396**	**8,608,728**	**22,326,699**
Profit for the year	-	-	-	-	-	-	-	1,289,763	**1,289,763**
Other comprehensive income	-	-	-	-	-	-	-	-	-
Change in fair value of debt investment at FVOCI, net of income tax	-	-	-	(1,213,999)	-	-	-	-	(1,213,999)
hange in the Revaluation reserve	-	-	-	-	-	-	-		
Change in the DTA of FTA reserve	-	-	-	-	-	-	-	(37,882)	(37,822)
Total comprehensive income for the year	**-**	**-**	**-**	(1,213,999)	**-**	**-**	**-**	(37,882)	(1,354,341)
Transaction with owners, recorded directly in equity									
Dividends to equity holders	-	-	-	-	-	-	-	-	-
Total contributions by and distribution to owners									
Balance at 31 December 2022	**5,562,518**	**1,383,880**	**1,825,623**	**(329,668)**	**533,669**	**714,554**	**2,813,396**	**9,860,669**	**22,364,641**

The Statement of changes in equity is to be read in conjunction with the accompanying notes on pages 6 to 78 forming an integral part of these financial statements.

(in thousands of Lek)

Statement of changes in equity

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

The Statement of changes in equity is to be read in conjunction with the accompanying notes on pages 6 to 78 forming an integral part of these financial statements.

Statement of cash flows

	Notes	2022	2021
Net profit for the year		**1,289,763**	**519,679**
Adjustments for:			
Depreciation and amortization	17,18,19	483,414	473,224
Impairment of investment property	20	31,300	-
Disposal of property and equipment and intangibles		(147,648)	116
Net impairment reversal on loans and advances to customers	9 (v)	161,956	1,140,004
Write down of inventory		145,694	276,651
Net interest income	30	(3,688,098)	(3,447,148)
Net impairment loss on off-balance sheet items	26	28,354	(3,335)
Tax expense	36	227,820	126,957
Changes in			
Loans and advances to banks		(572,393)	(7,131,343)
Loans and advances to customers		(1,593,213)	(3,183,213)
Due to banks		(458,656)	(796,987)
Due to customers		(2,324,156)	9,961,977
Inventory and other assets		28,492	530,782
Other liabilities and provisions		(242,633)	46,141
Deferred tax asset		(136,449)	131,932
Deferred tax liability		-	(92,855)
Interest received		4,726,975	4,301,674
Interest paid		(919,215)	(875,220)
Income taxes paid		(79,625)	(161,667)
Net cash from/(used) in operating activities		**(3,038,318)**	**1,817,369**
Cash flows from investing activities			
Acquisition of property and equipment	17	26,480	(217,004)
Acquisition of intangible assets	19	61,758	(184,516)
Net acquisitions of investments securities	15	(554,172)	(2,341,668)
Net cash used in investing activities		**(465,934)**	**(2,743,188)**
Cash flows from financing activities			
Dividend paid to shareholders	28	-	(1,701,875)
Repayment of lease liability	18	(149,894)	(161,202)
Net cash used in financing activities		**(149,894)**	**(1,863,077)**
Net increase in cash and cash equivalents		**(3,654,146)**	**(2,788,896)**
Cash and cash equivalents at 1 January	13	29,643,298	32,432,194
Cash and cash equivalents at 31 December	**13**	**25,989,152**	**29,643,298**

The Statement of cash flows is to be read in conjunction with the accompanying notes on pages 6 to 78 forming an integral part of these financial statements.

1. Reporting entity

Intesa Sanpaolo Bank Albania Sh.a, (the "Bank"), is a financial institution domiciled in Albania as joint stock company and involved primarily in corporate and retail banking. The Bank's registered office is at "Ismail Qemali" street, no. 27, and operates through a network of 35 branches and agencies, located in different cities of Albania: Tirana, Durres, Vlora, Elbasan, Fier, Berat, Gjirokastra, Korca, Lushnja, Shkoder, Lezhe, Kavaje (2021: 35 branches and agencies). The Bank had 701 employees as at 31 December 2022 (2021: 659).

2. Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). They were authorized for issue by Management 22 February 2023 for approval by the Board of Directors.

3. Basis of measurement

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

4. Presentation of financial statements

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

5. Functional and presentation currency

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

6. Going Concern

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

7. Use of estimates and judgments

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

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

7. Use of estimates and judgments (continued)

A. Judgements

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

-Note 9.(a): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

-Note 9.(f).(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2022 is included in the following notes.

-Note 9.(a): impairment of financial instruments: determining inputs into the ECL impairment model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information

-Note 9.(g): determination of the fair value of financial instruments and non-financial assets with significant unobservable inputs

-Note 8.(e).(ii): recognition of deferred tax assets

-Note 8.(r): recognition and measurement of contingencies: key assumption about the likelihood and magnitude of an outflow of resources

-Note 8.(n): net realizable value of inventory: fair value measurement with significant unobservable inputs.

8. Significant accounting policies

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

(a) Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the year. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are generally recognized in profit or loss. Foreign currency differences arising from retranslation of transactions with owners are recorded directly in equity.

Effective Interest rate

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

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

8. Significant accounting policies (continued)

(b) Interest

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

Amortized cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, see Note 8.(f)(vi).

Presentation

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

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

Interest expense presented in the statement of profit or loss include interest expense from financial liabilities measured at amortized cost.

(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 Note 8.(c)).

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

8. Significant accounting policies (continued)

(c) Fees and commissions (continued)

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

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

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

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

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

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

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

(d) Leases

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

i. Bank acting as a lessee

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

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

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

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

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

8. Significant accounting policies (continued)

(d) Leases (continued)

i. Bank acting as a lessee (continued)

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

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

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

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset is reduced to zero.

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

ii. Bank acting as a lessor

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

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

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

(e) Income Tax

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

(i) Current Tax

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

8. Significant accounting policies (continued)

(e) Income Tax (continued)

(ii) Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

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

(f) Financial assets and financial liabilities

(i) Recognition and initial measurement

Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank. Nostro transactions are recognized when the transaction is settled and cleared internally. All other financial instruments (including regular-way purchases and sales of financial assets) are initially recognized on the trade date on which the Bank becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

8. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

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

Business model assessment

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

The information considered includes:

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

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

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

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

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

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

Reclassifications

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

Financial liabilities

The Bank classifies its financial liabilities as other financial liabilities, subsequently measured at amortized cost. See notes 8.(p), (q).

8. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iii) De-recognition

Financial Assets

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

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

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

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

Financial liabilities

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

(iv) Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

8. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

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

Financial assets (continued)

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

If such a modification is carried out because of financial difficulties of the borrower (see Note 8.f.(vi)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method (see Note 8 (b)).

Financial liabilities

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

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

(v) Off-setting

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

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

(vi) Impairment

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

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

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

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

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

8. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vi) Impairment (continued)

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

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

Measurement of ECL

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

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

See also Note 9(a).

Credit-impaired financial assets

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

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

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

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

8. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vi) Impairment (continued)

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortized cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; *and*
- *debt instruments measured at FVOCI*: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized against the fair value reserve.

Write-off

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

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

The contractual amount outstanding on financial assets that were written off by the Bank as at 31 December 2022 and that were still subject to enforcement activity was LEK 269,469 thousand (2021: 548,218 thousand).

(g) Fair value measurement

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

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

8. Significant accounting policies (continued)

(g) Fair value measurement (continued)

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would consider in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is entirely supported by observable market data or the transaction is closed out.

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

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

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

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

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

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the notes 10 and 11.

(h) Cash and cash equivalents

‘Cash and cash equivalents’ include notes and coins on hand, balances with banks, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

8. Significant accounting policies (continued)

(i) Loans and advances

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

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

(j) Investment securities

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

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

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

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

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

(k) Property and equipment

(i) Recognition and measurement

Equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Property are measured at revalued amounts, being the fair value at the date of revaluation less accumulated depreciation and any accumulated impairment losses. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

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

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

	2022	2021
• Buildings	20-33 years	20-33 years
• IT and Electrical Equipment	4 to 8 years	4 to 8 years
• Furniture	3 to 10 years	3 to 10 years
• Other non-electrical assets	5 years	5 years

8. Significant accounting policies (continued)

(l) Intangible assets

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

	2022	2021
• Software	5 years	5 years
• Licenses and trademarks	10 years	10 years

(m) Investment property

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

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

(n) Repossessed collateral

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

(o) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amount of its non-financial assets (other than inventory and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) Deposits

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

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the Bank's financial statements.

(q) Provisions

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

8. Significant accounting policies (continued)

(q) Provisions (continued)

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

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

(r) Financial guarantees and loan commitments

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

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

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

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

(s) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(t) Changes in accounting policy and disclosures

- **New and amended standards and interpretations.**

The Bank has not early adopted any new standards, interpretation or amendments that have been issued but are not yet effective in these financial statements.

Other amendments and interpretations apply for the first time in 2022, but do not have an impact on the Bank's financial statements.

The following amendments are effective for the periods after 31 December 2022 and are not expected to have a material impact on the Bank.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments).** The amendment introduces new guidance on application of materiality concept and in particular amends the requirement to disclose material accounting policies in place of current requirement to disclose significant accounting policies. The amendment may lead to removal of disclosure of non material accounting policies.

8. Significant accounting policies (continued)

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

- **New and amended standards and interpretations (continued)**

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments).** The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The effect of these amendments are subject to the nature of future changes in policies and estimates.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)** The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The amendment may have an impact on lease accounting by the bank where the recognition of lease liability and right of use assets typically give rise to temporary differences that are almost equal.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments).** The amendment has introduced certain clarifications related to classification in cases of rights to defer settlement or compliance with covenants. The Bank presents its assets and liabilities in order of liquidity however it does provide current vs non current disclosures in the notes. As a result the impact of the amendment is expected to be limited.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments),** No impact is expected from the amendment as the Bank rarely enters in such transactions.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.** These standards do not apply to the Bank as it has no consolidated financial statements nor any investments in associates.

9. Financial Risk Management

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

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

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

Risk management framework

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

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

(a) Credit Risk

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

9. Financial Risk Management (continued)

(a) Credit Risk

(i) Management of credit risk

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

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

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

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

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

(i) Management of credit risk (continued)

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

(ii) Maximum Exposure to Credit Risk

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

	Maximum Exposure	
	31 December 2022	**31 December 2021**
Cash and cash equivalents (excluding cash on hand)	24,469,273	28,121,532
Loans and advances to banks	34,425,463	33,853,071
Investment securities	73,197,467	74,135,379
Loans and advances to customers	54,267,232	52,967,843
Sundry debtors	26,964	42,076
Total on-balance-sheet risk	186,386,399	**189,119,901**
Undrawn credit commitments	9,659,518	5,887,122
Letters of credit	17,728	77,238
Guarantees in favor of customers	5,779,750	4,823,168
Total credit related commitments	**15,456,996**	**10,787,528**
Total Credit Risk Exposure	**201,843,395**	**199,907,429**

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

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

In the commitments are included bank guarantees counter guaranteed by the Parent Bank amounting ALL 1,006 million (2021: ALL 912 million) assessed with no credit risk, excluded from the disclosures in the note 9(a)(v) below.

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Credit Quality by class of financial assets

The following table sets out information about the credit quality of financial assets measured at amortized cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 9(a)(i).

				31 December 2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers				
Performing	52,740,481	1,805,415	-	**54,545,896**
Past Due	-	-	57,266	**57,266**
Unlikely to Pay	-	-	977,000	**977,000**
Doubtful	-	-	651,620	**651,620**
Total	**52,740,481**	**1,805,415**	**1,685,886**	**56,231,782**
Loss allowance	**718,002**	**364,635**	**881,913**	**1,964,550**
Carrying amount	**52,022,479**	**1,440,780**	**803,973**	**54,267,232**

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

				31 December 2022
	Stage 1	**Stage 2**	**Stage3**	**Total**
Financial guarantee and commitment				
Performing	14,381,664	63,035	-	**14,444,699**
Past Due	-	-	29	**29**
Unlikely to Pay	-	-	1,663	**1,663**
Doubtful	-	-	4,485	**4,485**
Total	**14,381,664**	**63,035**	**6,177**	**14,450,876**
Loss allowance	**52,112**	**11,053**	**6,163**	**69,328**
Carrying amount	**14,329,552**	**51,982**	**14**	**14,381,548**

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

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

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

				31 December 2022
PD Range	**Stage 1**	**Stage 2**	**Stage3**	**Total**
Loans and advances to customers				
0%-0.05%	31,468	-	-	**31,468**
0.05% -11.70%	52,418,948	962,201	-	**53,381,149**
11.70%-29.50%	290,065	-	-	**290,065**
29.50%-99.99%	-	843,214	-	**843,214**
100%	-	-	1,685,886	**1,685,886**
Total	**52,740,481**	**1,805,415**	**1,685,886**	**56,231,782**
Loss allowance	**718,002**	**364,635**	**881,913**	**1,964,550**
Carrying amount	**52,022,479**	**1,440,780**	**803,973**	**54,267,232**

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

				31 December 2022
	Stage 1	**Stage 2**	**Stage3**	**Total**
Loans and advances to banks*				
Performing	32,996,075	362,475	-	**33,358,550**
Total	**32,996,075**	**362,475**	**-**	**33,358,550**
Loss allowance	**2,094**	**29**	**-**	**2,123**
Carrying amount	**32,993,981**	**362,446**	**-**	**33,356,427**
Investment securities at FVOCI				
Performing	**61,150,901**	**-**	**-**	**61,150,901**
Total	**61,150,901**	**-**	**-**	**61,150,901**
Loss allowance**	630,384	**-**	**-**	630,384
Carrying amount	**60,520,517**	**-**	**-**	**60,520,517**
Investment securities at amortized cost				
Performing	10,802,644	2,018,990	**-**	12,821,634
Total	**10,802,644**	**2,018,990**	**-**	**12,821,634**
Loss allowance	**141,640**	**3,044**	**-**	**144,684**
Carrying amount	**10,661,004**	**2,015,946**	**-**	**12,676,950**

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

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

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

*Loans and advances to banks include current accounts with banks, money market placements with contractual maturity less than 3 months (see Note 13) and deposits with correspondent banks (see Note 14).

**Loss allowance for investment securities at FVOCI is recognized in other comprehensive income and not as a contra account to the carrying amount of the financial asset in the statement of financial position (see Note 8 (f) (vi) Presentation of allowance for ECL in the statement of financial position).

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

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

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

				31 December 2022
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage3**	**Total**
Up to 30 days in arrears	52,740,481	1,501,787	460,355	**54,702,623**
30 to 90 days in arrears	-	303,628	243,952	**547,580**
More than 90 days	-	-	981,579	981,579
Total	**52,740,481**	**1,805,415**	**1,685,886**	**56,231,782**

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

All loans and advances to banks and investment securities fall in the overdue status of less than 30 days in arrears as of 31 December 2022 and 31 December 2021.

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

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

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

	Investment's debt securities		
	31 December 2022		
Sovereign	**Stage 1**	**Stage 2**	**Total**
Rate Baa2	**66,236,015**	**-**	**66,236,015**
FVOCI	55,575,011	-	55,575,011
AC	10,661,004	-	10,661,004
Rate B1	**2,590,282**	**2,015,946**	**4,606,228**
FVOCI	2,590,282	-	**2,590,282**
AC	-	2,015,946	**2,015,946**
	68,826,297	**2,015,946**	**70,842,243**
Financial Institutions			
Rated Aaa	**2,355,224**	**-**	**2,355,224**
FVOCI	**2,355,224**	**-**	**2,355,224**
Total carrying amount	**71,181,521**	**2,015,946**	**73,197,467**

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

	Loans and advances to Banks		
	31 December 2022		
	Stage 1	**Stage 2**	**Total**
Rated Aa3	7,325	-	7,325
Rated A1	542,667	-	542,667
Rated A2	3,341,966	-	3,341,966
Rated Baa1	6,305,062	317,549	6,622,611
Rated Baa2	16,922,838	-	16,922,838
Rated Ba1	1,080,588	44,926	1,125,514
Rated Ba2	4,624,911	-	4,624,911
Rated B2	170,717	-	170,717
	32,996,075	**362,475**	**33,358,550**

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

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

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

(iv) Collateral held and other credit enhancements

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

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

The recovery costs are deducted from estimated future cash flows. Collateral, generally, is not held over loans and advances to financial institutions, except when securities are held as part of reverse repurchase and securities borrowing activity. Usually, collateral is not held against investment securities, and no such collateral was held at 31 December 2022 and 2021.

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

	Loans and advances to customers		Collateral		No-collateral	
	GBV	**NBV**	**GBV**	**NBV**	**GBV**	**NBV**
Stage 1	52,740,481	52,022,479	46,065,720	45,636,577	6,674,761	6,385,902
Stage 2	1,805,415	1,440,780	1,739,332	1,405,928	66,083	34,852
Stage 3 collective	406,686	115,308	183,259	101,708	223,427	13,600
Stage 3 individual	1,279,200	688,665	1,275,739	687,485	3,461	1180
Total	**56,231,782**	**54,267,232**	**49,264,050**	**47,831,698**	**6,967,732**	**6,435,534**

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

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

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

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

	Collateral of Loans and advances to customers			
	31 December 2022		31 December 2021	
	Undiscounted	Discounted	Undiscounted	Discounted
Against individually impaired				
Property	2,904,479	1,027,276	3,735,598	1,275,622
Pledges and guarantees	649,835	2,229	673,774	-
Cash	-	-	-	-
Debt securities	106,100		139,850	-
Other			-	-
Total	**3,660,414**	**1,029,505**	**4,549,222**	**1,275,622**
Net carrying amount		**687,485**		**849,101**

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

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

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

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

	Collateral of Loans and advances to customers			
	31 December 2022		31 December 2021	
	Undiscounted	Discounted	Undiscounted	Discounted
Against Collectively Impaired				
Property	87,736,366	38,474,495	82,923,180	37,359,111
Pledges and guarantees	80,461,565	4,981,867	69,260,598	4,831,072
Cash	740,757	709,156	798,859	767,359
Debt securities	1,615,375	123,896	1,626,577	51,804
Other	1,054,343		1,084,230	-
Total	**171,608,406**	**44,289,414**	**155,693,444**	**43,009,346**
Net carrying amount		**47,144,213**		**46,854,588**

It is the Bank's policy to dispose of assets repossessed through the recovering process. The amounts collected from the proceeds are used to reduce or liquidate the carrying amount of the non-performing loans. The table below sets out the carrying amount and the value of undiscounted collateral of the loans and advances to customers measured at amortized cost.

	31 December 2022		31 December 2021	
	Carrying amount	Collateral	Carrying amount	Collateral
Stage 1 and Stage 2	53,463,258	171,608,406	51,969,707	155,693,444
Stage 3	803,973	3,660,414	998,136	4,549,222
	54,267,231	**175,268,820**	**52,967,843**	**160,242,666**

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

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

When the Bank holds repossessed assets in its ownership, their conversion into cash is the Bank's first aim, through marketing the properties for sale. If there is no satisfactory offer collected, the Bank's practice is to keep the asset for sale until receiving the best offer. The amounts of repossessed properties are disclosed in note 22.

Depending on operational needs and the suitability of the asset to fulfill those needs, management may decide to make use of the property; in such cases a reclassification into property and equipment (see note 17) of the Bank is performed. The breakdown of the gross book value of the loans and advances by class, along with the fair value of the collateral held by the Bank as security, are as follows:

31 December 2022	**Over-collateralized portfolio**		**Under-collateralized portfolio**	
	Gross book value of portfolio	**Fair value of collateral**	**Gross book value of portfolio**	**Fair value of collateral**
Mortgage Lending	10,836,464	29,658,140	2,372,987	141,933
Leasing	23,332	51,218	-	-
Personal loans	132,915	384,883	2,698,658	-
Overdrafts and credit cards	16,083	23,367	279,867	-
Loans to businesses	36,044,225	139,388,894	2,147,522	1,173,230
Total	**47,053,019**	**169,506,502**	**7,499,033**	**1,315,163**

31 December 2021	**Over-collateralized portfolio**		**Under-collateralized portfolio**	
	Gross book value of portfolio	**Fair value of collateral**	**Gross book value of portfolio**	**Fair value of collateral**
Mortgage Lending	10,037,610	27,371,176	1,939,594	185,544
Leasing	19,737	43,331	-	-
Personal loans	22,140	74,703	2,213,307	-
Overdrafts and credit cards	31,041	53,235	255,270	-
Loans to businesses	34,660,229	125,329,391	3,682,660	1,742,060
Total	**44,770,757**	**152,871,836**	**8,090,831**	**1,927,604**

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

31 December 2022	**Over-collateralized portfolio**		**Under-collateralized portfolio**	
	Credit impaired loans	**Fair value of collateral**	**Credit impaired loans**	**Fair value of collateral**
Mortgage Lending	207,485	1,025,331	19,731	-
Financial Leasing	-	-	-	-
Personal loans	-	-	180,065	200
Overdrafts and credit cards	209	228	25,691	457
Loans to businesses	1,250,075	3,408,179	2,630	1,142
Total	**1,457,769**	**4,433,738**	**228,117**	**1,799**

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

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

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

(v) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 8(f).(vi).

Significant increase in credit risk

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

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

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

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

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

New Definition of default "DoD"

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

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

Incorporation of forward-looking information

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

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 8 (f)(iv).

Measurement of ECL (Expected Credit Losses)

The key inputs into the measurement of ECL are the term structure of the following variables:

• probability of default (PD);

• loss given default (LGD); and

• exposure at default (EAD)

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

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

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

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

Low Default Portfolio

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

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

Intragroup exposures are exposures with the following parties:

- Parent Company;
- Other ISP subsidiaries.

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

Low Default Portfolio (continued)

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

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

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

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

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

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

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

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

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

Loss allowances

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

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

The following tables show reconciliations from the opening to the closing balance of the expected credit losses by class of financial instrument.

Movements in impairment allowance funds for:

Loans and advances to banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2022	**4,696**	**4,298**	**-**	**8,994**
Transfer to Stage 1	**120**	**(120)**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial Assets that have been derecognized	(2,714)	(903)	-	**(3,617)**
Net remeasurement of loss allowances	(1,585)	(3,013)	-	**(4,598)**
New financial assets originated or purchased	1,797	-	-	**1,797**
Foreign exchange and other movements	(220)	(233)	-	**(453)**
Balances at 31 December 2022	**2,094**	**29**	**-**	**2,123**

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

Investment securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2022	**576,112**	**-**	**-**	**576,112**
Transfers between Stages	-	**-**	**-**	-
Financial Assets that have been derecognized	(292,376)	**-**	**-**	**(292,376)**
Net remeasurement of loss allowances	(102,631)	**-**	**-**	**(102,631)**
New financial assets originated or purchased	451,993	-	-	**451,993**
Foreign exchange and other movements	(2,714)	-	-	**(2,714)**
Balances at 31 December 2022	**630,385**	-	-	**630,385**

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

Investment securities at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2022	**282,560**	**4,474**	**-**	**287,034**
Transfers between Stages	**-**	**-**	**-**	**-**
Financial Assets that have been derecognized	(82,058)	-	-	**(82,058)**
Net remeasurement of loss allowances	(57,278)	(1,409)	-	**(58,687)**
New financial assets originated or purchased	-	-	-	**-**
Foreign exchange and other movements	(1,584)	(21)	-	**(1,605)**
Balances at 31 December 2022	**141,640**	**3,044**	**-**	**144,684**

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

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

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2022	**565,290**	**326,592**	**1,122,149**	**2,014,031**
Transfer to Stage 1	137,629	(123,452)	(14,177)	-
Transfer to Stage 2	(6,416)	18,135	(11,719)	-
Transfer to Stage 3	(7,532)	(14,012)	21,544	-
Financial Assets that have been derecognized	(56,535)	(6,503)	(100,674)	(163,712)
Net remeasurement of loss allowances	(146,495)	133,834	108,725	96,064
New financial assets originated or purchased	248,806	42,526	32,512	323,844
Write offs	-	-	(269,469)	(269,469)
Foreign exchange and other movements	(16,745)	(12,485)	(6,978)	(36,208)
Balances at 31 December 2022	**718,002**	**364,635**	**881,913**	**1,964,550**

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**480,387**	**229,916**	**1,285,461**	**1,995,764**
Transfer to Stage 1	2,258	(717)	(1,541)	-
Transfer to Stage 2	(115,333)	118,410	(3,077)	-
Transfer to Stage 3	(182,255)	(196,359)	378,614	-
Financial Assets that have been derecognized	(71,562)	(48,379)	(226,915)	**(346,856)**
Net remeasurement of loss allowances	257,197	59,186	(34,668)	**281,715**
New financial assets originated or purchased	209,224	164,535	116,378	**490,137**
Write offs	-	-	(392,103)	**(392,103)**
Foreign exchange and other movements	(14,626)	-	-	**(14,626)**
Balances at 31 December 2021	**565,290**	**326,592**	**1,122,149**	**2,014,031**

Loan commitments and financial guarantee contracts	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2022	**37,561**	**91**	**5,523**	**43,175**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(8,484)	8,784	(300)	-
Transfer to Stage 3	(217)	-	217	-
Financial Assets that have been derecognized	(5,813)	(2)	(151)	**(5,966)**
Net remeasurement of loss allowances	17,199	9	1,066	**18,274**
New financial assets originated or purchased	12,967	2,174	68	**15,209**
Foreign exchange and other movements	(1,101)	(3)	(260)	(1,364)
Balances at 31 December 2022	**52,112**	**11053**	**6,163**	**69,328**

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

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

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

Gross amount

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

Loans and advances to banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2022	**39,122,156**	**4,738,257**	**-**	**43,860,413**
Transfer to Stage 1	**168,001**	**(168,001)**	**-**	**-**
Financial Assets that have been derecognized	(28,387,359)	(1,625,132)	-	**(30,012,491)**
Increase/Decrease of the exposure	(4,015,487)	(2,331,047)	-	**(6,346,534)**
New financial assets originated or purchased	27,978,550	-	-	**27,978,550**
Foreign exchange and other movements	(1,869,786)	(251,602)	-	**(2,121,388)**
Balances at 31 December 2022	**32,996,075**	**362,475**	**-**	**33,358,550**

Loans and advances to banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**38,062,282**	**2,529,732**	**-**	**40,592,014**
Transfer to Stage 2	**(3,242,573)**	**3,242,573**	**-**	**-**
Financial Assets that have been derecognized	(26,119,802)	-	-	**(26,119,802)**
Increase/Decerease of the exposure	2,034,890	(2,659,180)	-	**(624,290)**
New financial assets originated or purchased	28,387,359	1,625,132	-	**30,012,491**
Foreign exchange and other movements	-	-	-	**-**
Balances at 31 December 2021	**39,122,156**	**4,738,257**	**-**	**43,860,413**

Investment securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2022	**51,351,170**	-	-	**51,351,170**
Transfer between stages	**-**	-	-	
Financial Assets that have been derecognized	(33,011,437)	-	-	**(33,011,437)**
Increase/Decrease of the exposure	(1,129,473)	-	-	**(1,129,473)**
New financial assets originated or purchased	43,418,626	-	-	**43,418,626**
Foreign exchange and other movements	(108,369)	-	-	**(108,369)**
Balances at 31 December 2022	**60,520,517**	**-**	-	**60,520,517**

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

Gross amount (continued)

Investment securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**36,836,454**	**734**	**-**	**36,837,188**
Transfer between stages	-	-	-	-
Financial Assets that have been derecognized	(24,742,205)	(712)	-	**(24,742,917)**
Increase/Decerease of the exposure	(301,213)	-	-	**(301,213)**
New financial assets originated or purchased	39,596,522	-	-	**39,596,522**
Foreign exchange and other movements	(38,388)	(22)	-	**(38,410)**
Balances at 31 December 2021	**51,351,170**	**-**	**-**	**51,351,170**

Investment securities at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2022	**21,042,803**	**2,028,440**	**-**	**23,071,243**
Transfer between stages	-	-	-	-
Financial Assets that have been derecognized	(10,024,219)	-	-	**(10,024,219)**
Increase/Decrease of the exposure	(129,445)	(19,160)	-	**(148,605)**
New financial assets originated or purchased	-	-	-	-
Foreign exchange and other movements	(86,495)	9,710	-	**(76,785)**
Balances at 31 December 2022	**10,802,644**	**2,018,990**	**-**	**12,821,634**

Investment securities at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**31,782,220**	**3,454,312**	**-**	**35,236,532**
Transfer between stages	-	-	-	-
Financial Assets that have been derecognized	(10,658,128)	(1,516,347)	-	**(12,174,475)**
Increase/Decerease of the exposure	(38,492)	106,461	-	**67,969**
New financial assets originated or purchased	-	-	-	-
Foreign exchange and other movements	(42,797)	(15,986)	-	**(58,783)**
Balances at 31 December 2021	**21,042,803**	**2,028,440**	**-**	**23,071,243**

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

Gross amount (continued)

Loans and Advances to Customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2022	**50,960,371**	**1,901,218**	**2,120,285**	**54,981,874**
Transfer to Stage 1	581,348	(554,578)	(26,770)	-
Transfer to Stage 2	(736,544)	775,056	(38,512)	-
Transfer to Stage 3	(274,448)	(41,144)	315,592	-
Financial Assets that have been derecognized	(3,265,401)	(15,777)	(630,317)	(3,911,495)
Increase/Decrease of the exposure	(4,833,147)	(305,325)	(176,498)	(5,314,970)
New financial assets originated or purchased	11,962,961	129,594	140,995	12,233,550
Foreign exchange and other movements	(1,648,370)	(84,698)	(24,109)	(1,757,177)
Balances at 31 December 2022	**52,746,770**	**1,804,346**	**1,680,666**	**56,231,782**

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

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

Gross amount (continued)

OFF BALANCE SHEET	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2022	**9,842,804**	**1,043**	**5,838**	**9,849,685**
Transfer to Stage 1	30,747	(30,747)	-	**-**
Transfer to Stage 2	(46,572)	51,367	(4,795)	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial Assets that have been derecognized	(1,395,856)	(37)	(159)	**(1,396,052)**
Increase/Decerease of the exposure	3,292,776	29,781	5,485	**3,328,042**
New financial assets originated or purchased	2,919,585	11,668	69	**2,931,322**
Foreign exchange and other movements	(261,821)	(40)	(260)	(262,121)
Balances at 31 December 2022	**14,381,663**	**63,035**	**6,178**	**14,450,876**

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

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

The following table provides for the year 2022 and 2021 a reconciliation between opening and closing balances of loss allowance per class of financial instrument:

	Loans and advances to banks	Loans and advances to customers	Investment securities at FVOCI	Investment securities at amortized cost	Total
Net remeasurement of loss allowance	(8,216)	(69,210)	(395,007)	(139,336)	**(613,178)**
New financial assets originated or purchased	1,797	323,844	451,993	-	**777,634**
Balances at 31 December 2022	**(6,419)**	254,634	**56,986**	**(139,336)**	**164,456**

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

(vi) Write-off policy

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. 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.

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

(vii) Concentration of Credit Risk

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

	Net Loans and advances to customers	
Concentration by sector	**31 December 2022**	**31 December 2021**
Services	18,402,542	20,074,711
Wholesale	9,236,584	9,106,404
Manufacturing	6,779,735	5,728,502
Construction	2,394,284	2,439,035
Real Estate	488,761	471,135
Other	943,091	859,361
Corporate total	**38,244,997**	**38,679,148**
Mortgage	13,138,593	11,934,543
Consumer	2,883,642	2,354,152
Retail total	**16,022,235**	**14,288,695**
Carrying amount	**54,267,232**	**52,967,843**

	Loans and advances to banks	
Concentration by sector	**31 December 2022**	**31 December 2021**
Related parties bank	9,777,889	22,199,347
Other EU countries	22,609,759	18,969,807
Local banks	970,901	2,682,265
Carrying amount	**33,358,549**	**43,851,419**

	Investment securities	
Concentration by sector	**31 December 2022**	**31 December 2021**
Sovereign (Note 16)	70,842,243	73,603,707
Bank	-	-
Other Financial Institutions	2,355,224	531,672
Carrying amount	**73,197,467**	**74,135,379**

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

	31 December 2022	**Exposure In %**	**31 December 2021**	**Exposure In %**
Republic of Albania securities	66,241,297	61%	68,260,450	65%
Balances with Bank of Albania	25,538,309	24%	18,123,184	17%
Total direct Albanian Sovereign risk	**91,779,606**	**85%**	**86,383,634**	**83%**
Largest bank	11,571,065	11%	15,499,342	15%
Largest customer	5,134,780	5%	2,412,904	2%
Total largest bank and customer	**16,705,845**	**15%**	**17,912,246**	**17%**
Total on-balance-sheet risk	**100,669,529**		**104,295,880**	

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

Republic of Albania securities includes securities invested with Government of Albania classified as FVOCI and AC. Balances with Bank of Albania include current account and mandatory reserve with Bank of Albania.

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

(viii) Settlement risk

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

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

(b) Liquidity Risk

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

(i) Management of liquidity risk

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

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

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

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

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

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

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

(i) Management of liquidity risk (continued)

In its Liquidity Policy, the bank measures and monitors the Survival Period Indicator, an indicator which measures the first day in which the Net Liquidity Position of a Bank turns negative, namely when there is no more additional liquidity to cover the simulated net liquidity outflows. The Net Liquidity Position, on a certain date, amounts to the difference between the available Liquidity Reserves (including the related variations arising from secured positions) and the net outflows expected until that date. The monitoring of the Survival Period indicators represents an important early warning system regarding the potential deterioration of the LCR indicator. An internal limit is defined at individual level. The bank should monitor that, under the stressed condition, the Net Liquidity Position is always positive at least up to 90 days.

The short term indicator (LCR) shows a very well level of liquidity of the bank, under a liquidity stress scenario.

The Bank monitors liquidity, in accordance with the Central Bank regulations, 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:

- **Bank of Albania Liquidity Ratio** in total, in foreign currency and in local currency, which is used to measure the Bank's compliance with the liquidity limits established by the Central Bank of Albania, 20% for all currencies and foreign currency and above 15% for the local currency.
- **Bank of Albania 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≥100% in Total currencies and LCR≥80% in foreign significant currencies). For each significant single currency LCR≥80%.
- **Bank of Albania Net Stable Funding Ratio (NSFR)** has the purpose of guaranteeing 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. The regulation enter in force on 1 January 2023, Banks, until the entry into force of this regulation, shall report on a quarterly basis to the Bank of Albania, the net stable funding ratio on an individual basis for total net stable funding ratio and for total significant currencies, starting from March 2022.

All the above liquidity ratios are periodically monitored by the ISBA Bank' Enterprise, Market and Financial Risk office with reference to Group internal limits and guidelines and to Central Bank of Albania requirements.

During the year 2022, the bank has been within the internal and regulatory limits.

(ii) Compulsory reserve

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

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

All the above liquidity ratios are periodically monitored by the Bank with reference to the Group internal limits and guidelines and to the Bank of Albania requirements. During the year 2022 and 2021, the Bank has been within the internal and regulatory limits.

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

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

31 December 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Assets (Cash Flow IN)	**104,869,778**	**5,023,115**	**24,601,610**	**50,126,218**	**19,699,353**	**204,320,074**
Cash on hand	1,521,159	-	-	-	-	1,521,159
Minimum reserve requirements	-	-	-	17,866,771	-	17,866,771
Advances to banks	5,389,546	-	-	-	-	5,389,546
Investment Securities at FVOCI	64,229,446	-	-	-	-	64,229,446
Investment Securities at AC	98,742	387,122	4,330,455	7,466,383	1,395,151	13,677,853
Loans to banks	11,981,440	3,030,321	13,096,039	-	-	28,107,800
Loans and advances to customers (gross performing loans)	21,649,445	1,605,672	7,175,116	24,793,064	18,304,202	73,527,499
31 December 2022						
Liabilities (Cash flow OUT)	**(123,322,294)**	**(7,949,436)**	**(24,686,331)**	**(13,136,173)**	**(189,424)**	**(169,283,658)**
Deposits from banks and customers- Current accounts	**(120,164,731)**	**-**	**-**	**-**	**-**	**(120,164,731)**
Current accounts with banks	(102,587)	-	-	-	-	(102,587)
Current accounts with customers	(120,062,144)	-	-	-	-	(120,062,144)
Deposits from banks	**(914,075)**	-	**-**	**-**	**-**	**(914,075)**
Deposits from customers- Time deposits	(2,243,488)	(7,949,436)	(24,686,331)	(13,136,173)	(189,424)	(48,204,852)
Total gap on-balance sheet	**(18,452,516)**	**(2,926,321)**	**(84,721)**	**36,990,045**	**19,509,929**	**35,036,416**
Off-Balance sheet (Cash flow in)	-	-	-	-	-	-
Off- Balance sheet (Cash flow out)	(500,115)	-	-	-	-	**(500,115)**
Total gap off-balance sheet	**(500,115)**	**-**	**-**	**-**	**-**	**(500,115)**
Total gap 31 December 2022	**(18,952,631)**	**(2,926,321)**	**(84,721)**	**36,990,045**	**19,509,929**	**34,536,301**
Cumulated gap 31 December 2022	**(18,952,631)**	**(21,878,952)**	**(21,963,673)**	**15,026,372**	**34,536,301**	

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

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

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

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

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

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

31 December 2022	1 Month	1-3 Months	3-12 Months	1-5 Years	>5 Years	Total
Commitments	9,659,518	-	-	-	-	**9,659,518**
Guarantees	5,797,477	-	-	-	-	**9,659,518**
31 December 2021						
Commitments	5,887,122	-	-	-	-	**5,887,122**
Guarantees	4,900,405	-	-	-	-	**4,900,405**

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

Reconciliation between contingent liabilities and commitments maturity table and note 37 Commitment and contingencies is as follows:

	31 December 2022	31 December 2021
Commitments	**9,659,518**	**5,887,122**
Un-drawn credit facilities	9,659,518	5,887,122
Guarantees	**5,797,477**	**4,900,405**
Letters of credit	17,728	77,238
Guarantees in favor of customers	5,779,750	4,823,168

(c) Market Risk

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

Management of market risks

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

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

9. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

Management of market risks (continued)

Intesa Sanpaolo Bank Albania – Issuer Limits (Nominal amounts, Euro mln Equivalent)					
	TYPE OF ISSUER	**Tot. Max Limit on the Overall Financial Portfolio (Nominal Value)**	**Total Maximum Limit by Business Model (Nominal Value)**		**Single Issuer Maximum Limit on the Overall Financial Portfolio (Nominal Value)**
			HTC	**HTCS**	
i)	Government T-Bills and T-Bonds issued by Albania Government and denominated in local currency.	None	No new purchases	None	Non e
ii)	Government securities issued by Albania Government denominated in foreign currency.	The lower between Regulatory Limit[1] and EUR 42 mln	No new purchases	The lower between Regulatory Limit[1] and EUR 42 mln	The lower between Regulatory Limit[1] and EUR 42 mln
iii)	-Foreign Government securities issued by G7 countries (exempt-Japan), -Securities issued by Government Agencies or Government Development Banks, with rating Aaa/AAA, -Securities issued by Supranationals with rating Aaa/AAA, denominated in currencies of the G7 members (exempt-JPY) – where the credit approval procedure is fulfilled for non-Government securities.	None	No new purchases	None	100
iv)	Foreign Government securities – issued by EU countries not included in point iii) and rated at least A3/A-, denominated in currencies of G7 members (exempt-JPY).	50	0	50	15

1.Regulatory limit: sum of each Albania security in FC x respective Risk Weight, as defined in the regulation < 20% of the Regulatory Capital.

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(b) Market Risk (continued)

Management of market risks

- Investments in Portuguese and Greek government securities and covered bonds of the same countries are not allowed.
- With reference to item iii) of the Table, investments in Italian government securities are subject to credit sensitivity limits (CR01) approved by GFRC.
- For all the investments in debt securities, classified as HTCS or HTC, issued by countries considered "at risk" according to ISP Country Risk Guidelines (i.e. countries not belonging to euro area with an internal rating lower than AA-), the approval process and authorization procedure required by the guidelines in force must be followed.
- The HTCS security portfolio should be in within a VaR Limit, which was a requirement of the ISP Risk management department. The limit has been defined from ISP Risk management using the historical data of securities portfolio of ISBA. The methodology used for the calculus of the VaR is based on the simulation method applied in full-revaluation and supported by the architecture of HO IBM's "Mark-to-Future". This limit has been introduced and is monitored by ISP Financial and Market Risks Head Office Department/Risk Monitoring & Governance Office on daily basis. In the case of limit violation, they will inform accordingly ISBA structures, ISP Treasury and ISBA Local Risk in order to take all necessary steps to get back to limits. The limit assigned to Intesa Sanpaolo Bank Albania, the last approved in ISBA BOD 28 October 2022, are:

HTCS Securities Portfolio Limits	Limit	Currency
HTCS Early Warning VaR	1,850,000	EUR
HTCS Soft Limit VaR	2,050,000	EUR
HTCS Managerial Alert (Stressed VAR)	2,300,000	EUR
HTCS Early Warning Stressed VaR	2,000,000	EUR

(i) Exposure to Foreign Exchange rate risk

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

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

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

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(c) Market Risk (continued)

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

Assets	**LEK**	**USD**	**EUR**	**OTHER**	**TOTAL**
Cash and cash equivalents	1,697,922	2,433,046	19,376,372	2,481,812	**25,989,152**
Loans and advances to banks	3,536,235	2,110,362	28,778,866	-	**34,425,463**
Investment securities at FVOCI	52,562,930	-	7,957,587	-	**60,520,517**
Investment securities at amortized cost	9,177,095	2,015,946	1,483,909	-	**12,676,950**
Loans and advances to customers	18,386,316	3,178,574	32,702,226	116	**54,267,232**
Property and equipment's	1,886,036	-	-	-	**1,886,036**
Right of use	515,150	-	-	-	**515,150**
Intangible assets	604,206	-	-	-	**604,206**
Investment Property	502,498	-	-	-	**502,498**
Deferred tax assets	376,559	-	-	-	**376,559**
Current tax assets	154,092	-	-	-	**154,092**
Other assets	516,967	17,263	343,085	1,422	**878,737**
Total Assets (1)	**89,916,006**	**9,755,191**	**90,642,045**	**2,483,350**	**192,796,592**
Liabilities					
Due to Banks	849,793	2,209	161,462	4,319	**1,017,783**
Due to customers	64,570,836	9,993,659	90,090,556	2,459,961	**167,115,012**
Provisions	281,662	31,294	168,115	-	**481,071**
Lease liabilities	3,732	-	491,889	-	**495,621**
Other liabilities	949,835	22,203	343,607	6,819	**1,322,464**
Net Equity	22,691,228	-	(326,587)	-	**22,364,641**
Total Liabilities (2)	**89,347,086**	**10,049,365**	**90,929,042**	**2,471,099**	**192,796,592**
Net FX Position at 31 December 2022 (1)-(2)	**568,920**	**(294,174)**	**(286,997)**	**12,251**	**-**
Off balance sheet Assets	18,474,906	4,449,024	146,638,174	441,050	**170,003,154**
Off balance sheet Liabilities	18,472,271	4,176,293	146,907,834	446,756	**170,003,154**
Net Off BSH FX Position at 31 December 2022	**2,635**	**272,731**	**(269,660)**	**(5,706)**	**-**
Total Net FX Position at 31 December 2022	**571,555**	**(21,443)**	**(556,657)**	**6,545**	**-**
Balance sheet Assets as at 31 December 2021	15,640,001	5,373,081	140,472,310	-	**161,485,392**
Balance sheet Liabilities as at 31 December 2021	15,510,159	5,613,526	140,361,707		**161,485,392**
Net Off BSH FX Position at 31 December 2021	**129,842**	**(240,445)**	**110,603**	**-**	**-**
Total Net FX Position at 31 December 2021	**698,763**	**-534,619**	**(176,395)**	**12,251**	**-**

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk

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

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

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

The Bank's financial assets and liabilities have mainly variable interest rate or have a re-pricing date of less than one year, except for Albanian Securities and for certain non-Albanian securities investment, which have fixed coupon rates between 3.36% - 6.9% for USD denominated securities (2021: 0.19% - 6.87%) and between 1.06% - 4.13% for EUR denominated securities (2021: 0.17 – 3.5%).

The Bank's Regulation on Interest Rate Risk Management, "ISBA Guidelines on the governance of IRRBB" and "ISBA Rules on the measurement and control of IRRBB" have been approved by the ISBA Board of Directors on 16 December 2022 and approved by ALCO meeting on 2 December 2022, based on the latest versions of IRRBB Guidelines issued by Parent Company in 2022.

These documents implement the latest regulatory provisions, recently defined in the Guidelines issued by the Parent Company on March 2021, based on the EBA regulation (EBA/GL/2018/02), and keeping the provisions of the Bank of Albania guideline "On managing interest rate risk in the banking book", approved as per decision No. 33, dated 30 April 2013. Interest rate risk generated by the Bank's assets and liabilities, as measured through shift sensitivity of Fair Value analysis of ± 100 basis points, registered at the end of December 2022 a value of ALL -248 million (for +100 basis points) compared to the end of year 2021 ALL -825 million.

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk (continued)

The table below shows the currency breakdown of the shift sensitivity for the year end 2022 and 2021.

Shift sensitivity

31-Dec-22	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	**+100 b.p. / -100 b.p.**	(14,229)/18,392	127,219/(131,204)	(141,447)/149,595
USD	**+100 b.p. / -100 b.p.**	(39,989)/43,665	(39,989)/43,665	0/0
ALL	**+100 b.p. / -100 b.p.**	(194,324)/168,842	311,740/(353,025)	(506,064)/521,866
Other (GBP & CHF)	**+100 b.p. / -100 b.p.**	923/(939)	923/(939)	0/0
31-Dec-21	**Increase in basis points**	**Total**	**Sensitivity of Profit & Loss**	**Sensitivity of Equity**
EUR	**+100 b.p. / -100 b.p.**	(456,323)/356,880	(313,945)/239,403	(142,378)/117,477
USD	**+100 b.p. / -100 b.p.**	(61,806)/67,675	(60,780)/66,638	(1,025)/1,037
ALL	**+100 b.p. / -100 b.p.**	(308,653)/307,721	136,681/(131,670)	(445,334)/439,391
Other (GBP & CHF)	**+100 b.p. / -100 b.p.**	1,423/(1,451)	1,423/(1,451)	0/0

The limits on shift sensitivity of Fair Value (EVE) for shock +100bp and the NII Sensitivity for shocks +/-50bp are part of the RAF limits for ISBA 2022.

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

The sight positions with customers in ALL and EUR are treated based on behavioral model for the NII sensitivity defining the customer interest rate in the long-term and including the behavioral features and delayed reaction to market interest rates (in the short-term) resulting from the model. The behavioral model is developed by ISP Financial and Market Risks Head Office Department, based on the ISBA historical data provided from the Local Risk structure. The model results have been update based on the latest historical data of ISBA sight position (sight loans and sight deposits up to July 2019) by the HO above structure for what concern Net Interest Income (NII) while, for what concern the potential changes to economic value of equity (EVE), is developed for the first-time in order to take into consideration: the positive trend in stocks, the periodic adjustments to the parameters used and various methodological refinements. The updated parameters results for NII and the new ones for EVE representation are approved in GFRC November 2019 and ISBA BOD August 2020.Both are fully implemented in August 2022 in the ALMPro risk system.

A different method used to measure Interest Rate risk is required by the Bank of Albania, which consists of quarterly monitoring of the interest rate risk exposure towards a parallel shock of ±200 basis points of the interest rate curve. For all the financial categories of assets and liabilities divided into either fixed or floating rate, their present value is calculated and is distributed in 14-time buckets. The total present value is then multiplied accordingly with the estimated modified duration of each time bucket. The limit for this exposure is 20% of the Bank's regulatory capital. The Bank has been within the limit with the interest rate risk exposures at 31 December 2022 being 6.3% of the Bank's regulatory capital (31 December 2021: 9.6%).

The Bank has been within the limits in accordance with Bank of Albania regulation and the internal regulation during the year 2022.

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk (continued)

The tables below summarize the Bank's interest-bearing financial assets and liabilities with both fixed and floating interest rates, as reported to Parent company and management of the Bank.

Based on the management of Interest Rate risk regulation, the carrying amount of each financial instrument is mapped to the repricing gap based on contractual undiscounted cash–flows or behavioral re-pricing date. The contractual includes instruments where the Bank knows exactly when the maturity or next re–pricing takes place.

31-Dec-22		O/N	0-3 months	3-18 months	18m - 3 years	3 - 5 years	>5 years	Total
Assets	**Interest rate type**							
Loans and advances to banks	Fix rate	13,784,902	32,193,091	13,096,039	-	-	-	59,074,033
	Floating rate	-	-	-	-	-	-	-
Loans and advances to customers	Fix rate	5,554,329	7,474,431	4,477,641	3,063,900	1,496,764	1,537,772	23,604,836
	Floating rate	261,657	7,227,226	25,706,861	629,139	500,404	668,189	34,993,476
Financial investments	Fix rate	-	14,013,561	41,689,425	10,349,912	7,456,039	1,412,580	74,921,517
	Floating rate	-	1,103,549	1,496,342	-	-	-	2,599,891
Other financial assets	Fix rate	115,096	44,384	446,432	55,940	151,351	81,917	895,120
	Floating rate	1,521,159	-	-	-	-	-	1,521,159
Total financial assets (interest-bearing)		**30,945,278**	**21,237,143**	**62,056,241**	**86,912,740**	**14,098,891**	**9,604,558**	**3,700,458**
Liabilities								
Deposits to banks	Fix rate	(102,587)	(788,355)	(125,719)	-	-	-	(1,016,662)
	Floating rate	-	-	-	-	-	-	-
Due to customers	Fix rate	(78,206,891)	(22,529,405)	(43,758,636)	(15,191,171)	(8,382,102)	(189,424)	(168,257,629)
	Floating rate	-	-	-	-	-	-	-
Other liabilities	Fix rate	(727,355)	(75,572)	(600,677)	(268,621)	(182,814)	(57,182)	(1,912,221)
	Floating rate	-	-	-	-	-	-	-
Total financial liabilities (interest-bearing)		**(120,713,311)**	**(79,036,833)**	**(23,393,332)**	**(44,485,032)**	**(15,459,792)**	**(8,564,916)**	**(246,606)**
Interest sensitivity gap		**(57,799,690)**	**38,662,909**	**42,427,708**	**(1,360,901)**	**1,039,641**	**3,453,852**	**26,423,520**

The behavioral includes instruments whose residual life and/or interest rate have high levels of uncertainty that may depend on specific behaviors by customers, as the sight loans (advances to banks and advances to customers) and sight deposits (current accounts to customers) which are positioned in time buckets as per behavioral coefficients values, results of the model developed from Parent company based ISBA historical data. The model results, after the approval, are implemented in August 2022. The reprising gap is calculated according to the internal rules on Interest rate risk as the difference between interest-bearing assets and interest-bearing liabilities in a given time bucket. Other financial assets/liabilities, capital and reserves, are items not included in the reprising gap, not considered interest-bearing.

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk (continued)

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

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(c) Operational Risk

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

The Bank's Board of Directors has approved the guidelines on the overall operational risk management framework adopting a policy and an organizational process for measuring, managing and controlling operational risk. The Bank's Regulation on Guideline for Operational Risk Management is fully in compliance with the latest Group Guidelines for the Governance of Operational Risk issued on June 2020.

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

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

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

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

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

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

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(d) Capital Management

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

Implementing the current capital requirements, the Central Bank of Albania requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets and off-balance sheet items, at a minimum level of 12%. During financial year 2022 the Bank achieved an adequacy ratio well above the minimum required which as at 31 December 2022 is calculated 26.45% (2021: 23.77%).

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

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

	Note	31 December 2022	31 December 2021
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		14,722,883	11,866,348
		23,494,904	20,638,369
Deductions:			
Regulatory intangible assets		(739,638)	(655,023)
Total qualifying Tier 1 capital		**22,755,266**	**19,983,345**
Risk-weighted assets:			
On and off-balance sheet		72,349,150	75,106,060
Risk assets for operational risk		8,360,677	8,963,432
Total risk-weighted assets		**80,709,827**	**84,069,492**
Tier I capital to risk- weighted asset ratio (Capital adequacy ratio)		**26.46%**	**23.77%**

As at 31 December 2017, the Bank of Albania the guideline "On the internal capital adequacy assessment process" entered in force which set out the requirements for banks on drafting and implementing the Internal Capital Adequacy Assessment Process (ICAAP), as well as the expectations of the supervisor on the structure and content of the regulatory report of this process. ICAAP, which is independently realized by the bank and approved from its governing bodies by acknowledging also regulatory requirements, shall ensure the assessment of the current and future levels of capital adequacy, based on its risk profile and strategies ICAAP has been prepared by the Bank starting from year 2013 following also the ISP Group requirement and also have been timely submitted to the regulator within April 2022.

(in thousands of Lek, unless otherwise stated)

10. Fair value measurement

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

		Fair value measurement using							
		31-Dec-22				31-Dec-21			
Assets measured at fair value:	**Date of valuation**	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Investment securities at FVOCI	**12/31/2022**	**60,520,517**	6,431,205	54,076,282	13,030	**51,351,170**	8,119,315	43,231,855	-
Property and equipment	**12/31/2022**	**1,256,998**			1,256,998	**1,274,659**	-	-	1,274,659
Investment property	**12/31/2022**	**502,498**			502,498	**533,798**	-	-	533,798
		62,280,013	**6,431,205**	**54,076,282**	**1,772,526**	**53,159,627**	**8,119,315**	**43,231,855**	**1,808,457**

11. Financial Assets and Financial Liabilities

(a) Fair values of financial assets and financial liabilities

		Carrying Amount					Fair Value			
31 December 2022	**Note**	**Investment securities at amortized cost**	**Investment securities at FVOCI**	**Loans and advances to banks**	**Other financial liabilities**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans and advances to banks	16	-	-	33,225,482	-	**33,225,482**	-	-	33,225,482	**33,225,482**
Investments securities at amortized cost	17	12,676,950	-	-	-	**12,676,950**	3,594,231	9,354,627	-	**12,948,858**
Investment securities at FVOCI	17	-	60,520,517	-	-	**60,520,517**	6,431,205	54,076,282	13,030	**60,520,517**
Total		**12,676,950**	**60,520,517**	**33,225,482**	**-**	**106,422,949**	**17,233,849**	**56,095,272**	33,371,579	**106,700,700**
Deposits from customers	26	-	-	-	**167,115,012**	**167,115,012**	-	-	166,721,524	**166,721,524**
Total		**-**	**-**	**-**	**167,115,012**	**167,115,012**	**-**	**-**	**166,721,524**	**166,721,524**

31 December 2021	**Note**	**Investment securities at amortized cost**	**Investment securities at FVOCI**	**Loans and advances to banks**	**Other financial liabilities**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans and advances to banks	16	-	-	32,631,895	-	**32,631,895**	-	-	32,631,895	**32,631,895**
Investments securities at amortized cost	17	22,784,209	-	-	-	**22,784,209**	3,628,000	19,443,242	-	**23,071,242**
Investment securities at FVOCI	17	-	51,351,170	-	-	**51,351,170**	5,148,965	46,202,205	-	**51,351,170**
Total		**22,784,209**	**51,351,170**	**32,631,895**	**-**	**106,767,273**	**5,315,085**	**-**	**105,357,575**	**110,672,660**
Deposits from customers	26	-	-	-	169,461,419	**169,461,419**	-	-	170,031,068	**170,031,068**
Total		**-**		**-**	**169,461,419**	**169,461,419**	**-**	**-**	**170,031,068**	**170,031,068**

HTC Albanian Government securities are fixed and floating rate bonds. The floating rate bond is given as the average yield of the last three Treasury bill auctions with the maturity of one year plus the spread. The measurement of the fair value for these securities is performed using the mark-to-market model valuation technique, by discounting all future cash flows deriving from such instruments. The rest of the HTC foreign securities denominated in foreign currencies represent Banks and Financial Institutions' securities whose fair value is measured according the "ISBA fair value internal rules".

Loans and advances to customers have carrying amount, which is considered also their fair value, as the major part of portfolio is based on floating interest rates. The fair value of Time Deposits from customers is re-priced using the net present value. The interest rates applied are the market interest rates published from Bank of Albania. These rates are an estimate of the market rates. The fair value of current accounts, savings accounts is considered to approximate their carrying amount, given they have short-term maturity.

(in thousands of Lek, unless otherwise stated)

11. Financial Assets and Financial Liabilities (continued)

(b) Classification of financial assets and financial liabilities

See accounting policies in Notes 9 (f)(ii).

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

	Note	Amortized cost	FVOCI	Total carrying amount
31 December 2022				
Financial Assets				
Cash and cash equivalents	13	27,189,133	-	**27,189,133**
Loans and advances to banks	14	33,225,482	-	**33,225,482**
Investment securities	15	12,676,950	60,520,517	**73,197,467**
Loans and advances to customers	16	54,267,232	-	**54,267,232**
Total		**127,358,797**	**60,520,517**	**187,879,314**
Financial Liabilities				
Due to banks	23	1,017,783	-	**1,017,783**
Due to customers	24	167,115,012	-	**167,115,012**
Total		**168,132,795**	0	**168,132,795**

	Note	Amortized cost	FVOCI	Total carrying amount
31 December 2021				
Financial Assets				
Cash and cash equivalents	13	29,643,298	-	29,643,298
Loans and advances to banks	14	33,853,071	-	33,853,071
Investments securities	15	22,784,209	51,351,170	**74,135,379**
Loans and advances to customers	16	52,967,843	-	**52,967,843**
Total		139,248,421	51,351,170	**190,599,591**
Financial Liabilities				
Due to banks	23	1,476,439	-	**1,476,439**
Due to customers	24	169,461,419	-	**169,461,419**
Total		170,937,858	-	**170,937,858**

(in thousands of Lek, unless otherwise stated)

12. Maturity analysis of assets and liabilities

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

		31 December 2022		
Assets	**Note**	**Within 12 months**	**After 12 months**	**Total**
Cash and cash equivalents	13	25,989,152	-	25,989,152
Loans and advances to banks	14	34,425,463	-	34,425,463
Investment securities	15	41,348,950	31,848,517	73,197,467
Loans and advances to customers	16	13,669,727	39,459,682	54,267,232
Current tax assets		154,092	-	154,092
Property and equipment	18	-	1,886,036	1,886,036
Right- of use	19		515,150	515,150
Intangible assets	20	-	604,206	604,206
Investment property	21	-	502,498	502,498
Inventory and other assets	22	602,978	275,759	878,737
Deferred tax assets		-	376,559	376,559
Total Assets		**115,433,292**	**76,225,477**	**192,796,592**
Liabilities				
Due to banks	23	1,017,783		1,017,783
Due to customers	24	144,495,170	22,619,842	167,115,012
Lease liability	19	-	495,621	495,621
Other liabilities	27	-	1,322,463	1,322,463
Provisions	26		481,071	481,071
Total Equity		-	22,262,181	22,262,182
Total Liabilities and Equity		**145,512,953**	**47,181,178**	**192,694,131**

		31December 2021		
Assets	**Note**	**Within 12 months**	**After 12 months**	**Total**
Cash and cash equivalents	13	29,643,298	-	29,643,298
Loans and advances to banks	14	33,853,071	-	33,853,071
Investment securities	15	42,835,118	31,300,261	74,135,379
Loans and advances to customers	16	12,510,566	40,457,277	52,967,843
Current tax assets		-	290,395	290,395
Property and equipment	18	-	1,974,017	1,974,017
Right- of use	19		469,669	469,669
Intangible assets	20	-	517,811	517,811
Investment property	21	-	533,798	533,798
Deferred tax assets		-	862,348	862,348
Inventory and other assets	22	-	422,933	422,933
Total Assets		**118,842,052**	**76,828,511**	**195,670,563**
Liabilities				
Due to banks	23	1,476,439	-	1,476,439
Due to customers	24	151,278,236	18,183,183	169,461,419
Lease liability	19	-	468,760	468,760
Deferred tax liabilities	25	-	1,182,079	1,182,079
Provisions	26	-	220,618	220,618
Other liabilities	27	-	534,549	534,549
Total Equity		-	22,326,699	22,326,699
Total Liabilities and Equity		**152,754,675**	**42,915,888**	**195,670,563**

13. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2022 and 31 December 2021 are detailed as follows:

	31 December 2022	31 December 2021
Cash on hand	1,519,879	1,521,766
Current accounts with banks	5,381,970	13,847,919
Unrestricted balances with Bank of Albania	7,695,379	588,994
Money market placements	11,392,480	13,690,431
Less impairment loss allowance	(556)	(5,812)
Total	**25,989,152**	**29,643,298**

14. Loans and advances to banks

Loans and advances to banks as at 31 December 2022 and 31 December 2021 are composed as follows:

	31 December 2022	31 December 2021
Compulsory reserve with Bank of Albania	17,842,930	17,534,190
Deposits with correspondent banks	16,584,100	15,604,577
Repurchase agreement	-	717,486
Less impairment loss allowance	(1,567)	(3,182)
Total	**34,425,463**	**33,853,071**

In accordance with the Bank of Albania requirements, the Bank at the reporting date should maintain a minimum of compulsory reserve as per percentages determined by the regulator (See note 9.(b).(ii)).

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

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

The remuneration interest rate of obligatory reserve denominated in Lek is 70% of repurchase agreements rate equal to 3.75% for 31 December 2022 (31 December 2021: 1.00%).

The remuneration interest rate of the obligatory reserve in EUR is equal to 0% for EUR for 31 December 2022 (31 December 2021: minus 0.50%).

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

15. Investment securities

	31 December 2022	31 December 2022
Investment securities measured at FVOCI-debt instruments	60,520,517	51,351,170
Investment securities measured at amortized cost- debt instruments	12,676,950	22,784,209
Total	**73,197,467**	**74,135,379**

Investment securities measured at FVOCI as at 31 December 2022 and 31 December 2021 can be detailed as follows:

	31 December 2022	31 December 2021
Sovereign issuers		
Republic of Albania	**55,580,294**	**48,074,914**
Unlisted	54,089,312	43,231,855
Listed	1,490,982	4,843,059
EU member states	**2,591,127**	**2,744,584**
Listed	2,591,127	2,744,584
Other Financial Institutions	**2,349,096**	**531,672**
Listed	2,349,096	531,672
Total	**60,520,517**	**51,351,170**

15. Investment securities (continued)

Investment securities measured at amortized cost as at 31 December 2022 and 31 December 2021 can be detailed as follows:

	31 December 2022	31 December 2021
Sovereign issuers		
Republic of Albania	**10,661,004**	**20,760,243**
Unlisted	9,177,096	19,189,974
Listed	1,483,908	1,570,269
US and EU member states	**2,015,946**	**2,023,966**
Listed	2,015,946	2,023,966
Total	**12,676,950**	**22,784,209**

As at 31 December 2022 and 31 December 2021 no Albanian Government securities have been pledged as collateral for repurchase agreements.

16. Loans and advances to customers

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

	31 December 2022	31 December 2021
Loans	43,079,273	41,701,801
Overdrafts	12,901,058	12,965,298
Financial lease	436,074	482,897
Deferred disbursement fees	(184,623)	(168,122)
Gross amount	**56,231,782**	**54,981,874**
Less impairment loss allowance (see Note 9.(a).(v))	(1,964,550)	(2,014,031)
Total net amount	**54,267,232**	**52,967,843**

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

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

	31 December 2022	31 December 2021
Less than one year	208,216	6,281
Between one and five years	223,587	473,048
Over 5 years	4,271	3,568
Gross finance lease	**436,074**	**482,897**
Less impairment allowance	(32,943)	(4,494)
Total	**403,131**	**478,403**

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

	2022			2021		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Retail customers	**29,224,959**	**1,070,030**	**28,154,929**	**27,467,998**	**1,023,893**	**26,444,105**
Mortgage lending	12,594,254	286,848	12,307,406	12,219,230	284,687	11,934,543
Personal loans	16,560,463	773,584	15,786,879	15,200,563	731,550	14,469,013
Credit cards	46,910	7,690	39,220	28,468	6,266	22,202
Leasing	23,332	1,908	21,424	19,737	1,390	18,347
Corporate customers	**27,006,823**	**894,520**	**26,112,303**	**27,513,876**	**990,138**	**26,523,738**
Investment loans	24,229,616	682,232	23,547,384	24,389,408	836,436	23,552,972
Working capital	2,364,465	181,253	2,183,212	2,661,308	150,598	2,510,710
Leasing	412,742	31,035	381,707	463,160	3,104	460,056
Total	**56,231,782**	**1,964,550**	**54,267,232**	**54,981,874**	**2,014,031**	**52,967,843**

(in thousands of Lek, unless otherwise stated)

17. Property and Equipment

Property and Equipment as at 31 December 2022 and 31 December 2021 is as follows:

	Land and Building*	IT and Electrical Equipment	Furniture and Fine Art Works	Other non-Electrical Assets	Assets acquired not put into use	Total
Cost or fair value*						
Balance as at 1 January 2021	**1,320,839**	**1,244,300**	**167,521**	**255,882**	**275,526**	**3,264,068**
Additions	-	147,448	19,898	14,037	47,776	**229,159**
Disposals	-	(24,152)	(17,537)	(1,445)	-	**(43,134)**
Adjustment of Revaluation	-	-	-	-	-	-
Balance as at 31 December 2021	**1,320,839**	**1,367,596**	**169,882**	**268,474**	**323,302**	**3,450,093**
Additions	29,428	180,515	8,943	49,547	(158,541)	109,892
Disposals	-	(267,885)	(13,808)	(66,347)	-	(348,040)
Adjustment of Revaluation	-	-	-	-	-	-
Balance as at 31 December 2022	**1,350,267**	**1,280,226**	**165,017**	**251,674**	**164,761**	**3,211,945**
Accumulated Depreciation						
Balance as at 1 January 2021	**-**	**1,069,719**	**128,179**	**150,588**	**-**	**1,348,486**
Depreciation for the year	46,180	76,444	11,450	20,278	-	**154,352**
Disposals	-	(5,975)	(14,217)	(6,570)	-	**(26,762)**
Used on the Impairment loss	-	-	-	-	-	-
Balance as at 31 December 2021	**46,180**	**1,140,188**	**125,412**	**164,296**	**-**	**1,476,076**
Depreciation for the year	47,089	98,425	11,233	22,042	-	178,789
Disposals	-	(256,352)	(10,878)	(61,726)	-	(328,956)
Used on the Impairment loss	-	-	-	-	-	-
Balance as at 31 December 2022	**93,269**	**982,261**	**125,767**	**124,612**	**-**	**1,325,909**
Carrying amount						
At 31 December 2021	**1,274,659**	**227,408**	**44,470**	**104,178**	**323,302**	**1,974,017**
At 31 December 2022	**1,256,998**	**297,965**	**39,250**	**127,062**	**164,761**	**1,886,036**

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

Fully depreciated assets still in use for the year ended 2022 have an historical cost of ALL 896 mio.

(in thousands of Lek, unless otherwise stated)

18. Right of use of assets and lease liability

A. Leases as lessee

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

	Right-of-use assets		
	Buildings	**Other tangible assets**	**Total**
Cost			
At 1 January 2021	**745,346**	**67,251**	**812,597**
Additions	32,787	-	32,787
Modifications	-	-	-
Disposal/Transfer	(41,212)	-	(41,212)
At 31 December 2021	**736,921**	**67,251**	**804,172**
Additions	269,583	-	269,583
Modifications	-	-	-
Disposal/Transfer	(228,645)	-	(228,645)
At 31 December 2022	**777,859**	**67,251**	**845,110**
Accumulated Depreciation			
At 1 January 2021	**(193,779)**	**(17,659)**	**(211,438)**
Depreciation charge	(148,218)	(14,119)	(162,337)
Depreciation charge for disposals	39,272	-	**39,272**
At 31 December 2021	**(302,725)**	**(31,778)**	**(334,503)**
Depreciation charge	(134,034)	(14,118)	**(148,152)**
Depreciation charge for disposals	152,695	-	152,695
At 31 December 2022	**(284,064)**	**(45,896)**	**(329,960)**
Net book amount			
At 31 December 2021	**434,196**	**35,473**	**469,669**
At 31 December 2022	**493,795**	**21,355**	**515,150**
Average Discount rate	**2.31%**	**0.66%**	

The Bank has rental agreements with renewal options for its offices in Albania. During 2022, the amount of Lek 27,679 thousand was recognized as operating lease expense under IAS 17 in respect of lease rentals (2021: Lek 17,160 thousand).

i. Extension options

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

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

Lease Liability

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

	2022	2020
At 1 January	**468,760**	**602,986**
Additions	266,124	32,746
Disposals	(74,500)	(1,911)
Modifications	-	-
Accrual of interest	10,045	8,756
Lease payment	(149,894)	(161,202)
Revaluation effect	(24,914)	(12,615)
At 31 December	**495,621**	**468,760**

The maturity analysis of lease liabilities is disclosed in Note 12.

19. Intangible Assets

Intangible assets as at 31 December 2022and 31 December 2021 are as follows:

	Software and Licenses	Advances for Software	Total
Cost			
Balance as at 1 January 2021	**2,180,370**	**120,027**	**2,300,397**
Additions during period	162,728	21,787	184,515
Transfers	-	-	-
Balance as at 31 December 2021	**2,343,098**	**141,814**	**2,484,912**
Additions during period	207,082	35,786	242,868
Transfers	-	-	-
Balance as at 31 December 2022	**2,550,180**	**177,600**	**2,727,780**
Amortization and Impairment Losses			
Balance as at 1 January 2021	**1,810,566**	-	**1,810,566**
Amortization charge for the year	156,535	-	**156,535**
Disposals	-	-	**-**
Balance as at 31 December 2021	**1,967,101**	**-**	**1,967,101**
Amortization charge for the year	156,473	-	**156,473**
Disposals			
Balance as at31 December 2022	**2,123,574**	**-**	**2,123,574**
Carrying amount			
At 1 January 2021	**369,804**	**120,027**	**489,831**
At 31 December 2021	**375,997**	**141,814**	**517,811**
At 31 December 2022	**426,606**	**177,600**	**604,206**

Fully depreciated assets still in use for the year ended 2022 have an historical cost of ALL 1,717 mio.

20. Investment property

The Bank holds investment property as consequence of acquisitions through enforcement of security over loans and advances. As at 31 December 2022, the investment property represents a foreclosed collateral repossessed during 2017. During 2022, investment property rentals of Lek 15,719 thousand (2021: Lek 15,146 thousand) have been recognized in other income. Based on the agreement between parties the annual rent for the first year is calculated 2.8% of the historical cost. The annual rent change over the period based on the payment of instalment for purchase of the property.

20. Investment property (continued)

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

	2022	2021
Balance at 1 January	**533,798**	**533,798**
Acquired during the year	-	-
Assets sold during the year	-	-
Net changes in fair value	(31,300)	-
Balance at 31 December	**502,498**	**533,798**

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

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

		2022	2021
Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	
Discounted cash flow method (DCF)	Estimated rental value per sqm per month	1,167 - 12,376 EUR	1,167 - 12,376 EUR
	Discounted rate	9%	9%

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

21. Other assets

Other assets as at 31 December 2022 and 31 December 2021 are as follows:

	31 December 2022	31 December 2021
Sundry debtors	26,964	42,076
ATM & POS transactions	100,861	81,151
Leasehold improvements	109,605	77,080
Prepayments	60,266	22,226
Cheques for collection	2,570	7,425
VAT Receivable	224,651	175,217
Others	78,061	98,164
Total	**602,978**	**503,339**

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

	31 December 2022	31 December 2021
At beginning of the period	**77,080**	**92,913**
Additions during period	60,125	6,075
Write off	-	-
Amortization of the period	(17,422)	(15,516)
Transfer for Integration Costs (note 26)	(10,178)	(6,392)
At end of the period	**109,605**	**77,080**

22. Repossessed assets

Inventory represents repossessed assets acquired in the process of collection of defaulted loans. The movement of "repossessed assets" item during the reporting period is presented as follows. The foreign exchange effect arises due to the fact that such assets are typically priced in Euro in the market.

	2022	2021
At beginning of the period	359,008	668,996
Additions during period	47,098	36,681
Disposals of the period	(26,506)	(161,274)
Write back/(down) to net realizable value	(91,421)	(176,780)
Effect of movements in foreign exchange	(12,420)	(8,615)
At end of the period	**275,759**	**359,008**

23. Due to banks

Due to banks as at 31 December 2022 and 31 December 2021 are as follows:

	31 December 2022	31 December 2021
Correspondent banks		
Current accounts	**229,783**	**336,423**
Resident	1,574	*7,778*
Non-resident	228,209	*328,645*
Deposits	**788,000**	**1,140,016**
Resident	788,000	1,140,016
Non-resident	-	-
Current Accounts with Central Bank		
Total	**1,017,783**	**1,476,439**

As at 31 December 2022 and 31 December 2021, no Albanian Government securities have been pledged as collateral for repurchase agreements.

(in thousands of Lek, unless otherwise stated)

24. Due to customers

Due to customers as at 31 December 2022 and 31 December 2021 are composed as follows:

	31 December 2022			31 December 2021		
Current accounts	**Local Currency**	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Retail	14,202,597	29,929,058	44,131,655	13,225,273	27,531,909	40,757,182
Corporate	14,065,469	30,239,899	44,305,368	14,876,537	32,170,681	47,047,218
	28,268,066	**60,168,957**	**88,437,023**	**28,101,810**	**59,702,590**	**87,804,400**
Deposits						
Retail	35,382,306	38,423,515	73,805,821	36,917,950	40,199,260	77,117,210
Corporate	920,465	3,951,703	4,872,168	1,294,413	3,245,396	4,539,809
	36,302,771	**42,375,218**	**78,677,989**	**38,212,363**	**43,444,656**	**81,657,019**
Total	**64,570,837**	**102,544,175**	**167,115,012**	**66,314,173**	**103,147,246**	**169,461,419**

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

	31 December 2022			31 December 2021		
	Local Currency	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Current Accounts	**28,455,618**	**59,981,405**	**88,437,023**	**28,101,810**	**59,702,590**	**87,804,400**
Deposits						
On demand	5,934,735	25,544,518	31,479,253	6,330,861	25,457,736	31,788,597
One month	7,135	32,018	39,153	307,529	66,315	373,844
Three months	394,454	3,935,198	4,329,652	471,070	1,129,399	1,600,469
Six months	1,225,832	1,884,377	3,110,209	1,460,054	1,849,714	3,309,768
Nine months	65,353	35,450	100,803	87,997	30,878	118,875
Twelve months	8,032,719	8,966,358	16,999,077	8,545,461	12,545,936	21,091,397
Twenty-four months	4,198,582	1,350,566	5,549,148	4,452,010	1,694,361	6,146,371
Other	16,443,698	626,996	17,070,694	16,557,381	670,317	17,227,698
	36,302,508	**42,375,481**	**78,677,989**	**38,212,363**	**43,444,656**	**81,657,019**
Total	**64,758,126**	**102,356,886**	**167,115,012**	**66,314,173**	**103,147,246**	**169,461,419**

(in thousands of Lek, unless otherwise stated)

24. 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:

2022	ALL (%)	USD (%)	EUR (%)
Current accounts and demand deposits	0.05 - 2.35	0.05 - 3.16	0.58 - 1.51
Time deposits – 1 month	0.20 - 0.20	0.05 - 0.10	0.00 - 0.00
Time deposits – 3 months	0.20 - 0.70	0.10 - 0.20	0.00 - 0.20
Time deposits – 6 months	0.20 - 0.80	0.10 - 0.25	0.00 - 0.30
Time deposits – 9 months	0.40 - 0.40		0.00 - 0.00
Time deposits – 10 months	0.50 - 0.85	0.35 - 0.35	
Time deposits – 12 months	0.20 - 1.30	0.10 - 0.30	0.00 - 0.50
Time deposits – 13 months	0.80 - 0.80		
Time deposits – 15 months	0.85 - 1.25	0.45 - 0.45	
Time deposits – 18 months	0.90 - 1.17	0.20 - 0.20	0.00 - 0.00
Time deposits – 21 months	0.95 - 1.35		
Time deposits – 24 months	1.05 - 1.80	0.20 - 0.25	0.00 - 0.80
Time deposits – 30 months	1.20 - 1.32		
Time deposits – 36 months	1.40 - 2.95	0.25 - 0.25	0.00 - 1.10
Time deposits – 60 months	2.26 - 3.6	0.25 - 0.25	0.00 - 0.00
Time deposits – 84 months	3.09 - 3.25		
2021	**ALL (%)**	**USD (%)**	**EUR (%)**
Current accounts and demand deposits	0.05 - 1.53	0.05 - 0.1	0.20 - 0.65
Time deposits – 1 month	0.20 - 0.20	0.05 - 0.10	0.00 - 0.00
Time deposits – 3 months	0.20 - 0.30	0.10 - 0.20	0.00 - 0.00
Time deposits – 6 months	0.20 - 0.40	0.10 - 0.25	0.00 - 0.00
Time deposits – 9 months	0.40 - 0.40	-	0.00 - 0.00
Time deposits – 10 months	0.50 - 0.50	0.35 - 0.35	-
Time deposits – 12 months	0.20 - 0.75	0.10 - 0.30	0.00 - 0.00
Time deposits – 13 months	0.80 - 0.80	-	-
Time deposits – 15 months	0.85 - 0.85	0.45 - 0.45	-
Time deposits – 18 months	0.90 - 0.95	0.20 - 0.20	0.00 - 0.00

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

25. Deferred Tax

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

	31 December 2022			31 December 2021		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Investment securities measured at FVOCI	169,421	-	169,421	-	54,392	(54,392)
Allowance for expected credit losses	53,180	-	53,180	91,002	-	91,002
Investment Property	-	1,599	(1,599)	-	1,599	(1,599)
Repossessed assets	147,014	-	147,014	148,944	-	148,944
Properties		94,177	(94,177)	-	94,177	(94,177)
Right-of-use assets	74,343	77,272	(2,929)	70,569	70,450	119
Equipment and intangible assets	105,649	-	105,649	112,418	-	112,418
Net deferred tax assets	**549,607**	**173,048**	**376,559**	**422,933**	**220,618**	**202,315**

(in thousands of Lek, unless otherwise stated)

25. Deferred Tax (continued)

Movements in temporary differences during the year are as follows:

31 December 2022	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Closing Balance
Investment securities measured at FVOCI	(54,392)	-	223,813	**169,421**
Allowance for expected credit losses	91,002	-	(37,822)	**53,180**
Investment Property	(1,599)	-	-	**(1,599)**
Repossessed assets	148,944	(1,930)	-	**147,014**
Properties	(94,177)	-	-	**(94,177)**
Right-of-use assets	119	(3,048)	-	**(2,929)**
Equipment and intangible assets	112,418	(6,769)	-	**105,649**
Total	**202,315**	**(11,747)**	**185,991**	**376,559**

31 December 2021	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Closing Balance
Investment securities measured at FVOCI	(73,396)	-	19,004	(54,392)
Allowance for expected credit losses	102,297	-	(11,295)	91,002
Investment Property	(1,599)	-	-	(1,599)
Repossessed assets	173,816	(24,872)	-	148,944
Properties	(94,177)	-	-	(94,177)
Right-of-use assets	275	(156)	-	118
Equipment and intangible assets	91,758	20,660	-	112,418
Total	**198,974**	**(4,368)**	**7,709**	**202,315**

26. Provisions

Movements in provisions during the year are as follows:

	Tax Litigation	Other Litigations	Off-Balance Sheet ECL	Integration costs	Total
Balance at 1 January 2022	**154,094**	**218,646**	**43,175**	**118,634**	**534,549**
Provisions made/(reversed) during the year	145	(45,514)	28,354	(26,733)	**(43,748)**
Provisions used during the year	-	(754)	-	-	**(754)**
Effect of movements in foreign exchange	-	(6,775)	(2,201)	-	**(8,976)**
Balance at 31 December 2022	**154,239**	**165,603**	**69,328**	**91,901**	**481,071**

27. Other liabilities

Other liabilities as at 31 December 2022 and 31 December 2021 are composed as follows:

	31 December 2022	31 December 2021
Accrued expenses	407,414	511,039
Sundry creditors	140,915	98,988
Suspense accounts	284,872	235,551
Bank cheques issued and payments in transit	277,879	179,216
Other tax liabilities	184,026	127,104
Due to third parties	27,356	24,957
Other	2	5,222
Total	**1,322,464**	**1,182,077**

28. Share capital and share premium

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

	Number of Shares (In number)	Nominal Value (In Lek)	Total Shares Value (In Lek)
Share Capital at 31 December 2021 and 2022	**15,581,282**	**357**	**5,562,517,674**

Share premium represents the amount paid from the shareholder in excess of the registered share capital. Intesa Sanpaolo S.p.A is the sole shareholder and also ultimate parent and there are no changes in the number of shares for year ended 31 December 2022 and 2021. During 2022 no dividend was recognized as distribution to the ultimate parent (2021: Lek 1,702 thousand).

29. Reserves

As at 31 December 2022 and 31 December 2021, the reserves were:

	31 December 2022	31 December 2021
Regulatory reserve (*a*)	1,125,443	1,125,443
Legal reserve (*b*)	700,180	700,180
Fair value reserve (*c*)	(329,668)	884,331
Revaluation reserve (*d*)	533,669	533,669
Other capital reserve (*e*)	714,554	714,554
Merger reserve (*f*)	2,813,396	2,813,396
Total	**5,557,574**	**6,771,573**

Nature and purpose of the reserves

a. The regulatory reserve was established according to the Central Bank of Albania regulation "On the Bank's Regulatory Capital", no.69, dated 18 December 2014. Banks and branches of foreign banks are required to create reserves of 1.25% to 2% of total risk-weighted assets, by appropriating one fifth of the profit after taxes and before payment of dividends, until the balance on this measure reaches at least 1.25% of total risk-weighted assets. At 31 December 2022, the regulatory reserve represented 1.34% of total risk-weighted assets (2021: 1.34%).

b. The legal reserve was established according to the provisions of the Commercial Law requiring the creation of reserves of 5% of the Bank's net income after deduction of accumulated losses from previous years, until the balance of this reserve reaches 10% of the Bank's share capital. At 31 December 2022, the balance represented 10% of the Bank's share capital (2021: 10%). This threshold is not mandatory, when the existing reserves are not less than one tenth of the Bank's share capital.

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

Below is disclosed the gross value of the fair value reserve and the deferred tax as at 31 December 2022 and 2021:

	31 December 2022	31 December 2021
Gross reserve	(499,089)	829,939
Deferred tax	169,421	54,392
Total	**(329,668)**	**884,331**

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

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

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

(in thousands of Lek, unless otherwise stated)

30. Net Interest income

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

Interest income	**2022**	**2021**
Loans and advances to customers	2,257,590	2,113,699
Investment securities at amortized cost	772,096	1,115,343
Loans and advances to banks	202,203	37,972
Investment securities at FVOCI	1,363,218	964,513
Total interest income	**4,595,107**	**4,231,527**
Interest expenses		
Demand and time deposits	677,095	680,855
Deposits from banks	114,440	154,902
Current accounts of customers	35,711	31,812
Lease liability (note 20)	9,996	8,756
Negative interest on interest bearing assets	69,767	64,169
Total interest expenses	**907,009**	**940,494**
Net interest income	**3,688,098**	**3,291,033**

31. Net fee and commission income

	2022			**2021**		
	Retail Banking	**Corporate Banking**	**Total**	**Retail Banking**	**Corporate Banking**	**Total**
Fee income earned from services that are provided over time:						
Unused/advanced liquidated credit lines	8,653	21,997	30,650	17,123	22,905	40,028
Active current accounts	226,792	14,628	241,420	221,823	24,973	246,796
Arrangement fees and others	5,304	26,356	31,660	3,054	9,886	12,940
Guarantees given	723	41,339	42,062	921	25,794	26,715
Fee income from providing financial services at a point in time:						
ATMs and POSs	402,927	116,808	519,735	295,728	84,436	380,164
Collection and payment services	254,835	323,502	578,337	261,054	316,371	577,425
Fee and commission income	**899,234**	**544,630**	**1,443,864**	**799,703**	**484,365**	**1,284,068**
ATMs and POSs	328,475	119,165	447,640	274,542	89,220	**363,762**
Banking services	618	10,798	11,416	567	8,166	**8,733**
Collection and payment services	9,340	15,530	24,870	12,752	22,067	**34,819**
Guarantees received	-	5,072	5,072	-	3,763	**3,763**
Fee and commission expenses	**338,433**	**150,565**	**488,998**	**287,861**	**123,216**	**411,077**
Net fee and commission income	**560,801**	**394,065**	**954,866**	**511,842**	**361,149**	**872,991**

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

(in thousands of Lek, unless otherwise stated)

32. Net other income

	2022	2021
Foreign exchange gains	631,829	587,565
Recoveries on written off loans	79,615	165,035
Rent income	15,719	15,146
Gain on sale of repossessed assets	12,202	10,289
(Loss)/ gain from sale of investment securities	(610)	5,049
Total	**738,755**	**783,084**

33. Net other operating expenses

	2022	2021
Premium on deposits insurance	450,635	432,195
Loss on sundry net operational	36,241	46,174
Total	**486,876**	**478,369**

34. Personnel expenses

	2022	2021
Salaries	1,191,091	1,073,596
Social Insurance	149,936	142,385
Total salaries and social insurance	**1,341,027**	**1,215,981**
Personnel on secondment	95,575	87,206
Training & similar	15,037	1,440
Termination indemnities and others	60,920	54,665
Total	**1,512,559**	**1,359,292**

Salaries and social insurance for the year ended 31 December 2022 and 2021 are further breakdowns as follows:

	2022	2021
Board of Directors	8,974	6,796
Executive Management	439,533	360,384
Other personnel	1,030,606	848,801
Total	**1,479,113**	**1,215,981**

For the year ended 31 December 2022 the Bank had an average number of 701 employees (2021: 659).

35. Other administrative expenses

	2022	2021
Software maintenance	516,120	389,114
Maintenance and repair	96,521	100,104
Security	66,613	78,135
Indirect Taxes	94,458	77,636
Telephone and electricity	68,986	63,502
Consulting, legal and professional fees	47,121	61,498
Stationery	48,132	43,725
Transport and security services	36,629	39,413
Advertising and publications	23,390	36,923
Integration Fees	35,624	29,695
Insurance	11,264	13,576
Short term and low-value leases	21,346	8,918
Travel and business trips	6,424	1,580
Other	23,720	16,286
Total	**1,096,348**	**960,105**

Consulting, legal and professional fees for the year ended 31 December 2022 include statutory and non-statutory audit fees amounting to Lek 23,889 Million (2021: Lek 22,141 Million).

(in thousands of Lek, unless otherwise stated)

36. Income tax expenses

The components of income tax expense for the year ended 31 December 2022 and 2021 are:

	2022	2021
Current tax for the year	216,073	122,591
Current tax expense	**216,073**	**122,591**
Origination and reversal of temporary differences	11,747	4,366
Deferred tax income	11,747	**4,366**
Income tax expense/(benefit)	**227,820**	**126,957**

Reconciliation of the income tax expense with the accounting profit for the year ended 31 December 2022 and 2021 is presented as follows:

	2022		2021	
Accounting Profit before tax		**1,517,583**		**646,636**
Income tax at domestic corporate tax rate	15.00%	227,637	15.0%	96,995
Non-deductible expenses	4.35%	66,082	15.7%	101,822
Income exempted from income tax	-5.12%	(77,646)	-11.8%	(76,227)
Origination and reversal of temporary differences	0.77%	11,747	0.7%	4,367
Income tax Expense	**15.01%**	**227,820**	**19.6%**	**126,957**

Non-deductible expenses are detailed as follows:

	2022	2021
Representations & Sponsorships expenses	30	294
Sundry operational losses	22,068	8,332
Operating leases expenses	4,337	3,587
Personnel expenses	31,986	26,848
Office expenses	13,408	6,356
Other provisions expenses	211,177	200,373
Litigation expenses	94	239
Losses on unrecoverable loans and overdrafts	93,487	393,922
Depreciation and amortization expenses	3,314	34,971
IFRS 16 impact	4,779	3,894
Write down of inventory	55,861	-
Total	**440,541**	**678,816**
At 15%	**66,082**	**101,822**

Income exempted from income tax are generally reversals of accruals and provisions that were treated as non-deductible in prior years and are detailed as follows

	2022	2021
Write down of inventory	-	(156,607)
Recovery of accruals litigation cases	(45,608)	(143,608)
Reversal of accruals related to prior years	(113,841)	(59,837)
Allowance reversals for expected credit losses	(252,150)	(148,129)
Eurobond Income	(106,038)	-
Total	**(517,637)**	**(508,181)**
At 15%	**(77,646)**	**(76,227)**

The Bank prepaid income tax in the amount of Lek 79,625 thousand were paid during 2022 (2021: Lek 161,667 thousand).

(in thousands of Lek, unless otherwise stated)

37. Commitments and contingencies

Commitments and contingencies as at 31 December 2022 and 31 December 2021 are as follows:

	31 December 2022	31 December 2021
Contingent Assets	**154,546,158**	**150,697,865**
Guarantees received from credit customers	130,979,236	127,478,196
Guarantees received from Government	5,560,701	5,758,534
Money market future dated deals	3,595,156	2,500,300
Forward foreign exchange contracts	911,433	633,717
Other	13,499,632	14,327,118
Contingent Liabilities	**15,456,996**	**10,787,528**
Guarantees in favor of customers	5,779,750	4,823,168
Un-drawn credit facilities	9,659,518	5,887,122
Letters of credit	17,728	77,238

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

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

Litigation

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

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

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

38. Related parties

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

Shareholders and parties related to shareholders:

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

Key management personnel and parties related to key management personnel:

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

(in thousands of Lek, unless otherwise stated)

38. Related parties (continued)

The following transactions have taken place during the year ended 31 December 2022 and 31 December 2021:

	ISP Group companies		Key management personnel and Other related parties	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Assets at end of year	**9,786,449**	**13,771,556**	**209,545**	**117,836**
Loans and advances to credit institutions	9,777,650	13,757,203	-	-
Impairment losses	(238)	(1,435)	-	-
Loans and advances to customers	-	-	209,545	117,836
Impairment losses	-	-	(775)	(926)
Other assets	8,799	14,353	-	-
Liabilities at end of year	**23,722**	**76,739**	**388,274**	**463,156**
Loans and advances from credit institutions	-	-		-
Customer deposits	-	-	388,274	463,156
Invoices to be received	23,722	76,739		
Off balance sheet	**6,034,664**	**4,322,616**	-	-
Letter of credit/Letter of Guarantees given	49,091	62,464	-	-
Letter of credit/Letter of Guarantees received	2,000,346	1,919,653	-	-
Foreign currency contracts and money market deals	3,985,227	2,340,499	-	-
Commitments given	-	-	-	-
Collaterals	-	-	-	-
Income for year ending	**140,338**	**69,199**	**3,051**	**2,844**
Interest income	93,090	7,118	2,283	2,333
Commission Income	47,247	62,081	768	511
Expenses for the year ending	**424,138**	**329,505**	**1,301**	**209**
Interest expense	12,263	54,056	1,301	209
Commission expense and others	17,674	24,914	-	-
Other Administrative Costs	394,201	250,535	-	-
Compensation of Key Managers	**-**	-	**151,021**	**176,869**
Net Salary	-	-	105,799	74,791
Net Bonus paid	-	-	14,278	22,392
Social & Health Insurance	-	-	5,728	4,345
Other expenses (Lecoip)	-	-	5,461	13,387
Other expenses	-	-	19,755	14,539

39. Subsequent events

There are no events after the reporting date that require disclosure in these financial statements.