BANKA AMERIKANE E INVESTIMEVE SHA

Separate Financial Statements for the year ended on
31 December 2018
(with independent auditor's report thereon)

CONTENTS

Building a better
working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Banka Amerikane e Investimeve sh.a

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Banka Amerikane e Investimeve sh.a (the "Bank"), which comprise the separate statement of financial position as at December 31, 2018 and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects the separate financial position of the Bank as at December 31, 2018 and its separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

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

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

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

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

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

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

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

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

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

We communicate with those charged with governance of Banka Amerikane e Investimeve 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 - Ekspertë Kontabël të Autorizuar
Dega në Shqipëri

Ernst & Young Certified Auditors

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

September 25, 2019
Tirana, Albania

Mario Vangjel
Certified Auditor

SEPARATE STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Notes	31 December 2018 ALL '000	31 December 2017 ALL '000
Assets			
Cash and cash equivalents	13	12,730,713	6,778,201
Loans and advances to banks	14	5,950,972	2,718,602
Financial investments – FVOCI	15	19,217,970	-
Financial investments at amortised cost	15	10,124,370	-
Financial investments available for sale	15	-	10,803,880
Financial investments held to maturity	15	-	7,879,715
Loans and advances to customers	16	24,721,153	9,285,162
Financial leasing	17	55,835	78,499
Property and equipment	18	857,285	528,020
Intangible assets	19	142,858	157,634
Deferred tax assets	26	25,482	2,226
Inventory and other assets	20	3,937,203	2,770,739
Assets held for sale	21	10,075	10,075
Investments in Associates	22	41,375	21,250
Total Assets		**77,815,291**	**41,034,003**
Liabilities			
Due to banks	23	1,343,237	1,056,830
Due to customers	24	65,670,499	34,946,297
Other liabilities	28	1,164,227	286,647
Other provisions	27	31,472	29,312
Deferred tax liabilities	26	167,577	88,650
Subordinated liabilities	25	373,059	800,899
Total Liabilities		**68,750,071**	**37,208,635**
Equity			
Share capital	29	3,085,459	7,983,629
Legal and other reserves	30	4,184,123	57,162
Fair value reserve	30	912,300	505,230
Retained Earnings / (Accumulated losses)		883,338	(4,720,653)
Total Equity		**9,065,220**	**3,825,368**
Total Liabilities and Equity		**77,815,291**	**41,034,003**

The notes on pages 5 to 80 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ending on 31 December 2018

	Notes	Year ended 31 December 2018 ALL '000	Year ended 31 December 2017 ALL '000
Interest income		1,997,520	1,566,134
Interest expense		(491,742)	(404,330)
Net interest income	31	**1,505,778**	**1,161,804**
Fee and commission income		167,794	138,060
Fee and commission expense		(49,721)	(34,994)
Net fee and commission income	32	**118,073**	**103,066**
Net foreign exchange (losses)/gains		(24,471)	42,235
Other operating income, net	33	5,405	81,405
Net operating income		**(19,066)**	**123,640**
Net impairment gain on financial assets	16,17	470,563	172,537
Net Impairment on financial assets, other than loans		(34,466)	-
Personnel expenses	34	(540,669)	(400,157)
Depreciation and amortization	18,19	(107,321)	(105,510)
Other administration expenses	35	(686,874)	(460,469)
Net provisions for risk and expenses	27	(27,692)	(1,236)
Total expenses		**(926,459)**	**(794,835)**
Net profit before taxes		**678,326**	**593,675**
Income tax expense	36	(109,295)	(3,281)
Profit for the year		**569,031**	**590,394**
Other comprehensive income			
Items that will be reclasiffied to profit or loss			
Change in fair value of financial instruments – FVOCI, net of tax	15	357,750	-
Change in fair value of available-for-sale investment securities, net of tax	15	-	35,155
Other comprehensive income for the year		**357,750**	**35,155**
Total comprehensive income for the year		**926,781**	**625,549**

The notes on pages 5 to 80 are an integral part of these separate financial statements.

These separate financial statements are approved on July 30, 2019 from the exceoutives of Banka Amerikane e Investimeve sh.a. and are signed on it's behalf by:

Andi Ballta
Chief Executive Officer

American Bank of Investments
1
Head Office

Armand Muharremi
Chief Financial Officer

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Legal and other reserves	Fair value reserve	(Accumulated losses)/ Retained Earnings	Total
	ALL '000	ALL '000	ALL '000	ALL '000	ALL '000
Balance at 1 January 2017	**7,708,537**	**57,162**	**470,075**	**(5,311,047)**	**2,924,727**
Profit for the year	-	-	-	590,394	590,394
Other comprehensive income	-	-	35,155	-	35,155
Total comprehensive income	**-**	**-**	**35,155**	**590,394**	**625,549**
Transaction with owners, recorded directly in equity					
Contribution of shareholder by conversion of subordinated liabilities (note 22)	275,092	-	-	-	275,092
Total contributions by and distribution to owners	**275,092**	**-**	**-**	**-**	**275,092**
Balance at 31 December 2017	**7,983,629**	**57,162**	**505,230**	**(4,720,653)**	**3,825,368**
Impact of adopting IFRS 9	-	-	49,320	3,578	52,898
Restated opening balance under IFRS 9	**7,983,629**	**57,162**	**554,550**	**(4,717,075)**	**3,878,266**
Profit for the year	-	-	-	569,031	**569,031**
Change in FV of securities	-	-	357,750		**357,750**
Total comprehensive income	**-**	**-**	**357,750**	**569,031**	**926,781**
Transaction with owners, recorded directly in equity					
Contribution of shareholder by conversion of subordinated liabilities (note 22)	378,158	-	-	-	**378,158**
Appropriation of profit in legal reserve	-	244,946	-	(244,946)	-
Reserve from merger (note 5)	-	3,882,015	-	-	3,882,015
Decrease in capital for accumulated losses	(5,276,328)	-	-	5,276,328	-
Total contributions by and distribution to owners	**(4,898,170)**	**4,126,961**	**-**	**5,031,382**	**4,260,173**
Balance at 31 December 2018	**3,085,459**	**4,184,123**	**912,300**	**883,338**	**9,065,220**

The notes on pages 5 to 80 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 ALL '000	Year ended 31 December 2017 ALL '000
Profit before tax		**678,326**	**593,675**
Adjustments for:			
Depreciation and amortization	18,19	107,321	105,510
Net impairment (gain)/loss on loans and advances to customers	16,17	(470,563)	(180,285)
Net impairment loss/(gain) on off-balance sheet items	27	-	7,748
Net Impairment on financial assets, other than loans		34,466	-
Net impairment loss on other operational provisions	27	27,692	1,236
Net interest income	31	(1,505,778)	(1,161,804)
Unrealised foreign exchange differences		24,471	(13,133)
Disposal of property and equipment and intangible assets	18,19	-	4,665
Changes in			
Loans and advances to banks	14	(3,135,281)	438,280
Compulsory reserve	14	(151,416)	(56,142)
Loans and advances to customers	16	3,203,354	82,469
Financial Leasing	17	21,922	(78,499)
Due to banks	23	(139,607)	130,245
Due to customers	24	819,827	3,457,229
Inventory and other assets	20	(159,260)	(751,742)
Assets Held For Sale	21	-	(10,075)
Other liabilities and provisions	27,28	479,130	(97,443)
Deferred tax liabilities	26	78,927	7,336
Interest received		2,616,759	1,632,628
Interest paid		(530,500)	(377,266)
Net cash from operating activities		**1,999,570**	**3,734,632**
Cash flows from investing activities			
Investments in Associates and subsidiaries	22	(20,125)	(21,250)
Acquisition of property and equipment	18	(274,197)	(169,674)
Acquisition of intangible assets	19	(22,508)	(29,179)
Net acquisitions of available for sale investments	15	(1,185,544)	217,671
Net acquisitions of held to maturity investments	15	(2,191,757)	(997,273)
Net cash used in investing activities		**(3,694,131)**	**(999,705)**
Cash flows from financing activities			
Proceeds from issue of subordinated liabilities	25	-	-
Net cash from financing activities		**-**	**-**
Net (decrease)/increase in cash and cash equivalents		**(1,694,562)**	**2,734,927**
Cash and cash equivalents at 1 January		6,778,201	4,043,274
Cash and cash equivalent ex-NBG at acquisition date		7,647,074	-
Cash and cash equivalents at 31 December		**12,730,713**	**6,778,201**

The notes on pages 5 to 80 are an integral part of these separate financial statements.

1. REPORTING ENTITY

Banka Amerikane e Investimeve sh.a. ('the Bank', previously known as Credit Agricole Bank Albania), is a wholy owned subsidiary of Tranzit Sh.p.k (owned by investment funds managed by NCH Capital Inc), an Albanian non-banking financial institution focused on providing flexible financing options to companies and individuals.

The Bank was initially established as a subsidiary of the Commercial Bank of Greece (subsequently named Emporiki Bank of Greece S.A.) in October 1998. In October 1999, the Bank, being initially named Intercommercial Bank – Albania Sh.A., was authorized to operate in all fields of banking activity. During 2001 the Bank changed its name to the Commercial Bank of Greece (Albania) Sh.a. On 1 March 2004, the Bank's name was changed to Emporiki Bank Albania Sh.A.

In June 2012, the Emporiki Bank of Greece S.A. sold 100% of its participation in its 100% subsidiary Emporiki Bank Albania Sh.A., to IUB Holding, a French Société Anonyme par actions simplifiée, being a 100 per cent direct subsidiary of Crédit Agricole S.A. On 3rd of September 2012 the Bank's name was changed to Credit Agricole Bank Albania Sh.A. In October 2015, IUB Holding sold 100% of the 100% shares of its subsidiary, Credit Agricole Bank Albania Sh.A, to Tranzit Sh.p.k. The Regulatory approvals, including the change of name to Banka Amerikane e Investimeve sh.a., were finalized with the effective legal date of 12th of October 2015.

On 2th of February 2018, the Bank, signed the agreement of purchasing 100% shares of Banka NBG Albania.The acquisition was finalized on 3th of July 2018 after the pre-approval of Bank of Albania on 6th of June 2018. Following the Bank's shareholder's decision, on 6th of September 2018, the Bank of Albania pre-approved the legal merger of both entities American Bank of Investments Sh.A and Banka NBG Albania sh.a., defining the American Bank of Investments Sh.A as the surviving entity. The legal merger was finalized on 1st of October 2018.

The Bank operates in accordance with the Law No. 9662 "On Banks in the Republic of Albania", dated 18 December 2006. The Bank is licensed to perform credit and deposit activities, payment services in Albania and abroad as well as other banking activities in accordance with Albanian laws.

At 31 December 2018, the registered share capital was ALL 3,085,459 thousand composed of EUR 12,998 thousand and ALL 1,308,190 thousand (2017: ALL 7,983,629 thousand, composed of EUR 9,998 thousand and ALL 6,584,518 thousand), divided into 74,617 shares composed of 30,644 shares with a nominal value of ALL 42,690.08 and 43,973 shares with a nominal value of EUR 295.59 (2017: 70,923 shares composed of 58,611 shares with a nominal value of ALL 112,342.71 and 12,312 shares with a nominal value of EUR 812.08).

The Bank's registered office is in Tirana, Rruga e Kavajes Building #27, H1, 8th floor. The Bank operates in Albania only, with a network of 33 branches and 1 agency as of 31 December 2018 (2017: 19 branches).

The Bank had 469 employees as of 31 December 2018 (2017: 248), out of which 269 (2017: 143) are employees of the Head Office.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The separate financial statements are prepared on the historical cost basis except for debt instruments at fair value through OCI which are measured at fair value, assets held for sale which are measured at FV less costs to sell and inventory which is measured at the lower of cost and net realisable value.

(c) Functional and presentation currency

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In these separate financial statements, the Bank has applied IFRS9 and IFRS 7R, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adapted early any other standard, interpretation or amendement that has been issued but is not yet effective.

3.1 IFRS 9 Financial Intruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in note 6.

3.1.1 Changes to classification and measurenment

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the intruments' contractual cash flow characteristics.

Before 1 January 2018, the Bank classified its financial assets in one of the following categories:

- loans and receivables;
- held to maturity; or
- available-for-sale.

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for mamanging the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI; or
- FVPL.

Financial Liabilities

The Bank classifies its financial liabilities, including financial guarantees and loan commitments, as measured at amortized cost. See accounting policy 3.g.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL, which should be presented in OCI with no subsequent reclassification to profit or loss.

3.1.1.1 Changes to the impairment calculation

The adoption of IFRS9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS9 reqiuires the Bank to record allowance for ECLs for all loans and other debt financial assets not held at FVLP, together with loan commitments and financial guarantee contracts.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of asset.

Details of Bank's impairement method are disclosed in Note 3. j. The quantitative impact applying IFRS9 as at 1 january 2018 is disclosed in Note 6 Transition Disclosures.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1.2 IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include:

- Transition disclosures as shown in Note 6
- Detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 9.

Reconciliations from opening to closing ECL allowances are presented in Notes 16.

3.1.3 IFRS 15 Revenues from contracts with customers

The adoption of IFRS 15 did not impact the timing or amount of fee, commission and other income from contracts with customers and the related and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements. If the Bank had prepared the separate financial statements for 2018 under previous revenue standard IAS 18, the figures in the separate financial statements as a December 2018 would have been the same as prepared under IFRS 15. The accounting policy on income other than interest income is disclosed in note 4.d.

4. SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these separate financial statements, apart from the new standard, *IFRS 9 Financial Instruments*, and *IFRS 15 Revenues from contracts with customers*, which have been implemented from 1 January 2018 using the modified retrospective approach through which the opening balances on 1 January 2018 are restated.

a) Subsidiaries and consolidation

Subsidiaries are entities controlled by the Bank. The Bank prepares separate financial statements in accordance with IFRS. Interests in subsidiaries are accounted for at cost in the separate financial statements. The Bank does not prepare consolidated financial statements, because its Parent, Tranzit shpk prepares consolidated financial statements prepared in accordance with IFRS.

b) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised costs in foreign currency translated at the 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 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 exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are generally recognised in profit or loss.

The official exchange rates for main currencies used in the conversion of foreign currency balances for 2018 and 2017 are as follows (against ALL):

	31 December 2018	31 December 2017
1 USD	107.82	111.10
1 EUR	123.42	132.95
1 GBP	137.42	149.95

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Interest

Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the separate statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortized through Income from banking operations in the separate statement of comprehensive income.

Interest and similar income

Policy from 1 January 2018 (IFRS 9): The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as ‘Stage 3’, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets (as set out in Note 4.j), the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset.

The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Policy before 1 January 2018 (IAS 39): When the recorded value of a financial asset or group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised on gross amount using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

d) Fees and commission

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

Fee income can be divided into the following three categories:

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

  Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission account servicing fees, card and E-banking maintenance fees.
- *Fee income from providing financial services and earned on the execution of a transaction*

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Fees and commission (continued)

- *Lending fees*

  The fees included here include among other things fees charged for servicing a loan, a letter of credit or bank guarantee.

Other fees and commission income and expenses arise on financial services operated by the Bank and are recognized when the corresponding service is provided or received.

e) Tax expense

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

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised 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.

f) Financial instruments – initial recognition

I. Date of recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

II. Intial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at fair value, except in the case of financial assets and financial liabilities recoreded at FVLP, transaction costs are added to, or substracted from, this amount.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments – initial recognition (continued)

Trade receivables are measured at the transaction price. When the fair value offinancial instruments at initial recognition differs from the transaction price, the bank accounts for the Day 1 profit or loss, as described below.

III. Day 1 profit or loss

When the fair value of the instruments differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and the fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the diference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

IV. Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

• Amortised cost

• FVOCI

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), available-for-sale or held-to-maturity (amortised cost),

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading or the fair value designation is applied,

See accounting policies 4.g.

g) Financial assets and financial liabilities

Before 1 January 2018, Due from bank and Loans and advances to customers, included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available for sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available for sale.

Due from Banks, Loans and advances to customers, Financial investments at amortised cost

From 1 january 2018, the Bank only measures Due from Banks, Loans and advances to customers, and other financial investments at amortised cost if both of the following conditions are met:

- The fianancial assets is held within a business model with the objective to collect contractual cash flows
- The contractual terms of financial asset give rise to ash flows that are only payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assesment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. The business model assessment is based on reasonably expected scenarios not taking into account "stress case" scenarios.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (continued)

Business model assesment (continued)

If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial asset going forward.

The SPPI test

A second step of its classification process the Bank assesses the contractual of financial asset to identify wether they meet SPPI test.

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

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

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

Debt instruments at FVOCI (policy applicable from 1 January 2018)

From 1 january 2018, the Bank only measures and other financial investments at FVOCI if both of the following conditions are met when both conditions are met:

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

These instruments largely comprise assets that had previousely been classified as financial investments available for sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to change in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments is explained in note 4.j. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI (policy applicable from 1 January 2018)

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (continued)

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the separate financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision as set out in Note 4.j.

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

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 16.

Held to maturity (policy applicable before 1 January 2018)

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at available-for-sale. Held-to-maturity investments are carried at amortised cost using the effective interest method.

Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

Available for sale investments (policy applicable before 1 January 2018)

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired and the cumulated gain or loss previously recognised in other comprehensive income are reclassified to profit or loss.

Available-for-sale investments may be reclassified from the available-for-sale category to the held to maturity category if it would otherwise have met the definition of held to maturity and if the bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

h) Reclassification of financial assets and liabilities

From 1 january 2018, the Bank does not reclassify its financial asstes subsequent to their initial recognition apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2017.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Derecognition of financial assets and liabilities

Policy Applicable from 1 January 2018

Derecognition due to substantial modification of terms and conditions

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

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

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

For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

Derecognition other than for substantial modification

Financial Assets

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

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

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass–through’ arrangement.

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

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Derecognition of financial assets and financial liabilities (continued)

Policy Applicable from 1 January 2018 (continued)

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

Or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

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

Policy Applicable before 1 January 2018

Financial Assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions. In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Derecognition of financial assets and financial liabilities (continued)

Policy Applicable before 1 January 2018 (continued)

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in whom control over the asset is retained, the Bank continues to recognise 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.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognising criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. The Bank writes off certain loans when they are determined to be uncollectible (see note 6.a).

Financial Liabilities

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

j) Impairment of financial assets (policy applicable from 1 January 2018)

Overview of the ECL principles

As described in Note e (i), the adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairement method by replacing IAS 39's incurred losses with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVLP, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial instruments". Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to rise over the life of the asset (the life time expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case the allowance is based on the 12 months' expected credit loss (12mECL). The Banks policies for determining if there has been significant increase in credit risk are set out in the note 9.

The 12mECL is the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within 12 months from the reporting date.

Both LTECL and 12mECL are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, weather a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has beed reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The bank records an allowance for the LTECL.
- POCI: Purched or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Impairment of financial assets (policy applicable after 1 January 2018) (continued)

Overview of the ECL principles (continued)

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

The calculation of ECLs

The bank measures ECL ona a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

- PD: The *Probabilty of Deafault* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD: The *Expossure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.
- LGD: The *Loss Given Default* is the estimate of a loss arising in the case where a default occurs at a given time. It is based on the difference between contractual cash flows due and those that the lender would expect to receive.

When estimating the ECLs, the Bank considers three scenarios (a baseline, best and worst scenario). Each of these is associated with different PDs, as set out in Note 7.12.5. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans with Individual Impairment calculation. As a principle, the provision amount of loan that are impaired on individual basis is calculated as the difference between the actual outstanding of the loan with a) liquid collateral amount and with b) sum of the present value of all different cash flows discounted with the actual interest rate of the loan.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Impairment of financial assets (policy applicable after 1 January 2018) (continued)

The calculation of ECLs (continued)

- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit-adjusted EIR.

Loan commitments, letters of credit and financial guarantee:

The credit conversion factor is used to convert the amount of a credit line (the unused part) and other off-balance sheet amounts to an EAD amount. It is a modelled assumption, which represents a proportion of any undrawn exposure that is expected to be drawn prior to default event occurring. For each type of product, the CCF factor for the Bank is applied as below:

- Letter of Guaranttee & Letter of Credit with residual maturity <= 1 year = 20%
- Letter of Guaranttee & Letter of Credit with residual maturity > 1 year = 50%
- Unused part of Term Loans = 0%
- Unused part of Overdrafts = 20%
- Unused part of Credit Cards = 20%

Debt instruments measured at fair value through OCI

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

Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

Forward looking information

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

- GDP growth
- Unemployment rates
- Central Bank base rates
- Inflation rates.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the separate financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

k) Credit enhancements: collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets. The Bank’s accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank’s statement of financial position.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Credit enhancements: collateral valuation and financial guarantees (continued)

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a frequent basis [different periods for different types: For example for R/Estate collaterals the frequency is yearly (business premises) or every 3 years (residential premises)]. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as internal/external R/E evaluators.

If a loan, as part of its contractual terms, is guaranteed by a third party the Bank estimates the corresponding ECLs based on the combined credit risk of the guarantor and the guaranteed party, by reflecting the guarantee in the measurement of the loss given default (LGD). The Bank considers the financial guarantee integral to the contractual terms' of the guaranteed loan, when the guarantee was entered into at the same time, or within a short time, after the loan is advanced.

Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL.

l) Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

m) Write-offs

With the exception of partial write-offs, the Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. 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. Any subsequent recoveries are credited to credit loss expense.

n) Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Management Unit.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Forborne and modified loans (continued)

Derecognition decisions and classification between Stage 2 and Stage 3 are determined are determined based on pre-defined criteria. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected the probation period is successfully completed, or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period of one years has passed from the date the forborne contract was considered performing
- The customer does not have any contracts that are more than 30 days past due.

o) Impairment of financial assets (Policy applicable before 1 January 2018)

At each reporting date the Bank assesses whether there is objective evidence that financial assets are impaired. Financial assets or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment the Bank applies as a minimum the histrorical trends of regulatory default rates, recovery time and the amount of loss incurred for each homogenous group of loans and advances which is based on objective evidence of impairment. Default rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities, if any, are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Impairment of financial assets (Policy applicable before 1 January 2018) (continued)

Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through, profit or loss; otherwise, any increase in fair value is recognized through other comprehensive income.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in other comprehensive income.

p) Fair Value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 7.8 and Note 48.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, unrestricted cash deposited with Bank of Albania and short-term highly liquid investments with original maturity of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short term commitments.

r) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership.

The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction’s economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available-for-sale pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction’s economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Leasing

Bank as a lessee - Operating lease payments
The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Payments made under operating leases are recognised in Statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Bank as a lessor
Leases where the Bank transfers substantially all the risk and benefits of ownership of the asset are classified as finance leases. In the statement of financial position the Bank presents the receivable amount equal to the net investment value. The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

The sales revenue recognized at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest.

t) Property and equipment

(i) Recognition and measurement

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

(ii) Subsequent costs

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

(iii) Depreciation

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

	in years
• Building	40
• Office furniture	5
• Motor vehicles	5
• Leasehold improvements	9-12
• Computer and IT equipment	4-5

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Intangible assets

Intangible assets are stated at cost less accumulated amortization and any impairment losses. Amortization is calculated on a straight-line basis over the expected useful life of the asset. The estimated useful live for the current and comparative periods are as follows:

	in years
• IT software and applications	4-10

v) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, and inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rate basis.

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

w) Provisions

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

x) Employee benefits

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

y) Investment in associates

The investment in an associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Bank's investment in its associate is accounted for at cost. The investment is accounted for using the equity method in the consolidated financial statements of the parent of the Bank, i.e. Tranzit shpk.

Upon loss of significant influence over the associate, the Bank measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

5. BUSINESS COMBINATIONS

Mergers with acquisitions in 2018 – Banka NBG Albania sh.a.

On 3 July 2018, the Bank acquired 100% of the voting shares of Banka NBG Albania sh.a., a Bank incorporated in Albania, in exchange for its shares. The Bank acquired Banka NBG Albania because it significantly enlarges the range of lending products, especially in the retail segment that can be offered to its clients, and on 6 September 2018 the Bank received the Bank of Albania approval for the legal merger with Banka NBG Albania sh.a.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Banka NBG Albania sh.a as at the date of merger were:

Assets	**Fair value recognised on merger**
Cash and cash equivalents	10,774,164
Loans and advances to banks	115,663
Financial investments at FVOCI	7,195,762
Loans and advances to customers	18,768,265
Property and equipment	125,162
Defered tax assets	6,293
Inventory and other assets	1,024,108
	38,009,417
Liabilities	
Due to Banks	429,217
Due to customers	30,367,569
Other liabilities	229,379
	31,026,165
Total identifiable net assets at fair value	**6,983,252**
Gain on bargain purchase	3,882,014
Purchase consideration transferred	**3,101,238**

6. TRANSITION DISCLOSURES

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

	31 December 2017	**Impact from First Time Adoption**	**1 January 2018**
Impairment allowance for:	**Under IAS39/IAS37**	**Re-measurement**	**Under IFRS 9**
Balances with Central Bank	6,778,201	-	6,778,201
Due from banks	2,718,602	-	2,718,602
Investment securities	18,683,595	(34,590)	18,649,005
Loans and advances to customers	9,285,162	74,117	9,359,279
Financial Guarantees	490,197	13,372	503,569
Letters of credit for customers	7,218	-	7,218
Total	**37,962,975**	**52,899**	**38,015,874**

6. TRANSITION DISCLOSURES (CONTINUED)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS9 as of 1 January 2018 is as follows:

	31 December 2017		**Impact from First Time Adoption IFRS 9**		**1 January 2018**	
	IAS 39 measurement				**IFRS 9 measurement**	
Financial assets	**Category**	**Amount**	**Re-classification**	**ECL Re-measurement**	**Amount**	**Category**
Cash and balances with Central Bank	L&R	6,778,201			6,778,201	AC
Due from banks	L&R	2,718,602			2,718,602	AC
Debt instrument at fair value through OCI			10,803,880	(49,320)	10,803,880	FVOCI
From: Financial investment - AFS			10,803,880	(49,320)	*10,803,880*	FVOCI
Debt instrument at amortized cost		-	7,879,715	(34,590)	7,845,125	AC
From: financial investment - HTM		-	*7,879,715*	*(34,590)*	*7,845,125*	AC
Financial investments - AFS		10,803,880	(10,803,880)		-	
To: Debt Instruments at FVOCI		*10,803,880*	*(10,803,880)*		-	
Financial Investments - HTM		7,879,715	(7,879,715)		-	
To: Debt Instruments at amortized cost		*7,879,715*	*(7,879,715)*		-	
Loans and advances to customers, net	L&R	9,285,162	-	87,489	9,372,651	AC
Financial lease receivable, gross		78,499	-	-	78,499	
Non-financial assets						
Deferred tax asset		2,226	**-**	**-**	2,226	
Total Assets		**37,546,285**	**-**	**52,899**	**37,599,184**	
Financial liabilities		**36,289,534**			**36,289,534**	
Due to Central Bank	AC	1,041,723	**-**	**-**	1,041,723	AC
Due to banks and FI	AC	301,514	**-**	**-**	301,514	AC
Due to customers	AC	**34,946,297**	**-**	**-**	34,946,297	AC
Non-financial liabilities		**88,650**			**88,650**	
Other liabilities (Provision off balance sheet items)						
Deferred tax liability		88,650	**-**	**-**	88,650	
Total Liabilities		**35,034,947**			**36,378,184**	
Retained Earnings		**(4,720,653)**		**3,579**	**(4,717,074)**	

7. NEW STANDARDS AND INTERPRETATION ISSUED NOT YET ADOPTED

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's separate financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

- **IFRS 16 Leases**

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Bank will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

As at 1 January 2019, the Bank's has made an initial assessment on the potential impact of implementing IFRS 16, and estimated that the liability and right-of-use asset will fall into the range of Lek 450,000 – 500,000 thousands, dependant on the fact that the Bank is still to clear minor estimates and assumptions.

For the following new standards and interpretations, the Bank anticipates that their adoption will have no material impact on the separate financial statements of the Bank in the period of initial application and are not expected to have an impact over the separate financial statements of the Bank:

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),

7. NEW STANDARDS AND INTERPRETATION ISSUED NOT YET ADOPTED (CONTINUED)

- **Amendments to 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement** - accounting when a plan amendment, curtailment or settlement occurs during a reporting period (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Conceptual Framework in IFRS standards** - For preparers who develop accounting policies based on the Conceptual Framework (effective for annual periods beginning on or after 1 January 2020),
- **IFRS 3: Business Combinations (Amendments)** - amendments in Definition of a Business (effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted),
- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of ‘material’ (Amendments)** – clarify the definition of material and how it should be applied (effective for annual periods beginning on or after 1 January 2020 with earlier application permitted)
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)”** resulting from the annual improvement project of IFRS, which become effective for annual periods beginning on or after 1 January 2019, and including:
    - IFRS 3 Business Combinations & IFRS 11 Joint Arrangements
    - IAS 12 Income Taxes
    - IAS 23 Borrowing costs.

8. STANDARDS ISSUED AND EFFECTIVE FOR THE ANNUAL PERIOD

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period, but their adoption has not led to any changes in the Company’s accounting policies:

- **Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 “Insurance Contracts”** - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are applied for annual periods beginning on or after 1 January 2018).

9. RISK MANAGEMENT

The Bank has exposure to the following risks from its use of financial instruments:

a. credit risk
b. liquidity risk
c. market risks
d. capital management

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 has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability (ALCO), Credit and Sensitive Affairs and Provisioning committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All Board 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 analyse 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.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

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

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. The Credit Risk Unit, reports to the Chief Executive Officer and, is responsible for oversight of the Bank's credit risk. The management of credit risk is accomplished through:

Formulating credit risk 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.

Establishing and monitoring of the delegation levels and escalating process regarding the credit approvals. Board of Directors delegates its power of approval authority to the Credit Committees of the Bank currently for an amount up to the equivalent of EUR 3,000,000 on increases of existing facilities or granting of new facilities; and up to the equivalent of EUR 5,000,000 on renewal or restructuring of current facilities. However for financing of specific sectors of economy as well as certain counterparties types, which are considered more risky such as gambling, financial institutions, political parties, foundations, etc., the approval authority remains with the Board of Directors regardless of the amount of financing.

9. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Management of credit risk (continued)

Reviewing and assessing credit risk. Bank Management and Credit Risk Assessment Sector of the Bank assess all credit exposures limits, prior to the final approval by the competent authority. Renewals and reviews of facilities are subject to the same 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.

The current risk grading framework consists of five categories: a) standard, b) watch, c) sub-standard, d) doubtful and e) lost. The loans classified into the first two categories are considered as performing. The loans falling under the 3 last categories are considered as Non-performing. Apart from the criteria of the days in delay, the Bank uses also the following qualitative criteria for defining the risk categorization of the loans:

- Ability to pay
- Financial condition
- Management liability
- Collateral and guarantors
- Loan structure

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. The loans with renegotiated terms are considered individually impaired in the first year from the implementation of the restructuring.

Credit related commitments risk

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

a) significant financial difficulty of the issuer or the borrower;
b) a breach of contract, such as a default or past due event;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

9. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Definition of default and cure (continued)

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends a set of criteria, at the time of the cure.

The Bank's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance, which is explained in Note 4.n.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL (Stage 1) or LTECL (Stage 2), the Bank assesses whether there has been a significant increase in credit risk.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 9 are a significant increase in credit risk as opposed to a default. Moreover, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 9), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk or not.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 9.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Probability at default

The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

For the purpose of a collective evaluation of impairment (Stage 1 and Stage 2), loans are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of a credit risk evaluation or grading process that considers asset type, customer type, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The methodology consist of:

a) Creation of pools for facilities with similar credit characteristics (e.g. products)
b) Calculation of a 12-month PD per each stage
c) Calculation and estimation of Lifetime PD for each segment with the incorporation of Macro adjustment.

9. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Definition of default and cure (continued)

Loss given default

The LGD calculation has the following components:

a) Probability of Cure (Cure Rates)
b) Loss Rate given no Cure

Cure events are exposures that exit default status (expresses the likelihood of exit from Stage 3 status). Thus, exposures that transit from status NPE or FNPE to PE or FPE in 12 months following the observation period are identified as having returned to performing status and a cure event has occurred. Exposures are considered to have stopped being non-performing when all the following condition are met:

a) the debtor does not have any amount past-due by more than 90 days.
b) One year has passed since the forbearance measures were extended
c) the situation of the debtor has improved to the extent that full repayment, according to the original or when applicable the modified conditions, is likely to be made;

The Loss Rate involves estimating recovery rates per segment by observing historical cumulative recoveries as a percentage (%) of outstanding exposure. Regarding recoveries, the historical cash payments from default exposures are considered.

Analysis of risk concentration

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

	Net Loans and advances to customers	
	31 December 2018	**31 December 2017**
Concentration by sector		
Services	12,045	666,647
Wholesale	3,780,667	1,675,106
Construction	1,118,671	370,900
Manufacturing	2,562,289	891,522
Real Estate	876,368	903,783
Other	3,084,111	1,750,893
Businesses	**11,434,152**	**6,258,851**
Mortgage	12,458,285	2,774,512
Consumer	828,716	251,799
Individuals	**13,287,002**	**3,026,311**
Carrying amount	**24,721,153**	**9,285,162**

	Loans and advances to banks and cash equivalent	
Concentration by sector	**31 December 2018**	**31 December 2017**
Bank	6,266,933	5,078,902
Carrying amount	**6,266,933**	**5,078,902**

	Financial Investments	
Concentration by sector	**31 December 2018**	**31 December 2017**
Sovereign Bonds	29,342,340	18,683,595
Carrying amount	**29,342,340**	**18,683,595**

9. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Analysis of risk concentration (continued)

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

	Financial Investments (debt securities)	
Sovereign	**31 December 2018**	**31 December 2017**
Rated B1	29,342,340	18,683,595
	29,342,340	**18,683,595**

Concentration of Credit Risk

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

	31 December 2018	As % total on balance	31 December 2017	As % total on balance
Republic of Albania securities	29,342,340	41%	18,683,595	51%
Balances with Bank of Albania	16,148,958	23%	6,022,488	16%
Total direct Albanian Sovereign risk	**45,491,298**	**64%**	**24,706,083**	**68%**
Largest bank	163,655	0%	689,764	2%
Largest customer	586,095	1%	421,098	1%
Total largest bank and customer	**749,750**	**1%**	**1,110,862**	**3%**
Total on-balance-sheet risk	46,241,048	65%	25,816,945	71%

The counterparty for the largest bank exposure as at 31 December 2018 is a foreign bank being CA CIB (2017: domestic bank being Intesa San Paolo Bank). The counterparty for the largest customer exposure as at 31 December 2018 is Kastrati sh.a (2017: Korporata Energjitike Shqiptare).

Maximum exposure to credit risk

	Net Maximum Exposure	
	31 December 2018	**31 December 2017**
Cash and cash equivalents (excluding cash on hand)	10,627,938	5,781,933
Loans and advances to banks	5,950,972	2,718,602
Financial assets available-for-sale	19,217,970	10,803,880
Financial assets held to maturity	10,124,370	7,879,715
Loans and advances to customers	24,721,153	9,285,162
Financial Leasing	55,835	78,499
Sundry debtors	78,728	12,327
Total on-balance-sheet risk	**70,775,566**	**36,560,118**
Undrawn credit commitments	787,678	323,475
Guarantees in favour of customers	721,997	512,288
Total credit related commitments	**1,509,675**	**835,763**
Total Credit Risk Exposure	**72,285,241**	**37,395,882**

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. 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.

9. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit Quality by class of financial assets

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed. Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 4.8.7.1.

					As at 31 December 2018	As at 31 December 2017
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Cash and Central Bank						
Low- fair risk	18,251,733	-	-	-	18,251,733	7,018,755
Less: allowance	-	-	-	-	-	-
Carrying amount	**18,251,733**	**-**	**-**	**-**	**18,251,733**	**7,018,755**
Due from banks						
Low- fair risk	429,952	-	-	-	429,952	2,478,048
Less: allowance	-	-	-	-	-	-
Carrying amount	**429,952**	-	-	-	**429,952**	**2,478,048**
Investment securities						
Low- fair risk	29,386,089	-	-	-	29,386,089	18,683,595
Monitoring	-	-	-	-	-	-
Less: allowance	(43,749)	-	-	-	(43,749)	-
Carrying amount	**29,342,340**	-	-	-	**29,342,340**	**18,683,595**
Loans and advances						
Low- fair risk	18,096,410	980,074	199,054	-	19,275,538	9,137,888
Monitoring	681,472	795,352	101,622	-	1,578,446	597,645
Substandard	135,766	226,121	1,520,346	-	1,882,233	255,608
Doubtful	118,826	139,117	1,999,846	-	2,257,790	120,849
Lost	7,281	44	5,796,776	-	5,804,101	741,452
Less: allowance	(403,974)	(383,869)	(5,283,942)	-	(6,071,785)	(1,568,281)
Carrying amount	**18,635,781**	**1,756,840**	**4,333,703**	**-**	**24,726,324**	**9,285,162**

9. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit Quality by class of financial assets (continued)

				As at 31 December 2018		As at 31 December 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Financial Leasing						
Low- fair risk	56,399	-	-	-	56,399	81,346
Monitoring	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Lost	-	-	-	-	-	-
Less: allowance	(564)	-	-	-	(564)	(2,847)
Carrying amount	**55,835**	-	-	-	55,835	**78,499**
Financial guarantees and other commitments						
Low- fair risk	721,997	-	-	-	**721,997**	**512,288**
Less: allowance	(5,171)	-	-	-	**(5,171)**	**(14,873)**
Carrying amount	716,826	-	-	-	**716,826**	**497,415**

31 December 2017	**Neither past due nor individually impaired**	**Past due not individually impaired**	**Individually Impaired**	**Total**
Cash and cash equivalents (excluding cash on hand)				
Loans and advances to banks	**5,781,934**	**-**	**-**	**5,781,934**
Loans and advances to customers:	**2,718,602**	**-**	**-**	**2,718,602**
Commercial lending	**9,834,632**	**157,784**	**861,027**	**10,853,443**
Mortgage lending	*6,833,723*	*19,476*	*663,050*	*7,516,249*
Consumer lending	*2,743,482*	*111,458*	*187,937*	*3,042,877*
Financial Lease	*257,427*	*26,850*	*10,040*	*294,317*
Financial Assets:	81,346	-	-	81,346
Government of Albania	**18,416,514**	**157,784**	**861,027**	**19,435,325**
	18,683,595			**18,683,595**
Total	**37,100,109**	**157,784**	**861,027**	**38,118,920**

9. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit Quality by class of financial assets (continued)

An ageing analysis of loans and the respective ECL impairment as at 31 December 2018 and 2017 is shown in the tables below:

31 December 2018	31 December 2018					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	more than 180 days	Total
Loans and advances to customers:						
Commercial lending	8,168,871	1,402,079	688,880	904,504	2,417,371	**13,581,705**
Mortgage lending	9,672,009	599,750	412,420	355,388	955,837	**11,995,405**
Consumer lending	1,778,904	56,412	40,961	34,428	209,098	**2,119,803**
Financial Leasing	56,399	-	-			**56,399**
Total gross	**19,676,184**	**2,058,241**	**1,142,261**	**1,294,320**	**3,582,306**	**27,753,311**
Total ECL	901,811	187,689	206,726	246,859	1,433,237	2,976,323
Net	**18,774,373**	**1,870,551**	**935,535**	**1,047,461**	**2,149,068**	**24,776,988**

An ageing analysis of loans considered neither past due nor individual as at 31 December 2017 is shown in the tables below:

31 December 2017	Neither past due nor individually impaired				Past due but not individually impaired		
	Less than 30 days	31 to 60 days	61 to 90 days	Total	91 to 180 days	more than 180 days	Total
Loans and advances to customers:							
Commercial lending	6,493,366	268,831	71,526	**6,833,723**	1,876	17,600	**19,476**
Mortgage lending	2,470,260	119,065	154,157	**2,743,482**	58,502	52,956	**111,458**
Consumer lending	250,633	5,083	1,711	**257,427**	2,211	24,639	**26,850**
Financial Leasing	**81,346**	**-**	**-**	**81,346**	**-**	**-**	**-**
Total gross	**9,295,605**	**392,979**	**227,394**	**9,915,978**	**62,589**	**95,195**	**157,784**
Total impairment	609,996	86,173	23,435	719,604	14,343	56,973	71,315
Net	**8,685,609**	**306,806**	**203,959**	**9,196,374**	**48,246**	**38,222**	**86,469**

Impaired loans and securities

Impaired loans are the ones for which the Bank determines that it is probable that it will be unable to collect all principal and interest due, according to the contractual terms of the agreement(s). The Bank classifies loans and advances to customers in performing and non-performing categories as described above and performs impairment tests for all loans that show objective evidence for impairment, estimating their discounted future cash flows and comparing them with the respective carrying amount of the loans. Loans that do not show objective evidence for individual impairment are assessed collectively for impairment. Collective impairment is also assessed for customers tested individually, but with no resulting need for individual impairment.

9. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit Quality by class of financial assets (continued)

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

	Net Exposure to Loans and advances to customers	
Individually impaired	**31 December 2018**	**31 December 2017**
Gross amount	6,516,449	861,027
Allowance for impairment	(2,182,900)	(780,209)
Carrying amount	**4,333,549**	**80,818**
Collectively impaired		
Gross amount	21,180,464	9,992,416
Allowance for impairment	(792,859)	(788,072)
Carrying amount	**20,387,605**	**9,204,344**
Total carrying amount on Loans and advances to customers	**24,721,154**	**9,285,162**

Separate movements for both individual and collective impairments are presented in note 16.

The table below shows the ***net financial leasing*** categorized within two main groups: Individually and Collectively Impaired.

	Net Exposure Financial Leasing	
Individually impaired	**31 December 2018**	**31 December 2017**
Gross amount	-	-
Allowance for impairment	-	-
Carrying amount	**-**	**-**
Collectively impaired		
Gross amount	56,399	81,346
Allowance for impairment	(564)	(2,847)
Carrying amount	**55,835**	**78,499**
Total carrying amount on Loans and advances to customers	**55,835**	**78,499**

Movements for financial leasing impairments are presented in note 17

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

	Individually Impaired Loans and advances to customers			
	31 December 2018		31 December 2017	
	Gross	**Net**	**Gross**	**Net**
31 December 2018				
Low- fair risk	120,401	96,405		
Monitoring	96,697	72,718		
Substandard	2,079,368	1,444,932		
Doubtful	1,404,936	980,521	403,624	80,818
Lost	5,769,278	1,647,480	457,403	-
Total	**9,470,680**	**4,242,056**	**861,027**	**80,818**

9. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Write-off policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when Bank Sensitive Affairs and Provisioning Committee determines that the loan/securities are uncollectible and with the approval of the Board of Directors. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write off decisions generally are based on a product specific past due status as well as on legal actions followed related to the enforcement procedure.

The Bank holds collateral against loans and advances to customers. The Bank implements its internal guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The Bank holds collateral mainly in the form of:

- Real Estate mortgages over residential as well as business properties;
- Pledge over business assets in operation such as machineries and equipments, inventory, and accounts receivable;
- Cash collateral and certain securities (i.e. Treasury Bills), etc.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated on an annual basis.

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

Realizable value of collaterals, which is estimated by reducing the appraised market value of the collateral with a discount factor. This takes into account the characteristics of similar groups of collaterals. It presumes an average recoverable value of specific collateral, based on the Bank's experience**.**

Timing of the expected cash flow, which represent the expected recovery time (in years) of a specific type of collateral.

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.

For the purposes of the calculation of individual impairment for Loans and advances to Customers, the Banks considers as collaterals Real Estate properties, cash collateral and Bank Guarantees.

There is no collateral for loans and advances to banks, except in reverse repurchase case. For large part of loan portfolio, the fair value of collateral exceeds the amounts of loans, however the Bank normally discounts the fair value of the collateral with 49% (2017: 44%) to account for the practical and administrative process of a foreclosure. In such a manner, the bank is protected against the potential default of the client.

9. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit impaired loans and advances

The breakdown of the carrying amount of the individually impaired loans and advances (and including off-balance sheet exposures) by class, along with the fair value of the collateral held by the Bank as security, are as follows:

31 December 2018	Credit impaired loans	Collateral Amount with haircut
Corporate+SME	4,364,093	3,922,814
SBE	413,977	364,046
Individual Secured	1,575,491	2,720,436
Individual Unsecured	162,888	-
Financial Leasing	-	-
Guarantee	35,000	3,329
Total gross	**6,516,449**	**7,010,625**
Total ECL	(2,182,900)	
Net	**4,333,549**	

31 December 2017	Credit impaired loans	Collateral Amount with haircut
Corporate+SME	531,747	38,649
SBE	283,410	221,720
Individual Secured	190,317	421,838
Individual Unsecured	93,081	-
Financial Leasing	-	-
Guarantee	-	-
Total	**1,098,555**	**682,206**
Total Impairment	(832,362)	
Net	**266,193**	

When the Bank holds repossessed assets in its ownership, their conversion into cash is the first aim of the Bank, through marketing the properties for sale. Proceeds are used to reduce or liquidate the carrying amount of the loans. If there is no satisfactory offer collected, the Bank's practice is to keep the asset for sale until receiving the best offer. Depending on operational needs and the suitability of the asset to fulfil those needs, management may decide to make use of the property; in such cases a reclassification into property and equipment of the Bank is performed. The respective amounts of repossessed properties are disclosed in note 20.

The collateral structure of loans in different stages is presented below.

31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
Property with haircut	31,615,984	4,017,388	6,950,230	-	42,583,602
Pledge	-	-	-	-	-
Cash	1,315,217	50,531	60,396	-	1,426,143
Total	**32,931,202**	**4,067,919**	**7,010,625**	**-**	**44,009,745**

01 January 2018	Stage 1	Stage 2	Stage 3	POCI	Total
Property with haircut	12,130,239	1,481,915	682,206	-	14,294,361
Pledge	-	-	-	-	-
Cash	533,460	2,372	-	-	535,831
Total	**12,663,699**	**1,484,287**	**682,206**	**-**	**14,830,192**

9. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit impaired loans and advances (continued)

Loans and advances renegotiated

Restructuring activities include extended payment agreements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with other similar accounts. The total restructured portfolio during 2018 is LEK 99 milion thousand (2017: LEK 289 milion).

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

	Stage1	Stage2	Stage 3	POCI	31 Dec 2018	31 Dec 2017
Commercial	257,219	72,842	2,079,836	-	2,409,896	518,257
Mortgage	435,034	197,531	463,740	-	1,096,305	292,302
Consumer	5,500	5,355	17,659	-	28,514	-
Total	**697,753**	**275,727**	**2,561,235**	**-**	**3,534,715**	**810,559**

Settlement risk

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

b) Liquidity Risk

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

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far 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's liquidity management process includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio liquid and marketable assets;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

The responsibility for the management of daily liquidity position remains with the Treasury Sector Monitoring. Daily reports and information exchanged through various functions of the Bank cover the projected estimated cash flows for the next day, week, and month, which are considered as key liquidity management periods. The starting point for those projections is the analysis of the contractual maturity of the financial liabilities and the expected collection date for the financial assets. The Management of short and medium term liquidity is a responsibility of ALCO. ALCO analyses on a monthly basis the liquidity position of the Bank and proposes the actions deemed as necessary.

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to short term liabilities, and the cumulative gaps up to 3- months. For this purpose the highly liquid assets are considered as including cash and cash equivalents and available for sale securities portfolio. The Liquidity ratios defined by the Bank are in compliance with Bank requirements imposed by the Regulation "On Liquidity Risk Management".

9. RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

Management of liquidity risk (continued)

The Bank calculates on a daily to monthly basis the following ratios: liquid assets to short-term liabilities, loans to deposits, and liquid assets to deposits. Liquid assets are considered as including cash and cash equivalents, Albanian government treasury bills and any short term deposits with banks maturing within 7 days.

Details of the liquid assets to short-term liabilities ratio during the reporting period were as follows:

	31 December 2018	31 December 2017
Average for the period	62.37%	56.96%
Minimum for the period	51.32%	44.99%
Maximum for the period	70.97%	68.79%

9. RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

The table enclosed shows the liquidity situation of the Bank as currently monitored by the Bank's management, as at 31 December 2018. It considers the undiscounted cash flows in/out of the Bank for on and off balance sheet financial assets and liabilities, according to remaining maturity and not reflecting any earlier repayment or retention history assumptions. Where no contractual remaining maturity is applicable for the financial instruments, the Bank has used judgment in estimating the time when these financial assets and liabilities will be matured.

31 December 2018	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
ASSETS						
Cash and cash equivalent	12,730,713	-	-	-	-	**12,730,713**
Minimum reserve requirement	2,601,490	364,704	1,641,168	1,229,619	-	**5,836,981**
Advances to Banks	113,991	-	-	-	-	**113,991**
Investment securities	2,160,732	930,691	3,063,022	18,904,692	9,427,068	**34,486,206**
Loans and advances to customers (gross performing loans)	629,461	1,258,923	5,665,152	7,550,067	7,275,479	**22,379,082**
Financial leasing	1,251	2,446	11,141	45,324		**60,162**
Other Financial Assets	205,867	-	8,341	3,718	-	**217,925**
TOTAL	**18,443,506**	**2,556,763**	**10,388,824**	**27,733,419**	**16,702,547**	**75,825,060**
LIABILITIES						
Current accounts with Banks	-	-	-	-	-	**-**
Current/Saving accounts with customers	6,500,068	782,057	3,478,632	4,308,681	2,433,313	**17,502,751**
Deposits from Banks	1,343,237	-	-	-	-	**1,343,237**
Deposits from customers – Time deposits	4,440,738	6,647,477	26,511,410	10,999,357	233,734	**48,832,715**
Subordinated Debt	3,171	-	9,409	50,354	496,238	**559,171**
Other Financial Liabilities	36,722	676,160	21,811	-	-	**734,693**
TOTAL	**12,323,937**	**8,105,694**	**30,021,261**	**15,358,391**	**3,163,285**	**68,972,568**
TOTAL GAP ON-BALANCE SHET	**18,465,173**	**(4,076,572)**	**(22,711,064)**	**6,628,317**	**8,788,606**	**7,094,460**
Off Balance Sheet inflow						
Off Balance Sheet outflow	**13,438**	**189,449**	**245,759**	**151,799**	**187,234**	**787,678**
TOTAL GAP OFF-BALANCE SHEET	**(13,438)**	**(189,449)**	**(245,759)**	**(151,799)**	**(187,234)**	**(787,678)**
TOTAL GAP 31 December 2018	**6,101,131**	**(5,738,380)**	**(19,878,196)**	**12,223,229**	**13,352,028**	**6,064,813**
CUMULATED GAP 31 December 2018	**6,106,131**	**367,751**	**(19,510,445)**	**(7,287,215)**	**6,064,813**	**-**

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, and debt securities issued by sovereigns, which can be readily sold to meet liquidity requirements. The Bank's expected cash flows on some financial liabilities vary significantly from the contractual cash flows as current accounts with customers are expected to remain stable and not be withdrawn.

9. RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2017	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
ASSETS						
Cash and cash equivalent	6,778,201	-	-	-	-	**6,778,201**
Minimum reserve requirement	1,169,515	166,668	750,005	514,666	-	**2,600,854**
Advances to Banks	-	-	117,748	-	-	**117,748**
Investment securities	346,354	318,598	1,529,217	10,830,230	10,487,542	**23,511,941**
Loans and advances to customers (gross performing loans)	1,785,189	595,928	2,153,686	4,011,994	2,140,133	**10,686,930**
Financial leasing	1,367	2,675	20,187	62,792	-	**87,021**
Other Financial Assets	3,103	-	488	3,942	-	**7,533**
TOTAL	**10,083,729**	**1,083,869**	**4,571,331**	**15,423,624**	**12,627,675**	**43,790,228**
LIABILITIES						
Current accounts with Banks	149,950	-	-	-	-	**149,950**
Current/Saving accounts with customers	3,509,621	466,439	2,098,977	2,007,155	1,385,077	**9,467,269**
Deposits from Banks	906,880	-	-	-	-	**906,880**
Deposits from customers – Time deposits	2,431,894	4,095,309	10,130,820	8,400,225	830,035	**25,888,283**
Subordinated Debt	2,559	-	11,192	55,041	949,132	**1,017,924**
Other Financial Liabilities	124,200	27,564	-	-	-	**151,764**
TOTAL	**7,125,104**	**4,589,312**	**12,240,989**	**10,462,421**	**3,164,244**	**37,582,070**
TOTAL GAP ON-BALANCE SHET	**2,958,625**	**(3,505,443)**	**(7,669,658)**	**4,961,203**	**9,463,431**	**6,208,158**
Off Balance Sheet inflow	**-**	**-**	**-**	**-**	**-**	**-**
Off Balance Sheet outflow	**16,092**	**30,692**	**79,699**	**143,281**	**53,711**	**323,475**
TOTAL GAP OFF-BALANCE SHEET	**(16,092)**	**(30,692)**	**(79,699)**	**(143,281)**	**(53,711)**	**(323,475)**
TOTAL GAP 31 December 2017	**2,942,533**	**(3,536,135)**	**(7,749,357)**	**4,817,922**	**9,409,720**	**5,884,683**
CUMULATED GAP 31 December 2017	**2,942,533**	**(593,602)**	**(8,342,959)**	**(3,525,037)**	**5,884,683**	**-**

9. 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 cash flows of contractual interest.

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

	1 Month	1-3 Months	3-12 Months	1-5 Years	>5 Years	Total
31 December 2018						
Commitments	13,438	189,449	245,759	151,799	187,234	**787,678**
Guarantees	53,587	194,534	127,703	346,174	-	**721,997**
31 December 2017						
Commitments	16,092	30,692	79,699	143,281	53,711	**323,475**
Guarantees	10,000	113,000	130,898	258,390	-	**512,288**

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 2018	31 December 2017
Commitments	**787,678**	**323,475**
Un-drawn credit facilities	787,678	323,475
Guarantees	**721,997**	**512,288**
Letters of credit	7,218	7,218
Guarantees in favor of customers	714,779	505,070
SPOT transactions	**185,230**	**254,005**

9. RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

Undiscounted cash flows based on remaining outstanding balance for financial liabilities as at 31 December 2018 and 31 December 2017 is as follows:

	Carrying amount	Gross nominal (outflow)	1 Month	1-3 Months	3-12 Months	1-5 Years	>5 Years
31 December 2018							
Due to banks	**1,343,237**	**1,343,237**	1,343,237	-	-	-	-
Due to customers	**65,670,499**	**66,335,466**	10,940,807	7,429,533	29,990,042	15,308,037	2,667,048
Subordinated liabilities	**373,059**	**559,171**	3,171	-	9,409	50,354	496,238
31 December 2017							
Due to banks	**1,056,830**	**1,056,830**	1,056,830	-	-	-	-
Due to customers	**34,946,297**	**35,355,552**	5,941,515	4,561,748	12,229,797	10,407,380	2,215,112e
Subordinated liabilities	**800,899**	**962,883**	2,559	-	11,192	-	949,132

9. RISK MANAGEMENT (CONTINUED)

(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) which 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 at Amortised Cost or at Fair Value through OCI (31 December 2017: as per IAS 39, as either Held-to-maturity or Available-for-sale portfolio).

Exposure to Foreign Exchange rate risk

Foreign exchange rate risk is defined as the possibility that foreign exchange rate fluctuations 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;
- Trading of foreign banknotes;
- Collection and/or payment of interest, commissions, administrative costs, etc. in foreign currencies.

The Board of Directors sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily by the Operational Risk and Permanent Controls Specialist.

Exchange rates sensitivity analyses include standard scenarios of a 200 basis point (bps) parallel fall or rise in exchange rates of the main currencies EUR (2018: ALL 74,309 thousands; 2017: ALL 15,635 thousands) and USD (2018: ALL 751 thousands; 2017: ALL 568 thousands) in both profit or loss and equity. The analysis below includes only monetary assets and liabilities denominated in ALL and foreign currencies. The table below summarizes the Bank's exposure to foreign currency exchange rate risk as at year end date. The Bank's exposure to foreign currency exchange rate risk as at 31 December 2018 and 31 December 2017 is as follows:

31 December 2018	**ALL**	**EUR**	**USD**	**Other**	**Total**
Assets					
Cash and cash equivalents	1,154,843	9,994,054	1,477,186	104,630	**12,730,713**
Loans and advances to banks	2,760,376	2,843,753	346,843	-	**5,950,972**
Available for sale Securities	16,887,314	2,329,256	-	-	**19,216,570**
Held to maturity Securities	10,124,370	-	-	-	**10,124,370**
Loans and advances to customers	4,093,929	19,940,922	686,303	-	**24,721,154**
Financial Leasing	-	55,835	-	-	**55,835**
Other financial assets	150,799	65,173	1,952	-	**217,924**
Total	**35,171,631**	**35,228,993**	**2,512,284**	**104,630**	**73,017,538**
Liabilities					
Due to banks	1,096,424	246,813	-	-	**1,343,237**
Due to customers	33,721,378	29,379,263	2,467,125	102,733	**65,670,499**
Subordinated Debt	-	373,059	-	-	**373,059**
Other financial liabilities	85,644	644,254	4,657	139	**734,694**
Total	**34,903,446**	**30,643,389**	**2,471,782**	**102,872**	**68,121,489**
Net Position	**268,185**	**4,585,604**	**40,502**	**1,758**	**4,896,049**

9. RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to Foreign Exchange rate risk (continued)

31 December 2017	ALL	EUR	USD	Other	Total
Assets					
Cash and cash equivalents	1,711,746	3,981,286	916,310	168,859	**6,778,201**
Loans and advances to banks	2,600,854	6,648	111,100	-	**2,718,602**
Available for sale Securities	9,454,571	1,349,309	-	-	**10,803,880**
Held to maturity Securities	7,879,715	-	-	-	**7,879,715**
Loans and advances to customers	1,090,426	8,094,947	99,789	-	**9,285,162**
Financial Leasing	7,729	70,770	-	-	**78,499**
Other financial assets	3,646	3,095	791	1	**7,533**
Total	**22,748,687**	**13,506,055**	**1,127,990**	**168,860**	**37,551,592**
Liabilities					
Due to banks	508,030	398,850	-	149,950	**1,056,830**
Due to customers	20,558,317	13,211,264	1,159,353	17,363	**34,946,297**
Subordinated Debt	-	800,899	-	-	**800,899**
Other financial liabilities	17,223	134,359	182	-	**151,764**
Total	**21,083,570**	**14,545,372**	**1,159,535**	**167,313**	**36,955,790**
Net Position	**1,665,117**	**(1,039,317)**	**(31,545)**	**1,547**	**595,802**

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 Bank's assets and liabilities and also preparing related scenario analysis on interest rates for decision making purposes.

Standard scenarios that are considered on a monthly basis include a 200 basis point (bps) parallel fall or rise in all interest rates up to one year and 300 basis points (bps) parallel fall or rise over one year. The following sensitivity analyses shows the impact in profit or loss of the Bank. There is no impact on any equity balances, apart from the direct impact from profit or loss.

	31 December 2018			
	Up to 1 Year Scenarios		over 1 Year Scenarios	
	200 bps Increase	200 bps decrease	300 bps increase	300 bps Decrease
Estimated Profit(loss) effect	(361,742)	361,742	234,904	(234,904)

	31 December 2017			
	Up to 1 Year Scenarios		over 1 Year Scenarios	
	200 bps Increase	200 bps decrease	300 bps increase	300 bps Decrease
Estimated Profit(loss) effect	(101,888)	101,888	(13,350)	13,350

9. RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)
Exposure to Interest Rate risk (continued)

The tables below summarize the Bank's exposure to interest rate risks. Included in the tables are the Bank's monetary assets and liabilities with both fixed and non-fixed interest rates.

31 December 2018	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Not interest bearing	Total
Assets							
Cash and cash equivalents	315,961	-	-	-	-	12,414,752	**12,730,713**
Loans and advances to banks	2,874,367	-	-	-	-	3,076,605	**5,950,972**
Investment securities	2,261,883	783,838	1,311,282	826,793	24,158,544	-	**29,342,340**
Loans and advances to customers	1,741,983	13,267,544	1,719,784	2,427,430	5,564,413	-	**24,721,153**
Financial Leasing	-		55,835	-	-	-	**55,835**
Other Financial assets	217,925	-	-	-	-	-	**217,925**
Total	**7,412,119**	**14,051,382**	**3,086,901**	**3,254,223**	**29,722,957**	**15,491,357**	**73,018,938**
Liabilities							
Due to banks	1,318,036	25,201	-	-	-	-	**1,343,237**
Due to customers	8,947,562	7,019,189	7,688,040	20,493,241	21,522,467	-	**65,670,499**
Subordinated debt	2,688	-	-	-	370,371	-	**373,060**
Other Financial liabilities	734,693	-	-	-	-	-	**734,693**
Total	**11,002,979**	**7,044,389**	**7,688,040**	**20,493,241**	**21,892,838**		**68,121,488**
Interest sensitivity gap at 31 December 2018	**(3,590,861)**	**7,006,992**	**(4,601,140)**	**(17,239,017)**	**7,830,118**	**15,491,357**	**4,897,450**

9. RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)
Exposure to Interest Rate risk (continued)

31 December 2017	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Not interest bearing	Total
Assets							
Cash and cash equivalents	2,360,299	-	-	-	-	4,417,902	**6,778,201**
Loans and advances to banks	1,302,935	-	117,748	-	-	1,297,919	**2,718,602**
Available for sale Securities	730,648	280,994	1,880,331	1,097,231	14,694,391	-	**18,683,595**
Loans and advances to customers	2,399,653	3,137,028	1,400,584	1,933,273	414,624	-	**9,285,162**
Financial Leasing	-	-	70,770	7,729	-	-	**78,499**
Other Financial assets	7,533	-	-	-	-	-	**7,533**
Total	**6,801,068**	**3,418,022**	**3,469,433**	**3,038,233**	**15,109,015**	**5,715,821**	**37,551,592**
Liabilities							
Due to banks	1,056,830	-	-	-	-	-	**1,056,830**
Due to customers	4,872,723	4,271,899	2,762,575	8,282,892	14,756,208	-	**34,946,297**
Subordinated debt	2,225	-	878	-	797,796	-	**800,899**
Other Financial liabilities	151,764	-	-	-	-	-	**151,764**
Total	**6,083,542**	**4,271,899**	**2,763,453**	**8,282,892**	**15,554,004**	**-**	**36,955,790**
Interest sensitivity gap at 31 December 2017	**717,526**	**(853,877)**	**705,980**	**(5,244,659)**	**(444,989)**	**5,715,821**	**595,802**

9. RISK MANAGEMENT (CONTINUED)

d) Capital Management

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

Implementing the current capital requirements, the Bank of Albania requires the Bank to maintain a prescribed ratio of total Tier I and II capital to total risk-weighted assets and off balance sheet items, at a minimum level of 12% and should maintain a prescribed ratio of Tier I only at a minimum level of 9%. During financial year 2018, the Bank achieved an adequacy ratio which at 31 December 2018 is calculated at 20.44% including Tier 2 capital (2017: 26.43%) and calculated at 19.26% (2017: 21.79%) for Tier I only.

In March 2015 new regulation on Capital Adequacy Ratio entered into force. The new regulation is based on Basel II criteria and is in line with the European Directives for Financial Institutions. Regardless that the new regulation and counter-cyclical measures increase the level of risk weighted assets the Capital Adequacy Ratio remained well above the minimum level required during 2018.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

10. USE OF ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on available relevant market information and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on financial assets (Policy applicable after 1 January 2018)

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

• The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment

• The segmentation of financial assets when their ECL is assessed on a collective basis

• Development of ECL models, including the various formulas and the choice of inputs

• Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs

• Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

10. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

(ii) Impairment losses on loans and advances (Policy applicable before 1 January 2018)

The Bank reviews its individually loans and advances on a quarterly basis to assess whether an impairment loss should be recorded in the income statement. The Bank's impairment methodology for assets carried at amortised cost results in the recording of loan loss impairment for:

• Specific impairment losses on individually significant or specifically identified exposures;

• Collective impairment with similar characteristics.

In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. When assessing financial assets individually for impairment the management has to make estimates of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, the recovery strategy and estimate of cash flows considered recoverable are independently estimated by the Credit Risk function.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on available market information, benchmarks and indicators of impairment for assets with credit risk characteristics similar to those it holds.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of financial assets with similar economic characteristics when there is objective evidence to suggest that they contain impaired exposures that cannot be identified individually yet. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

(iii) Net realizable value of inventory

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

(iv) Valuation of financial instruments

The Bank's accounting policy on fair value measurement is discussed in accounting policy 4.p.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

-Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

-Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

10. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

(iv) Valuation of financial instruments (continued)

-Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and based on a current yield curve appropriate for the remaining term to maturity.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value and uses only observable market data and require little management judgments and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

As at 31 December 2018 and 2017 all financial instruments are measured at amortized cost, except available for sale assets which have been measured at fair value and the respective fair values have been disclosed in note 8.

(v) Impairment of available–for–sale investments

The Bank reviews its debt securities classified as available–for–sale investments and/or FVOCI at each reporting period to assess whether there is any indication of impairment. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available–for–sale investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(vi) Litigation risk

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

(vii) Determination of control over investees

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

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

10. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

(viii) Tax exposures

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

11. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique. In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as explained in Note 4.p.

The table sets out the carrying amounts and fair values of the Bank's financial instruments:

	Carrying Amount				Fair Value			
	Loans and receivables	Investment securities	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total
31 December 2018								
Loans and advances to customers	24,721,153	-	-	**24,721,153**	-	-	21,897,860	**21,897,860**
Financial Leasing	55,835	-	-	**55,835**	-	-	51,965	**51,965**
Financial investments at AC	-	10,124,370	-	**10,124,370**	-	10,432,874	-	**10,432,874**
Financial Investments at FVOCI	-	19,217,970	-	**19,217,970**	-	19,217,970	-	**19,217,970**
Total	**24,776,988**	**29,340,940**	-	**54,117,928**	-	**29,695,665**	**21,949,825**	**51,600,668**
Due to customers	-	-	65,670,499	**65,670,499**			65,227,904	**65,227,904**
Subordinated Debt	-	-	373,059	**373,059**			227,511	**227,511**
Total	-	-	**66,043,558**	**66,043,558**			**65,455,415**	**65,455,415**
31 December 2017								
Loans and advances to customers	9,285,162	-	-	**9,285,162**	-	-	9,227,139	**9,227,139**
Financial Leasing	78,499	-	-	**78,499**	-	-	80,540	**80,540**
Held to maturity	-	7,879,715	-	**7,879,715**	-	7,477,695	-	**7,477,695**
Available for sale	-	10,803,880	-	**10,803,880**	-	10,803,880	-	**10,803,880**
Total	**9,363,661**	**18,683,595**	-	**28,047,256**	-	**18,281,575**	**9,307,679**	**27,589,254**
Due to customers	-	-	34,946,297	**34,946,297**	-	-	34,493,100	**34,493,100**
Subordinated Debt	-	-	800,899	**800,899**	-	-	611,480	**611,480**
Total	-	-	**35,747,196**	**35,747,196**	-	-	**35,104,580**	**35,104,580**

Loans and advances to/from credit institutions include inter-bank placements and items in the course of collection/settlement. As loans, advances and overnight deposits are short term and at floating rates, their fair value is considered to be approximated by their carrying amount. In estimating the fair value of the loan portfolio, the bank takes into account comparable factors in the market like interest rates.

11. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The table below sets out the carrying amounts and fair values of the Bank's financial and non-financial assets and liabilities on 31 December 2018 and 31 December 2017:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and balances with Central Bank	12,730,713	12,730,713	6,778,201	6,778,201
Loans and advances to banks	5,950,972	5,950,972	2,718,602	2,718,602
Available for sale Securities	19,217,970	19,217,970	10,803,880	10,803,880
Held to maturity Securities	10,124,370	10,432,874	7,879,715	7,477,695
Loans and advances to customers	24,721,153	21,897,860	9,285,162	9,227,139
Financial Leasing	55,835	55,835	78,499	80,540
Liabilities				
Due to banks	1,343,237	1,343,237	1,056,830	1,056,830
Due to customers	65,670,499	65,227,904	34,946,297	34,493,100
Subordinated Debt	373,059	227,511	800,899	611,480

There have not been any transfers of financial assets and liabilities between categories of fair value hierarchy of Level 2 and Level 3.

Valuation techniques:

Investment securities at FVOCI (from 1 January 2018) / Available-for-Sale and Held-to-Maturity (before 1 January 2018)

Investment securities are financial instruments issued by the Albanian government and includes both government bonds (long-term) and treasury bills (short-term) with fixed or floating rate interest payments. These instruments are generally liquid but are not listed in a market, hence direct quotations are not available. As a result, the Bank uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate future cash flows and a market price at which the security could sell at the date of reporting. In these instances the Bank classifies those securities as Level 2. The Bank does not have Level 3 government securities where valuation inputs would be unobservable.

Due to customers

The fair values of the Bank's deposits to customers are determined by using the discounted cash flow method using discount rates that reflect the market's average borrowing rate for similar types of instruments as at the end of the reporting period. The Bank presents these instruments as Level 2.

Subordinated Debt

The fair value of the Bank's subordinated debt is determined by using the discounted cash flow method using a discount rate that reflects the instrument's borrowing rate, as there is no market for similar insturments in Albania to compare it to. The Bank presents this instrument as Level 3.

Loans and advances to customers and Financial Leasing

For loans and financial leases measured at amortised cost, a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, market average rates of interest for similar types of instruments, prepayment rates and assumptions regarding market liquidity, where relevant. Due to the nature of the Bank's information systems, and diverse nature of the loan portfolio, the fair value estimates include significant uncertainty. The Bank classifies these assets as Level 2.

11. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Sensitivity of fair value measurements to changes in unobservable market data

The table below describes the effect of changing the significant unobservable inputs to reasonable possible alternatives. All changes except for debt instruments classified as “Financial Investments at FVOCI) (available-for-sale) would be reflected in the Income statement. Sensitivity data are calculated using a number of techniques, including analysing price dispersion of different price sources, adjusting model inputs to reasonable changes within the fair value methodology.

The ranges are not comparable or symmetrical as the model inputs are usually not in the middle of the favourable/unfavourable range.

The table below shows data in relation to Level 3 inputs that are already aggregated on the underlying product levels without assuming any potential diversification effect, but including potential off-sets from economic or accounting hedge relationships in place. The Bank is of the opinion that, whilst there may be some diversification benefits, incorporating these would not be significant to the analysis.

Sensitivity analyses	Level 3	Valuation technique	Inputs	Sensitivity	Impact
Loans and advances to customers & Financial Leasing	21,949,825	DCF	market rates	+200bp/-200bp	-1,343/+1,630
Due to customers	65,227,904	DCF	market rates	+100bp/-100bp	-396/+303

12. ANALYSES OF ASSETS, LIABILIITES AND EQUITY ACCORDING TO REMAINING MATURITY

The table below sets out the assets and liabilities of the bank as per their maturity:

	31 December 2018			31 December 2017		
	< 12 months	**> 12 months**	**Total**	**< 12 months**	**> 12 months**	**Total**
Assets						
Cash and cash equivalents	12,730,713	-	12,730,713	6,778,201	-	**6,778,201**
Loans and advances to banks	4,721,353	1,229,619	5,950,972	2,203,935	514,667	**2,718,602**
Securities	5,183,796	24,158,544	29,342,340	1,513,144	17,170,451	**18,683,595**
Loans and advances to customers	5,556,722	19,164,430	24,721,153	3,732,057	5,553,105	**9,285,162**
Financial leasing	13,149	42,685	55,835	21,026	57,473	**78,499**
Property and equipment	-	857,285	857,285	-	528,020	**528,020**
Intangible assets	-	142,858	142,858	-	157,634	**157,634**
Deferred tax assets	25,482	-	25,482	2,226	-	**2,226**
Inventory and other assets	912,580	3,024,623	3,937,203	313,618	2,457,121	**2,770,739**
Assets held for sale	10,075	-	10,075	10,075	-	**10,075**
Afiliates		41,375	41,375	-	21,250	**21,250**
Total	**29,153,871**	**48,661,419**	**77,815,290**	**14,574,282**	**26,459,721**	**41,034,003**
Liabilities						
Due to banks	1,343,237	-	**1,343,237**	1,056,830	-	**1,056,830**
Due to customers	47,868,050	17,802,449	**65,670,499**	22,469,784	12,476,513	**34,946,297**
Provisions	-	31,472	31,472	-	29,312	**29,312**
Other liabilities	1,103,081	61,343	1,164,424	286,647	-	**286,647**
Deferred tax liability	167,367	-	167,367	88,650	-	**88,650**
Subordinated liabilities	2,688	370,371	373,059	3,103	797,796	**800,899**
Total Liabilities	**50,484,423**	**18,265,636**	**68,750,059**	**23,905,014**	**13,303,621**	**37,208,635**
Net exposure	**(21,330,552)**	**30,395,784**	**9,065,231**	**(9,330,732)**	**13,156,100**	**3,825,368**

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents (unrestricted) as at 31 December 2018 and 31 December 2017 can be detailed as follows:

	31 December 2018	31 December 2017
Cash on hand	2,102,775	996,267
Unrestricted balances with Bank of Albania	10,311,977	3,421,634
Curent Accounts with correspondent banks	315,961	260,007
Money market placements	-	2,100,293
Total	**12,730,713**	**6,778,201**

14. LOANS AND ADVANCES TO BANKS

Loans and advances to banks as at 31 December 2018 and 31 December 2017 are composed as follows:

	31 December 2018	31 December 2017
Deposits with correspondent banks	113,991	117,748
Compulsory reserve with Bank of Albania	5,836,981	2,600,854
Total	**5,950,972**	**2,718,602**

In accordance with Bank of Albania requirements, the Bank should maintain a minimum of the due to customers balances, as a compulsory reserve with the Bank of Albania. LEK obligatory reserve may by used by the bank up to 70% of its value conditionally that the monthly average balance of LEK obligatory reserve is not lower than the required balance The amount required to be deposited is calculated as percentage over the customer balances. According to the regulation the rate of required reserve is related to the currency and the tenor of customer accounts (2017: 10% of customer deposits at 24 months contractual maturity). Effective from 24 July 2018, rates of obligatory reserve changed as below:

- 7.5% for customer deposits in LEK with contractual maturity up to 12 months
- 5.0% for customer deposits in LEK with contractual maturity over 12 months up to 24 months
- 12.5% for customer deposits in foreign currency, when the ratio “Deposits in foreign currency/Total deposits” is up to 50%
- 12.5% for customer deposits in foreign currency, when the ratio “Deposits in foreign currency/Total deposits” is higher than 50%

The obligatory reserve rate denominated in ALL is 70% of repurchase agreements rate. Meanwhile, this ALL balance had an interest rate as at 31 December 2018 of 0.7% a year (31 December 2017: 0.875% a year). The obligatory reserve rate denominated in EUR is indexed at ECBDF rate of -0.4% a year (31 December 2017: -0.4% a year).

The loans and advances to Banks are placed with Banks located in the following countries, and bear on original maturity shorgter than 3 months:

	31 December 2018	31 December 2017
Albania	5,836,981	2,600,854
Italy	6,171	6,648
France	107,820	111,100
Total	**5,950,972**	**2,718,602**

15. INVESTMENTS SECURITIES

Investments securities can be detailed as follows:

	31 December 2018	31 December 2017
Debt Instruments at FVOCI		
Albanian Government Treasury Bills	2,246,543	-
Albanian Government Bonds	14,529,513	-
Albanian Government Euro Bond	2,441,914	-
Total Debt Instruments at FVOCI	**19,217,970**	**-**

15. INVESTMENTS SECURITIES (CONTINUED)

	31 December 2018	31 December 2017
Debt Instruments available for sale		
Albanian Government Treasury Bills	-	786,359
Albanian Government Bonds	-	8,668,212
Albanian Government Euro Bond	-	1,349,309
Total Debt Instruments AFS	**-**	**10,803,880**

	31 December 2018	31 December 2017
Debt Instruments at amortized cost		
Albanian Government Bonds	10,168,119	-
Allowance for impairment losses	(43,749)	-
Total Debt Instruments at amortized cost	**10,124,370**	**-**

	31 December 2018	31 December 2017
Financial Investment held-to-maturity		
Albanian Government Bonds	-	7,879,715
Total Financial Investments held-to-maturity	**-**	**7,879,715**
Total Investment Securities	**29,342,340**	**18,683,595**

Treasury bills issued by Albanian Government and by original maturity are presented as follows:

		31 December 2018				
Maturity	**Average Interest Rate**	**Nominal Value**	**Premium / (Discount)**	**Accrued Interest**	**Revaluation Difference**	**Carrying Value**
6 Months	2.24%	1,400	(4)	-	-	1,396
12 Months	2.45%	2,251,990	(53,747)	42,796	4,108	2,245,146
		2,253,390	**(53,751)**	**42,796**	**4,108**	**2,246,542**

		31 December 2017				
Maturity	**Average Interest Rate**	**Nominal Value**	**Premium / (Discount)**	**Accrued Interest**	**Revaluation Difference**	**Carrying Value**
6 Months	1.94%	200,000	(2,014)	586	281	198,853
12 Months	2.82%	591,530	(17,258)	13,032	202	587,506
		791,530	**(19,272)**	**13,618**	**483**	**786,359**

Bonds issued by Albanian Government and by original maturity are presented as follows:

		31 December 2018				
Maturity	**Average Interest Rate**	**Nominal Value**	**Premium / (Discount)**	**Accrued Interest**	**Revaluation Difference**	**Carrying Value**
24 Months	3.21%	778,500	-	8,853	14,679	802,033
36 Months	4.91%	1,276,800	-	29,773	3,204	1,309,777
60 Months	5.31%	5,483,060	16,825	100,915	343,715	5,944,515
84 Months	6.79%	2,297,176	22,631	15,145	165,587	2,500,539
120 Months	7.67%	3,425,300	2,529	71,594	473,226	3,972,649
Euro Bond - 60 Months	5.81%	2,376,874	(65,308)	17,690	112,659	2,441,914
		15,637,709	**(23,324)**	**243,970**	**1,113,071**	**16,971,427**

15. INVESTMENTS SECURITIES (CONTINUED)

		31 December 2017				
Maturity	**Average Interest Rate**	**Nominal Value**	**Premium / (Discount)**	**Accrued Interest**	**Revaluation Difference**	**Carrying Value**
24 Months	3.40%	100,000	-	99	24	100,123
36 Months	5.00%	1,400,000	116	34,629	26,619	1,461,364
60 Months	5.49%	2,325,000	715	31,746	100,092	2,457,553
84 Months	6.79%	1,000,000	-	2,829	58,787	1,061,616
120 Months	7.77%	3,260,100	391	69,080	257,985	3,587,556
Euro Bond - 60 Months	5.88%	1,196,550	(3,619)	9,365	147,013	1,349,309
		9,281,650	**(2,397)**	**147,748**	**590,520**	**10,017,521**

On 1 October 2016, the Bank reclassified certain available for sale investments, for which it changed its intent to hold until maturity. For these investments the bank has the intention and ability to hold them until maturity.

The table below sets out the financial assets classified as held to maturity at 31 December 2018 and 31 December 2017:

		31 December 2018					
Maturity	**Average Interest Rate**	**Nominal Value**	**Accrued Interest**	**Remaining Premium**	**Revaluation Difference**	**IFRS 9 Allowance**	**Carrying Value**
24 Months	3.31%	1,600,000	-	14,930	-	(84)	1,614,846
36 Months	4.33%	424,700	-	7,997	140	-	432,838
60 Months	4.50%	1,600,000	3,031	26,493	333	-	1,629,857
84 Months	4.77%	1,570,600	24,591	17,460	(12,058)	-	1,600,593
120 Months	4.12%	4,722,000	57,158	101,631	9,112	(43,665)	4,846,236
Total		**9,917,300**	**84,780**	**168,512**	**(2,472)**	**(43,749)**	**10,124,370**

		31 December 2017				
Maturity	**Average Interest Rate**	**Nominal Value**	**Accrued Interest**	**Remaining Premium**	**Revaluation Difference**	**Carrying Value**
24 Months	2.97%	850,000	2,624	-	193	852,817
36 Months	5.00%	224,700	5,430	-	6,549	236,679
60 Months	4.77%	1,100,000	15,633	-	461	1,116,094
84 Months	4.49%	1,120,600	16,016	20,684	(14,922)	1,142,378
120 Months	5.23%	4,372,000	88,947	60,204	10,596	4,531,747
Total		**7,667,300**	**128,650**	**80,888**	**2,877**	**7,879,715**

The tables below shows the movement of gross balance and ECL of FVOCI securities:

FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2018	10,803,880	-	-	10,803,880
Gross carrying amount of ex-NBG as of acquisition date	7,195,761	-	-	7,195,761
New assets originated or purchased	3,903,388	-	-	3,903,388
Assets de-recognised or repaid	(2,690,42)	-	-	(2,690,42)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	5,364	-	-	5,364
Total	**19,217,970**	-	-	**19,217,970**

15. INVESTMENTS SECURITIES (CONTINUED)

FVOCI	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	49,320	-	-	49,320
ECL allowance of ex-NBG as of acquisition date	11,553	-	-	11,553
New assets originated or purchased	33,202	-	-	33,202
Assets de-recognised or repaid	(7,896)	-	-	(7,896)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(1,322)	-	-	(1,322)
Total	**84,858**	**-**	**-**	**84,858**

The tables below shows the movement of gross balance and ECL of amortisded cost securities:

AC	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	7,879,715	-	-	7,879,715
New assets originated or purchased	2,560,852	-	-	2,560,852
Assets de-recognised or repaid	(272,448)	-	-	(272,448)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**10,168,119**	-	-	**10,168,119**

AC	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	34,590	-	-	34,590
New assets originated or purchased	11,229	-	-	11,229
Assets de-recognised or repaid	(2,069)	-	-	(2,069)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**43,749**	-	-	**43,749**

16. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 December 2018 and 31 December 2017 can be detailed as follows:

	31 December 2018	31 December 2017
Loans	20,641,573	8,065,981
Overdrafts	7,189,909	2,836,876
Deferred disbursement fees	(134,570)	(49,414)
Gross amount	**27,696,912**	**10,853,443**
Allowance for impairment	(2,975,759)	(1,568,281)
Total net amount	**24,721,153**	**9,285,162**

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

			As at December 31,2018
Loan portfolio	Gross carrying amount	ECL amount	Carrying amount
Individual Secured	13,111,065	652,780	12,458,285
Individual Unsecured	1,004,143	175,426	828,716
Retail lending	**14,115,208**	**828,206**	**13,287,002**
Corporate & SME	11,413,442	1,860,572	9,552,870
SBE	2,168,262	281,809	1,886,453
Lending to businesses	**13,581,704**	**2,142,381**	**11,439,323**
Total	**27,696,912**	**2,970,588**	**24,726,324**

			As at December 31,2017
Loan portfolio	Gross carrying amount	Impairment allowance	Carrying amount
Individual Secured	3,060,826	189,507	2,871,320
Individual Unsecured	270,953	100,212	170,742
Retail lending	**3,331,780**	**289,718**	**3,042,061**
Corporate & SME	4,901,883	840,442	4,061,441
SBE	2,619,780	438,120	2,181,660
Lending to businesses	**7,521,663**	**1,278,562**	**6,243,101**
Total	**10,853,443**	**1,568,280**	**9,285,162**

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Impairment allowance for loans and advances to customers

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

Corporate &SME loans

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	4,024,524	444,396	531,747	-	5,000,667
Gross carrying amount of ex-NBG as of acquisition date	4,095,098	391,492	3,761,938	-	8,248,528
New assets originated or purchased	452,940	14,394	1,497	-	468,831
Assets de-recognised or repaid	(1,632,988)	(63,182)	(204,591)	-	(1,900,761)
Transfers to Stage 1	23,871	(23,871)	-	-	-
Transfers to Stage 2	(87,151)	87,151	-	-	-
Transfers to Stage 3	-	(371,348)	371,348	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(278,382)	(27,595)	(97,846)	-	(403,823)
Total	**6,597,912**	**451,437**	4,364,093	**-**	**11,413,442**

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2018 under IFRS 9	39,204	229,002	501,231	-	769,437
ECL allowance of ex-NBG as of acquisition date	153,093	44,068	1,091,134	-	1,288,295
New assets originated or purchased	43,197	10,135	1,497	-	54,830
Assets de-recognised or repaid	(8,230)	(10,743)	(1,308)	-	(20,281)
Transfers to Stage 1	444	(444)	-	-	-
Transfers to Stage 2	(18,647)	18,647	-	-	-
Transfers to Stage 3	-	(84,438)	84,438	-	-
Net re-measurement of ECL	84,258	(127,398)	(130,997)	-	(174,137)
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(3,774)	(8,030)	(45,768)	-	(57,572)
Total	**289,546**	**70,800**	**1,500,226**	**-**	**1,860,572**

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Impairment allowance for loans and advances to customers (continued)

SBE loans

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	1,770,141	467,446	283,410	-	2,520,997
Gross carrying amount of ex-NBG as of acquisition date	227,670	13,341	85,033	-	326,044
New assets originated or purchased	243,138	-	11,301	-	254,439
Assets de-recognised or repaid	(658,595)	(85,057)	(68,596)	-	(812,247)
Transfers to Stage 1	79,754	(77,380)	(2,374)	-	-
Transfers to Stage 2	(68,085)	97,792	(29,707)	-	-
Transfers to Stage 3	-	(155,936)	155,936	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(72,439)	(27,507)	(21,025)	-	(120,970)
Total	**1,521,585**	**232,700**	**413,977**	**-**	**2,168,262**

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2018 under IFRS 9	13,732	218,524	187,177	-	419,433
ECL allowance of ex-NBG as of acquisition date	5,541	1,311	36,027	-	42,879
New assets originated or purchased	42,969	-	1,641	-	44,610
Assets de-recognised or repaid	(3,225)	(116,182)	(81,814)	-	(201,221)
Transfers to Stage 1	1,981	(1,950)	(31)	-	-
Transfers to Stage 2	(26,485)	43,347	(16,862)	-	-
Transfers to Stage 3	-	(68,506)	68,506	-	-
Net re-measurement of ECL	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(1,240)	(10,359)	(12,293)	-	(23,892)
Total	**33,274**	**66,184**	**182,352**	**-**	**281,809**

(All amounts in ALL thousand, unless otherwise stated)

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Impairment allowance for loans and advances to customers (continued)

Individual secured loans

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	2,488,027	396,504	182,891	-	3,067,422
Gross carrying amount of ex-NBG as of acquisition date	8,542,740	1,236,800	1,503,222	-	11,282,762
New assets originated or purchased	278,312	196	21,744	-	300,252
Assets de-recognised or repaid	(893,191)	(185,636)	(61,650)	-	(1,140,477)
Transfers to Stage 1	91,089	(91,089)	-	-	-
Transfers to Stage 2	(75,124)	160,794	(85,670)	-	-
Transfers to Stage 3	(3,584)	(53,046)	56,630	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(312,294)	(45,376)	(41,678)	-	(399,348)
Total	**10,115,975**	**1,419,146**	**1,575,491**	**-**	**13,110,611**

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2018 under IFRS 9	25,374	135,106	48,221	-	208,702
ECL allowance of ex-NBG as of acquisition date	55,199	131,663	321,609	-	508,471
New assets originated or purchased	31,181	14	10,242	-	41,437
Assets de-recognised or repaid	(3,484)	(72,037)	(6,965)	-	(82,486)
Transfers to Stage 1	648	(648)	-	-	-
Transfers to Stage 2	(37,959)	67,078	(29,120)	-	-
Transfers to Stage 3	(722)	(9,971)	10,693	-	-
Net re-measurement of ECL	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(2,445)	(11,503)	(9,397)	-	(23,344)
Total	**67,793**	**239,703**	**345,284**	**-**	**652,780**

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Impairment allowance for loans and advances to customers (continued)

Individual unsecured loans

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	157,120	7,240	99,998	-	264,358
Gross carrying amount of ex-NBG as of acquisition date	782,181	38,986	90,021	-	911,188
New assets originated or purchased	38,498	273	-	-	38,772
Assets de-recognised or repaid	(165,670)	(8,840)	(23,814)	-	(198,324)
Transfers to Stage 1	1,999	(1,999)	-	-	-
Transfers to Stage 2	(2,649)	2,744	(95)	-	-
Transfers to Stage 3	(1,847)	(878)	2,725	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(5,347)	(102)	(5,947)	-	(11,395)
Total	**804,284**	**37,425**	**162,888**	**-**	**1,004,597**

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2018 under IFRS 9	1,832	1,922	95,222	-	98,976
ECL allowance of ex-NBG as of acquisition date	13,559	7,103	78,425	-	99,087
New assets originated or purchased	1,458	19	-	-	1,477
Assets de-recognised or repaid	(1,048)	(1,211)	(15,864)	-	(18,122)
Transfers to Stage 1	9	(9)	-	-	-
Transfers to Stage 2	(314)	321	(7)	-	-
Transfers to Stage 3	(2,071)	(938)	3,009	-	-
Net re-measurement of ECL	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(64)	(25)	(5,904)	-	(5,993)
Total	**13,361**	**7,183**	**154,882**	**-**	**175,426**

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Impairment allowance for loans and advances to customers (continued)

LG/LC

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	512,288	-	-	-	512,288
Gross carrying amount of ex-NBG as of acquisition date	103,422	10,000	35,600	-	149,022
New assets originated or purchased	362,696	-	-	-	362,696
Assets de-recognised or repaid	(282,890)	(10,000)	(600)	-	(293,490)
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(8,518)	-	-	-	(8,518)
Total	**686,997**	**-**	**35,000**	**-**	**721,997**

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2018 under IFRS 9	1,959	-	-	-	1,959
ECL allowance of ex-NBG as of acquisition date	2,153	-	186	-	2,339
New assets originated or purchased	2,446	-	-	-	2,446
Assets de-recognised or repaid	(2,195)	-	(30)	-	(2,225)
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Net re-measurement of ECL	-	-	-	-	-
Amounts written off	-	-	-	-	-
Dif in ECL increase / decrease	740	-	-	-	740
Foreign exchange adjustments	(88)	-	-	-	(88)
Total	**5,015**	**-**	**156**	**-**	**5,171**

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Impairment allowance for loans and advances to customers (continued)

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

	31 December 2018
Specific allowance for impairment	
Balance at 1 January	**1,498,513**
Balance of ex-NBG at merger date	1,941,071
Net impairment on Stage 1	187,077
Net impairment on Stage 2	(317,402)
Net impairment on Stage 3	(223,567)
Net Impairment on financial leasing	577
Net impairment on LG/LC	961
FX impact	(110,908)
Balance at 31 December	**2,976,323**
Charge/(reversal) in allowance of financial assets	(352,353)
Loss/(recoveries) from writte-offs and other expenses	(90,518)
Recovery for the year from specific impairment	**(442,871)**

	31 December 2017
Specific allowance for impairment	
Balance at 1 January	**792,266**
Charge for the year	168,041
Reversal of provisions on loans	(171,087)
Reversal of provisions from written-off loans	-
Net recovery for the year	**(3,046)**
Effect of movements in foreign exchange	(9,011)
Balance at 31 December	**780,209**
Cash recovery	(123,879)
Recovery from repossession of collaterals	(643,333)
Write-offs	78,694
Other recoveries for the year	**(688,518)**
Recovery for the year from specific impairment	**(691,564)**

	31 December 2017
Collective allowance for impairment	
Balance at 1 January	**292,910**
Charge for the year	647,134
Reversal of provisions on loans	(138,702)
Charge for the year from collective impairment	**508,432**
Write-offs of Curent Accounts in debit	(10,639)
Effect of movements in foreign exchange	(2,631)
Balance at 31 December	**788,072**
Total Allowance for Impairment	**1,568,281**
Total recoveries for the year	**(183,132)**

17. FINANCIAL LEASING

The Bank has issued financial leases to its customers, amounting ALL 55,835 thousand (31 December 2017:78,499 thousand). These leases have an average life of between one to 5 years, with no renewal option included in the contracts.

Financial leases to customers as at 31 December 2018 can be detailed as follows:

	31 December 2018	31 December 2017
Gross investment in finance leases, receivable		
- Not later than 1 year	14,225	8,010
- Later than 1 year and not later than 5 years	42,174	73,336
Less: Unearned finance income	-	-
Net investment in finance leases	**56,399**	**81,346**
Loss allowances for impairment	(564)	(2,847)
Total	**55,835**	**78,499**

Finance Lease Receivables – Movement in gross book value

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	81,346	-	-	-	81,346
Gross carrying amount of ex-NBG as of acquisition date	-	-	-	-	
New assets originated or purchased	-	-	-	-	-
Assets de-recognised or repaid	(20,593)	-	-	-	(20,593)
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(4,355)	-	-	-	(4,355)
Total	**56,399**	**-**	**-**	**-**	**56,399**

Finance Lease Receivables – Movement in ECL

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 01.01.2018 under IFRS 9	6	-	-	-	6
ECL allowance of ex-NBG as of acquisition date	-	-	-	-	
New assets originated or purchased	-	-	-	-	-
Assets de-recognised or repaid	(1)	-	-	-	(1)
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Net re-measurement of ECL	578	-	-	-	578
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(19)	-	-	-	(19)
Total	**564**	**-**	**-**	**-**	**564**

Movement in the allowance for impairment losses on finance lease receivables to customers as at and for the year ending on 31 December 2017, is as follows:

	31 December 2017
Balance at the beginning of the year	-
Recoveries	-
Allowance for loan loss impairment	2,847
Balance at the end of the year	**2,847**

	31 December 2017
Individual impairment	-
Collective impairment	2,847
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	**2,847**

18. PROPERTY AND EQUIPMENT

Property and Equipment as at 31 December 2018 and 31 December 2017 is as follows:

	Buildings	Computers and IT equipment	Office equipment	Vehicles	Leasehold improvements	Tangible assets in progress	Total
Cost							
Balance at 1 January 2017	**414,693**	**397,367**	**119,288**	**42,592**	**494,558**	**-**	**1,468,498**
Additions	118,251	36,938	3,218	-	1,813	9,454	169,674
Disposal	-	(19,115)	-	(1,293)	-	-	(20,408)
Transfers	-	9,187	-	-	-	(9,187)	-
Balance at 31 December 2017	**532,944**	**424,377**	**122,506**	**41,299**	**496,371**	**267**	**1,617,764**
Ex-NBG		31,824	15,934	16,356	61,049	-	125,162
Additions	227,722	12,377	1,227	4,980	-	27,891	274,197
Disposal	-	(4,814)	-	(23,270)	-	-	(28,085)
Transfers	-	24,528	-	-	-	(24,528)	-
Balance at 31 December 2018	**760,666**	**488,292**	**139,667**	**39,365**	**557,420**	**3,630**	**1,989,039**
Accumulated depreciation							
Balance at 1 January 2017	**(181,973)**	**(349,093)**	**(111,185)**	**(41,800)**	**(354,406)**	**-**	**(1,038,457)**
Charge for the year	(9,720)	(29,723)	(5,355)	(792)	(21,440)	-	(67,030)
Disposals	-	14,450	-	1,293	-	-	15,743
Balance at 31 December 2017	**(191,693)**	**(364,366)**	**(116,540)**	**(41,299)**	**(375,846)**	**-**	**(1,089,744)**
Charge for the year	(11,781)	(29,170)	(4,335)	(1,234)	(23,575)	-	(70,095)
Disposals	-	4,814	-	23,270	-	-	28,085
Balance at 31 December 2018	**(203,474)**	**(388,722)**	**(120,875)**	**(19,263)**	**(399,421)**	**-**	**(1,131,754)**
Net book value							
At 31 December 2017	**341,251**	**60,011**	**5,966**	**-**	**120,525**	**267**	**528,020**
At 31 December 2018	**557,192**	**99,570**	**18,792**	**20,102**	**157,999**	**3,630**	**857,285**

Additions notes as “ex-NBG” relate to property and equipment acquired from the merger with Banka NBG Albania sh.a.

19. INTANGIBLE ASSETS

	Software and licenses	Advances	Total
Cost			
Balance at 1 January 2017	**568,301**	**933**	**569,234**
Additions	8,526	20,651	29,177
Transfers	16,779	(16,779)	-
Reclassified as Tangible	-	-	-
Balance at 31 December 2017	**593,608**	**4,805**	**598,413**
Additions	12,264	10,243	22,507
Transfers	12,207	(12,207)	-
Balance at 31 December 2018	**618,079**	**2,841**	**620,920**
Accumulated amortization			
Balance at 1 January 2017	**(402,297)**	**-**	**(402,297)**
Charge for the year	(38,480)		(38,480)
Disposals	-	-	-
Balance at 31 December 2017	**(440,779)**	**-**	**(440,779)**
Charge for the year	(37,284)	-	(37,284)
Disposals	-	-	-
Balance at 31 December 2018	**(478,063)**	**-**	(478,063)
Net carrying value			
At 31 December 2017	**152,829**	**4,805**	**157,634**
At 31 December 2018	**140,017**	**2,841**	**142,858**

20. INVENTORY AND OTHER ASSETS

Other assets as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Repossessed Collaterals	3,416,401	2,722,677
Payments in transit and other assets	217,925	7,533
Sundry debtors	78,728	12,327
Prepaid Expenses	77,639	28,202
Other	146,510	-
Total	**3,937,203**	**2,770,739**

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

	2017	Ex NBG	Additions	Disposals	2018
At beginning of the period	**2,995,218**	764,502	301,911	(270,111)	3,791,520
Reclassification in fixed asset	-	-		(124,302)	(124,302)
Impairment of inventory	(310,753)	-	(5,801)	27,524	(289,030)
Effect of movements in foreign exchange	38,212	-		-	38,212
At end of the period	**2,722,677**	**764,502**	**296,110**	**(366,888)**	**3,416,401**

Additions noted as "ex-NBG" relate to repossessed assets acquired from the merger with Banka NBG Albania.

21. ASSETS HELD FOR SALE

Assets held for sale represent repossessed collaterals (as presented in note 20) whose selling process is expected to be realized within 12 months from the reporting date.

	31 December 2018	31 December 2017
Assets Held For Sale	10,075	10,075
Total	**10,075**	**10,075**

21. ASETS HELD FOR SALE (CONTINUED)

The movement of "assets held for sale" during the reporting period is presented as follows:

	2017	Additions	Disposals	2018
At beginning of the period	10,934	-	-	10,934
Inventory write-down	(859)	-	-	(859)
At end of the period	**10,075**	**-**	**-**	**10,075**

22. INVESTMENT IN ASSOCIATES AND SUBSIDIARIES

The Bank's shareholders agreed on 4 May 2017 to purchase 42.5% of the shares of the Albanian Stock Exchange ALSE sh.a. (Albanian Securities Exchange), at a value of LEK 21,250 thousand. The purpose of the acquisition was to start the first private stock exchange activity in the country, helping to restore the capital market still underdeveloped. This transaction was registered at the National Trade Registry ("NTR") on 28 July 2017.

The Bank's shareholders agreed on 4 May 2017 to purchase 47.5% of the shares of the Albanian Registry of Titles (Regjistri Shqiptar i Titujve, ALREG SHA), at a value of LEK 16.625 thousand. The purpose of the acquisition was to start the first private registry of Titles in the country which shall assist the Albanian Stock Exchange, helping to restore the capital market still underdeveloped. This transaction was registered at the NTR on 20 April 2018.

The Bank's shareholders agreed to purchase 100% of the shares of the ABI Broker SHA at a value of LEK 3.500.000,00. The purpose is to establish an insurance company so that the Bank can also assist its clients and others in the insurance market. This transaction was registered at the NTR on 10 January 2019.

The Bank's investment in these associates and subsidiaries is accounted for at cost and as at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Investment in associates:		
- ALSE	21,250	21,250
- ALREG	16,625	-
Investment in subsidiaries:		
- ABI Broker	3,500	-
Total	**41,375**	**21,250**

23. DUE TO BANKS

Due to banks as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Correspondent banks		
Current accounts		
Resident	-	149,950
Deposits		
Resident	301,514	398,850
Repurchase Agreements	**1,041,723**	**508,030**
Total	**1,343,237**	**1,056,830**

The details of repurchase agreement as at 31 December 2018 and 31 December 2017 have been as follows:

		31 December 2018		
Maturity	Interest Rate	Nominal value	Accrued interest	Book value
27/12/2018	1.03%	1,041,576	147	1,041,723
Total		**1,041,576**	**147**	**1,041,723**

23. DUE TO BANKS (CONTINUED)

	31 December 2017			
Maturity	Interest Rate	Nominal value	Accrued interest	Book value
05/1/2017	1.29%	507,958	72	508,030
Total		**507,958**	**72**	**508,030**

As at 31 December 2018, Albanian Government available for sale investment securities of ALL 1,130 thousand (2017: ALL 550,000 thousand) have been pledged as collateral for Repurchase Agreements (see note 12). These transactions are conducted under terms that are usual to the customary to standard lending, Securities borrowing and lending activities as well as requirements determined by Bank of Albania.

24. DUE TO CUSTOMERS

Due to customers as at 31 December 2018 and 31 December 2017 are composed as follows.

	31 December 2018			31 December 2017		
	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total
Current accounts						
Retail	2,665,848	3,479,615	**6,145,463**	1,002,238	820,426	**1,822,664**
Corporate	2,628,196	1,343,495	**3,971,691**	2,679,747	800,472	**3,480,219**
	5,294,044	**4,823,110**	**10,117,154**	**3,681,985**	**1,620,898**	**5,302,883**
Saving accounts						
Retail	2,430,578	4,807,563	**7,238,141**	1,321,110	2,808,372	**4,129,482**
Corporate	-	-	**-**	-	-	**-**
	2,430,578	**4,807,563**	**7,238,141**	**1,321,110**	**2,808,372**	**4,129,482**
Deposits						
Retail	24,292,414	21,123,184	**45,415,598**	14,378,352	9,231,110	**23,609,462**
Corporate	1,704,342	1,195,264	**2,899,605**	1,176,868	727,602	**1,904,470**
	25,996,756	**22,318,448**	**48,315,204**	**15,555,220**	**9,958,712**	**25,513,932**
Total	**33,721,378**	**31,949,121**	**65,670,499**	**20,558,315**	**14,387,982**	**34,946,297**

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

	31 December 2018			31 December 2017		
	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total
Current Accounts	**5,294,044**	**4,823,110**	**10,117,154**	**3,681,985**	**1,620,898**	**5,302,883**
Saving Accounts	**2,430,578**	**4,807,563**	**7,238,141**	**1,321,110**	**2,808,372**	**4,129,482**
Deposits						
1 month	103,853	809,312	**913,165**	174,779	214,881	**389,660**
3 months	571,432	1,784,768	**2,356,200**	145,523	755,643	**901,166**
6 months	1,194,312	1,827,631	**3,021,943**	529,917	325,854	**855,771**
9 months	19,951	47,493	**67,444**	6,510	9,238	**15,748**
12 months	11,091,612	14,837,922	**25,929,534**	5,767,471	6,187,387	**11,954,858**
18 months	1,041,509	34,223	**1,075,732**	270,715	3,191	**273,906**
24 months	2,934,642	1,674,212	**4,608,854**	1,347,543	1,354,381	**2,701,924**
36 months	6,941,661	873,018	**7,814,680**	5,543,515	726,031	**6,269,546**
60 months	1,202,642	371,448	**1,574,090**	952,622	382,106	**1,334,728**
84 months	735,094	-	**793,513**	701,846	-	**701,846**
120 months	160,049	58,420	**160,049**	114,779	-	**114,779**
	25,996,756	**22,318,448**	**48,315,204**	**15,555,220**	**9,958,712**	**25,513,932**
Total	**33,721,378**	**31,949,121**	**65,670,499**	**20,558,315**	**14,387,982**	**34,946,297**

25. SUBORDINATED LIABILITIES

	31 December 2018	31 December 2017
Tranzit Sh.p.k	373,059	800,899
	373,059	**800,899**

In October 2015, all rights and obligation on the subordinated debt granted by Credit Agricole S.A were transferred to Tranzit Shpk. As at 31 December 2018 and 31 December 2017, the subordinated liabilities bear the following interest and maturities:

31 December 2018						
Currency	**Nominal Value EUR**	**Accrued interest EUR**	**Amount EUR**	**Amount ALL'000**	**Maturity**	**Interest rate**
EUR	3,000,900	21,782	3,022,682	373,059	2033	3.35%
Totali	**3,000,900**	**21,782**	**3,022,682**	**373,059**		

31 December 2017						
Currency	**Nominal Value EUR**	**Accrued interest EUR**	**Amount EUR**	**Amount ALL'000**	**Maturity**	**Interest rate**
EUR	1,570,724	6,601	1,577,325	209,706	2033	1.70%
EUR	4,430,000	16,736	4,446,736	591,193	2033	1.70%
Total	**6,000,724**	**23,337**	**6,024,061**	**800,899**		

The contractual rights and obligations of the subordinated liabilities were restructured on 1 April 2016, extending the maturity period until year 2033 with fixed interest rates and on 28 June 2018 raising the contractual interest rate to 3.35% (2017: 1.70%).

The above liabilities would, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

The Bank has not had any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2018 and 2017. During 2018, part of this subordinated debt amounting ALL 378,158 thousand (2017: 275,092 thousand) was transferred as Capital. Movements in subordinated liability are as follows:

	31 December 2018	31 December 2017
Balance at the beginning of the year	**800,899**	**1,091,909**
Transfer to Capital	(378,158)	(275,092)
Interest accrued during the period	12,814	17,811
Interest paid during the period	(13,100)	(20,616)
Foreign exchange effect	(49,397)	(13,113)
Balance at the end of the year	**373,059**	**800,899**

26. DEFERRED TAX LIABILITIES

Recognized deferred tax assets and liabilities and movements in deferred income tax/income during the year are as follows:

			Deferred Tax Expense	
	2018	**2017**	**Year ended 31/12/2018**	**Year ended 31/12/2017**
Equipment and intangible assets	25,482	2,226	(2,120)	(942)
- of which coming from the merger with ex-NBG	*25,376*			
Deferred tax assets	**25,482**	**2,226**	**(2,120)**	**(942)**
Investment securities at FVOCI / AFS	(167,367)	(88,650)	(59,634)	(7,336)
- of which coming from the merger with ex-NBG	*(19,083)*			
Deferred tax liabilities	**(167,367)**	**(88,650)**	**(59,634)**	**(7,336)**
Total deferred tax expense recognized in pofit or loss			**(2,120)**	**(942)**
Total deferred tax expense recognized in OCI			**(59,634)**	**(7,336)**

26. DEFERRED TAX LIABILITIES (CONTINUED)

Deferred tax assets and deferred tax liabilities were increased during 2018 because of the merger with NBG, by ALL 25,376 thousands and ALL 19,083 thousands respectively, which does not impact the deferred tax income/expense of the reporting period.

27. OTHER PROVISIONS

Movements in provisions during the year are as follows:

	Litigations	Off-Balance sheet provisions	Other	Total
Balance at 1 January 2017	**15,187**	**8,077**	**6,217**	**29,481**
Provisions (used)/made during the year	(6,269)	7,748	7,505	**8,984**
Provisions reversed during the year	-	-	(6,751)	**(6,751)**
Effect of movements in foreign exchange	(256)	(951)	(1,195)	**(2,402)**
Balance at 31 December 2017	**8,662**	**14,874**	**5,776**	**29,312**
Ex NBG	18,035	-	-	**18,035**
Provisions reversed during the year	(20)	-	(980)	**(1,000)**
Effect of movements in foreign exchange		-	(2)	**(2)**
Balance at 31 December 2018	**26,677**	**-**	**4,796**	**31,473**

Other includes provision for losses on dormant accounts and current accounts with a debit balance.

28. OTHER LIABILITIES

Other liabilities as at 31 December 2018 and 31 December 2017 are composed as follows:

	31 December 2018	31 December 2017
Payments in transit	734,693	151,764
Suppliers Payable	52,383	10,799
Sundry creditors and other payables	184,618	60,528
Social security system payable	10,550	29,961
Other	181,983	33,595
	1,164,227	**286,647**

29. SHARE CAPITAL

The Bank's authorized, issued and fully paid capital as at 31 December 2018 comprises a 100% shareholding by Tranzit Shpk. The registered share capital at 31 December 2018 and 31 December 2017 is as follows:

At 31 December 2018	Currency	No of shares	Par Value	In original currency	In ALL '000
	ALL	30,644	42,690.081	1,308,190,105	**1,308,190**
	EUR	43,973	295.59	12,998,152	**1,777,269**
		74,617			**3,085,459**

At 31 December 2017	Currency	No of shares	Par Value	In original currency	In ALL '000
	ALL	58,611	112,342.71	6,584,518,555	**6,584,518**
	EUR	12,312	812.08	9,998,329	**1,399,111**
		70,923			**7,983,629**

The shares as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Number of authorized, fully paid shares at 01 January	70,923	68,423
Number of shares issued during year	3,694	2,500
Number of authorized and fully paid shares at 31 December	**74,617**	**70,923**

29. SHARE CAPITAL (CONTINUED)

During year 2018, based on Shareholder's resolution and approval of Bank of Albania, a portion of Subordinated Debt amounting EUR 2.999 thousand (2017: EUR 2,030 thousand) in LEK equivalent at 378,157 thousand (2017: LEK 275,092 thousand) is transferred to paid up Capital through issuance of 3,694 new shares (2017: 2,500).

30. RESERVES

LEGAL AND OTHER RESERVE

The Bank should establish a regulatory reserve of 1.25% to 2% of total risk-weighted assets, by appropriating one fifth of the net profit and before payment of dividends, until the balance on this measure reaches at least 1.25% of total risk-weighted assets and a legal reserve 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 but these reserves are not distributable to the shareholders. The amount of legal reserves as at 31 December 2018 is ALL 302,108 thousand (2017: ALL 57,162 thousand). Under this item is reflected also the reserve from merger with ex-NBG. The movement in legal and other reserve are as follows:

	31 December 2018	31 December 2017
Balance at 1 January 2018	57,162	57,162
Additional legal reserve for the year	244,946	-
Reserve drom the merger	3,882,015	
Balance at 31 December 2018	**4,184,123**	**57,162**

FAIR VALUE RESERVES

The fair value reserve comprises the cumulative net change in the fair value of available for sale/FVOCI financial assets, until the assets are derecognised or impaired. The changes during the financial year ended 31 December 2018 amounted to an increase of ALL 404,562 thousand (2017: ALL 35,155 thousand).Calculations for Other Reserve in 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Revaluation Reserves of AFS portfolio	1,117,178	591,003
Deffered Tax Liabilities (15%)	(167,577)	(88,650)
Revaluation Reserves of AFS portfolio ex-NBG	(108,134)	
Impact of adopting IFRS 9	49,320	
IFRS 9 reserve for the year	23,985	
Remaining Revaluation Reserve of HTM portfolio	(2,472)	2,877
Total securities Fair Value Capital Reserve	**912,300**	**505,230**

Movements in Fair Value Reserve in 31 December 2018 and 31 December 2017 are as follows:

	2018	2017
Other reserve at the beginning of the year	505,230	470,075
Impact of adopting IFRS	49,320	-
Total changes in Securities portfolio reserves	357,750	35,155
Changes in Other reserves Recognized in profit	*(5,349)*	*(6,416)*
Changes in Other reserves Recognized in other comprehensive income	*363,099*	*41,571*
Other reserve at the end of the year	**912,300**	**505,230**

31. NET INTEREST INCOME

Interest Income calculated using EIR was earned on the following asset and liabilites:

Interest income	**Year ended 31 December 2018**	**Year ended 31 December 2017**
Loans and advances to customers	769,207	576,832
Loans and advances to banks	7,758	19,903
Financial investments at amortised cost	424,510	-
Financial investments at FVOCI	796,045	-
Financial investments AFS & HTM	-	969,399
Total interest income	**1,997,520**	**1,566,134**
Interest expenses		
Demand and time deposits	414,348	343,082
Deposits from banks	33,622	18,608
Subordinated Debt	13,100	17,623
Current accounts of customers	30,672	25,017
Total interest expenses	**491,742**	**404,330**
Net interest income	**1,505,778**	**1,161,804**

32. NET FEE AND COMMISSION INCOME

	Year ended 31 December 2018	**Year ended 31 December 2017**
Fee income earned from services that are provided over time:	**75,312**	**65,893**
Current accounts	53,467	50,803
Cards and POSs	21,845	15,090
Fee income from providing financial services at a point in time:	**92,482**	**72,166**
Collection and payment services	41,104	33,409
Guarantees given	6,354	12,215
Internet banking	135	104
Arrangement fees and others	44,889	26,439
Fee and commission income	**167,794**	**138,060**
ATMs and cards	19,401	13,590
Other banking services	10,656	5,072
Collection and payment services	19,664	16,332
Guarantees received	-	**-**
Fee and commission expenses	**49,721**	**34,994**
Net fee and commission income	**118,073**	**103,066**

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.

33. OTHER OPERATING INCOME, NET

	Year ended 31 December 2018	**Year ended 31 December 2017**
(Loss)/Gain on sale of fixed assets	(8,754)	76,972
Sundry net operational gains	14,158	4,433
Total	**5,404**	**81,405**

34. PERSONNEL EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Salaries and bonus	480,378	355,350
Social Insurance	48,790	36,418
Training & similar	11,501	8,389
Total	**540,669**	**400,157**

35. OTHER ADMINISTRATION EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Rent Expenses	159,217	100,160
Deposit Insurance Premium	122,086	83,816
Advertising & publications	98,004	54,666
IT licence fees, HW and software maintenances	69,664	48,906
Consulting, legal and professional fees	65,228	67,200
Premises and equipments maintenance & repair	44,113	22,741
Cards	15,909	15,780
Reposessed Collaterals insurance & maintenace	12,327	5,034
Representation expenses	10,701	2,916
Local taxes	10,344	8,438
Stationery	8,485	6,887
Reuters	7,873	7,548
Transport and security services	6,922	5,851
Data communication & Internet	6,347	5,609
Telephone and electricity	6,347	5,356
Travel & business trips	6,326	7,618
Insurances	5,158	3,433
Cleaning services	2,609	1,142
Other	29,214	7,370
	686,874	**460,469**

36. INCOME TAX EXPENSES

The components of income tax expense for the year ended 31 December 2018 and 2017 are:

	Year ended 31 December 2018	Year ended 31 December 2017
Current year	(107,175)	(2,339)
Adjustment for prior years		-
Current tax expense	**(107,175)**	**(2,339)**
Origination and reversal of temporary differences	(2,120)	(942)
Deferred tax expenses	**(2,120)**	**(942)**
Income tax expense	**(109,295)**	**(3,281)**

Reconciliation of the income tax expense with the accounting profit(loss) for the year ended 31 December 2018 and 2017 is presented as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Accounting profit/(loss) before tax	**678,326**	**593,675**
Non-deductible expenses	84,673	107,317
Recognition of loans written-off deferred from prior years, net	(48,497)	(656,990)
Tax Profit before recognition of losses carried forward	**714,502**	**44,002**
Recognition of losses carried forward	-	(28,409)
Taxable base	**714,502**	**15,593**
Income tax expense at 15% (2017:15%)	**107,175**	**2,339**

36. INCOME TAX EXPENSES (CONTINUED)

Non-deductible adjustments are detailed as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Losses on unrecoverable loans and overdrafts	252	40,644
Reversal/(charge) of sundry operational losses	3,197	6,751
Write back of inventory	30,031	7,096
Penalties	288	1,216
Depreciation	2,896	4,764
Personnel Costs	5,905	90
Marketing and sponsorship	22,920	6,037
Other	19,184	40,719
Total	**84,673**	**107,317**
At 15%	**12,700**	**16,098**

Deductible temporary differences relates to loan and advances to customers written off considered as tax deductible only upon fulfilment of the respective criteria set forth in the tax legislation and exhaustion of any recovery efforts. Following also external tax advice and tax ruling, the management believes that the income tax provision calculation is appropriate despite the uncertainty of the Albanian tax environment and existing legislation in force and believes that any future tax audit will not have a significant effect on the Bank's financial position, results of operations, or cash flows.

37. COMMITMENTS AND CONTINGENCIES

Letters of credit and guarantees as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Contingent Assets	**1,694,905**	**1,089,768**
Letters of credit and guarantees in favor of customers	721,997	512,288
Commitments in favor of customers	787,678	323,475
SPOT transactions	**185,230**	**254,005**
Contingent liabilities	**80,832,452**	**33,091,567**
Guarantees pledged from credit customers	631,947	690,069
Guarantees received from credit customers	80,200,505	32,401,498

Letters of credit and guarantees given to customers commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses.

38. LITIGATION AND CLAIMS

The Bank is subject to legal proceedings, claims, and litigations arising in the ordinary course of business.

The Bank has formal controls and policies for managing litigations and legal claims. Once professional advice has been obtained and the amount of loss is reasonably estimated, the Bank makes adjustments to account for any adverse effects, which the claims or litigations may have on its financial standing. At year end, the bank had several claims with no probable material adverse effects, accordingly, the Bank has provisioned the amounts referred to in the Note 27 of these separate financial statements.

39. LEASE COMMITMENTS AND OPERATING LEASE EXPENSE

The Bank's operating minimum non-cancellable lease contingencies as lessee as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Less than one year	109,817	63,320
Between one and five years	278,411	189,644
More than five years	113,859	82,710
Total	**502,087**	**335,674**

39. LEASE COMMITMENTS AND OPERATING EXPENSE (CONTINUED)

The amount of operating lease expenses recognised in profit or loss as rent expense for the year ended 31 December 2018 amounts to ALL 159,217 thousand (2017: ALL 100,160 thousand).

Future minimum finance lease payments (principal and interest) as at 31 December 2018 are detailed as follows:

	31 December 2018	31 December 2017
Not later than 1 year	14,627	23,766
Later than 1 year and not later than 5 years	44,133	63,332
Later than 5 years	-	-
Total	**58,760**	**87,098**

40. RELATED PARTIES TRANSACTIONS

The Company's immediate parent for 2018, is Tranzit Sh.p.k, which holds a 100% interest. The Company, therefore, considers that it has a related-party relationship, in accordance with International Accounting Standard 24 Related Party Disclosures ("IAS 24") with the following:

- *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 Company, directly or indirectly, including any director (whether executive or otherwise) of the Company, 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.

A number of banking transactions are entered into with related parties in the normal course of business. These transactions include loand and advances to customers, deposits and a subordinated debt, along with other transactions carried out on normal commercial terms and at market rates (at arm's length transaction). As at 31 December 2018 and 31 December 2017 the Bank had the following contractual terms and transactions with its shareholders:

31-Dec-18	Amount	Average Interest rate	Min - Max Interest Rates	Min-Max Years Maturity
Key management personnel and Other related parties				
Loans and advances given	16,258	2.21%	1.64%-15%	2.5-16
Due to customers (CA and SA)	53,518	N/A	N/A	N/A
Due to customers (Term Deposits)	2,827	1.15%	0.15%-1.95%	3
Tranzit Sh.p.k				
Due to customers (CA and SA)	404,620	0.90%	0.90%	0.08
Subordinated Debt	373,059	0.017	0.017	15

31-Dec-17	Amount	Average Interest rate	Min - Max Interest Rates	Min-Max Years Maturity
Key management personnel and Other related parties				
Loans and advances given	19,501	2.85%	1.64%-15%	2.5-16
Due to customers (CA and SA)	25,384	-	-	-
Due to customers (Term Deposits)	2,777	2.07%	1.1%-3%	0.5-3
Tranzit Sh.p.k				
Loans and advances given	216,439	3.50%	3.50%	5
Due to customers (CA and SA)	121,619	-	-	-
Subordinated Debt	800,899	0.017	0.017	18

40. RELATED PARTIES TRANSACTIONS (CONTINUED)

The following transactions have taken place during the year ended 31 December 2018 and 31 December 2017:

	Year ended 31 December 2018			Year ended 31 December 2017		
	Tranzit sh.p.k Group	Key Management Personnel and other related parties	ABI Broker sh.a	Tranzit sh.p.k Group	Key Management Personnel and other related parties	Bursa Shqiptare e Titujve ALSE sh.a.
Assets at the end of the year	**-**	**16,258**	**-**	**216,439**	**19,501**	**-**
Loans and advances given	-	16,258	-	216,439	19,501	-
Liabilities at the end of the year	**777,679**	**56,345**	**1,486**	**922,518**	**28,161**	**-**
Due to banks	-	-	-	-	-	-
Due to customers	404,620	56,345	1,486	121,619	28,161	-
Subordinated debt	373,059	-	-	800,899		
Income for the year ending	**5,675**	**595**	**-**	**8,701**	**340**	**401**
Interest and similar income	5,567	453	-	8,644	248	-
Fee and commission income	108	142	-	57	92	401
Expenses for the year ending	**23,329**	**78**	**-**	**38,756**	**79**	**-**
Interest and similar expenses	14,556	78	-	17,623	79	-
Fee and commission expenses	-	-			-	-
Technical assistance	21,873	-	-	21,133	-	-
Short term management benefits						
Key management's compensation	**-**	**49,963**	**-**	**-**	**31,486**	**-**
Salaries	-	30,820	-	-	21,140	-
Bonuses	-	12,313	-	-	3,107	-
Other	-	6,830	-	-	7,239	-

There are no related party transactions as at and for the year ended 31 December 2018 for both Bursa Shqiptare e Tiutujve ALSE and Regjistri Shqiptar i Titujve ALREG.

41. SUBSEQUENT EVENTS

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