BANKA AMERIKANE E INVESTIMEVE SHA

Separate Financial Statements for the year ended on
31 December 2019
(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, 2019 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, 2019 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 ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") and with Institute of Authorizes Chartered Auditors of Albania Code of Ethics ("IEKA Code"), together with the ethical requirements of the Law No. 10091, dated 5 March 2009 "On the statutory audit and the organization of the statutory auditors and chartered accountants professions", amended, that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information included in Banka Amerikane e Investimeve 2019 Annual Report

Other information consists of the information included in Bank's 2019 Annual Report, prepared in accordance with articles 17 and 19 of the Law no. 25/2018 "For Accounting and Financial Statements", other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and those charged with governance for the 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
August 21, 2020
Tirana, Albania

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

Mario Vangjel
Certified Auditor

SEPARATE STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Notes	31 December 2019 ALL '000	31 December 2018 ALL '000
Assets			
Cash and cash equivalents	12	9,802,033	12,730,713
Loans and advances to banks	13	5,778,764	5,950,972
Financial investments – FVOCI	14	20,874,755	18,136,713
Financial investments at amortised cost	14	10,949,919	11,205,627
Loans and advances to customers	15	24,754,762	24,721,153
Financial leasing	16	42,279	55,835
Property, equipment and right-of-use assets	17	1,578,060	857,285
Intangible assets	18	157,582	142,858
Deferred tax assets	25	22,633	25,482
Inventory and other assets	19	3,590,779	3,937,203
Assets held for sale	20	2,336	10,075
Investments in Associates and Subsidiaries	21	100,500	41,375
Total Assets		**77,654,402**	**77,815,291**
Liabilities			
Due to banks	22	1,275,065	1,343,237
Due to customers	23	64,980,154	65,670,499
Other liabilities	27	1,015,614	1,164,227
Lease liability		486,288	-
Other provisions	26	88,805	31,472
Deferred tax liabilities	25	172,208	167,577
Subordinated liabilities	24	-	373,059
Total Liabilities		**68,018,134**	**68,750,071**
Equity			
Share capital	28	3,450,935	3,085,459
Legal and other reserves	29	4,292,981	4,184,123
Fair value reserve	29	1,069,332	912,300
Retained Earnings		823,020	883,338
Total Equity		**9,636,268**	**9,065,220**
Total Liabilities and Equity		**77,654,402**	**77,815,291**

The notes on pages 5 to 75 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 2019

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
		ALL '000	ALL '000
Interest income		2,852,963	1,997,520
Interest expense		(606,001)	(491,742)
Net interest income	30	**2,246,962**	**1,505,778**
Fee and commission income		291,996	167,794
Fee and commission expense		(60,769)	(49,721)
Net fee and commission income	31	**231,227**	**118,073**
Net foreign exchange gains/(losses)		54,877	(24,471)
Other operating (loss)\income, net	32	(102,167)	5,405
Net operating income		**(47,290)**	**(19,066)**
Net impairment gain on loans and advances	15,16	590,595	443,871
Net impairment on other financial assets		(4,618)	(34,466)
Personnel expenses	33	(870,805)	(540,669)
Depreciation and amortization	17,18	(254,181)	(107,321)
Other administration expenses	34	(874,358)	(686,874)
Net provisions for risk and expenses	26	(57,407)	(1,000)
Total expenses		**(1,470,774)**	**(926,459)**
Net profit before taxes		**960,125**	**678,326**
Income tax expense	35	(211,585)	(109,295)
Profit for the year		**748,540**	**569,031**
Other comprehensive income			
Items that will be reclasiffied to profit or loss			
Change in fair value of financial instruments – FVOCI, net of tax	14	157,032	357,750
Other comprehensive income for the year		**157,032**	**357,750**
Total comprehensive income for the year		**905,572**	**926,781**

The notes on pages 5 to 75 are an integral part of these separate financial statements.

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

Andi Ballta
Chief Executive Officer

Banka Amerikane e Investimeve
1
Zyra Qendrore

Armand Muharremi
Chief Financial Officer

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Andi Ballta
Chief Executive Officer

Armand Muharremi
Chief Financial Officer

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital	Legal and other reserves	Fair value reserve	Retained Earnings	Total
	ALL '000	**ALL '000**	**ALL '000**	**ALL '000**	**ALL '000**
Balance at 1 January 2018	**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 24)	378,158	-	-	-	**378,158**
Appropriation of profit in legal reserve	-	244,946	-	(244,946)	-
Reserve from merger (note 29)	-	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**
Profit for the year	**-**	**-**	-	748,540	**748,540**
Change in FV of securities	**-**	**-**	157,032		**157,032**
Total comprehensive income	**-**	**-**	**157,032**	**748,540**	**905,572**
Transaction with owners, recorded directly in equity					
Contribution of shareholder by conversion of subordinated liabilities (note 24)	365,476	-	-	-	**365,476**
Dividend distribution	-	-	-	(700,000)	(700,000)
Increase of legal reserves	-	108,858		(108,858)	-
Decrease in capital for accumulated losses	-	-	-	-	**-**
Total contributions by and distribution to owners	**365,476**	**108,858**	**-**	**(808,858)**	**(334,524)**
Balance at 31 December 2019	**3,450,935**	**4,292,981**	**1,069,332**	**823,020**	**9,636,268**

The notes on pages 5 to 75 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
		ALL '000	ALL '000
Profit before tax		**960,125**	**678,326**
Adjustments for:			
Depreciation and amortization	17,18	254,181	107,321
Net impairment gain on loans and advances to customers	15,16	(590,595)	(470,563)
Net Impairment on other financial assets and other assets		108,325	34,466
Net impairment loss on other operational provisions	26	57,407	27,692
Net interest income	30	(2,246,962)	(1,505,778)
Unrealised foreign exchange differences		(54,877)	24,471
Changes in			
Loans and advances to banks	13	103,016	(3,135,281)
Compulsory reserve	13	216581	(151,416)
Loans and advances to customers	15	233,228	3,203,354
Financial Leasing	16	13,556	21,922
Due to banks	22	(68,235)	(139,607)
Due to customers	23	(1,186,359)	819,827
Inventory and other assets	19	827,158	(159,260)
Assets Held For Sale	20	7,739	-
Other liabilities and provisions	26,27	(531,717)	479,130
Deferred tax liabilities	25	-	78,927
Interest received		2,836,737	2,616,759
Interest paid		(495,294)	(530,500)
Income Tax paid		94,387	-
Net cash from operating activities		**538,401**	**1,999,570**
Cash flows from investing activities			
Investments in Associates and subsidiaries	21	(59,125)	(20,125)
Acquisition of property and equipment	17	(356,057)	(274,197)
Acquisition of intangible assets	18	(62,797)	(22,508)
Net acquisitions of FVOCI investments	14	(2,546,956)	(1,185,544)
Net acquisitions of amortised cost investments	14	257,854	(2,191,757)
Net cash used in investing activities		**(2,767,081)**	**(3,694,131)**
Cash flows from financing activities			
Dividend distribution		(700,000)	
Net cash from financing activities		**(700,000)**	**-**
Net decrease in cash and cash equivalents		**(2,928,680)**	**(1,694,562)**
Cash and cash equivalents at 1 January		12,730,713	6,778,201
Cash acquired in merger with subsidiary		-	7,647,074
Cash and cash equivalents at 31 December		**9,802,033**	**12,730,713**

The notes on pages 5 to 75 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 2019, the registered share capital was ALL 3,450,935 thousand composed of EUR 15,999 thousand and ALL 1,308,190 thousand (2018: ALL 3,085,459 thousand, composed of EUR 12,998 thousand and ALL 1,308,190 thousand), divided into 84,769 shares composed of 30,644 shares with a nominal value of ALL 42,690.08 and 54,125 shares with a nominal value of EUR 295.59 (2018: 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).

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 23 branches as of 31 December 2019 (2018: 33 branches and 1 agency).

The Bank had 372 employees as of 31 December 2019 (2018: 469), out of which 231 (2018: 269) 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 realizable 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

The Bank has initially adopted IFRS 16 from 1 January 2019. The nature and effect of the changes as the result of the adoption of this new standard are described in Note 3.1 below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Bank's financial statements. Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 4 to all periods presented in these financial statements.

The effect of initially applying these standards is limited to IFRS 16 and mainly attributed to the following:

3.1. IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet. The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019, without restatement of comparatives. The Bank elected 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.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets are recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The Bank also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- Right-of-use assets of ALL 571 million were recognised and presented in the statement of financial position within "Property, right-of-use assets".
- Additional lease liabilities of ALL 571 million (included in "Lease liabilities") were recognised.
- The adoption of IFRS 16 had no impact on the Bank's reserves.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Assets	**ALL million**
Operating lease commitments as at 31 December 2018	502
Weighted average incremental borrowing rate as at 1 January 2019	4.766 %
Discounted operating lease commitments as at 1 January 2019	358
Less:	
Commitments relating to short-term leases / low-value assets	-
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	213
Lease liabilities as at 1 January 2019	**571**

4. SIGNIFICANT ACCOUNTING POLICIES

As presented in Note 4.h), the Bank does not reclassify its financial assets subsequent to its initial recognition, apart from the exceptional circumstances mentioned in the Standard. During 2019 the Bank identified that a part of its financial instruments at FVOCI obtained from the merger with NBG, retained their previous classification as FVOCI instead of being classified under the policy of the Bank. In the current year, the Bank revised the classification of this portfolio as Amortized Cost in accordance with the Business Model of the Bank for all variable rates securities. The reclassification did not impact the measurement of the assets as the fair value at the date of original acquisition through the merger did not differ from the amortized cost and there is no impact in profit or loss. See note 14 for more details.

IFRS 16 Leases has been implemented from 1 January 2019 using the modified retrospective approach through which a right-of-use asset and lease liability are recognised (for more details refer to Note 3.1).

Apart from these changes, the Bank has consistently applied the following accounting policies to all periods presented in these financial statements, apart from the new standard,

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. Information on interest in other entities is presented in Note 21.

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 2019 and 2018 are as follows (against ALL):

	31 December 2019	31 December 2018
1 USD	108.64	107.82
1 EUR	121.77	123.42
1 GBP	143.00	137.42

c) Interest

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Interest (continued)

The adjustment is subsequently amortized through Income from banking operations in the separate statement of comprehensive income.

Interest and similar income

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

For purchased or originated credit-impaired (POCI) financial assets (as set out in Note 4.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.

d) Fees and commission – Revenue from banking services to customers

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. Service fees and comissions for which the Bank undertakes a performance obligation towards the customers are recognised as banking revenues and accounted for under IFRS 15 Revenue from contract with customers. The Bank’s service terms and conditions (contracts) do not typically include multiple performance obligations bundled under one consideration, consequently there is no significant judmement in allocation of transaction price.

In addition, banking services offered by the bank have a duration of no more than one year or are renewed on annual basis (for example account maintenance). Consequenlty the Bank has used the practical expedient of the standard and needs not to present information about the aggregate amount of the price related to the unsatifsifed portion of performance obligations.

Satisfaction of performance obligations is performed either at a point in time where by commission revenue is recognised when the service has been executed and transferred to the customer, or over time where by the Bank performs the service over an agreed period and the customer consumes it as the service is being performed, and revenue is recognised over the said period.

Fee income can be divided into the following three categories:

- *Fee income earned from services that are provided over a 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 (point in time)*

  Commission income recognised at a point in time typically relate to transaction. They include fees from payment and transfer orders of the customers, and other banking services offered. Loan services fees that are not part of the effective interest rate including insurance commissions are also recognised when the service is performed and transferred to the customer. These fees or components of fees that are linked to a certain performance and are recognised as the related services are performed.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Initial measurement of financial instruments

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

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

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 difference between

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments – initial recognition (continued)

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities

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.

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

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 financial 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 assessment

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

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 whether 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 typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Bank applies judgement and considers 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

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 selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (continued)

Debt instruments at FVOCI (continued)

Equity instruments other than subsidiaries and associates at FVOCI

Upon initial recognition, the Bank may elect 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.

The Bank does not have any such instruments as at 31 December 2019 and 31 December 2018.

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 as off-balance sheets and are presented in its Commitments and Contingencies at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL 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. Financial guarantee 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.

h) Reclassification of financial assets and liabilities

As presented in Note 4.h), the Bank does not reclassify its financial assets subsequent to its initial recognition, apart from the exceptional circumstances mentioned in the Standard. During 2019 the Bank identified that a part of its financial instruments at FVOCI obtained from the merger with NBG, retained their previous classification as FVOCI instead of being classified under the policy of the Bank. In the current year, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the Bank revised the classification of this portfolio as Amortized Cost in accordance with the Business Model of the Bank for all variable rates securities.

The reclassification did not impact the measurement of the assets as the fair value at the date of original acquisition through the merger did not differ from the amortized cost and there is no impact in profit or loss. See note 14 for more details.

i) Derecognition of financial assets and liabilities

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Derecognition of financial assets and liabilities (continued)

Derecognition due to substantial modification of terms and conditions **(continued)**

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

j) Impairment of financial assets

Overview of the ECL principles

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 been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The bank records an allowance for the LTECL.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. Credit impaired assets acquired in a business combination are not treated as POCI.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Impairment of financial assets (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 on 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 *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD: The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.
- 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.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.
- 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Impairment of financial assets (continued)

The calculation of ECLs (continued)

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 Guarantee & Letter of Credit with residual maturity <= 1 year = 20%
- Letter of Guarantee & 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 corresponding 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Impairment of financial assets (continued)

The calculation of ECLs (continued)

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. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position.

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 policy for repossessed collaterals is to determine whether an 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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Forborne and modified loans (continued)

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.

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.

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) 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 10.

p) 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.

q) 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 FVOCI pledged as collateral, as appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Repurchase and reverse repurchase agreements (continued)

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.

r) Leasing

Policy applicable before 1 January 2019

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.

Policy applicable as of 1 January 2019

i. Lease payments - Lessee

The Bank assesses at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank applies a single recognition and measurement approach for all leases, except for the short term leases and leases of low–value assets. The Bank recognises lease liabilities to make lease payments and Right-of–use assets representing the right to use the underlying assets.

Right-of-use asset

The Bank recognises right-of-use assets at the commencement date of the lease. Right-of use assets are measured of cost, less any depreciation or impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of the right-of–use assets include the amount of the lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives recived. Right–of-use assets are depreciated in a straight-line basis over the lease term.The right–of–use assets are presented within Note 15 Property, equipment, right-of–use and intangible assets.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Leasing (continued)

Lease liabilities
At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any incentive receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalty for terminating the lease, if the lease reflects exercising the option to terminate. Payments made under operating leases are recognised in profit or loss 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.

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

s) 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.

Right-of-use assets are presented together with property and equipment in the statement of financial position. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Property and equipment (continued)

t) 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

u) 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.

v) 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.

w) 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.

x) 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

During 2019 there were no business combinations of the Bank. During 2018 there was a merger with acquisition, as detailed below.

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
Deferred 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	229,378
	31,026,164
Total identifiable net assets at fair value	**6,983,253**
Gain on bargain purchase	3,882,015
Purchase consideration transferred	**3,101,238**

6. NEW STANDARDS AND INTERPRETATION ISSUED NOT YET EFFECTIVE

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.

Amendments to IAS 1 and IAS 8: Definition of Material - In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Bank's financial statements.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The amendment is effective from 1 January 2020. The Bank does not expect a significant impact from this amendment.

The Conceptual Framework for Financial Reporting - The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard.

6. NEW STANDARDS AND INTERPRETATION ISSUED NOT YET EFFECTIVE (CONTINUED)

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The Bank will adopt the following standards when they become effect, but does not expects to have an impact over its financial statements because these are not applicable to the Bank.

IFRS 17 Insurance contracts, effective on or after 1 January 2023.

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows). A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (i.e., coverage period). Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.

Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use, effective on or after 1 January 2022

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment must be applied retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

AIP IFRS 9 Financial Instruments - Fees in the ’10 per cent’ test for derecognition of financial liabilities, effective on or after 1 January 2022

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. There is no similar amendment proposed for IAS 39.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

Amendment to IFRS 16: Covid-19-Related Rent Concessions, effective on or after 1 June 2020

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.

6. NEW STANDARDS AND INTERPRETATION ISSUED NOT YET EFFECTIVE (CONTINUED)

- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2021 and increased lease payments that extend beyond 30 June 2021).
- There is no substantive change to other terms and conditions of the lease.

Lessees will apply the practical expedient retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the amendment is first applied.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current, effective on or after 1 January 2022

Right to defer settlement

If an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance.

Meaning of the term 'settlement'

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception. In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or noncurrent. Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'.

- **Amendments to IFRS 3: Definition of a Business,** effective on or after 1 January 2020.
- **Amendments to IFRS 3: Reference to the Conceptual Framework,** effective on or after 1 January 2022.
- **Amendments to IAS 37: Onerous Contracts - Costs of Fulfilling a Contract,** effective on or after 1 January 2022.
- **AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a firsttime adopter,** effective on or after 1 January 2022.
- **AIP IAS 41 Agriculture - Taxation in fair value measurements,** effective on or after 1 January 2022.
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28.**

7. 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.:

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions. The Interpretation did not have an impact on the financial statements of the Bank.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instruments, the Bank assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the financial statements of the Bank.

The following standards were issued and effective for annual periods starting from 1 January 2019, but that do not have an impact for the Bank.

- **Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28**, The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests).
- **Plan Amendment, Curtailment or Settlement - Amendments to IAS 19**, the amendments address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.
- **Annual Improvement Process 2015 – 2017 cycle (issued in December 2017):**
  - **IFRS 3 Business Combinations – Previously held Interests in a joint operation,**
  - **IFRS 11 Joint Arrangements – Previously held Interests in a joint operation**
  - **IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity**
  - **IAS 23 Borrowing Costs – Borrowing costs eligible for capitalization.**

8. 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 analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

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.

8. 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 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.

8. 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.

8. 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 conditions 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 2019	**31 December 2018**
Concentration by sector		
Services	8,504	12,045
Wholesale	3,466,236	3,780,667
Construction	1,354,518	1,118,671
Manufacturing	1,979,537	2,562,289
Real Estate	903,036	876,368
Other	5,605,252	3,084,112
Businesses	**13,317,083**	**11,434,152**
Mortgage	10,884,524	12,458,285
Consumer	553,155	828,716
Individuals	**11,437,679**	**13,287,001**
Carrying amount	**24,754,762**	**24,721,153**

	Loans and advances to banks and cash equivalent	
Concentration by sector	**31 December 2019**	**31 December 2018**
Bank	8,097,835	6,266,933
Carrying amount	**8,097,835**	**6,266,933**

	Financial Investments	
Concentration by sector	**31 December 2019**	**31 December 2018**
Sovereign Bonds	31,824,674	29,342,340
Carrying amount	**31,824,674**	**29,342,340**

8. 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 2019**	**31 December 2018**
Rated B1	31,824,674	29,342,340
	31,824,674	**29,342,340**

Concentration of Credit Risk

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

	31 December 2019	As % total on balance	31 December 2018	As % total on balance
Republic of Albania securities	31,824,674	45%	29,342,340	41%
Balances with Bank of Albania	11,488,604	16%	16,148,958	23%
Total direct Albanian Sovereign risk	**43,313,278**	**61%**	**45,491,298**	**64%**
Largest bank	1,958,903	3%	163,655	0%
Largest customer	1,206,260	2%	586,095	1%
Total largest bank and customer	**3,165,163**	**5%**	**749,750**	**1%**
Total on-balance-sheet risk	46,478,441	66%	46,241,048	65%

The counterparty for the largest bank exposure as at 31 December 2019 is a foreign bank being Raiffeisen Bank AG (2018: foreign bank being CA CIB). The counterparty for the largest customer exposure as at 31 December 2019 is OSHEE SHA (2018: Kastrati sh.a).

Maximum exposure to credit risk

	Net Maximum Exposure	
	31 December 2019	**31 December 2018**
Cash and cash equivalents (excluding cash on hand)	8,137,551	10,627,938
Loans and advances to banks	5,778,764	5,950,972
Financial assets FVOCI	20,874,755	18,136,712
Financial assets amortised cost	10,949,919	11,205,628
Loans and advances to customers	24,754,762	24,721,153
Financial Leasing	42,279	55,835
Sundry debtors	12,879	78,728
Total on-balance-sheet risk	**70,550,909**	**70,776,966**
Undrawn credit commitments	1,076,174	787,678
Guarantees in favour of customers	803,165	721,997
SPOT Transactions	530,570	185,230
Total credit related commitments	**2,409,909**	**1,694,905**
Total Credit Risk Exposure	**72,960,818**	**72,471,871**

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.

8. 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 15.

					As at 31 December 2019	As at 31 December 2018
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Cash and Central Bank						
Low- fair risk	13,153,086	-	-	-	13,153,086	18,251,733
Less: allowance	-	-	-	-	-	-
Carrying amount	**13,153,086**	**-**	**-**	**-**	**13,153,086**	**18,251,733**
Due from banks						
Low- fair risk	2,427,711	-	-	-	2,427,711	429,952
Less: allowance	-	-	-	-	-	-
Carrying amount	**2,427,711**	-	-	-	**2,427,711**	**429,952**
Investment securities						
Low- fair risk	31,866,277	-	-	-	31,866,277	29,386,089
Monitoring	-	-	-	-	-	-
Less: allowance	(41,603)	-	-	-	(41,603)	(43,749)
Carrying amount	**31,824,674**	-	-	-	**31,824,674**	**29,342,340**
Loans and advances						
Low- fair risk	19,990,995	344,220	4,009	-	20,339,224	19,275,538
Monitoring	128,849	959,544	75,471	-	1,163,864	1,578,446
Substandard	104,524	393,354	1,369,420	-	1,867,298	1,882,233
Doubtful	13,061	60,217	1,377,896	-	1,451,174	2,257,790
Lost	84,789	8,643	2,293,126	-	2,386,558	2,702,905
Less: allowance	(274,380)	(86,690)	(2,089,986)	-	(2,451,056)	(2,970,588)
Carrying amount	**20,047,838**	**1,679,288**	**3,029,936**	**-**	**24,757,062**	**24,726,324**

8. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit Quality by class of financial assets (continued)

				As at 31 December 2019		As at 31 December 2018
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Financial Leasing						
Low- fair risk	42,706	-	-	-	42,706	56,399
Monitoring	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Lost	-	-	-	-	-	-
Less: allowance	(427)	-	-	-	(427)	(564)
Carrying amount	**42,279**	-	-	-	42,279	55,835
Financial guarantees and other commitments						
Low- fair risk	803,164	-	-	-	**803,164**	**721,997**
Less: allowance	(2,300)	-	-	-	**(2,300)**	**(5,171)**
Carrying amount	**800,864**	**-**	**-**	**-**	**800,864**	**716,826**

An ageing analysis of loans and the respective ECL impairment as at 31 December 2019 and 2018 is shown in the tables below:

	31 December 2019					
31 December 2019	**Not past due or 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	11,751,593	148,715	635,732	810,916	1,797,726	**15,144,682**
Mortgage lending	8,168,383	614,568	420,153	298,285	1,084,040	**10,585,429**
Consumer lending	1,256,156	60,906	34,725	45,927	80,293	**1,478,007**
Financial Leasing	42,706	-	-	-	-	**42,706**
Total gross	**21,218,838**	**824,189**	**1,090,610**	**1,155,128**	**2,962,059**	**27,250,824**
Total ECL	634,539	69,009	107,710	510,748	1,131,777	2,453,783
Net	**20,584,299**	**755,180**	**982,900**	**644,380**	**1,830,282**	**24,797,041**

8. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit Quality by class of financial assets (continued)

	31 December 2018					
31 December 2018	**Not past due or 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	8,168,870	1,402,079	688,880	904,504	2,417,371	**13,581,704**
Mortgage lending	9,672,010	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	**19,676,183**	**2,058,241**	**1,142,261**	**1,294,320**	**3,582,306**	**27,753,311**
Total ECL	901,812	187,689	206,726	246,859	1,433,237	2,976,323
Net	**18,774,371**	**1,870,552**	**935,535**	**1,047,461**	**2,149,069**	**24,776,988**

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.

8. 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 2019**	**31 December 2018**
Gross amount	5,119,921	6,516,448
Allowance for impairment	(2,089,983)	(2,182,900)
Carrying amount	**3,029,938**	**4,333,548**
Collectively impaired		
Gross amount	22,015,858	21,180,464
Allowance for impairment	(291,034)	(792,859)
Carrying amount	**21,724,824**	**20,387,605**
Total carrying amount on Loans and advances to customers	**24,754,762**	**24,721,153**

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 2019**	**31 December 2018**
Gross amount	-	-
Allowance for impairment	-	-
Carrying amount	**-**	**-**
Collectively impaired		
Gross amount	42,706	56,399
Allowance for impairment	(427)	(564)
Carrying amount	**42,279**	**55,835**
Total carrying amount on Loans and advances to customers	**42,279**	**55,835**

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 2019		**31 December 2018**	
	Gross	**Net**	**Gross**	**Net**
31 December 2019				
Low- fair risk	4,009	3,611	120,401	96,405
Monitoring	75,471	61,922	96,697	72,718
Substandard	1,369,420	826,466	2,079,368	1,444,932
Doubtful	1,377,896	653,284	1,404,936	980,521
Lost	2,293,124	1,484,655	2,815,046	1,738,972
Total	**5,119,921**	**3,029,938**	**6,516,448**	**4,333,548**

8. 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% 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.

8. 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 2019		31 December 2018	
	Credit impaired loans	Collateral Amount with haircut	Credit impaired loans	Collateral Amount with haircut
Corporate+SME	1,749,014	1,389,944	4,364,093	3,922,814
SBE	1,820,571	1,553,835	413,978	364,046
Individual Secured	1,457,000	2,170,477	1,575,491	2,720,436
Individual Unsecured	93,336	-	162,888	-
Financial Leasing	-	-	-	-
Guarantee	-	-	35,000	3,329
Total gross	**5,119,921**	**5,114,256**	**6,551,448**	**7,010,625**
Total ECL	(2,089,982)		(2,182,900)	
Net	**3,029,938**		**4,368,548**	

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 2019	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Property with haircut	24,839,620	2,651,991	4,970,566	-	32,462,177
Pledge	-	-	-	-	-
Cash	1,212,629	30,055	143,690	-	1,386,374
Total	**26,052,249**	**2,682,046**	**5,114,256**	**-**	**33,848,551**

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	60,395	-	1,426,143
Total	**32,931,201**	**4,067,919**	**7,010,625**	**-**	**44,009,745**

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 2019 is LEK 37 million (2018: LEK 35 million). 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 2019**	**31 Dec 2018**
Commercial	161,188	373,063	2,204,957	-	2,739,208	2,409,896
Mortgage	348,864	227,355	376,808	-	953,027	1,096,305
Consumer	8,145	6,690	8,599	-	23,434	28,514
Total	**518,197**	**607,108**	**2,590,364**	**-**	**3,715,669**	**3,534,715**

8. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit impaired loans and advances (continued)

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 FVOCI securities portfolio. The Liquidity ratios defined by the Bank are in compliance with Bank requirements imposed by the Regulation "On Liquidity Risk Management".

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 2019	31 December 2018
Average for the period	61.23%	62.37%
Minimum for the period	55.92%	51.32%
Maximum for the period	83.49%	70.97%

8. 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 2019. 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 2019	**up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**over 5 years**	**Total**
ASSETS						
Cash and cash equivalent	9,802,033	-	-	-	-	**9,802,033**
Minimum reserve requirement	1,638,420	290,283	1,306,275	2,435,146	-	**5,670,124**
Advances to Banks	108,640	-	-	-	-	**108,640**
Investment securities	1,555,095	655,762	5,654,013	19,055,243	8,695,594	**35,615,707**
Loans and advances to customers (gross performing loans)	682,390	1,364,781	6,141,514	8,553,751	6,235,932	**22,978,368**
Financial leasing	1,234	2,413	10,997	30,475		**45,119**
Other Financial Assets	40,539	-	64,104	3,826	-	**108,469**
TOTAL	**13,828,351**	**2,313,239**	**13,176,903**	**30,078,441**	**14,931,526**	**74,328,460**
LIABILITIES						
Current accounts with Banks	-	-	-	-	-	**-**
Current/Saving accounts with customers	4,617,623	696,805	3,138,110	9,366,006	2,371,698	**20,190,242**
Deposits from Banks	1,240,063	35,002	-	-	-	**1,275,065**
Deposits from customers – Time deposits	3,900,473	5,589,548	23,933,308	11,519,160	409,234	**45,351,723**
Subordinated Debt	-	-	-	-	-	**-**
Other Financial Liabilities	8,343	236,686	-	-	-	**245,029**
TOTAL	**9,766,502**	**6,558,041**	**27,071,418**	**20,885,166**	**2,780,932**	**67,062,059**
TOTAL GAP ON-BALANCE SHET	**4,061,849**	**(4,244,802)**	**(13,894,515)**	**9,193,275**	**12,150,594**	**7,266,401**
Off Balance Sheet inflow						
Off Balance Sheet outflow	**20,576**	**36,359**	**706,370**	**116,689**	**196,181**	**1,076,175**
TOTAL GAP OFF-BALANCE SHEET	**(20,576)**	**(36,359)**	**(706,370)**	**(116,689)**	**(196,181)**	**(1,076,175)**
TOTAL GAP 31 December 2019	**4,041,273**	**(4,281,161)**	**(14,600,885)**	**9,076,586**	**11,954,413**	**6,190,226**
CUMULATED GAP 31 December 2019	**4,041,273**	**(239,888)**	**(14,840,773)**	**(5,764,187)**	**6,190,226**	**-**

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.

8. RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

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	**34,486,205**
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	-	**217,926**
TOTAL	**18,443,505**	**2,556,764**	**10,388,824**	**27,733,420**	**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	**12,323,936**	**8,105,694**	**30,021,262**	**15,358,392**	**3,163,285**	**68,972,569**
TOTAL GAP ON-BALANCE SHET	**6,119,569**	**(5,548,930)**	**(19,632,438)**	**12,375,028**	**13,539,262**	**6,852,491**
Off Balance Sheet inflow						
Off Balance Sheet outflow	**13,438**	**189,449**	**245,759**	**151,799**	**187,234**	**787,679**
TOTAL GAP OFF-BALANCE SHEET	**(13,438)**	**(189,449)**	**(245,759)**	**(151,799)**	**(187,234)**	**(787,679)**
TOTAL GAP 31 December 2018	**6,106,131**	**(5,738,379)**	**(19,878,197)**	**12,223,229**	**13,352,028**	**6,064,812**
CUMULATED GAP 31 December 2018	**6,106,131**	**367,752**	**(19,510,445)**	**(7,287,216)**	**6,064,812**	**-**

8. 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 2019						
Commitments	20,575	36,359	706,370	116,689	196,181	**1,076,174**
Guarantees	73,790	324,338	282,223	122,814	-	**803,165**
SPOT Transactions	530,570	-	-	-	-	**530,570**
31 December 2018						
Commitments	13,437	189,449	245,759	151,799	187,234	**787,678**
Guarantees	53,586	194,534	127,703	346,174	-	**721,997**
SPOT Transactions	185,230	-	-	-	-	**185,230**

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 2019	31 December 2018
Commitments	**1,076,174**	**787,678**
Un-drawn credit facilities	1,076,174	787,678
Guarantees	**803,165**	**721,997**
Letters of credit	82,804	7,218
Guarantees in favor of customers	720,361	714,779
SPOT transactions	**530,570**	**185,230**

Undiscounted cash flows based on remaining outstanding balance for financial liabilities as at 31 December 2019 and 31 December 2018 is as follows:

	Carrying amount	Gross nominal (outflow)	1 Month	1-3 Months	3-12 Months	1-5 Years	>5 Years
31 December 2019							
Due to banks	**1,275,065**	**1,275,065**	1,240,063	35,002	-	-	-
Due to customers	**64,980,154**	**65,541,965**	8,518,096	6,286,353	27,071,418	20,885,166	2,780,932
Subordinated liabilities	**-**	**-**	-	-	-	-	-
31 December 2018							
Due to banks	**1,343,237**	**1,343,237**	1,343,237	-	-	-	-
Due to customers	**65,670,499**	**66,335,467**	10,940,807	7,429,533	29,990,042	15,308,037	2,667,048
Subordinated liabilities	**373,059**	**559,172**	3,171	-	9,409	50,354	496,238

8. 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.

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 (2019: ALL 52,845 thousands; 2018: ALL 64,943 thousands) and USD (2019: ALL 258 thousands; 2018: ALL 504 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 2019 and 31 December 2018 is as follows:

31 December 2019	**ALL**	**EUR**	**USD**	**Other**	**Total**
Assets					
Cash and cash equivalents	1,587,239	6,183,724	1,963,725	67,345	**9,802,033**
Loans and advances to banks	1,596,392	3,819,838	362,534	-	**5,778,764**
FVOCI Securities	18,529,419	2,345,336	-	-	**20,874,755**
Amortised cost Securities	10,949,919	-	-	-	**10,949,919**
Loans and advances to customers	3,465,293	21,219,308	70,161	-	**24,754,762**
Financial Leasing	-	42,279	-	-	**42,279**
Other financial assets	18,307	89,234	797	131	**108,469**
Total	**36,218,907**	**33,627,381**	**2,397,217**	**67,476**	**72,310,981**
Liabilities					
Due to banks	1,275,065	-	-	-	**1,275,065**
Due to customers	33,108,035	29,467,153	2,338,329	66,637	**64,980,154**
Subordinated Debt	-	-	-	-	**-**
Lease liability	2,317	477,313	6,658	-	**486,288**
Other financial liabilities	439,510	537,779	38,325	-	**1,015,614**
Total	**34,824,927**	**30,482,245**	**2,383,312**	**66,637**	**67,757,121**
Net Position	**1,393,980**	**3,145,136**	**13,905**	**839**	**4,553,860**

8. RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to Foreign Exchange rate risk (continued)

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**
FVOCI Securities	15,807,457	2,329,256	-	-	**18,136,713**
Amortised cost Securities	11,205,627	-	-	-	**11,205,627**
Loans and advances to customers	4,093,928	19,940,922	686,303	-	**24,721,153**
Financial Leasing	-	55,835	-	-	**55,835**
Other financial assets	150,799	65,173	1,952	-	**217,925**
Total	**35,173,031**	**35,228,993**	**2,512,284**	**104,630**	**73,018,938**
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	312,473	838,763	12,852	139	**1,164,227**
Total	**35,130,275**	**30,837,898**	**2,479,977**	**102,872**	**68,551,022**
Net Position	**42,756**	**4,391,095**	**32,307**	**1,758**	**4,467,916**

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 2019			
	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	(160,578)	160,578	60,326	(60,326)

	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)

8. 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 2019	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	2,319,071	-	-	-	-	7,482,962	**9,802,033**
Loans and advances to banks	5,524,869	-	-	-	-	253,895	**5,778,764**
Investment securities	1,541,739	605,786	1,445,188	5,715,856	22,516,105	-	**31,824,674**
Loans and advances to customers	1,430,106	11,663,021	2,433,579	5,850,623	3,377,433	-	**24,754,762**
Financial Leasing	-		42,279	-	-	-	**42,279**
Other Financial assets	108,469	-	-	-	-	-	**108,469**
Total	**10,924,254**	**12,268,807**	**3,921,046**	**11,566,479**	**25,893,538**	**7,736,857**	**72,310,981**
Liabilities							
Due to banks	1,240,063	35,002	-	-	-	-	**1,275,065**
Due to customers	8,450,667	6,228,994	7,476,703	19,348,091	23,475,699	-	**64,980,154**
Subordinated debt	-	-	-	-	-	-	**-**
Lease Liability	6,837	13,435	19,889	39,165	406,960	-	**486,286**
Other Financial liabilities	245,029	-	-	-	-	770,585	**1,015,614**
Total	**9,942,596**	**6,277,431**	**7,496,592**	**19,387,256**	**23,882,659**	**770,585**	**67,757,119**
Interest sensitivity gap at 31 December 2019	**981,658**	**5,991,376**	**(3,575,546)**	**(7,820,777)**	**2,010,879**	**6,966,271**	**4,553,860**

8. RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to Interest Rate risk (continued)

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	1,741,982	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	**7,412,118**	**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	-	**373,059**
Other Financial liabilities	734,693	-	-	-	-	429,534	**1,164,227**
Total	**11,002,979**	**7,044,390**	**7,688,040**	**20,493,241**	**21,892,838**	**429,534**	**68,551,022**
Interest sensitivity gap at 31 December 2018	**(3,590,861)**	**7,006,992**	**(4,601,139)**	**(17,239,018)**	**7,830,119**	**15,061,823**	**4,467,916**

8. 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 2019 is calculated at 19.27% including Tier 2 capital (2018: 20.44%) and calculated at 19.27% (2018: 19.26%) 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 2019. 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.

e) Operational Risk

The Bank is exposed to various operational risk including litigation risk, regulatory enforcements and other potential losses from failure of internal processes or external factors. When potential losses are identified to have been incurred, the Bank raises a provision, disclosed in note 25 of these financial statements. Further information on litigation risk is also disclosed in contingencies in Note 37, when applicable.

The Bank is not currently exposed to any regulatory enforcements that would have an impact on its operations. Regulatory findings and recommendations are given high priority by management and attempted to be rectified within set timelines.

9. 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

The measurement of impairment losses 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

9. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

• 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.

(ii) Going concern assessment

The Bank’s management has made an assessment of its ability to continue as a going concern, including the impact of COVID-19 pandemic (refer to Note 40), and is satisfied that it has the resources to continue in business for the foreseeable future. Management has not identified any material uncertainties that may cast significant doubt on the Bank’s ability to continue as a going concern and therefore the preparation of the financial statements under the going concern basis remains appropriate.

(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.

-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 2019 and 2018 all financial instruments are measured at amortized cost, except FVOCI assets which have been measured at fair value and the respective fair values have been disclosed in note 8.

9. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

(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 and operational 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.

(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.

10. 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 2019								
Loans and advances to customers	24,754,762	-	-	**24,754,762**	-	-	25,715,836	**25,715,836**
Financial Leasing	42,279	-	-	**42,279**	-	-	40,507	**40,507**
Financial investments at AC	-	10,949,919	-	**10,949,919**	-	11,352,027	-	**11,352,027**
Financial Investments at FVOCI	-	20,874,755	-	**20,874,755**	-	20,874,755	-	**20,874,755**
Total	**24,797,041**	**31,824,674**	-	**56,621,715**	-	**32,226,782**	**25,756,343**	**57,983,125**
Due to customers	-	-	64,980,154	**64,980,154**			64,576,592	**64,576,592**
Subordinated Debt	-	-	-	-			-	-
Total	-	-	**64,980,154**	**64,980,154**			**64,576,592**	**64,576,592**
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	-	11,205,627	-	**11,205,627**	-	11,514,131	-	**11,514,131**
Financial Investments at FVOCI	-	18,136,713	-	**18,136,713**	-	18,136,713	-	**18,136,713**
Total	**24,776,988**	**29,342,340**	-	**54,119,328**	-	**29,650,844**	**21,949,825**	**51,600,669**
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**

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

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

Valuation techniques:

Investment securities at FVOCI

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.

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) 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	25,756,343	DCF	market rates	+200bp/-200bp	-1,170,569/ +1,403,190
Due to customers	64,576,592	DCF	market rates	+100bp	-399,111/+384,172

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

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

	31 December 2019			31 December 2018		
	< 12 months	**> 12 months**	**Total**	**< 12 months**	**> 12 months**	**Total**
Assets						
Cash and cash equivalents	9,802,033	-	9,802,033	12,730,713	-	12,730,713
Loans and advances to banks	3,343,618	2,435,146	5,778,764	4,721,353	1,229,619	5,950,972
Securities	9,308,569	22,516,105	31,824,674	5,183,796	24,158,544	29,342,340
Loans and advances to customers	7,694,141	17,060,621	24,754,762	5,556,722	19,164,431	24,721,153
Financial leasing	13,230	29,049	42,279	13,149	42,686	55,835
Property and equipment and right-of-use assets	-	1,578,060	1,578,060	-	857,285	857,285
Intangible assets	-	157,582	157,582	-	142,859	142,858
Deferred tax assets	22,633	-	22,633	25,482	-	25,482
Inventory and other assets	572,619	3,018,160	3,590,779	912,580	3,024,623	3,937,203
Assets held for sale	2,336	-	2,336	10,075	-	10,075
Afiliates	-	100,500	100,500		41,375	41,375
Total	**30,759,179**	**46,895,223**	**77,654,402**	**29,153,870**	**48,661,422**	**77,815,292**
Liabilities						
Due to banks	1,275,065	-	1,275,065	1,343,237	-	**1,343,237**
Due to customers	41,494,471	23,485,683	64,9x`80,154	47,868,050	17,802,449	**65,670,499**
Provisions	-	88,805	88,805	-	31,473	31,473
Other liabilities	971,584	44,030	1,015,614	1,103,081	61,146	1,164,227
Lease liability	-	486,288	486,288			
Deferred tax liability	172,208	-	172,208	167,577	-	167,577
Subordinated liabilities	-	-	-	2,688	370,371	373,059
Total Liabilities	**43,913,328**	**24,104,806**	**68,018,134**	**50,484,633**	**18,265,439**	**68,750,072**
Net exposure	**(13,154,149)**	**22,790,417**	**9,636,268**	**(21,330,763)**	**30,395,983**	**9,065,220**

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents (unrestricted) as at 31 December 2019 and 31 December 2018 can be detailed as follows:

	31 December 2019	31 December 2018
Cash on hand	1,664,482	2,102,775
Unrestricted balances with Bank of Albania	5,818,480	10,311,977
Curent Accounts with correspondent banks	2,159,067	315,961
Money market placements	160,004	-
Total	**9,802,033**	**12,730,713**

13. LOANS AND ADVANCES TO BANKS

Loans and advances to banks as at 31 December 2019 and 31 December 2018 are composed as follows:

	31 December 2019	31 December 2018
Deposits with correspondent banks	108,640	113,991
Compulsory reserve with Bank of Albania	5,670,124	5,836,981
Total	**5,778,764**	**5,950,972**

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 100% of repurchase agreements rate. Meanwhile, this ALL balance had an interest rate as at 31 December 2019 of 1.00% a year (31 December 2018: 0.7% a year). The obligatory reserve rate denominated in EUR is indexed at ECBDF rate of -0.50% a year (31 December 2018: -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 2019	31 December 2018
Albania	5,670,124	5,836,981
Italy	-	6,171
France	108,640	107,820
Total	**5,778,764**	**5,950,972**

14. INVESTMENTS SECURITIES

Investments securities can be detailed as follows:

	31 December 2019	31 December 2018
Debt Instruments at FVOCI		
Albanian Government Treasury Bills	2,998,383	2,246,543
Albanian Government Bonds	15,531,036	13,448,255
Albanian Government Euro Bond	2,345,336	2,441,914
Total Debt Instruments at FVOCI	**20,874,755**	**18,136,713**

14. INVESTMENTS SECURITIES (CONTINUED)

	31 December 2019	31 December 2018
Debt Instruments at amortized cost		
Albanian Government Bonds	10,991,522	11,249,377
Allowance for impairment losses	(41,603)	(43,749)
Total Debt Instruments at amortized cost	**10,949,919**	**11,205,628**
Total Investment Securities	**31,824,674**	**29,342,340**

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

		31 December 2019				
Maturity	**Average Interest Rate**	**Nominal Value**	**Premium / (Discount)**	**Accrued Interest**	**Revaluation Difference**	**Carrying Value**
6 Months	1.34%	1,650	(11)	6	1	1,646
12 Months	1.84%	3,019,240	(55,291)	25,038	7,750	2,996,737
		3,020,890	**(55,302)**	**25,044**	**7,751**	**2,998,383**

		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%	2,257,286	(53,747)	42,796	(1,188)	2,245,147
		2,258,686	**(53,751)**	**42,796**	**(1,188)**	**2,246,543**

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

		31 December 2019				
Maturity	**Average Interest Rate**	**Nominal Value**	**Premium / (Discount)**	**Accrued Interest**	**Revaluation Difference**	**Carrying Value**
24 Months	4.65%	1,479,416	(5,178)	16,500	8,324	1,499,062
36 Months	2.91%	977,800	(3,264)	7,911	6,959	989,406
60 Months	4.93%	6,955,343	69,131	126,628	261,134	7,412,236
84 Months	6.79%	1,556,193	3,475	7,285	145,797	1,712,750
120 Months	7.53%	3,160,600	2,588	67,160	687,234	3,917,582
Euro Bond - 60 Months	3.52%	2,258,810	26,855	17,452	42,219	2,345,336
		16,388,162	**93,607**	**242,936**	**1,151,667**	**17,876,372**

		31 December 2018				
Maturity	**Average Interest Rate**	**Nominal Value**	**Premium / (Discount)**	**Accrued Interest**	**Revaluation Difference**	**Carrying Value**
24 Months	3.21%	778,916	-	8,853	14,263	802,032
36 Months	4.91%	1,276,800	-	29,773	3,204	1,309,777
60 Months	5.32%	5,338,803	16,825	99,311	283,789	5,738,728
84 Months	5.69%	2,165,893	22,631	13,931	143,862	2,346,317
120 Months	7.82%	2,711,175	2,529	67,478	470,219	3,251,401
Euro Bond - 60 Months	5.81%	2,376,874	(65,308)	17,690	112,659	2,441,915
		14,648,461	**(23,323)**	**237,036**	**1,027,996**	**15,890,170**

14. INVESTMENTS SECURITIES (CONTINUED)

The table below sets out the financial assets classified as amortised cost at 31 December 2019 and 31 December 2018:

Maturity	Average Interest Rate	31 December 2019 Nominal Value	Accrued Interest	Remaining Premium	Revaluation Difference	IFRS 9 Allowance	Carrying Value
24 Months	3.14%	1,500,000	19,175	(3,938)	-	(2,531)	1,512,706
36 Months	3.58%	200,000	2,567	-	-	(851)	201,716
60 Months	4.50%	1,600,000	26,408	1,590	205	(6,841)	1,621,362
84 Months	3.84%	2,470,600	26,487	13,916	501	(9,862)	2,501,642
120 Months	4.13%	4,972,000	99,7272	49,210	13,074	(21,518)	5,112,493
Total		**10,742,600**	**174,364**	**60,778**	**13,780**	**(41,603)**	**10,949,919**

Maturity	Average Interest Rate	31 December 2018 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	-	141	-	432,838
60 Months	4.53%	1,804,183	28,097	3,031	333	-	1,835,644
84 Months	4.33%	1,723,607	18,674	24,591	(12,058)	-	1,754,814
120 Months	4.13%	5,439,132	105,748	57,158	9,112	(43,665)	5,567,485
Total		**10,991,622**	**175,446**	**84,780**	**(2,472)**	**(43,749)**	**11,205,627**

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

FVOCI – Gross Carrying Amount	**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	6,114,504	-	-	6,114,504
New assets originated or purchased	3,903,388	-	-	3,903,388
Assets de-recognised or repaid	(2,690,423)	-	-	(2,690,423)
Foreign exchange adjustments	5,364	-	-	5,364
Gross carrying amount – 31 December 2018	**18,136,713**	**-**	**-**	**18,136,713**
New assets originated or purchased	6,840,894	-	-	6,840,894
Assets de-recognised or repaid	(4,099,674)	-	-	(4,099,674)
Amounts written off	-	-	-	-
Foreign exchange adjustments	859	-	-	859
Total	**20,878,792**	-	-	**20,878,792**

Note: Gross Carrying Amount includes the respective ECL.

FVOCI - ECL	**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)
Foreign exchange adjustments	(1,321)	-	-	(1,321)
ECL – 31 December 2018	**84,858**	**-**	**-**	**84,858**
New assets originated or purchased	23,155	-	-	23,155
Assets de-recognised or repaid	(13,104)	-	-	(13,104)
Amounts written off / Transfer to AC	(4,018)	-	-	(4,018)
Foreign exchange adjustments	366	-	-	366
Total	**91,257**	**-**	**-**	**91,257**

14. INVESTMENTS SECURITIES (CONTINUED)

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

AC – Gross Carrying AMount	**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	3,642,109	-	-	3,642,109
Assets de-recognised or repaid	(272,448)	-	-	(272,448)
Gross carrying amount – 31 December 2018	**11,249,376**	**-**	**-**	**11,249,376**
New assets originated or purchased	592,252	-	-	592,252
Assets de-recognised or repaid	(850,106)	-	-	(850,106)
Gross carrying amount – 31 December 2019	**10,991,522**	**-**	**-**	**10,991,522**

AC - ECL	**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	(2,070)	-	-	(2,070)
ECL – 31 December 2018	**43,749**	**-**	**-**	**43,749**
New assets originated or purchased	6,279	-	-	6,279
Assets de-recognised or repaid	(8,425)	-	-	(8,425)
ECL – 31 December 2019	**41,603**	-	-	**41,603**

15. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 December 2019 and 31 December 2018 can be detailed as follows:

	31 December 2019	**31 December 2018**
Loans	21,966,425	20,641,573
Overdrafts	5,350,307	7,189,909
Deferred disbursement fees	(108,614)	(134,570)
Gross amount	**27,208,118**	**27,696,912**
Allowance for impairment	(2,453,356)	(2,975,759)
Total net amount	**24,754,762**	**24,721,153**

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

			As at December 31,2019
Loan portfolio	**Gross carrying amount**	**ECL amount**	**Carrying amount**
Individual Secured	11,349,860	465,337	10,884,523
Individual Unsecured	713,577	160,420	553,157
Retail lending	**12,063,437**	**625,757**	**11,437,680**
Corporate & SME	9,216,868	949,419	8,267,449
SBE	5,927,813	875,879	5,051,934
Lending to businesses	**15,144,681**	**1,825,298**	**13,319,383**
Total	**27,208,118**	**2,451,055**	**24,757,063**

			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	828,717
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**	**2,970,587**	**24,726,325**

15. 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	-	-
Foreign exchange adjustments	(278,382)	(27,595)	(97,846)	-	(403,823)
Gross carrying amount – 31 December 2018	**6,597,912**	**451,437**	**4,364,093**	**-**	**11,413,442**
New assets originated or purchased	3,678,299	-	-	-	3,678,299
Assets de-recognised or repaid	(1,335,154)	(59,750)	(351,134)	-	(1,746,038)
Amortization / Increase of debt	(259,732)	(72,234)	(173,211)		(505,177)
To other segments	(1,252,551)	(176,631)	(1,756,356)		(3,185,538)
Transfers to Stage 1	102,878	(102,878)	-	-	-
Transfers to Stage 3	(14,412)	-	14,412	-	-
Amounts written off	-	-	(333,594)	-	(333,594)
Foreign exchange adjustments	(86,456)	(2,875)	(15,196)	-	(104,527)
Gross carrying amount – 31 December 2019	**7,430,784**	**37,069**	**1,749,014**	**-**	**9,216,866**

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2018	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)
Foreign exchange adjustments	(3,774)	(8,030)	(45,768)	-	(57,572)
ECL – 31 December 2018	**289,546**	**70,800**	**1,500,226**	**-**	**1,860,572**
New assets originated or purchased	68,041	-	-	-	68,041
Assets de-recognised or repaid	(112,374)	(15,329)	(113,701)	-	(241,404)
To other segments	(56,180)	(28,316)	(471,205)	-	(555,701)
Transfers to Stage 1	854	(854)	-	-	-
Transfers to Stage 3	(15,444)	-	15,444	-	-
Net re-measurement of ECL	(62,022)	(26,263)	62,969	-	(25,316)
Amounts written off	-	-	(148,174)	-	(148,174)
Foreign exchange adjustments	(1,445)	(35)	(7,120)	-	(8,600)
ECL – 31 December 2019	**110,976**	**3**	**838,439**	**-**	**949,418**

15. 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)
Gross carrying amount – 31 December 2018	**1,521,585**	**232,700**	**413,978**	**-**	**2,168,263**
New assets originated or purchased	1,471,475	-	-	-	1,471,475
Assets de-recognised or repaid	(293,811)	(82,787)	(2,813)	-	(379,411)
Amortization / Increase of debt	(175,949)	(23,833)	(12,776)	-	(212,558)
From other segments	1,121,873	444,371	1,413,474	-	2,979,718
To other segments	(11,207)	-	-	-	(11,207)
Transfers to Stage 1	56,871	(55,216)	(1,655)	-	-
Transfers to Stage 2	(5,536)	7,508	(1,972)	-	-
Transfers to Stage 3	(7,507)	(67,423)	74,930	-	-
Amounts written off	-	-	(58,647)	-	(58,647)
Foreign exchange adjustments	(23,997)	(1,874)	(3,948)	-	(29,819)
Gross carrying amount – 31 December 2019	**3,653,797**	**453,446**	**1,820,571**	**-**	**5,927,814**

	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)
ECL – 31 December 2018	**33,274**	**66,184**	**182,352**	**-**	**281,810**
New assets originated or purchased	22,788	-	-	-	22,788
Assets de-recognised or repaid	(6,629)	(1,178)	(629)	-	(8,436)
From other segments	14,358	13,745	692,019	-	720,122
To other segments	(59)	-	-	-	(59)
Transfers to Stage 1	673	(648)	(25)	-	-
Transfers to Stage 2	(500)	574	(74)	-	-
Transfers to Stage 3	(2,108)	(9,487)	11,595	-	-
Net re-measurement of ECL	(8,680)	(54,581)	(10,762)	-	(74,023)
Amounts written off	-	-	(57,774)	-	(57,774)
Foreign exchange adjustments	(498)	(328)	(7,723)	-	(8,549)
ECL – 31 December 2019	**52,619**	**14,281**	**808,979**	**-**	**875,879**

15. 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	-	-
Foreign exchange adjustments	(312,294)	(45,376)	(41,678)	-	(399,348)
Gross carrying amount – 31 December 2018	**10,115,975**	**1,419,146**	**1,575,944**	**-**	**13,111,065**
New assets originated or purchased	801,579	-	10,763	-	812,342
Assets de-recognised or repaid	(779,042)	(139,632)	(82,855)	-	(1,001,529)
Amortization / Increase of debt	(959,840)	(136,520)	(79,513)	-	(1,175,873)
From other segments	7,594	3,900	1,761	-	13,255
To other segments	(161,961)	(10,606)	(39,966)	-	(212,533)
Transfers to Stage 1	608,112	(523,571)	(84,541)	-	-
Transfers to Stage 2	(700,941)	872,711	(171,770)	-	-
Transfers to Stage 3	(160,393)	(232,526)	392,919	-	-
Amounts written off	-	-	(49,189)	-	(49,189)
Foreign exchange adjustments	(116,149)	(14,976)	(16,553)	-	(147,678)
Gross carrying amount – 31 December 2019	**8,654,934**	**1,237,926**	**1,457,000**	**-**	**11,349,860**

	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	-	-
Foreign exchange adjustments	(2,445)	(11,503)	(9,397)	-	(23,344)
ECL – 31 December 2018	**67,793**	**239,703**	**345,284**	**-**	**652,780**
New assets originated or purchased	4,742	-	5,930	-	10,672
Assets de-recognised or repaid	(6,549)	(30,062)	(12,047)	-	(48,658)
From other segments	47	31	28	-	106
To other segments	(1,024)	(1,369)	(22,763)	-	(25,156)
Transfers to Stage 1	3,124	(2,682)	(442)	-	-
Transfers to Stage 2	(42,182)	51,886	(9,704)	-	-
Transfers to Stage 3	(31,503)	(59,391)	90,894	-	-
Net re-measurement of ECL	69,688	(133,668)	(41,173)	-	(105,153)
Amounts written off	-	-	(13,099)	-	(13,099)
Foreign exchange adjustments	(790)	(1,272)	(4,092)	-	(6,154)
ECL – 31 December 2019	**63,346**	**63,175**	**338,816**	**-**	**465,337**

15. 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)
Gross carrying amount – 31 December 2018	**804,284**	**37,425**	**162,433**	**-**	**1,004,142**
New assets originated or purchased	204,893	-	73	-	204,966
Assets de-recognised or repaid	(237,565)	(4,846)	(6,830)	-	(249,241)
Amortization / Increase of debt	(144,105)	(6,909)	(4,157)	-	(155,171)
From other segments	8,273	1,231	21,423	-	30,927
To other segments	(7,585)	(179)	(392)	-	(8,156)
Transfers to Stage 1	11,019	(9,798)	(1,221)	-	-
Transfers to Stage 2	(29,102)	32,093	(2,991)	-	-
Transfers to Stage 3	(25,583)	(11,466)	37,049	-	-
Amounts written off	-	-	(111,992)	-	(111,992)
Foreign exchange adjustments	(1,826)	(14)	(59)	-	(1,899)
Gross carrying amount – 31 December 2019	**582,703**	**37,537**	**93,336**	**-**	**713,576**

	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)
ECL – 31 December 2018	**13,361**	**7,183**	**154,882**	**-**	**175,426**
New assets originated or purchased	43,007	9	88	-	43,104
Assets de-recognised or repaid	(3,638)	(720)	(7,115)	-	(11,473)
From other segments	137	602	23,076	-	23,815
To other segments	(51)	(15)	(212)	-	(278)
Transfers to Stage 1	114	(104)	(10)	-	-
Transfers to Stage 2	(6,875)	7,738	(863)	-	-
Transfers to Stage 3	(29,720)	(12,979)	42,699	-	-
Net re-measurement of ECL	31,191	7,525	8,955	-	47,671
Amounts written off	-	-	(117,280)	-	(117,280)
Foreign exchange adjustments	(86)	(9)	(471)	-	(566)
ECL – 31 December 2019	**47,440**	**9,230**	**103,749**	**-**	**160,419**

15. 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)
Foreign exchange adjustments	(8,518)	-	-	-	(8,518)
Gross carrying amount – 31 December 2018	**686,997**	**-**	**35,000**	**-**	**721,997**
New assets originated or purchased	464,571	-	-	-	464,571
Assets de-recognised or repaid	(380,394)	-	(5,000)	-	(385,394)
Transfers to Stage 1	30,000	-	(30,000)	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	1,990	-	-	-	1,990
Gross carrying amount – 31 December 2019	**803,164**	**-**	**-**	**-**	**803,164**

	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)
Dif in ECL increase / decrease	740	-	-	-	740
Foreign exchange adjustments	(88)	-	-	-	(88)
ECL – 31 December 2018	**5,015**	**-**	**156**	**-**	**5,171**
New assets originated or purchased	1,568	-	-	-	1,568
Assets de-recognised or repaid	(2,399)	-	(156)	-	(2,555)
Transfers to Stage 1	125	-	(125)	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Net re-measurement of ECL	(2,012)	-	125	-	(1,887)
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	3	-	-	-	3
ECL – 31 December 2019	**2,300**	**-**	**-**	**-**	**2,300**

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

	31 December 2019	31 December 2018
Specific allowance for impairment		
Balance at 1 January	**2,976,323**	**1,498,513**
Balance of ex-NBG at merger date	-	1,941,071
Net impairment on Stage 1	(127,338)	187,077
Net impairment on Stage 2	(295,380)	(317,402)
Net impairment on Stage 3	(73,511)	(223,567)
Net Impairment on financial leasing	433	577
Net impairment on LG/LC	(2,874)	961
FX impact	(23,870)	(110,907)
Balance at 31 December	**2,453,783**	**2,976,323**
Charge/(reversal) in allowance of financial assets	(498,670)	(352,353)
Loss/(recoveries) from writte-offs and other expenses	(274,622)	(91,518)
W-offs & Wavers	182,697	-
Recovery for the year from specific impairment	**(590,595)**	**(443,871)**

16. FINANCIAL LEASING

The Bank has issued financial leases to its customers, amounting ALL 42,279 thousand (31 December 2018: ALL 55,835 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 2019 and 31 December 2018 can be detailed as follows:

	31 December 2019	31 December 2018
Gross investment in finance leases, receivable		
- Not later than 1 year	13,364	14,225
- Later than 1 year and not later than 5 years	29,342	42,174
Less: Unearned finance income	-	-
Net investment in finance leases	**42,706**	**56,399**
Loss allowances for impairment	(427)	(564)
Total	**42,279**	**55,835**

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
Assets de-recognised or repaid	(20,593)	-	-	-	(20,593)
Foreign exchange adjustments	(4,354)	-	-	-	(4,354)
Gross carrying amount – 31 December 2018	**56,399**	**-**	**-**	**-**	**56,399**
Assets de-recognised or repaid	(13,114)	-	-	-	(13,114)
Foreign exchange adjustments	(579)	-	-	-	(579)
Total	**42,706**	**-**	**-**	**-**	**42,706**

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
Assets de-recognised or repaid	(1)	-	-	-	(1)
Net re-measurement of ECL	578	-	-	-	578
Foreign exchange adjustments	(19)	-	-	-	(19)
ECL – 31 December 2018	**564**	**-**	**-**	**-**	**564**
Assets de-recognised or repaid	(131)	-	-	-	(131)
Foreign exchange adjustments	(6)	-	-	-	(6)
ECL – 31 December 20189	**427**	**-**	**-**	**-**	**427**

17. PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Property and Equipment as at 31 December 2019 and 31 December 2018 is as follows:

	Buildings	Computers and IT equipment	Office equipment	Vehicles	Leasehold improvements	Tangible assets in progress	Right-of-use assets (buildings)	Total
Cost								
Balance at 1 January 2018	**532,944**	**424,377**	**122,506**	**41,299**	**496,371**	**267**	**-**	**1,617,764**
Ex-NBG	-	31,824	15,934	16,356	61,049	-	-	125,163
Additions	227,722	12,377	1,227	4,980	-	27,891	-	274,197
Disposal	-	(4,814)	-	(23,270)	-	-	-	(28,084)
Transfers	-	24,528	-	-	-	(24,528)	-	-
Balance at 31 December 2018	**760,666**	**488,292**	**139,667**	**39,365**	**557,420**	**3,630**		**1,989,040**
Effect from adoption of IFRS 16	-	-	-	-	-	-	570,826	**570,826**
Additions	74,877	50,117	9,143	-	7,356	215,151	-	356,644
Disposal	-	(2,640)	(1,424)	(12,642)	(110,389)	-	-	(127,095)
Transfers	-	8,574	(5,399)	(13,459)	13,459	(3,175)	-	-
Balance at 31 December 2019	**835,543**	**544,343**	**141,987**	**13,264**	**467,846**	**215,606**	**570,826**	**2,789,415**
Accumulated depreciation								
Balance at 1 January 2018	**(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	-	-	-	28,084
Balance at 31 December 2018	**(203,474)**	**(388,722)**	**(120,875)**	**(19,263)**	**(399,421)**	**-**	**-**	**(1,131,755)**
Charge for the year	(15,965)	(48,943)	(6,284)	(1,083)	(46,481)	-	(87,352)	(206,108)
Disposals	-	2,640	1,424	12,056	110,388	-	-	126,508
Balance at 31 December 2019	**(219,439)**	**(435,025)**	**(125,735)**	**(8,290)**	**(335,514)**	**-**	**(87,352)**	**(1,211,355)**
Net book value								
At 31 December 2018	**557,192**	**99,570**	**18,792**	**20,102**	**157,999**	**3,630**	**-**	**857,285**
At 31 December 2019	**616,104**	**109,318**	**16,252**	**4,974**	**132,332**	**215,606**	**483,474**	**1,578,060**

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

18. INTANGIBLE ASSETS

	Software and licenses	Advances	Total
Cost			
Balance at 1 January 2018	**593,608**	**4,805**	**598,413**
Additions	12,265	10,243	22,508
Transfers	12,207	(12,207)	-
Balance at 31 December 2018	**618,080**	**2,841**	**620,921**
Additions	61,846	951	62,797
Transfers	-	-	-
Balance at 31 December 2019	**679,926**	**3,792**	**683,718**
Accumulated amortization			
Balance at 1 January 2018	**(440,779)**	**-**	**(440,779)**
Charge for the year	(37,284)	-	(37,284)
Disposals	-	-	-
Balance at 31 December 2018	**(478,063)**	**-**	**(478,063)**
Charge for the year	(48,073)	-	(48,073)
Disposals	-	-	-
Balance at 31 December 2019	**(526,136)**	**-**	**(526,136)**
Net carrying value			
At 31 December 2018	**140,017**	**2,841**	**142,858**
At 31 December 2019	**153,790**	**3,792**	**157,582**

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

19. INVENTORY AND OTHER ASSETS

Other assets as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Repossessed Collaterals	3,423,110	3,416,401
Payments in transit and other assets	108,470	217,925
Sundry debtors	12,879	78,728
Prepaid Expenses	46,320	77,639
Other	-	146,510
Total	**3,590,779**	**3,937,203**

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:

	2018	Additions	Disposals	2019
At beginning of the period	3,791,521	584,441	(457,026)	3,918,936
Reclassification in fixed asset	(124,302)	-	(32,468)	(156,770)
Impairment of inventory	(289,030)	(103,707)	15,469	(377,268)
Effect of movements in foreign exchange	38,212	-	-	38,212
At end of the period	**3,416,401**	**480,734**	**(474,025)**	**3,423,110**

20. 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 2019	31 December 2018
Assets Held For Sale	2,336	10,075
Total	**2,336**	**10,075**

20. ASETS HELD FOR SALE (CONTINUED)

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

	2018	Additions	Disposals	2019
At beginning of the period	10,934	-	(8,573)	2,361
Inventory write-down	(859)	-	834	(25)
At end of the period	**10,075**	**-**	**(7,739)**	**2,336**

21. INVESTMENT IN ASSOCIATES AND SUBSIDIARIES

The Bank has investments in participation in ALSE (established on May 4, 2017) and ALREG (established on May 4, 2017), with a percentage of participation of 45.59% and 47.5% respectively.

During 2019, the Bank increased the share capital of the Albanian Stock Exchange ALSE sh.a. with a value of 17,500 thousand ALL and the Register of Albanian Titles (Albanian Register of Titles, ALREG JSC), with a value of 16,625 thousand ALL. The Bank's shareholders during 2018 have established the ABI Broker sh.a in a value of 3,500 thousand ALL. 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 December 27, 2018.

The shareholders of the Bank agreed on the establishment of ABI Invest sh.a in a value of 25,000 thousand ALL.The purpose was to start the activity of a fund management company through which the Bank will generate profits from investments in securities. This company was registered at the NTR on December 24, 2019.

The Bank’s investment in these associates and subsidiaries is accounted for at cost and as at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Investment in associates:		
- ALSE	38,750	21,250
- ALREG	33,250	16,625
Investment in subsidiaries:		
- ABI Broker	3,500	3,500
- ABI Invest	25,000	-
Total	**100,500**	**41,375**

22. DUE TO BANKS

Due to banks as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Correspondent banks		
Current accounts		
Resident	-	-
Deposits		
Resident	75,014	301,514
Repurchase Agreements	**1,200,051**	**1,041,723**
Total	**1,275,065**	**1,343,237**

The details of repurchase agreement as at 31 December 2019 and 31 December 2018 have been as follows:

		31 December 2019		
Maturity	**Interest Rate**	**Nominal value**	**Accrued interest**	**Book value**
26/12/2019	1.04%	1,199,846	205	1,200,051
Total		**1,199,846**	**205**	**1,200,051**

22. DUE TO BANKS (CONTINUED)

	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**

As at 31 December 2019, Albanian Government FVOCI investment securities of ALL 1,200 thousand (2018: ALL 1,130 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.

23. DUE TO CUSTOMERS

Due to customers as at 31 December 2019 and 31 December 2018 are composed as follows.

	31 December 2019			31 December 2018		
	Local Currency	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Current accounts						
Retail	2,385,344	2,813,879	**5,199,223**	2,665,848	3,479,615	**6,145,463**
Corporate	2,144,734	1,530,644	**3,675,378**	2,628,196	1,343,495	**3,971,691**
	4,530,078	**4,344,523**	**8,874,601**	**5,294,044**	**4,823,110**	**10,117,154**
Saving accounts						
Retail	3,374,760	7,784,551	**11,159,311**	2,430,578	4,807,563	**7,238,141**
Corporate	-	-	**-**	-	-	**-**
	3,374,760	**7,784,551**	**11,159,311**	**2,430,578**	**4,807,563**	**7,238,141**
Deposits						
Retail	23,619,393	18,865,466	**42,484,859**	24,292,414	21,123,184	**45,415,598**
Corporate	1,583,803	877,580	**2,461,383**	1,704,342	1,195,264	**2,899,606**
	25,203,196	**19,743,046**	**44,946,242**	**25,996,756**	**22,318,448**	**48,315,204**
Total	**33,108,034**	**31,872,120**	**64,980,154**	**33,721,378**	**31,949,121**	**65,670,499**

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

	31 December 2019			31 December 2018		
	Local Currency	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Current Accounts	**4,530,078**	**4,344,523**	**8,874,601**	**5,294,044**	**4,823,110**	**10,117,154**
Saving Accounts	**3,374,760**	**7,784,551**	**11,159,311**	**2,430,578**	**4,807,563**	**7,238,141**
Deposits						
1 month	38,975	318,889	**357,864**	103,853	809,312	**913,165**
3 months	955,215	1,354,531	**2,309,746**	571,432	1,784,768	**2,356,200**
6 months	861,934	1,367,482	**2,229,416**	1,194,312	1,827,631	**3,021,943**
9 months	26,259	45,170	**71,429**	19,951	47,493	**67,444**
12 months	8,550,110	13,748,119	**22,298,229**	11,091,612	14,837,922	**25,929,534**
18 months	1,008,533	3,764	**1,012,297**	1,041,509	34,223	**1,075,732**
24 months	2,452,312	1,779,713	**4,232,025**	2,934,642	1,674,212	**4,608,854**
36 months	8,750,532	700,525	**9,451,057**	6,941,662	873,018	**7,814,680**
60 months	1,479,371	416,793	**1,896,164**	1,202,642	371,448	**1,574,090**
84 months	832,479	-	**832,479**	735,092	58,421	**793,513**
120 months	247,476	8,060	**255,536**	160,049	-	**160,049**
	25,203,196	**19,743,046**	**44,946,242**	**25,996,756**	**22,318,448**	**48,315,204**
Total	**33,108,034**	**31,872,120**	**64,980,154**	**33,721,378**	**31,949,121**	**65,670,499**

24. SUBORDINATED LIABILITIES

	31 December 2019	31 December 2018
Tranzit Sh.p.k	-	373,059
	-	**373,059**

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, 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**		

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 2019 and 2018. During 2019, part of this subordinated debt amounting ALL 365,476 thousand (2018: ALL 378,158 thousand) was transferred as Capital. Movements in subordinated liability are as follows:

	2019	2018
Balance at the beginning of the year	**373,059**	**800,899**
Transfer to Capital	(365,476)	(378,158)
SD paid during the period	(4)	-
Interest accrued during the period	8,674	12,814
Interest paid during the period	(11,335)	(13,100)
Foreign exchange effect	(4,918)	(49,397)
Balance at the end of the year	**-**	**373,059**

25. DEFERRED TAX ASSETS AND LIABILITIES

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

			Deferred Tax Expense	
	2019	**2018**	**Year ended 31/12/2019**	**Year ended 31/12/2018**
Equipment and intangible assets	22,633	25,482	(2,849)	(2,120)
- of which coming from the merger with ex-NBG	-	*25,376*		
Deferred tax assets	**22,633**	**25,482**	**(2,849)**	**(2,120)**
Investment securities at FVOCI	(172,208)	(167,577)	(4,631)	(59,634)
- of which coming from the merger with ex-NBG	-	*(19,083)*		
Deferred tax liabilities	**(172,208)**	**(167,577)**	**(4,631)**	**(59,634)**
Total deferred tax expense recognized in pofit or loss			**(2,849)**	**(2,120)**
Total deferred tax expense recognized in OCI			**(4,631)**	**(59,634)**

26. OTHER PROVISIONS

Movements in provisions during the year are as follows:

	Litigations	Off-Balance sheet provisions	Other	Total
Balance at 1 January 2018	**8,662**	**14,874**	**5,776**	**29,312**
Ex NBG	18,035	-	-	**18,035**
Provisions reversed during the year	(20)	-	(979)	**(999)**
Effect of movements in foreign exchange	-	-	(2)	**(2)**
Reversal of provisions	-	(14,874)	-	**(14,874)**
Balance at 31 December 2018	**26,677**	**-**	**4,795**	**31,472**
Provisions reversed during the year	57,281	-	126	**57,407**
Effect of movements in foreign exchange		-	(74)	**(74)**
Balance at 31 December 2019	**83,958**	**-**	**4,847**	**88,805**

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

27. OTHER LIABILITIES

Other liabilities as at 31 December 2019 and 31 December 2018 are composed as follows:

	31 December 2019	31 December 2018
Payments in transit	245,029	734,693
Suppliers Payable	33,445	52,383
Sundry creditors and other payables	343,320	184,618
Social security system payable	274,518	10,550
Income tax payable	26,955	-
Other	92,347	181,983
	1,015,614	**1,164,227**

28. SHARE CAPITAL

The Bank's authorized, issued and fully paid capital as at 31 December 2019 comprises a 100% shareholding by Tranzit Shpk. The registered share capital at 31 December 2019 and 31 December 2018 is as follows:

At 31 December 2019	Currency	No of shares	Par Value	In original currency	In ALL '000
	ALL	30,644	42,690.08	1,308,190,105	**1,308,190**
	EUR	54,125	295.59	15,999,022	**2,142,745**
		84,769			**3,450,935**

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**

The shares as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Number of authorized, fully paid shares at 01 January	74,617	70,923
Number of shares issued during year	10,152	3,694
Number of authorized and fully paid shares at 31 December	**84,769**	**74,617**

During year 2019, based on Shareholder's resolution and approval of Bank of Albania, a portion of Subordinated Debt amounting EUR 3.001 thousand (2018: EUR 2,999 thousand) in LEK equivalent at 365,476 thousand (2018: LEK 378,157 thousand) is transferred to paid up Capital through issuance of 10,152 new shares (2018: 3,694).

29. 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 2019 is ALL 410,966 thousand (2018: ALL 302,108 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 2019	31 December 2018
Balance at 1 January 2019	4,184,123	57,162
Additional legal reserve for the year	108,858	244,946
Reserve from the merger	-	3,882,015
Balance at 31 December 2019	**4,292,981**	**4,184,123**

FAIR VALUE RESERVES

The fair value reserve comprises the cumulative net change in the fair value of FVOCI financial assets, until the assets are derecognised or impaired. The changes during the financial year ended 31 December 2019 amounted to an increase of ALL 157,032 thousand (2018: ALL404,562 thousand). Calculations for Other Reserve in 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Revaluation Reserves of FVOCI portfolio	1,256,190	1,117,178
Deffered Tax Liabilities (15%)	(172,208)	(167,577)
Revaluation Reserves of FVOCI portfolio ex-NBG	(108,134)	(108,134)
IFRS 9 reserve for the prior years	73,304	49,320
IFRS 9 reserve for the year 2019	6,399	23,985
Remaining Revaluation Reserve of AC portfolio	13,781	(2,472)
Total securities Fair Value Capital Reserve	**1,069,332**	**912,300**

Movements in Fair Value Reserve in 31 December 2019 and 31 December 2018 are as follows:

	2019	2018
Other reserve at the beginning of the year	912,300	505,230
Impact of adopting IFRS	-	49,320
Total changes in Securities portfolio reserves	157,032	357,750
Changes in Other reserves Recognized in profit	*16,253*	*(5,349)*
Changes in Other reserves Recognized in other comprehensive income	*140,779*	*363,099*
Other reserve at the end of the year	**1,069,332**	**912,300**

30. NET INTEREST INCOME

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

Interest income	**Year ended 31 December 2019**	**Year ended 31 December 2018**
Loans and advances to customers	1,412,165	769,207
Loans and advances to banks	20,216	7,758
Financial investments at amortised cost	894,350	424,510
Financial investments at FVOCI	526,232	796,045
Total interest income	**2,852,963**	**1,997,520**
Interest expenses		
Demand and time deposits	476,399	414,348
Deposits from banks	83,876	33,622
Subordinated Debt	8,639	13,100
Current accounts of customers	16,188	30,672
	20,899	-
Total interest expenses	**606,001**	**491,742**
Net interest income	**2,246,962**	**1,505,778**

31. NET FEE AND COMMISSION INCOME

	Year ended 31 December 2019	**Year ended 31 December 2018**
Fee income earned from services that are provided over time:	**152,479**	**81,666**
Current accounts	111,149	53,467
Cards	28,545	21,845
Guarantees given	12,785	6,354
Fee income from providing financial services at a point in time:	**139,517**	**86,128**
Collection and payment services	66,255	41,104
Internet banking	166	135
Contrat fees and others	73,096	44,889
Fee and commission income	**291,996**	**167,794**
ATMs and cards	29,737	19,401
Other banking services	7,999	10,656
Collection and payment services	22,812	19,664
Guarantees received	221	-
Fee and commission expenses	**60,769**	**49,721**
Net fee and commission income	**231,227**	**118,073**
Net fee and commission income	**231,227**	**118,073**

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.

32. OTHER OPERATING INCOME, NET

	Year ended 31 December 2019	**Year ended 31 December 2018**
(Loss)/Gain on sale of fixed assets	(87,404)	(8,754)
Sundry net operational gains	(14,763)	14,159
Total	**(102,167)**	**5,405**

33. PERSONNEL EXPENSES

	Year ended 31 December 2019	**Year ended 31 December 2018**
Salaries and bonus	781,223	480,378
Social Insurance	73,842	48,790
Training & similar	15,740	11,501
Total	**870,805**	**540,669**

34. OTHER ADMINISTRATION EXPENSES

	Year ended 31 December 2019	Year ended 31 December 2018
Deposit Insurance Premium	199,951	122,086
Advertising & publications	151,682	98,003
IT licence fees, HW and software maintenances	88,606	72,616
Rent Expenses	87,425	138,588
Consulting, legal and professional fees	78,225	65,228
Premises and equipments maintenance & repair	49,501	44,113
Telephone and electricity	28,867	24,469
Cards	21,769	15,909
Reposessed Collaterals insurance & maintenace	16,719	12,327
Stationery	13,807	8,485
Travel & business trips	13,595	6,326
Reuters	11,569	7,873
Insurances	9,790	5,158
Transport and security services	8,689	6,922
Cleaning services	7,408	2,609
Representation expenses	6,148	10,701
Local taxes	5,760	10,344
Data communication & Internet	4,727	2,508
Other	70,120	32,609
	874,358	**686,874**

35. INCOME TAX EXPENSES

The components of income tax expense for the year ended 31 December 2019 and 2018 are:

	Year ended 31 December 2019	Year ended 31 December 2018
Current year	(178,201)	(107,175)
Adjustment for prior years	(30,535)	
Current tax expense	**(208,736)**	**(107,175)**
Origination and reversal of temporary differences	(2,849)	(2,120)
Deferred tax expenses	**(2,849)**	**(2,120)**
Income tax expense	**(211,585)**	**(109,295)**

Reconciliation of the income tax expense with the accounting profit(loss) for the year ended 31 December 2019 and 2018 is presented as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Accounting profit before tax	**960,125**	**678,326**
Non-deductible expenses	308,392	84,673
Recognition of loans written-off deferred from prior years, net	(80,511)	(48,497)
Tax Profit before recognition of losses carried forward	**1,188,006**	**714,502**
Recognition of losses carried forward	-	-
Taxable base	**1,188,006**	**714,502**
Income tax expense at 15% (2018:15%)	**178,201**	**107,175**

35. INCOME TAX EXPENSES (CONTINUED)

Non-deductible adjustments are detailed as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Losses on unrecoverable loans and overdrafts	24,618	252
Reversal of sundry operational losses	80,336	3,197
Write back of inventory	103,707	30,031
Penalties	140	288
Depreciation	26,655	2,896
Personnel Costs	6,376	5,905
Marketing and sponsorship	15,813	22,920
Non-deductible provision exp. IFRS9 (securities)	6,765	-
Other	43,982	19,184
Total	**308,392**	**84,673**
At 15%	**46,259**	**12,700**

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.

36. COMMITMENTS AND CONTINGENCIES

Letters of credit and guarantees as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Contingent Assets	**2,409,909**	**1,694,905**
Letters of credit & guarantees in favor of customers	803,165	721,997
Commitments in favor of customers	1,076,174	787,678
SPOT transactions	**530,570**	**185,230**
Contingent liabilities	**71,160,562**	**80,832,452**
Guarantees pledged from credit customers	966,666	631,947
Collateral received from credit customers	70,193,896	80,200,505

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.

37. 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 26of these separate financial statements.

38. LEASE COMMITMENTS AND OPERATING LEASE EXPENSE

The Bank's operating minimum non-cancellable lease contingencies as lessee as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Less than one year	99,021	109,817
Between one and five years	295,567	278,411
More than five years	171,513	113,859
Total	**566,101**	**502,087**

38. 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 2019 amounts to ALL 87,424 thousand (2018: ALL 138,588 thousand).

Future minimum finance lease payments (principal and interest) as at 31 December 2019 are detailed as follows:

	31 December 2019	31 December 2018
Not later than 1 year	14,431	14,627
Later than 1 year and not later than 5 years	29,112	44,133
Later than 5 years	-	-
Total	**43,543**	**58,760**

39. RELATED PARTIES TRANSACTIONS

The Company's immediate parent for 2019, 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 2019 and 31 December 2018 the Bank had the following contractual terms and transactions with its shareholders:

31-Dec-19	Amount	Average Interest rate	Min - Max Interest Rates	Min-Max Years Maturity
Key management personnel and Other related parties				
Loans and advances given	37,053	2.85%	1.64%-15%	3-20
Due to customers (CA and SA)	30,753	N/A	N/A	N/A
Due to customers (Term Deposits)	12,577	0.80%	0.1%-1.95%	1-6
Tranzit Sh.p.k				
Due to customers (CA and SA)	474,971	-	-	-
Subordinated Debt	-	-	-	-

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

39. RELATED PARTIES TRANSACTIONS (CONTINUED)

The following transactions have taken place during the year ended 31 December 2019 and 31 December 2018:

	Year ended 31 December 2019				Year ended 31 December 2018		
	Tranzit sh.p.k Group	Key Management Personnel and other related parties	ABI Broker sh.a	ABI Invest	Tranzit sh.p.k Group	Key Management Personnel and other related parties	ABI Broker sh.a
Assets at the end of the year	**-**	**37,053**	**-**	**-**	**-**	**16,258**	**-**
Loans and advances given	-	37,053	-	-	-	16,258	-
Liabilities at the end of the year	**474,971**	**43,330**	**11,577**	**25,000**	**777,679**	**56,345**	**1,486**
Due to banks	-	-	-	-	-	-	-
Due to customers	474,971	43,330	11,577	25,000	404,620	56,345	1,486
Subordinated debt	-	-	-	-	373,059	-	-
Income for the year ending	**67**	**1,265**	**-**	**-**	**5,675**	**595**	**-**
Interest and similar income	-	689	-	-	5,567	453	-
Fee and commission income	67	576	-	-	108	142	-
Expenses for the year ending	**88,748**	**130**	**-**	**-**	**79,694**	**78**	**-**
Interest and similar expenses	8,998	130	-	-	14,556	78	-
Fee and commission expenses	-	-			-	-	
Technical assistance	88,375	-	-	-	65,138	-	-
Short term management benefits							
Key management's compensation	**-**	**83,786**	**-**	**-**	**-**	**49,963**	**-**
Salaries	-	59,583	-	-	-	30,820	-
Bonuses	-	17,143	-	-	-	12,313	-
Other	-	7,060	-	-	-	6,830	-
Dividend Distributed	700,000	-	-	-	-	-	-

There are no related party transactions as at and for the year ended 31 December 2019 for both Bursa Shqiptare e Tiutujve ALSE and Regjistri Shqiptar i Titujve ALREG.

40. SUBSEQUENT EVENTS

After the reporting date, a pandemic has been announced consequent to the spreading of COVID-19 virus.

The classification as pandemic by the World Health Organization declared in January 2020, while the first cases in Albania appeared in early March 2020. The situation of natural disaster has been announced on 24th of March 2020, accompanied by measures to close all commercial activities (except those providing essential services or products) and measures to restrict movement and social distancing for the population as a whole. Consequently, the Bank has determined that these events are non-adjusting subsequent events. The financial position and results of operations for the year ended 31 December 2019 have not been adjusted to reflect any Covid-19 related impact.

On the approval day of the financial statements, the country has largely come out of the lock-down and economic life and activity has resumed almost completely. The expected negative effects for the Bank may only relate to the possible deterioration of the quality of the loan portfolio, for those clients or sectors of the economy, which are more affected by the pandemic situation. The influencing factors are different and interact with each other including the duration of the closing period of the activity, exposure to foreign trade, the effects on the production-supplier-customer chain, the level of unemployment and consumption. Multiple factors and the correlation between them make it more difficult to calculate reliably any future adverse financial effect, especially in the conditions when the impact extends globally and to a high number of sectors. Financial aid packages made available by governments are expected to significantly reduce the negative impact on both businesses and individuals.

The Bank management structures have taken a series of measures to support its customers in dealing with the situation of pandemics. The primary commitment has been to ensure the continuity of banking services even in conditions of restriction of movements. The branches continue the operations, while ensuring the health of the staff and customers of the bank, the continuous supply of liquidity and cash in ATMs as well as the facilities in the payment of obligations including the postponement of credit installments without penalty, the possibility of restructuring the loan, etc.

Current assessments of the effect of pandemics have been discussed at the Bank Management and no breach of regulatory indicators is foreseen, including those related to liquidity or the level of capital adequacy of the Bank. The Bank forecast insignificant variances of 2020 results compared to the budget. Furthermore, the Bank has performed stress tests to evaluate the possible effect that a potential customer's shock would have on each of the balance sheet and profit/loss line items for a specific period and expects satisfying results.

The management of the Bank is not aware of any other event after the reporting date that would require either adjustments or additional disclosures in these Financial Statements.

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.