Banka Kombetare Tregtare sh.a.

Independent Auditors' Review Report
and
Condensed Consolidated Interim
Financial Information
as at and for the three-month period ended
31 March 2019

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Grant Thornton

Grant Thornton Sh.p.k.
Rr: Sami Frasheri, Kompleksi T.I.D, Shk. B,
Floor 1, 10 000
Tirana, Albania

T +355 4 22 74 832
F +355 4 22 56 560
www.grantthornton.al

Independent Auditor's Review Report

To the Shareholders and Board of Directors of Banka Kombetare Tregtare Sh.a

We have reviewed the accompanying condensed consolidated interim statement of financial position of Banka Kombetare Tregtare Sh.a (hereafter referred as the "Bank" or the "Group") as of 31 March 2019 and the related condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash lows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of the condensed consolidated interim financial information in accordance with the International Financial Reporting Standards. Our responsibility is to express a conclusion on the condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

The Bank has treated its share capital issued in United States Dollar (USD) as a monetary item in the condensed consolidated interim financial information and recognized the revaluation differences for the six-month period ended 31 March 2019 within net profits in the condensed consolidated interim statement of profit or loss and other comprehensive income. This treatment is not in accordance with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" which requires share capital to be treated as a non-monetary item and carried at the exchange rate of the date of the transaction. Had the Bank treated its share capital in accordance with IAS 21 requirements, the share capital as at 31 March 2019 would have been increased by USD 1,927,297 retained earnings would have been decreased by USD 12,375,058 and the net profit would have been increased by USD 10,447,761 for the three month period ended 31 March 2019. Nevertheless, this would not have affected the total shareholders' equity.

Qualified Conclusion

Based on our review, except for the possible effects of the matter described in the *Basis for Qualified Conclusion* section of our report, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information does not give a true and fair view of the financial position of the Bank as at 31 March 2019 and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards.

Grant Thornton sh.p.k.
Tirana, Albania
24 July 2019

Kledian Kodra, FCCA

Grant Thornton Sh.p.k. NIPT K 91923007 M Tirana ALBANIA

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of financial position as at 31 March 2019
(amounts in USD)

	31 March 2019	31 December 2018
Assets		
Cash and balances with Central Bank	293,840,253	285,134,696
Placement and balances with banks	653,547,012	658,318,886
Investment securities	1,460,047,743	1,486,663,848
Loans to banks	194,833,721	195,676,165
Loans to customers	1,204,623,123	1,215,625,631
Investment in associates	1,346,448	1,373,165
Property and equipment	39,789,552	41,051,400
Right of use asset	11,182,137	-
Intangible assets	3,490,427	3,700,900
Other assets	52,016,545	53,424,153
Total assets	**3,914,716,961**	**3,940,968,844**
Liabilities and shareholder's equity		
Liabilities		
Customer deposits	3,092,190,704	3,129,749,851
Due to banks and financial institutions	286,660,739	323,861,645
Due to third parties	7,374,353	3,408,125
Deferred tax liabilities	388,264	411,719
Lease liabilities	11,328,530	-
Accruals and other liabilities	53,282,599	20,126,345
Subordinated debt	28,481,846	28,678,547
Total liabilities	**3,479,707,035**	**3,506,236,232**
Shareholder's equity		
Share capital	300,000,000	300,000,000
Legal reserve	16,627,516	-
Translation reserve	(323,658)	119,742
Fair value reserve	44,278,424	24,707,662
Retained earnings	74,427,644	109,905,208
Total shareholder's equity	**435,009,926**	**434,732,612**
Total liabilities and shareholder's equity	**3,914,716,961**	**3,940,968,844**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes set out in pages 6 to 14 that form part of the condensed consolidated interim financial information.

The condensed consolidated interim financial information was authorised for release by the Board of Directors on 23 May 2019 and signed on its behalf by:

Seyhan Pencabligil
CEO and Board Member

Skënder Emini
Head of Finance Group

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of comprehensive income for the three-month period ended 31 March 2019

(amounts in USD)

	Three-month period ended 31 March 2019	**Three-month period ended 31 March 2018**
Interest		
Interest income	37,795,768	38,730,427
Interest expense	(6,822,524)	(7,236,079)
Net interest margin	**30,973,244**	**31,494,348**
Non-interest income, net		
Fees and commissions, net	4,577,705	5,032,256
Foreign exchange revaluation, net	3,932,594	(5,060,462)
Foreign exchange trading activities income, net	(1,696,243)	(1,026,454)
Securities trading gain, net	378,997	730,974
Other (expense)/income, net	(854,906)	(978,592)
Total non-interest income, net	**6,338,147**	**(1,302,278)**
Operating expenses		
Personnel expenses	(4,872,085)	(4,798,838)
Administrative expenses	(6,322,930)	(6,942,920)
Depreciation and amortization	(1,894,601)	(1,140,011)
Total operating expenses	**(13,089,616)**	**(12,881,769)**
Impairment of loans	(1,122,614)	4,204,685
Impairment of other financial instruments	(429,466)	-
Profit before taxes	**22,669,695**	**21,514,986**
Income tax	(3,443,115)	(3,410,289)
Net profit for the period	**19,226,580**	**18,104,697**
Foreign currency translation differences	(443,400)	(2,836,326)
Net change in fair value reserves	19,570,762	2,262,967
Other comprehensive income for the period, net of income tax	**19,127,362**	**(573,359)**
Total comprehensive income for the period	**38,353,942**	**17,531,338**

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the notes set out in pages 6 to 14 that form part of the condensed consolidated interim financial information.

Banka Kombetare Tregtare sh.a.
Condensed consolidated interim statement of changes in equity for the three-month period ended 31 March 2019
(amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 31 December 2017	**274,350,310**	**-**	**3,004,286**	**4,908,867**	**109,136,340**	**391,399,803**
Changes on initial application of IFRS 9	**-**	**-**	**-**	**-**	**(6,137,861)**	**(6,137,861)**
Restated balance as at 1 January 2018	**274,350,310**	**-**	**3,004,286**	**4,908,867**	**102,998,479**	**385,261,942**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital						
Creation of legal reserve		16,586,753			(16,586,753)	
Dividend payment						
Appropriation of year 2017 translation difference	-	-	-	-	3,004,286	**3,004,286**
Adjustment of retained earnings with March 2018 exchange rate	-	-	-	-	5,490,680	**5,490,680**
Total transactions with owners recorded in equity	-	16,586,753	-	-	(8,091,787)	**8,494,966**
Comprehensive income for the period						
Net profit for the period	-	-	-	-	18,104,697	**18,104,697**
Other comprehensive income / (expense), net of income tax						
Net change in fair value reserve	-	-	-	2,262,967	-	**2,262,967**
Foreign currency translation differences	-	-	(2,836,326)	-	-	**(2,836,326)**
Total other comprehensive income	-	-	(2,836,326)	2,262,967	-	**(573,359)**
Total comprehensive income for the period	-	-	(2,836,326)	2,262,967	18,104,697	**17,531,338**
Balance as at 31 March 2018	**274,350,310**	**16,586,753**	**167,960**	**7,171,834**	**113,011,389**	**411,288,246**

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes set out in pages 6 to 14 that form part of the condensed consolidated interim financial information.

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 31 December 2018	**300,000,000**	**-**	**119,742**	**24,707,662**	**109,905,208**	**434,732,612**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	-	-	-	-	-	**-**
Creation of legal reserve		16,627,516			(16,627,516)	**-**
Dividend payment					(35,000,000)	**(35,000,000)**
Appropriation of year 2018 translation difference	-	-	-	-	119,742	**119,742**
Adjustment of retained earnings with March 2019 exchange rate	-	-	-	-	(3,196,370)	**(3,196,370)**
Total transactions with owners recorded in equity	-	*16,627,516*	-	-	*(54,704,144)*	***(38,076,628)***
Comprehensive income for the period						
Net profit for the period	-	-	-	-	19,226,580	**19,226,580**
Other comprehensive income / (expense), net of income tax						
Net change in fair value reserve	-	-	-	19,570,762	-	**19,570,762**
Foreign currency translation differences	-	-	(443,400)	-	-	**(443,400)**
Total other comprehensive income	-	-	(443,400)	19,570,762	-	**19,127,362**
Total comprehensive (loss)/income for the period	-	-	*(443,400)*	*19,570,762*	*19,226,580*	***38,353,942***
Balance as at 31 March 2019	**300,000,000**	**16,627,516**	**(323,658)**	**44,278,424**	**74,427,644**	**435,009,926**

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes set out in pages 6 to 14 that form part of the condensed consolidated interim financial information.

	Three-month period ended 31 March 2019	**Three -month period ended 31 March 2018**
Cash flows from operating activities:		
Profit before taxes	**22,669,695**	**21,514,986**
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Interest expense	6,822,524	7,236,079
Interest income	(37,795,768)	(38,730,427)
Depreciation and amortization	1,894,601	1,140,011
Gain on sale of investment securities	(378,997)	(730,974)
Gain on sale of repossessed assets	(56,050)	(38,336)
Gain on recovery of lost loans	(106,615)	(140,128)
Write-off of property and equipment	-	10,024
Write-off of loans to customers	287,167	395,155
Write off of fixed assets and repossessed assets	18,224	-
Provision on other debtors	1,048,778	1,064,965
Reversal of other debtors	(87,624)	(27,058)
Movement in the fair value reserve	20,781,771	1,993,693
Impairment of loans	1,122,614	(3,418,107)
Impairment of other financial assets	429,466	(786,578)
Cash flows from operating profits before changes in operating assets and liabilities	**16,649,786**	**(10,516,695)**
Decrease/(Increase) in operating assets:		
Placements and balances with banks	(18,212,462)	(106,750,990)
Loans and advances to banks	(5,693,003)	58,875,105
Loans and advances to customers	(30,700,763)	18,024,703
Other assets	(1,785,906)	7,172,299
	(56,392,134)	**(22,678,883)**
Increase/(decrease) in operating liabilities:		
Customer deposits	72,163,482	(4,464,793)
Due to third parties	4,155,549	2,869,503
Accruals and other liabilities	46,607,904	(7,519,269)
	122,926,935	**(9,114,559)**
Dividend payment	**(35,000,000)**	-
Interest paid	(7,029,037)	(7,425,819)
Interest received	36,400,594	35,518,501
Income taxes paid	(4,077,789)	(4,097,088)
Net cash flows from operating activities	**73,478,355**	**(18,314,543)**
Cash flows from investing activities		
Purchases of investment securities	(144,776,574)	(22,868,949)
Purchases of treasury bills	2,478,954	1,822,907
Investment in associates	(20,988)	28,130
Purchases of property and equipment	(13,346,274)	(553,325)
Proceeds from sale of property and equipment	1,049	10,059
Proceeds from sale of investment securities	107,355,040	37,608,711
Proceeds from sale of treasury bills	9,230,001	11,920,798
Net cash flows used in investing activities	**(39,078,792)**	**27,968,331**
Cash flows from financing activities		
Proceeds from short term borrowings	(26,500,471)	(6,977,541)
Subordinated debt	437,397	(586,229)
Net cash from financing activities	**(26,063,074)**	**(7,563,770)**
Net change in cash and Central Bank	**8,336,489**	**2,090,018**
Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference)	369,068	930,291
Cash and Central Bank at the beginning of the year	**285,134,696**	**295,119,649**
Cash and Central Bank at the end of the period	**293,840,253**	**298,139,958**

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes set out in pages 6 to 14 that form part of the condensed consolidated interim financial information.

1. General

Banka Kombetare Tregtare sh.a (the "Bank") is a commercial bank offering a wide range of universal services. The Bank provides banking services to state and privately owned enterprises and to individuals in Albania and in Kosovo.

2. Share capital

The Bank's share capital is issued and maintained in United States Dollars ("USD") as allowed by the legislation in Albania as well as by a special Law no. 8634 between the Bank's shareholders and the Republic of Albania on the Bank's privatisation. Furthermore, the Operating Policy Guidelines of the Bank require that the share capital be hedged by USD assets and it is therefore treated as a monetary item, with the revaluation difference being taken to the profit and loss account together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

Upon the Shareholder's Decision dated 20 March 2019, the Bank created legal reserves of Lek 1,856,795 thousand (equivalent of USD 17,242,034) and decided to distribute Lek 3,863,300 thousand (equivalent of USD 35,000,000) as dividends, using of the statutory net profit for the year ended December 31, 2018. The remaining part of statutory profit for the year 2018 was kept as retained earnings. The dividend amount was translated into USD using the exchange rate published by Bank of Albania as at 20 March 2019 (110.38 Lek per USD).

As at 31 March 2019 and 31 December 2018, the registered share capital was USD 300,000,000.3 divided into 24,291,498 shares with a nominal value of USD 12.35, while the shareholding structure was as follows:

	31 March 2019			*31 December 2018*		
	No. of shares	**Total in USD**	**%**	**No. of shares**	**Total in USD**	**%**
Calik Finansal Hizmetler A.S.	24,291,498	300,000,000.3	100	24,291,498	300,000,000.3	100

3. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "*Interim Financial Reporting*". They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Bank as at and for the year ended 31 December 2018.

4. Functional and presentation currency

The financial statements are prepared in Albanian Lek "Lek" which is the currency of the primary economic environment in which the Bank operates (its functional currency). For reporting purposes these condensed consolidated interim financial statements are presented in USD which is the presentation currency.

The results and financial position of the Bank are translated in the presentation currency by translating (i) assets and liabilities at the closing rate at the date of that statement of financial position; and (ii) income and expenses at exchange rates at the dates of the transactions. All resulting exchange differences from the translation to the presentation currency are recognised in other comprehensive income.

The main exchange rates as at the end of each reporting period were as follows:

	31 March 2019	**31 December 2018**	**31 March 2018**
USD/LEK	111.67	107.82	105.80
EUR/LEK	125.34	123.42	130.44

5. Significant accounting policies

The Interim Financial Statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 December 2018, except for the effects of applying IFRS 16.

5.1 New Standards adopted as at 1 January 2019

The Group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IFRS 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

Initial direct costs

An entity may exclude initial direct costs from the measurement of the Right of Use asset at the date of initial application.

Based on IFRS 16, if a lessee elects to apply the standard with the modified retrospective application, the lessee shall choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

Option 1 – its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. The practical expedient to exclude initial direct costs from the measurement of the Right of Use asset at the date of initial application is applicable under Option 1 or;

Option 2 – an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease. Although it is not stated explicitly in the new standard, the practical expedient on initial direct costs is not relevant under Option 2. The Bank does not adjust the Right of Use asset for historical amounts e.g. initial direct costs.

The Bank has opted to apply the modified retrospective method under Option 2.

5. Significant accounting policies (continued)
5.1 New Standards adopted as at 1 January 2019 – (continued)

Low-value assets

Lessees can also make an election to apply a method similar to current operating lease accounting to leases for which the underlying asset is of low-value. IFRS 16 does not define the term low-value.

Banka Kombëtare Tregtare uses the EUR 10,000 as a threshold and simultaneously analyses the nature of the asset in order to assess whether a leased asset qualifies for the low-value asset exemption. The types of assets that qualify for the low-value asset exemption might change over time if, due to market developments, the price of a particular type of asset changes.

Incremental Borrowing Rate

The rate used for calculation of the RoU asset and Lease liability has taken into consideration the term, FX denomination, risk associated with the bank, security, risk associated with the asset and economic environment.

The closest values matching this definition are Funds Transfer Pricing (FTP) rates. The term and FX denomination are taken into consideration when constructing the EUR/USD/ALL yield curves. The Bank considered at the initial application date the rates published by 31 December 2018.

After consideration, the Bank determined that there are no differences in terms of security, due to the fact that the lessor effectively has security of owning the asset. Therefore, no adjustments were required. Since the starting point is in the same jurisdiction and in the same currency as leases, no adjustment is required for this segment as well. In addition, for assets such as an office building, considering that they are in a frequented area, are not highly illiquid or specialized assets, specific asset premium would be nil. Meanwhile, the risk associated with the economic environment is incorporated in the government bonds yield.

The Bank has adjusted the rate for the credit spread, the cost that the bank would pay if it were required to borrow the respective funds to finance the acquisition of such an asset.

The incremental borrowing rate is determined as the base rate yield curve plus the credit spread.

a. Base rate yield curve

Input data in the model are money market rates (inter-bank rates in maturity bucket ON-1Y). These data are published on daily basis in “Reuters” (inter-bank trading platform). For higher maturities, the rate is calculated by extrapolating starting from the money market rates of December 2018. The Bank uses the Nelson-Siegel-Svensson model for extrapolation purposes for USD yield curve construction, which fits an exponential approximation of the discount rate function directly to market prices. The Bank introduced the application of the augmented NSS (Nelson-Siegel-Svensson) model as a version that has the ability to combine different forms of graphs, allowing in essence negative rates as well as atypical interest rate distributions, which are not captured accurately by the classic Nelson-Siegel model.

The Bank uses the Cubic spline interpolation for EUR yield curve construction. Cubic spline interpolation is a special case of spline type interpolation that is used very often to avoid the problem of Runge's phenomenon. This method gives an interpolating polynomial that is smoother and has smaller error than some other interpolating polynomials such as Lagrange polynomial and Newton polynomial. Cubic smoothing splines fitted to univariate time series data can be used to obtain local linear forecasts. The approach is based on a stochastic state space model which allows the use of a likelihood approach for estimating the smoothing parameter, and which enables easy construction of prediction intervals. In essence the same mathematical mechanic is followed by the NSS (Nelson-Siegel-Svensson) model. Whereas an interpolation typically begins with specifying a functional form either to approximate discount function or forward rates, and then estimates the unknown parameters. The cubic spline approach, brings more flexibility on the shape of a yield curve and is thus good for financial practitioners who are looking for small pricing anomalies.

5. Significant accounting policies (continued)

5.1 New Standards adopted as at 1 January 2019 – (continued)

To construct local currency, Albanian Lek (ALL), yield curve (YC) the Bank is using the Cubic spline interpolation, as described above. Yields of government bonds (ON-1Y) are auction results published by Ministry of Finance and Bank of Albania at the end of each respective auction. For auctions that are not so frequent, the rate is calculated by extrapolating between rate values of the last 2Y bond and the rate derived from the last auction of the bond in question.

The issue encountered by the bank's forecasts on Treasury Yields is of the Runge's phenomenon type, which is a problem of oscillation at the edges of an interval that occurs when using polynomial interpolation with polynomials of high degree over a set of equispaced interpolation points.

b. Credit spread

For the credit spread calculations, the Bank has approached the following logic:

1) Identify the international long-term Issuer Default Rating of the financial institution (“Bank”). International long-term IDR is given by the External Credit Rating Agency such as Moody’s, Fitch or Standard & Poor. The Bank will use only the official, world-wide accepted, external credit rating agencies such as Fitch, Moody’s and S&P because only these 3 agencies do the analyses world-wide, make and publish the studies on PDs, LGD’s (where credit spread will be determined as PD*LGD) etc. on the global level. These three agencies are also the only ones allowed to be used for the purpose of relying on the expert-data parameters for e.g. in EU (as per CRD/CRR regulation etc.).
2) If the financial institution (Bank) does not have such a rating and it is part of a Group, the lower rating of the country ceiling for the country where Bank is located and the external agency’s international long-term Issuer Default Rating of the ultimate parent is used. The underlying reason for this approach is that when a bank is part of a group, support is more likely.
3) If neither of these steps results in a rating, country ceiling for the country in which Bank is located is identified and at least one notch is subtracted. The country ceiling is the best rating that an entity based in that country can receive, so this is used as a benchmark as we tend to work with the biggest and most robust institutions. Additionally, the downward risk adjustment is made for the sake of prudence.

Thus, in the case of Banka Kombetare Tregtare Sh.a, the credit rating will be determined at B as the rating of the state of Albania (B+) subtracted by one notch. This rating is subject of change, whenever there is a revision in the sovereign rating of Albania.

Standard&Poor’s Credit Rating of the Republic of Albania	B+
Final Rating of BKT	B

That particular rating of the Bank is assigned proper probability of default rate (PD rate), which is externally calculated – expert data given by the external credit rating agency. However, PD is just a probability. In order to approximate full credit risk, LGD is needed. By multiplying the PD rate and LGD rate, credit loss rate is obtained, and this is the approximation of credit risk. It is recommended to use Basel LGD value as fixed at 45% at all times.

At initial application date, the credit spread of the Bank is 1.51%. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 6.5%.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

5. Significant accounting policies (continued)

5.1 New Standards adopted as at 1 January 2019 – (continued)

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

Total operating lease commitments disclosed at 31 December 2018	**13,829,627**
ATM (not included in previous lease commitments)	*67,892*
Vehicles (not included in previous lease commitments)	*23,809*
Other	*8,233*
Total operating lease commitments as at 31 December 2018	**13,929,561**
Recognition exemptions:	
Leases of low value assets	-
Leases with remaining lease term of less than 12 months	-
Lease payments not recognised	(711,537)
Other minor adjustments relating to commitment disclosures	(21,324)
Operating lease liabilities before discounting	**13,196,700**
Discounted using incremental borrowing rate	(1,349,920)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	**11,846,780**

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. IFRS 16 (53)(j).

The recognised right-of-use assets relate to the following types of assets:

	31 March 2019	1 January 2019
Buildings	11,141,285	11,801,775
Motor Vehicles	37,785	45,005
IT Equipment	3,067	-
Total	**11,182,137**	**11,846,780**

5.2 Leases

As described in Note 5.1, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

a. Accounting policy applicable from 1 January 2019

The Group as a lessee

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use
- The Group assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

5. Significant accounting policies (continued)

5.2 Leases (continued)

a. Accounting policy applicable from 1 January 2019 (continued)

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment (except those meeting the definition of investment property) and lease liabilities have been included in trade and other payables.

The Group as a lessor

The Group's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

b. Accounting policy applicable before 1 January 2019

The Group as a lessee

Finance leases

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership of the asset at the end of the lease term.

For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life.

See the accounting policy note in the year-end financial statements for the depreciation methods and useful lives for assets held under finance leases. The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

5. Significant accounting policies (continued)

5.2 Leases (continued)

b. Accounting policy applicable before 1 January 2019 (continued)

Operating leases

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Group as a lessor

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

c. Other pronouncements

Other accounting pronouncements which have become effective from 1 January 2019 and have therefore been adopted do not have a significant impact on the Group's financial results or position.

6. Estimates

The preparation of this condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Except as described in section 5.1, in preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2018.

7. Financial risk management

During the three months ended 31 March 2019 the Bank's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2018.

8. Fair value of financial assets

The Bank's investment securities portfolio as at 31 March 2019 includes investment securities - measured at FVOCI amounting USD 1,266,088,577 (31 December 2018: USD 1,299,988,105); investment securities - measured at FVTPL amounting USD 5,223,186 (31 December 2018: USD 3,019,074) and investment securities - measured at amortised cost amounting USD 188,735,980 (31 December 2018: USD 183,656,669).

9. Impairment of financial assets

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired.

As at 31 March 2019, the impairment for loan losses was USD 51,626,818 (31 December 2018: USD 52,506,008) and the impairment for other financial assets was USD 3,778,959 (31 December 2018: USD 3,476,783).

10. Seasonality of operations

The Bank's activity is not subject to seasonal fluctuations.

11. Income tax

The Bank's effective tax rate for the three months ended 31 March 2019 was 15.19 per cent (for the three months ended 31 March 2018: 15.77 per cent), while the income tax rate in Albania is 15%.

12. Contingencies

In the normal course of business, the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 March 2019.

13. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Identity of related parties

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank's sole shareholder is Calik Finansal Hizmetler, which is owned by Calik Holding at 100% as at 31 March 2019. The ultimate controlling party is Mr. Ahmet Calik.

ALBtelecom Sh.a., Eagle Mobile Sh.a., Albania Leasing, Aktif Yatirim Bankasi A.S. ("Aktifbank"), GAP Pazarlama FZE, Gap İnşaat Yatırım ve Dış Ticaret A.Ş., Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S, Kosovo Electricity Distribution and Supply Company J.S.C (KEDS) and Kosovo Electricity Supply Company J.S.C (KESCO) are controlled by Calik Holding. Related parties with Albtelecom represent two companies financially dependent from Albtelecom for their loan repayment.

Balances and transactions with related parties

	31 March 2019	**31 December 2018**
Assets		
Placement and balances with banks:		
Current accounts with Aktifbank	249,312	444,006
Placements with Aktifbank	100,926,009	102,142,640
Loans to customers:		
KEDS / KESCO	208,154	282,965
ALBtelecom	8,930,083	9,396,490
Albania Leasing	174,253	199,749
Related Parties with Albtelecom	19,884	20,594
Other assets:		
Prepaid expenses to Calik Holding	-	11,908
Receivables from ALBtelecom Sh.a	5,162	10,247
Total assets	**110,512,857**	**112,508,599**
Liabilities		
Customer deposits:		
Albtelecom Sh.a.	477,515	498,097
Albania Leasing	402,397	88,938
Sara-AT	54	56
KEDS / KESCO	10,408,774	12,382,483
Total liabilities	**11,288,740**	**12,969,574**

13. Related party transactions (continued)

Balances and transactions with related parties (continued)

	Three months period ended 31 March 2019	Three months period ended 31 March 2018
Statement of comprehensive income		
Interest income from:		
KEDS / KESCO	3,073	7,397
ALBtelecom Sh.a.	113,681	162,521
Albania Leasing	2,222	3,638
Aktifbank	694,408	741,782
Related Parties with Albtelecom	-	-
Interest expenses for:		
Albtelecom Sh.a. and Eagle Mobile Sh.a.	(82)	(142)
Aktifbank	(550)	-
Fees and commissions:		
ALBtelecom Sh.a. and Eagle Mobile Sh.a.	14,581	68,460
Albania Leasing	288	-
KEDS / KESCO	5,913	-
Letters of guarantee:		
ALBtelecom Sh.a.	607	87
KEDS / KESCO	-	4,630
Calik Enerji Sanayi Ve. Ticaret A.S	8,885	23,296
Other income:		
Operating lease income from ALBtelecom Sh.a.	15,758	12,109
Operating expenses:		
ALBtelecom Sh.a., Eagle Mobile Sh.a. and Calik Holding	(251,465)	(211,903)
Net	**607,319**	**811,875**

Balances and transactions with directors and executive officers

The remuneration of directors and executive officers is included in personnel expenses and is detailed as follows:

	Three -month period ended 31 March 2019	Three -month period ended 31 March 2018
Directors	24,052	36,249
Executive officers	853,239	626,661
	877,291	**662,910**

The remuneration of directors and executive officers for the year ended 31 December 2018 was USD 3,231,239.

As at 31 March 2019, the total deposits of directors held with the Bank were USD 1,873,869 (31 December 2018: USD 1,056,056), while the outstanding loans granted to directors were USD 204,130 (31 December 2018: USD 349,879).

14. Subsequent events

There are no events subsequent to the reporting date that would require either adjustments or additional disclosures in the condensed consolidated interim financial information.