# Banka Kombetare Tregtare Sh.a.

**Independent auditor’s report and**
**Consolidated financial statements**
**as at and for the year ended 31 December 2022**

# Contents

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# Independent Auditor's Report

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

*Qualified Opinion*

We have audited the consolidated financial statements of Banka Kombetare Tregtare Sh.a (hereafter referred as the “Bank” or the “Group”), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies

In our opinion, except for the effects of the matter described in the ‘Basis for Qualified Opinion’ section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2022, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

*Basis for Qualified Opinion*

The Bank has treated its share capital issued in United States Dollar (USD) as a monetary item in the special purpose interim financial information and recognized the revaluation differences for the year ended 31 December 2022 within net profits in the consolidated 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 December 2022 would have been increased by USD 15,142,620 retained earnings would have been decreased by USD 16,496,243 and the net profit would have been increased by USD 1,353,623 for the year ended 31 December 2022. Nevertheless, this would not have affected the total shareholders' equity.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Kledian Kodra, FCCA

**Grant Thornton sh.p.k.**

Tirana, Albania
30 March 2023

## Banka Kombetare Tregtare Sh.a.

**Consolidated statement of financial position as at 31 December 2022**

*(Amounts in USD)*

| | Notes | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Bank | 7 | 537,491,661 | 536,369,185 |
| Placement and balances with banks | 8 | 473,902,012 | 557,373,773 |
| Investment securities | 9 | 2,911,791,378 | 2,558,621,973 |
| Loans to banks | 10 | 145,894,324 | 138,246,339 |
| Loans to customers | 11 | 1,383,681,949 | 1,310,598,335 |
| Investment in associates | 12 | 1,090,943 | 933,964 |
| Property and equipment | 13 | 42,260,800 | 46,739,395 |
| Intangible assets | 14 | 7,434,937 | 4,133,568 |
| Right of use asset | 15 | 14,838,905 | 17,683,050 |
| Deferred tax assets | 20 | 12,918,087 | 2,347,752 |
| Other assets | 16 | 56,677,071 | 59,482,349 |
| **Total assets** | | **5,587,982,067** | **5,232,529,683** |
| **Liabilities and shareholder's equity** | | | |
| **Liabilities** | | | |
| Customer deposits | 17 | 4,591,435,866 | 4,182,176,123 |
| Due to banks and financial institutions | 18 | 305,784,334 | 372,945,259 |
| Due to third parties | 19 | 4,294,958 | 1,943,486 |
| Accruals and other liabilities | 21 | 77,855,311 | 73,366,947 |
| Lease Liability | 15 | 14,449,939 | 17,724,874 |
| Subordinated debt | 22 | 50,319,179 | 28,405,688 |
| **Total liabilities** | | **5,044,139,587** | **4,676,562,377** |
| **Shareholder's equity** | | | |
| Share capital | 23 | 300,000,000 | 300,000,000 |
| Legal reserve | 23 | 60,093,852 | 52,315,511 |
| Translation reserve | 23 | 4,182,671 | (2,358,124) |
| Fair value reserve and impairment of FVOCI | 23 | (28,093,813) | 44,542,840 |
| Retained earnings | 23 | 207,659,770 | 161,467,079 |
| **Total shareholder's equity** | | **543,842,480** | **555,967,306** |
| **Total liabilities and shareholder's equity** | | **5,587,982,067** | **5,232,529,683** |

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 89.

The consolidated financial statements were authorised for release by the Board of Directors on 27 January 2023 and signed on its behalf by:

*Seyhan Pencabligil*
*CEO and Board Member*

*Skender Emini*
*Head of Finance Group*

## Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022

*(Amounts in USD)*

| | Notes | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|---|---|---|
| Interest | | | |
| Interest income | 24 | 172,784,025 | 168,827,452 |
| Interest expense | 25 | (29,597,962) | (21,987,259) |
| **Net interest margin** | | **143,186,063** | **146,840,193** |
| Non-interest income, net | | | |
| Fees and commissions, net | 26 | 29,130,738 | 26,819,308 |
| Foreign exchange revaluation, net | 27 | (2,795,117) | 3,765,189 |
| Foreign exchange trading activities income, net | | 2,111,244 | 2,588,611 |
| Securities trading gain, net | | 53,476,297 | 2,788,953 |
| Other (expense) / income, net | 28 | 5,833,191 | 5,132,099 |
| **Total non-interest income, net** | | **87,756,353** | **41,094,160** |
| Operating expenses | | | |
| Personnel expenses | 29 | (27,683,420) | (25,416,935) |
| Administrative expenses | 30 | (43,817,673) | (39,938,158) |
| Depreciation and amortization | 13,14,15 | (9,378,577) | (9,700,992) |
| **Total operating expenses** | | **(80,879,670)** | **(75,056,085)** |
| Impairment losses on loans to customers | 11 | 7,284,287 | (4,020,610) |
| Impairment losses on financial assets, other than loans to customers | 31 | (36,098,059) | (1,017,690) |
| **Profit before taxes** | | **121,248,974** | **107,839,968** |
| Income tax | 32 | (15,933,697) | (14,747,072) |
| **Net profit for the year** | | **105,315,277** | **93,092,896** |
| Foreign currency translation differences | | 6,540,795 | (7,844,129) |
| Net change in fair value reserves and impairment of FVOCI | | (72,636,653) | (24,286,153) |
| **Other comprehensive income/(expense) for the year, net of income tax** | | **(66,095,858)** | **(32,130,282)** |
| **Total comprehensive income for the year** | | **39,219,419** | **60,962,614** |

The consolidated statement of profit or loss and comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 89.

## Consolidated statement of changes in equity for the year ended 2022

*(Amounts in USD)*

| | Share capital | Legal Reserve | Translation reserve | Fair value reserve and impairment of FVOCI | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2020** | **300,000,000** | **34,860,433** | **5,486,005** | **68,828,993** | **134,083,453** | **543,258,884** |
| **Transactions with owners recorded directly in equity** | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Creation of legal reserves | - | 19,982,220 | - | - | (19,982,220) | **-** |
| Adjustment for translation of legal reserve | - | (2,527,142) | - | - | 2,527,142 | **-** |
| Dividend payable | - | - | - | | (45,000,000) | **(45,000,000)** |
| Appropriation of year 2020 translation difference | - | - | - | - | 5,486,005 | **5,486,005** |
| Adjustment of retained earnings with December 2021 year end exchange rate | - | - | - | - | (8,740,197) | **(8,740,197)** |
| *Total transactions with owners recorded in equity* | - | *17,455,078* | - | - | *(65,709,270)* | **(48,254,192)** |
| **Comprehensive income for the year** | | | | | | |
| Net profit for the year | - | - | - | - | 93,092,896 | **93,092,896** |
| **Other comprehensive income, net of income tax** | | | | | | |
| Net change in fair value reserve | - | - | - | (23,938,631) | - | **(23,938,631)** |
| Net change in impairment of FVOCI | - | - | - | (347,522) | - | **(347,522)** |
| Foreign currency translation differences | - | - | (7,844,129) | - | - | **(7,844,129)** |
| Total other comprehensive income | - | - | (7,844,129) | (24,286,153) | - | **(32,130,282)** |
| *Total comprehensive income for the year* | - | - | (7,844,129) | (24,286,153) | 93,092,896 | **60,962,614** |
| **Balance as at 31 December 2021** | **300,000,000** | **52,315,511** | **(2,358,124)** | **44,542,840** | **161,467,079** | **555,967,306** |

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 89.

## Consolidated statement of changes in equity for the year ended 2022

*(Amounts in USD)*

| | Share capital | Legal Reserve | Translation reserve | Fair value reserve and impairment of FVOCI | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2021** | **300,000,000** | **52,315,511** | **(2,358,124)** | **44,542,840** | **161,467,079** | **555,967,306** |
| **Transactions with owners recorded directly in equity** | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Creation of legal reserves | - | 8,027,579 | - | - | (8,027,579) | **-** |
| Adjustment for translation of legal reserve | - | (249,238) | - | - | 249,238 | **-** |
| Dividend payable | - | - | - | | (50,000,000) | **(50,000,000)** |
| Transfer of revaluation surplus | **-** | **-** | **-** | **-** | 9,887,370 | **9,887,370** |
| Appropriation of year 2021 translation difference | - | - | - | - | (2,358,124) | **(2,358,124)** |
| Adjustment of retained earnings with December 2022 year end exchange rate | - | - | - | - | (8,873,491) | **(8,873,491)** |
| *Total transactions with owners recorded in equity* | - | *7,778,341* | - | - | *(59,122,586)* | **(51,344,245)** |
| **Comprehensive income for the year** | | | | | | |
| Net profit for the year | - | - | - | - | 105,315,277 | **105,315,277** |
| **Other comprehensive income, net of income tax** | | | | | | |
| Net change in fair value reserve | - | - | - | (99,837,565) | - | **(99,837,565)** |
| Net change in impairment of FVOCI | - | - | - | 27,200,912 | - | **27,200,912** |
| Foreign currency translation differences | - | - | 6,540,795 | - | - | **6,540,795** |
| Total other comprehensive income | - | - | 6,540,795 | (72,636,653) | - | **(66,095,858)** |
| *Total comprehensive income for the year* | - | - | 6,540,795 | (72,636,653) | 105,315,277 | **39,219,419** |
| **Balance as at 31 December 2022** | **300,000,000** | **60,093,852** | **4,182,671** | **(28,093,813)** | **207,659,770** | **543,842,480** |

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 89.

## Consolidated statement of cash flows for the year ended 31 December 2022

*(Amounts in USD)*

| | Notes | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit before taxes | | 121,248,974 | 107,839,968 |
| *Adjustments to reconcile change in net assets to net cash provided by operating activities:* | | | |
| Interest expense | 25 | 29,597,962 | 21,987,259 |
| Interest income | 24 | (172,784,025) | (168,827,452) |
| Depreciation and amortization | 13,14,15 | 9,378,577 | 9,700,992 |
| Gain on sale of property and equipment | | (143,467) | - |
| Gain on sale of investment securities | | (53,476,297) | (2,788,953) |
| Gain on sale of non-current assets | | (348,875) | (489,057) |
| Gain on recovery of written-off loans to customers | | (1,151,425) | (4,464,043) |
| Write-off of loans to customers | | 894,256 | 4,423,578 |
| Write off of fixed assets and repossessed assets | | 14,061 | 127,422 |
| Provision on other debtors | | 6,778,236 | 6,197,533 |
| Reversal of other debtors | | (1,142,328) | (1,045,313) |
| Movement in the fair value reserve and impairment of FVOCI | | (72,636,653) | (24,286,153) |
| Dividend income from securities | | (2,795,904) | (3,685,663) |
| Impairment of loans to customers | 11 | (7,284,287) | 4,020,610 |
| Impairment of financial instruments, other than loans | 31 | 36,098,059 | 1,017,690 |
| **Cash flows from operating profits before changes in operating assets and liabilities** | | **(107,753,136)** | **(50,271,582)** |
| (Increase)/decrease in operating assets: | | | |
| Restricted balances with central banks | | (37,480,820) | (17,706,513) |
| Placements and balances with banks | | (36,722,712) | (34,122,079) |
| Loans to banks | | (7,555,470) | 111,421,741 |
| Loans to customers | | (67,669,581) | (30,515,391) |
| Other assets | | (38,996,619) | (16,990,031) |
| | | **(188,425,202)** | **12,087,727** |
| Increase/(decrease) in operating liabilities: | | | |
| Customer deposits | | 402,222,496 | 424,315,280 |
| Due to third parties | | 2,235,834 | 44,834 |
| Accruals and other liabilities | | (4,066,353) | 12,678,124 |
| | | **400,391,977** | **437,038,238** |
| Dividend payment | | (45,000,000) | (40,000,000) |
| Interest paid | | (25,000,907) | (21,456,079) |
| Interest received | | 165,492,165 | 164,027,091 |
| Income taxes paid | | (15,307,100) | (13,881,115) |
| **Net cash flows from operating activities** | | **184,397,797** | **487,544,280** |
| **Cash flows from investing activities** | | | |
| Purchases of investment securities | | (618,864,483) | (978,218,403) |
| Purchases of treasury bills | | (112,063,026) | (482,013) |
| Investment in associates | | (152,889) | 48,334 |
| Purchases of property and equipment | | (5,735,824) | (12,896,856) |
| Proceeds from sale of investment securities | | 414,471,037 | 458,745,777 |
| Proceeds from sale of treasury bills | | 30,745,318 | 25,517,377 |
| **Net cash flows used in investing activities** | | **(291,599,867)** | **(507,285,784)** |
| **Cash flows from financing activities** | | | |
| Proceeds from short term borrowings | 18 | (62,173,825) | 76,153,062 |
| Subordinated debt | | 20,789,259 | (710,076) |
| **Net cash from financing activities** | | **(41,384,566)** | **75,442,986** |
| **Net change in cash and cash equivalents** | | **(148,586,636)** | **55,701,482** |
| Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference) | | (1,239,942) | (4,827,199) |
| **Cash and cash equivalents at the beginning of the year** | 7 | **722,862,568** | **671,988,285** |
| **Cash and cash equivalents at the end of the period** | 7 | **573,035,990** | **722,862,568** |

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 89.

## 1. General

Banka Kombetare Tregtare Sh.a. is a commercial bank offering a wide range of universal services. The consolidated financial statements comprise the bank in Albania and in Kosovo and its associate Albania Leasing (together referred to as the "Bank" "BKT" or the "Group").

The Bank provides banking services to state and privately owned enterprises and to individuals. The main sources of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both Lek and foreign currency. BKT offers a variety of corporate and consumer loans, Europay / MasterCard / Visa ("EMV") – compliant debit and credit cards, ATMs, sophisticated internet banking, mobile banking, on-line banking facilities, qualified international banking services and various treasury products. It also invests in securities and takes part actively in the local and international inter-bank markets.

BKT was established in its present legal form on 30 December 1992, although its first branch was opened on 30 November 1925.

BKT is subject to Law no. 8269 "On the Bank of Albania" dated December 1997 and Law no. 9662 "On Banks on the Republic of Albania", dated 18 December 2006.

Upon the Shareholder's Decision dated 28 April 2022, the Bank created legal reserves of Lek 859,352 thousand (equivalent of USD 7,523,659). Moreover, upon the Shareholder's Decision dated 24 November 2022, the Bank decided to distribute Lek 5,618,000 thousand as dividends (equivalent of USD 50,000,000, using the exchange rate published by Bank of Albania as at 24 November 2022 - 112.36 Lek per USD), using part of the statutory net profit for the year ended December 31, 2021 and part of the net profit of the year 2020. The remaining part of the net profit of the year 2021 was kept as retained earnings. The dividend payment was suspended until 2022 end and is paid in February 2023 based on the respective decisions of the Supervisory Council of Bank of Albania. Meanwhile, the suspended dividend payment during 2021 was paid in February 2022 following the respective Bank of Albania decision.

As at 31 December 2022 and 31 December 2021, 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 December 2022*** | | | ***31 December 2021*** | | |
|---|---|---|---|---|---|---|
| | **No. of shares** | **Total in USD** | **%** | **No. of shares** | **Total in USD** | **%** |
| Calik Holding A.S. | 24,291,498 | 300,000,000.3 | 100 | 24,291,498 | 300,000,000.3 | 100 |

The headquarters of BKT is located in Tirana. The network of the Bank in Albania includes 60 branches and 3 custom agencies. Twenty-five branches are located in Tirana, and the other branches are located in Durres, Elbasan, Vlora, Shkodra, Fier, Pogradec, Korca, Bilisht, Gjirokastra, Delvina, Saranda, Orikum, Berat, Kucova, Lushnja, Librazhd, Peqin, Rrogozhina, Shkozet, Kavaja, Vora, Kamza, Fushe Kruja, Lac, Lezha, Rreshen, Kukes, Peshkopi, Bushat, Koplik, Gramsh and Skrapar, followed by custom agencies in Durrës Seaport, Rinas Airport and Corovoda.

The network in Kosovo includes 22 units. Seven units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti and Lipjan, Dheu i Bardhe, Prishtina Airport and Skenderaj.

The Bank had 1,406 (31 December 2021: 1,333) employees as at 31 December 2022, out of which 427 (31 December 2021: 394) employees belong to BKT Kosovo.

The average number of employees of the Bank for the period ended 31 December 2022 is 1,349 (31 December 2020: 1,326) out of which 411 (31 December 2021: 391) employees belong to BKT Kosovo.

## 2. Basis of preparation

### (a) Statement of compliance and going concern assumption

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). They have been prepared under the assumption that the Bank operates on a going concern basis.

The Bank has considered the impact of Covid-19 in preparing their financial statements. While the specific areas of judgement may not change, the impact of Covid-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for trading and available-for-sale financial assets, which are measured at fair value.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

### (c) Functional and presentation currency

These consolidated financial statements are presented in USD. Albanian Lek ("Lek") is the Bank's functional currency.

The Bank has chosen to present its financial statements in USD, as its equity is wholly owned by international investors, who have issued the start-up capital in USD and view the performance of the investment in terms of USD.

### (d) Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 4 and 5.

## 3. Significant accounting policies

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

### (a) Basis of consolidation

#### *(i) Subsidiaries*

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

## 3. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

### *(i) Subsidiaries* (continued)

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

On 3 September 2007 BKT opened its first branch outside of the territory of the Republic of Albania. The Administrative Office of this branch was opened in Prishtina, Kosovo. Pursuant to the request of "Banka Kombetare Tregtare" Kosovo dated 14.02.2018, in reference to the change of the transformation from a *branch* to a *subsidiary,* the Central Bank of Kosovo has approved on 30 April 2018 the transformation into subsidiary of Banka Kombetare Tregtare – Kosovo Branch. Under this decision, all the rights and obligations deriving from BKT – Kosovo Branch shall remain rights and obligations of BKT Kosovo Sh.A as a subsidiary. The Spin Off date of BKT Kosovo is effective as at 1 January 2019. The functional currency is the EURO. The effect of translating foreign operations into the Bank's functional currency is explained in note 3.(b).(ii) below.
BKT has established in 2022 the electronic money company "BKT Pay" investing EUR 1,000,000 into its share capital at a participation rate of 100%. BKT Pay was legally registered on September 26, 2022. BKT Pay has applied to obtain the license from Bank of Albania and is expected to start the activity within 2023.

### *(ii) Transactions eliminated on consolidation*

All intragroup assets and liabilities, equity, income, expenses and cash flows (except for foreign currency transaction gains or losses) relating to transactions between members of the Group are eliminated in full on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### *(iii) Business combinations*

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

### (b) Foreign currency

### *(i) Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot 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 period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction, with the exception of the share capital, which is issued and maintained in USD as per the legislation in Albania as well as per Special Law No. 8634, dated 6 July 2000, 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 profit or loss together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

## 3. Significant accounting policies (continued)

### (b) Foreign currency (continued)

#### *(ii) Foreign operations*

The assets and liabilities of foreign operations are translated into Lek at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Lek at spot exchange rates at the dates of the transactions. Foreign currency differences on the translation of foreign operations are recognised directly in other comprehensive income. Such differences have been recognised in the foreign currency translation reserve.

#### *(iii) Translation of financial statements from functional currency to presentation currency*

Translation of financial statements from functional currency to presentation currency is done as follows:

- assets and liabilities for reporting date (including comparatives) are translated at the closing rate at the date of that reporting date, which is Bank of Albania's rate at 1 USD = 107.05 Lek (2021: 106.54).
- income and expenses (including comparatives) are translated at exchange rates at the dates of the transactions.
- equity items other than the net profit for the period and share capital, are translated at exchange rates at the dates of the transactions.
- share capital has been translated as described in paragraph 3.(b).(i) above; and
- all resulting exchange differences are recognised through other comprehensive income as a separate component of equity in the "Translation reserve" account.

#### *(iv) Spot foreign exchange transactions*

The Bank during the normal course of business enters into spot foreign exchange transactions with settlement dates 1 or 2 days after the trade date. These transactions are recorded in the financial statements on the settlement date. Foreign currency differences are recognised in profit or loss on the settlement date.

### (c) Interest

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

### (d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

### (e) Lease payments made

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.

### (f) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income 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.

## 3. Significant accounting policies (continued)

### (f) Income tax expense (continued)

The Bank determines taxation at the end of the year in accordance with the Albanian tax legislation. In 2022, tax on profit is equal to 15% of the taxable income. Taxable income is calculated by adjusting the statutory profit before taxes for certain income and expenditure items as required under the Albanian law. The statutory profit is based on the financial records kept by the Bank for regulatory purposes and may differ from the International Financial Reporting Standards reported financial result. However, current income tax payable for the 2022 financial year is equal according to both standards.

Deferred tax is provided for 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 the following temporary differences: the initial recognition of goodwill, 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, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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. Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

*Tax applications for foreign subsidiaries of the Bank:*

*Republic of Kosovo*

The applicable corporate tax rate in Republic of Kosovo is 10%. Under Kosovo tax legislation system, tax losses can be carried forward to be offset against future taxable income for up to seven years.

### (g) Financial assets and liabilities

#### *(i) Recognition*

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

The Bank initially recognises loans, 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, with the exception of spot foreign exchange transactions which are recognized on settlement date (see note 3(b) (iv)). 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.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

## 3. Significant accounting policies (continued)

### (g) Financial assets and liabilities (continued)

#### *(ii) Derecognition*

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off certain loans and investment securities when they are determined to be uncollectible.

#### *(iii) Classification and initial measurement of financial assets*

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets are recognised in profit or loss.

## 3. Significant accounting policies (continued)

### (g) Financial assets and liabilities (continued)

### *(iii) Classification and initial measurement of financial assets (continued)*

– ***Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)***
As per the new standard, one of the conditions for financial assets to be classified either under ‘amortised cost’ or ‘Fair Value Through Profit or Loss (“FVTPL”) category is that the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank has performed the SPPI test and has determined the business models for its financial assets.

– ***Business model assessment***
There are three business models under IFRS 9 – ‘Held to Collect (“HTC”)’, ‘Held to Collect and Sell (“HTCS”)’ and ‘Other (“Other BM”)’.

1. Under the HTC model, cash flows result from collecting contractual payments. If an SPPI product is HTC, it is measured at amortised cost.
2. Under HTCS, cash flows result from contractual payments, as well as from selling the financial assets. If an SPPI product is HTCS, it is measured at fair value though other comprehensive income (“FVOCI”).
3. Other BM are those that are neither HTC, nor HTCS. One example could be a model under which trading is the primary purpose with contractual payment collection not constituting an integral part of the model. If a product (SPPI or not) is held under Other BM, it is measured at fair value though profit or loss (“FVTPL”).

The Bank has assessed the business model for its financial assets as follows;

*Treasury*
Treasury assets consist of cash or equivalents, Government Bonds, Investment securities such as Eurobonds, Bonds and Certificates.
The Bank also considers Loans to banks such as Syndicated Loans, Bilateral Loans and Murabaha as treasury products.
Investment securities are accounted for depending on their classification as either Held-to-Maturity (“HTM”), or Available-for-Sale (“AFS”) and in some cases as Held-for-Trading (“TRD”).

The business model of the Bank under IFRS 9 is:
- "HTC" for HTM products. Such products shall be measured at amortised cost;
- “HTCS” for AFS products. Such products shall be measured at FVOCI; and
- “Other BM” for TRD products and shall be measured at FVTPL.

*Retail*
The Retail assets consist of various financing facilities to individuals (e.g. Mortgage loans, Consumer loans, Home improvement loans, Car loans, Credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.
The fair value of the Retail assets is not a critical aspect in the Bank’s management of the portfolio.
The business model of the Banks under IFRS 9 is "HTC" and the Retail loans shall be measured at amortised cost.

*Corporate*
The Corporate assets consist of various financing facilities to corporates (e.g. Cash loans, Non-cash loans, Agro loans, Project & structured finance, Business credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.
The fair value of the Corporate assets is not a critical aspect in the Bank’s management of the portfolio.
The business model of the Banks under IFRS 9 is "HTC" and the corporate loans shall be measured at amortised cost.

## 3. Significant accounting policies (continued)

### (g) Financial assets and liabilities (continued)

### *(iv) Subsequent measurement of financial assets*

*Financial assets at amortised cost*
Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method.
Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, loans and most of other receivables fall into this category of financial instruments as well as government bonds and forfeiting instruments that were previously classified as held-to-maturity under IAS 39.

*Financial assets at fair value through profit or loss (FVTPL)*
Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below). The category also contains an equity investment. The Group accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment in Albania Leasing Sh.a and equity securities at fair value through other comprehensive income (FVOCI). The equity investment in Albania Leasing Sh.a. and certain equity securities were measured at cost less any impairment charges in the comparative period under IAS 39, as it was determined that their fair value could not be estimated reliably. In the current financial year, the fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Bank determined that in the current period the Fair Value of these investments approximates to their carrying amount. The Group's government bonds that were previously classified as held-for-trading under IAS 39 fall into this category.

*Financial assets at fair value through other comprehensive income (T)*
The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset. The Group's government bonds and treasury bills, corporate bonds, promissory notes, assets backed securities and equity portfolio that were previously classified as available for sale under IAS 39 fall into this category.

### *(v) Reclassifications of financial assets*

The Bank has made a reclassification of AFS (FVOCI) securities to HTM (Amortized Cost) securities between 24th February – 3rd March 2022. The Board of Directors and Senior Management have decided to change the business model of treasury investments recognized and measured under IFRS9. The change of business model is very rare for the Bank. Based on the new business model, the entity objective is to keep the majority of its treasury investments at Amortized Cost by holding to collect their contractual cash flows. The Management intention is solely to benefit from the spread between the yield of financial assets and cost of liabilities. As such, the new business model is not for an individual asset but for a higher level of aggregation which makes a significant part of Bank's financial assets.

## 3. Significant accounting policies (continued)

### (g) Financial assets and liabilities (continued)

### *(v) Reclassifications of financial assets (continued)*

Considering the above, the Bank has reclassified a significantly high portion of its ALL (Albanian Lek) and FX securities from AFS portfolio ('Hold to collect and sell' measured at Fair Value through Other Comprehensive Income) to HTM portfolio ('Hold to collect' measured at Amortized cost), with the following exceptions:

For FX portfolio:
- Corporate bonds with composite credit rating lower than BB- and duration longer than 4 years;
- Corporate bonds with composite credit rating equal to or higher BB-, but with duration longer than 7.5 years;
- Financial Institutions and Sovereign bonds with composite credit rating less than BB- and duration longer than 4-years, and
- Financial Institutions and Sovereign bonds with composite credit rating equal or higher than BB-, but with duration longer than 7.5 years.

For ALL portfolio:
- T-bills, because they are discounted papers and they have maturity shorter than a year;
- Up to 20% of 3-years and 5-years benchmark ALL securities. This is to comply with requirements of Market Making mechanism since BKT is Market Maker on these benchmark bonds.

The Bank's objective is that securities with lower credit ratings and long-term maturities (with higher risk), as well as to have a real-time Marked-to-Market assessment, should not be kept in Amortized Cost. Meanwhile, Turkish and Albanian government bonds can be measured at Amortized Cost, since they represent the shareholder's country of origin (Turkey) and the country where BKT operates (Albania). The Bank has considered all the available information at the moment of decision for changing its business model.

Accordingly, securities portfolio measured at FVOCI was more than halved in February-March 2022 by contracting the nominal value at US$947mio, out of which US$615mio from Lek portfolio and US$332mio from FX portfolio. Following the change of business model and the consequent reclassification of its financial assets, the nominal amount portion of investment securities measured at amortized cost to total securities portfolio (excluding Treasury bills) on a consolidated basis reached to 62% as at 31 December 2022 (31 December 2021: 9%), while the portion of investment securities measured at fair value contracted to 38% as at 31 December 2022 (31 December 2021: 91%).

Paragraph 4.4.1 requires an entity to reclassify financial assets if the entity changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties.

Accordingly, based on the accounting requirements for asset reclassifications from FVOCI to Amortized Cost, any cumulative gain or loss previously recognized in OCI has been removed from equity and applied against the fair value of the financial asset at the reclassification date.

The reclassification of securities has been also performed in accordance with the requirements of financial reporting methodology and accounting manual of the Bank of Albania, sections 3.2.2 and 3.2.3, by also meeting the liquidity requirements through the eligibility criteria applied for these financial assets.

The nominal value and fair value gains or losses of the reclassified portfolio at the reclassification date and each reporting date are presented as following:

## 3. Significant accounting policies (continued)

### (g) Financial assets and liabilities (continued)

### *(v) Reclassifications of financial assets (continued)*

| Reclassified portfofolio | Nominal value (*original currency*) | Nominal value (*USD equivalent*) | Fair value gain/(loss) (*USD equivalent*) | | | | |
|---|---|---|---|---|---|---|---|
| | | | At reclassification date | 30-Jun-22 | 30-Sep-22 | 31-Dec-22 | 28-Feb-23 |
| ALL | 65,790,000,000 | 614,572,630 | 30,923,490 | 9,753,755 | (21,382,583) | (29,632,131) | (4,467,905) |
| USD | 131,000,000 | 131,000,000 | (5,473,107) | (26,840,582) | (25,103,504) | (22,849,911) | (21,906,725) |
| EUR | 156,500,000 | 166,996,684 | (1,330,139) | (10,507,538) | (11,455,157) | (8,623,182) | (8,681,811) |
| GBP | 28,352,000 | 34,144,230 | (893,677) | (2,332,516) | (3,831,449) | (2,905,797) | (2,593,809) |
| **Total** | | **946,713,544** | **23,226,567** | **(29,926,881)** | **(61,772,693)** | **(64,011,021)** | **(37,650,250)** |

The above figures in original currency are converted in USD equivalent using the exchange rate published by Bank of Albania as at 31 December 2022.

The Bank has met all the criteria of IFRS9 applicable for the reclassification of financial assets. In addition, no sales have occurred from the reclassified portfolio during 2022 after the reclassification date.

### *(vi) Offsetting*

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

### *(vii) Amortised cost measurement*

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

### *viii) Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

## 3. Significant accounting policies (continued)

### (g) Financial assets and liabilities (continued)

#### *viii) Fair value measurement (continued)*

The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). In many cases the transaction price equals the fair value (that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold). When determining whether fair value at initial recognition equals the transaction price, the Bank takes in account factors specific to the transaction and to the asset or liability.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

#### *(ix) Impairment of financial assets*

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

#### *(x) Classification and measurement of financial liabilities*

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9. The Group's financial liabilities include Customer deposits borrowings from banks and other financial institutions, subordinated debt and other payables. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

## 3. Significant accounting policies (continued)

### (g) Financial assets and liabilities (continued)

#### *(xi) Derivative financial instruments and hedge accounting*

The Group applies the new hedge accounting requirements in IFRS 9 prospectively.

Derivative financial instruments are accounted for at fair value through profit and loss (FVTPL) except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item. If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

- ***Futures***

The Bank enters into derivatives for trading and risk management purposes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements.

As part of its asset and liability management, the Bank uses derivatives for economic hedging purposes in order to reduce its exposure to market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions, as well as hedging of aggregate financial position exposures. Where possible, the Bank applies hedge accounting.

The Bank has entered into financial derivatives through interest rate future contracts so as to hedge the price movement of its financial assets measured at fair value to help prevent losses from unfavorable price changes. Concretely, the Bank has opened (sold) short positions of long-term US Treasury Eurobond Futures for hedging the interest risk component of the USD denominated Eurobonds. Similarly, the Bank has opened short positions of long-term European Sovereign Eurobond Futures (German, French, Italian and Spanish) for hedging the interest risk component of the EUR denominated Eurobonds. The futures positions are accounted for at fair value through profit and loss (FVTPL).

The table below shows the fair values of futures position together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

## 3. Significant accounting policies (continued)

### *(xi) Derivative financial instruments and hedge accounting (continued)*

***Futures (continued)***

| **31 December 2022** | **Notional Amount** | **Market Value** | **Unrealized gains/(losses)** |
|---|---|---|---|
| ***Derivatives held for trading*** | | | |
| **Interest rate Futures** | **457,020,275** | **448,686,507** | **8,333,768** |
| - EUR | 285,996,814 | 277,360,257 | 8,636,557 |
| - USD | 171,023,461 | 171,326,250 | (302,789) |

| **31 December 2021** | **Notional Amount** | **Market Value** | **Unrealized gains/(losses)** |
|---|---|---|---|
| ***Derivatives held for trading*** | | | |
| **Interest rate Futures** | **188,225,775** | **187,449,400** | **776,375** |
| - EUR | 113,276,790 | 111,683,368 | 1,593,422 |
| - USD | 74,948,985 | 75,766,032 | (817,047) |

In addition, the realized gains and losses resulted from the closure and renewal of the total futures position (EUR and USD) during 2022 amounted at a net gain of USD 64,612,634 (2021: net loss of USD 2,307,323).

The above unrealized gains/(losses) are reported as part of "Other income/(expense), net" item, while the realized gains/(losses) are reported as part of "Securities trading gain, net" item of Profit and Loss Statement.

### (h) Cash and cash equivalents

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

### (i) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

### (j) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

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

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans at fair value through profit or loss as described in accounting policy 3(g)(iii).

## 3. Significant accounting policies (continued)

### (k) Property and equipment

#### *(i) Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated 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.

#### *(ii) Subsequent costs*

The cost of replacing a part of an item of property or equipment is recognised 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. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

#### *(iii) Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

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

| | |
|---|---|
| • Buildings and leasehold improvements | 20 years |
| • Motor vehicles and other equipment | 5 years |
| • Office equipment | 5 years |
| • Computers and electronic equipment | 4 years |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

## 3. Significant accounting policies (continued)

### (l) Intangible assets

Intangible assets comprise software acquired by the Bank. Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is four years.

### (m) Assets acquired through legal process (repossessed collateral)

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. The Group applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation). Accounting policy for associates is applied to repossessed shares where the Group obtains significant influence, but not control. The cost of the associate is the fair value of the loan settled by repossessing the pledged shares.

### (n) Impairment of non-financial assets

The carrying amounts of the Bank’s non-financial assets, other than deferred tax assets, 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 rata 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. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## 3. Significant accounting policies (continued)

### (p) Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. The carrying amount of the investment in associates and joint ventures is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group. Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

### (q) Deposits, borrowings and subordinated liabilities

Deposits, borrowings and subordinated liabilities are part of the Bank's sources of debt funding.

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

Deposits, borrowings and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

### (r) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

### (s) Employee benefits

#### *(i) Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Bank makes 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.

#### *(ii) Defined benefit plans*

The Bank created a fully employer sponsored pension plan fund-Staff Support Program (See note 21), during 2002. The amount charged to this fund (SSP) was decided as 5% of yearly budgeted personnel salary expenses.

The amount due to employees based on the above plan would be grossed up by the interest that will accrue from the date the employees leave the Bank until their retirement. It would be paid to employees only when they reach the Albanian statutory retirement age, in monthly instalments equal to a minimum of 75% of their state monthly pension until the accumulated fund for the employee is consumed.

## 3. Significant accounting policies (continued)

### (s) Employee benefits (continued)

#### *(ii) Defined benefit plans (continued)*

Based on the Board of Directors resolution effective on 30 September 2010, the Bank stopped the investment in this fund (SSP), by transforming it into the Staff Retention Credit Program (SRCP). The demographic changes in labour force during the last ten years and the employees' average age at 31, where 80% of employees are below the age of 40, has resulted in SSP not being attractive for most employees of the Bank, as it can only be enjoyed at retirement. In contrast, SRCP will be more readily beneficial for all the Bank's staff, as it will provide consumer and home loans with preferential terms. The entire due amount calculated for eligible employees in Staff Support Program has been frozen on the same date. The frozen amount due to change of SSP into SRCP on 30 September 2010 and the corresponding annual interest that will be gained by the investment in AAA sovereign bonds in the future until retirement age, is recorded as a liability by the Bank.

#### *(iii) Short-term benefits*

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

### (t) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other Components, whose operating results are reviewed regularly by the management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available (see Note 6). The Bank's format for segment reporting is based on geographical segments.

### (u) New Standards adopted as at 1 January 2022

Some accounting pronouncements which have become effective from 1 January 2021 and have therefore been adopted do not have a significant impact on the Group's financial results or position.

These amendments do not have a significant impact on these Consolidated Financial Statements and therefore the disclosures have not been made.

### (v) Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

Other Standards and amendments that are not yet effective and have not been adopted early by the Group include:

• IFRS 17 Insurance Contracts
• Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
• References to the Conceptual Framework
• Proceeds before Intended Use (Amendments to IAS 16)
• Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
• Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
• Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
• Deferred Tax related to Assets and Liabilities from a Single Transaction

These amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore no disclosures have been made.

## 4. Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 5).

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (note 3, (g), (iii)). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

***ECL Determination***

Significant increase of credit risk: As explained in note 3 (g) (ix) and 5 (b) (ii), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 3 (g) (ix) and 5 (b) (ii), for more details.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 (g) (ix) and 5 (b) (ii), for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 (g) (ix) and 5 (b) (ii), for more details on ECL and note 3 (g) (viii) for more details on fair value measurement.

## 4. Use of estimates and judgements (continued)

***Input in data model of application of IFRS 16 requirements***

*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.

*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 weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.38%. 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 2019.

## 4. Use of estimates and judgements (continued)

***Input in data model of application of IFRS 16 requirements –(continued)***

a. Base rate yield curve (continued)

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.

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.

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.

## 4. Use of estimates and judgements (continued)

***Determining fair values***

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3 (g) (viii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgments made in applying the Bank's accounting policies include:

***Valuation of financial instruments***

The Bank's accounting policy on fair value measurements is discussed under note 3 (g) (viii).

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for 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 could 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.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. 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 that would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. 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.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

## 4. Use of estimates and judgements (continued)

***Fair values***

The table below sets out the carrying amounts and fair values of the financial assets and liabilities and analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| **31 December 2022** | **Note** | **Carrying Amount** | | | **Fair Value** | |
|---|---|---|---|---|---|---|
| | | | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Placement and balances with banks | 8 | 473,902,012 | - | 473,902,012 | - | 473,902,012 |
| Investment securities | 9 | 2,911,791,378 | 1,552,499,212 | 1,246,014,375 | - | 2,798,513,587 |
| Loans to banks | 10 | 145,894,324 | - | 145,894,324 | - | 145,894,324 |
| Loans to customers | 11 | 1,383,681,949 | - | - | 1,383,681,949 | 1,383,681,949 |
| **Total financial assets** | | **4,915,269,663** | **1,552,499,212** | **1,865,810,711** | **1,383,681,949** | **4,801,991,872** |
| Customer deposits | 17 | 4,591,435,866 | - | - | 4,591,435,866 | 4,591,435,866 |
| Due to banks and financial institutions | 18 | 305,784,334 | - | 305,784,334 | - | 305,784,334 |
| Subordinated debt | 22 | 50,319,179 | - | 50,319,179 | - | 50,319,179 |
| **Total financial liabilities** | | **4,947,539,379** | **-** | **356,103,513** | **4,591,435,866** | **4,947,539,379** |
| **31 December 2021** | **Note** | **Carrying Amount** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Placement and balances with banks | 8 | 557,373,773 | - | 557,373,773 | - | 557,373,773 |
| Investment securities | 9 | 2,558,621,973 | 1,238,871,309 | 1,318,523,621 | - | 2,557,394,930 |
| Loans to banks | 10 | 138,246,339 | - | 138,246,339 | - | 138,246,339 |
| Loans to customers | 11 | 1,310,598,335 | - | - | 1,310,598,335 | 1,310,598,335 |
| **Total financial assets** | | **4,564,840,420** | **1,238,871,309** | **2,014,143,733** | **1,310,598,335** | **4,563,613,377** |
| Customer deposits | 17 | 4,182,176,123 | - | - | 4,182,176,123 | 4,182,176,123 |
| Due to banks and financial institutions | 18 | 372,945,259 | - | 372,945,259 | - | 372,945,259 |
| Subordinated debt | 22 | 28,405,688 | - | 28,405,688 | - | 28,405,688 |
| **Total financial liabilities** | | **4,583,527,070** | **-** | **401,350,947** | **4,182,176,123** | **4,583,527,070** |

The fair value of foreign exchange contracts approximates their carrying amount, which is disclosed in Notes 16 and 21. The Fair value of loan to customers and customer deposits approximates to their carrying value either due to interest rates approximating the market rates or due to short term maturities.

## 4. Use of estimates and judgements (continued)

### Going Concern

During the beginning of 2020, the pandemic of COVID-19 was spread globally. In response to the situation, in March 2020 the Government of Albania took drastic measures by suspending all activities that were not vital. Furthermore, facing the consequences of the COVID-19 Pandemic, which go far beyond the crucial element of public health, both the Government of Albania and Bank of Albania implemented immediate measures in order to mitigate the social and economic impact of the outbreak.The government announced a sovereign guarantee to all the business which are facing liquidity problems and will seek financing.

The Group considers the liquidity risk in the recovery plans, in the internal capital adequacy assessment process, setting well-defined limits on its appetite for risk. The Group determines that its capital resources are available.

The Group performs stress test exercises to test the possible impact of macroeconomic indicators in Group's key financial position, performance and regulatory compliance.

In various stress test scenarios, the CAR in both, baseline and adverse scenarios, have resulted above the minimum requirement threshold set by Bank of Albania. The Group has assumed that there is no need the capital requirements be increased.

In May 2022 the bank has approved the internal capital adequacy assessment process as at 31.12.2021.

During 2022, the Group has managed to achieve the budgeted results, exceeding them in terms of profitability. For the year ending 2023, the Group expects the budgeted figures to be standing at positive results, although not possible to be reliably measured at the moment.

The Group’s management evaluates the Group’s ability to continue as a going concern considering all the factors stated above and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern. Therefore, the Consolidated Financial Statements continue to be prepared on the going concern basis

## 5. Financial risk management

### (a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks
- operational risks

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.

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risks.

**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 Risk Committee, Asset and Liability Committee (ALCO), Risk Management Group and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All these bodies report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

### (b) Credit Risk

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 to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over EUR 2,000,000 are approved only upon decision of the Board of Directors of the Bank. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

Each business unit is required to comply with Bank credit policies and procedures. Regular audits of business units and Bank Credit Risk Management Department processes are undertaken by Internal Audit.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

#### *i. Maximum credit exposure*

The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets. Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2022 and 31 December 2021 are as follows:

**Financial Instruments Credit Risk**

| | 31 December 2022 | | | 31 December 2021 | | |
|---|---|---|---|---|---|---|
| | **Exposure before impairment** | **Impairment** | **Net exposure for credit risk** | **Exposure before impairment** | **Impairment** | **Net exposure for credit risk** |
| **A. Credit risk exposure relating to balance sheet items** | | | | | | |
| Cash and Balances with Central Bank | 537,491,661 | - | 537,491,661 | 536,369,185 | - | 536,369,185 |
| Placements and Balances with banks | 473,931,098 | (29,086) | 473,902,012 | 557,396,710 | (22,937) | 557,373,773 |
| Investment securities - measured at FVTPL | 4,387,015 | - | 4,387,015 | 101,865,986 | - | 101,865,986 |
| Investment securities - measured at FVOCI | 1,209,108,783 | - | 1,209,108,783 | 2,237,684,778 | - | 2,237,684,778 |
| Investment securities - measured at amortised cost | 1,730,849,064 | (10,838,755) | 1,720,010,309 | 220,647,330 | (1,576,121) | 219,071,209 |
| Loans to banks | 147,307,556 | (1,413,232) | 145,894,324 | 139,706,567 | (1,460,228) | 138,246,339 |
| Loans to customers | 1,441,294,092 | (57,612,143) | 1,383,681,949 | 1,378,551,034 | (67,952,699) | 1,310,598,335 |
| Other assets | 11,414,120 | (522,566) | 10,891,554 | 22,034,922 | (701,915) | 21,333,007 |
| **Total Assets** | **5,555,783,389** | **(70,415,782)** | **5,485,367,607** | **5,194,256,512** | **(71,713,900)** | **5,122,542,612** |
| **Off balance sheet items** | | | | | | |
| Undrawn credit commitments | 164,784,323 | - | 164,784,323 | 150,795,791 | - | 150,795,791 |
| Outstanding cheques of non-resident banks | 315,525 | - | 315,525 | 335,009 | - | 335,009 |
| Spot foreign currency contract | 224,560,300 | - | 224,560,300 | 148,265,797 | - | 148,265,797 |
| Collaterals for loan portfolio | 3,861,262,871 | - | 3,861,262,871 | 2,419,027,674 | - | 2,419,027,674 |
| Securities pledged as collateral | 343,225,900 | - | 343,225,900 | 320,678,295 | - | 320,678,295 |
| **Total off balance sheet** | **4,594,148,919** | **-** | **4,594,148,919** | **3,039,102,566** | **-** | **3,039,102,566** |
| **Total credit risk exposure** | **10,149,932,308** | **(70,415,782)** | **10,079,516,526** | **8,233,359,078** | **(71,713,900)** | **8,161,645,178** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

***ii. Expected credit loss measurement***

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. This credit quality depends on the extent of credit deterioration since initial recognition and will spread over three stages:

"Stage 1" comprises of assets that have not suffered any significant deterioration of credit quality since initial recognition;

"Stage 2" comprises of assets that have suffered significant deterioration since initial recognition;

"Stage 3" concerns all assets where a default has occurred.

Under this general approach, the ECL for an asset is calculated over different time horizons according to the stage it was assigned to:

ECL over one year for assets in stage 1;

ECL over remaining lifetime for assets in stage 2 and stage 3.

The stage assignment is done according to the following rules:

Impairment: if the counterparty for the considered asset has defaulted, the asset is assigned to "Stage 3". An asset is considered as having defaulted if any repayment (principal or interest) is overdue for more than 90 days or if the counterparty is in a proven situation of default (bankruptcy).

Rating D (lower than C): Assets with this rating are currently considered to be in stage 3.

Qualitative factors: IFRS 9 has advised to take in account qualitative factors such as watch lists or financial analysis by experts. Similar to the previous case, there is also a second time threshold. In case the repayment of an asset is overdue for more than 30 days and less than 90 days, it is assigned to "Stage 2".

Relative Threshold: if the counterparty has suffered significant deterioration in credit risk, that is if its credit quality since initial recognition has dropped more than a specific pre-defined relative threshold, then it is assigned to "Stage 2".

All assets that are not in the previous cases are assigned to "Stage 1".

*Grouping of instruments for losses measured on a collective basis*

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible.

Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes.

The Bank has three main portfolios, which are:

- Loan portfolio

  This category includes wholesale and individual/retail accounts loans.

- Treasury portfolio

  This category includes bonds, treasury bills and equity accounts.

- Project and Structured Finance

  This category includes letters of credit and bank guarantees.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

#### *ii Expected credit loss measurement (continued)*

*Significant Deterioration through relative threshold*
The bank computes a relative threshold matrix that gives for each rating a prediction of what the expected rating for each time horizon should be.

Through-the-cycle (TTC) transition matrices give the percentage of counterparties which moved from one rating to another over a specific time interval. TTC matrices over a 10 years horizon are taken since this gives a comfortable horizon for a relative threshold.

*Credit risk grading*
The bank relied on proxies provided by external credit rating agencies. External TTC transition matrices for all European entities provided by international credit rating agencies are used. The following steps are then carried out:

First the mapping between the internal and external rating systems is performed;

From there, a TTC transition matrix with the number of observations (number of entities that changed from one specific rating to another) is used and a weighted average per mapped rating is computed in order to compute the internal ratings TTC matrix.

*Forward-looking information incorporated in the ECL models*
The TTC PDs are transformed into PIT PDs by taking in account the macroeconomic environment through a set of macroeconomic variables: real GDP growth rate, inflation rate and unemployment rate. These variables were sourced from the IMF[2], including historical data spanning 1990 – 2020 and baseline projections for 2021 – 2024. The first PD model includes a simplified form of the Merton model. In this framework, a systemic variable $X_t$ which represents the macroeconomic environment is introduced. The sensitivity of each rating's PD to this variable is obtained via the calibration of the $\rho$ parameter. The model takes in account the global default rate of each year and calculates $X_t$ for each year, which is then regressed over with the different combinations of macro-economic variables. Using projections of the macroeconomic variables, the regression formula is used to deduce projections of $X_t$, and based on the one factor Merton model the PIT PDs are obtained. The second PD model considers the default rate per rating in each year, which enables the calibration of the sensitivity $\rho_i$ for all ratings.

*Measuring ECL – Explanation of inputs, assumptions and estimation techniques*
The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

1. Probability of default (PD);
2. Loss given default (LGD); and
3. Exposure at default (EAD).

ECL is estimated under Baseline (typical), Best (favourable) and Adverse (unfavourable) conditions.
The only Point-in-Time estimates are for Probability of Default. LGD assumes Basel estimates and EAD uses amortisation type payment schedules. Once all components (PD, EAD, LGD) have been computed, the ECL is estimated under three different scenarios: Baseline (typical), Best (favourable) and Adverse (unfavourable) condition, with weights 52%, 18% and 30% respectively. The final ECL is the probability-weighted ECL under those three scenarios.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

*1. Probability of Default*

The probability of default has been modelled on the basis of the one factor Merton model. The approach to model the point-in-time forward looking and macroeconomic PD is divided into three different steps: - The first step is to calibrate the cumulated TTC PDs; - The second step is to include the forward look information and transform the cumulated TTC PDs to PIT PDs; - The final step is to describe the conversion of PIT PDs to TTC PDs after a certain horizon.

Default rates are essential for the calculation of Point-in-Time Probability of Default (PD) and for the estimation of ECL.

The Bank used external default rate data for each relevant sector and region. A number of macro-economic variables sourced from the IMF2, including historical data spanning 1990 – 2020 and baseline projections for 2021 – 2024, were considered in modelling of PIT PD.

For non-rated accounts, PD are estimated using the nominal weighted average PD of all rated accounts within the same rating system. However, this does not guarantee that the PD for non-rated accounts in stage 2 (NRB2) is higher than for stage 1 (NRB1). To account for the higher risk of NRB2 exposures, the Bank mapped NRB2 to an equivalent risk grade with similar PIT PD as the PD for NRB1 exposure for a time horizon equal to the average residual lifetime of all unexpired accounts within the same sector.

*2. Loss Given Default (LGD)*

Loss Given Default is defined as the percentage of the Exposure at Default (EAD) that is ultimately lost in case of default of a counterparty, after all possible recoveries through selling of collateral or collection procedures. As regards to the loan to customers' portfolio, LGD is modelled using historical recovery rates or using the collateral value of the asset. The bank has considered information about past collateral value, time in default, time to sale, sale costs, in calculating the LGD.

A defaulted collateralised asset can move through different stages post default. The bank can seize the collateral ("Possession") in order to sell it ("Sale") and make up for the potential loss due to the default of the counterparty. Possession of collateral can occur voluntarily ("handing over the keys") or via litigation (court proceedings). And sales may be carried out by the institution (after obtaining possession) or by means of a customer self-sale. On the date of collateral sale, any shortfall is recognised in the P&L (write-off expense) and subsequent recoveries (debt collection either internal or external) may occur. Write-off occurs when there is a shortfall on collateral sale. Closed and cures occur when the full outstanding is recovered with the former resulting in the account closing (i.e. no lending). Cure refers to both closed and curing accounts. For the unsecured/uncollateralised types of assets the value of the collateral is supposed to be 0 and the actual model is still applied taking in account pure debt collection. In the light of this recovery process, the Bank defines LGD as the expected severity (loss) given a default.

As regards to the non-loan accounts (Treasury and Project and Structured Finance accounts), the Bank assumed the fixed Based Estimates. The Banks mapped each collateral type in BKT portfolios to the Basel LGD segments1, each with their own LGD estimate: Eligible financial collateral (0%), secured (25%) unsecured (45%). For the Treasury and Project and Structured Finance portfolios, LGD values are assigned on an asset type level.

*3. Exposure at Default (EAD)*

An asset can have a customised, linear or bullet amortisation type. For assets with a customised amortisation type, repayment schedules are used to estimate EAD. For assets without any amortisation type, a linear repayment plan is assumed. For off balance sheet exposures, it is required that provisions are held against undrawn commitments. BKT's calculation of the credit conversion factor (CCF) values is in line with Basel II requirements under the standardised approach: "Commitments with an original maturity up to one year and commitments with an original maturity over one year will receive a CCF of 20% and 50%, respectively." Early repayment/refinance assumptions are also incorporated into the calculation. However the early repayments are considered to be 0 for all assets as the Bank's historical data suggests insignificant material impact.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in gross carrying amount of loans to customers at amortised cost.

**CHANGES IN GROSS CARRYING AMOUNT OF LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 December 2022 | Retail lending | | | | Corporate lending | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2022** | **508,492,588** | **16,775,728** | **9,725,657** | **534,993,973** | **636,238,970** | **154,201,092** | **57,873,686** | **848,313,748** |
| Transfer to Stage 1 (from 2 or 3) | 2,339,622 | (2,336,493) | (3,129) | - | 20,319,332 | (3,037,917) | (17,281,415) | - |
| Transfer to Stage 2 (from 1 or 3) | (3,977,688) | 4,045,358 | (67,670) | - | 5,542,926 | (7,623,076) | 2,080,150 | - |
| Transfer to Stage 3 (from 1 or 2) | (2,263,912) | (1,773,605) | 4,037,517 | - | (2,332,109) | (747,636) | 3,079,745 | - |
| New financial assets originated or purchased | 223,682,737 | 1,054,925 | 140,240 | 224,877,902 | 191,921,805 | 7,734,390 | 8,931,208 | 208,587,403 |
| Derecognition of financial assets | (50,712,637) | (1,499,725) | (1,117,465) | (53,329,827) | (96,335,531) | (7,993,066) | (6,733,847) | (111,062,444) |
| Changes due to modifications that did not result in derecognition | (49,877,436) | (1,425,167) | (953,926) | (52,256,529) | (101,101,532) | (11,112,509) | (2,780,068) | (114,994,109) |
| Write-offs | (637) | - | (514,443) | (515,080) | - | - | (429,001) | (429,001) |
| Foreign exchange and other changes | (12,581,911) | (477,520) | (199,533) | (13,258,964) | (19,231,134) | (3,965,596) | (1,546,904) | (24,743,634) |
| **Gross Balance at 31 December 2022** | **615,100,726** | **14,363,501** | **11,047,248** | **640,511,475** | **635,022,727** | **127,455,682** | **43,193,554** | **805,671,963** |

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in gross carrying amount of loans to customers at amortised cost.

**CHANGES IN GROSS CARRYING AMOUNT OF LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 December 2021 | Retail lending | | | | Corporate lending | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Balance at 1 January 2021** | **468,939,856** | **23,661,790** | **15,196,113** | **507,797,759** | **665,114,188** | **189,546,909** | **72,249,775** | **926,910,872** |
| Transfer to Stage 1 (from 2 or 3) | 9,969,835 | (8,558,643) | (1,411,192) | - | 40,823,680 | (35,587,289) | (5,236,391) | - |
| Transfer to Stage 2 (from 1 or 3) | (7,425,966) | 8,144,678 | (718,712) | - | (23,072,492) | 31,768,186 | (8,695,694) | - |
| Transfer to Stage 3 (from 1 or 2) | (1,671,538) | (1,734,103) | 3,405,641 | - | (23,575,197) | (4,045,485) | 27,620,682 | - |
| New financial assets originated or purchased | 163,905,870 | 1,368,760 | 412,711 | 165,687,341 | 201,403,447 | 7,999,505 | 3,009,707 | 212,412,659 |
| Derecognition of financial assets | (50,275,540) | (2,748,041) | (3,165,571) | (56,189,152) | (88,810,930) | (15,088,912) | (18,382,556) | (122,282,398) |
| Changes due to modifications that did not result in derecognition | (48,916,183) | (1,947,536) | (879,459) | (51,743,178) | (102,043,977) | (10,557,018) | (6,542,990) | (119,143,985) |
| Write-offs | - | - | (2,466,640) | (2,466,640) | - | - | (2,243,022) | (2,243,022) |
| Foreign exchange and other changes | (26,033,746) | (1,411,177) | (647,234) | (28,092,157) | (33,599,749) | (9,834,804) | (3,905,825) | (47,340,378) |
| **Gross Balance at 31 December 2021** | **508,492,588** | **16,775,728** | **9,725,657** | **534,993,973** | **636,238,970** | **154,201,092** | **57,873,686** | **848,313,748** |

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in allowance of loans to customers at amortised cost

**ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 December 2022 | Retail lending | | | | Corporate lending | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Balance at 1 January 2022** | **5,481,002** | **323,819** | **4,102,128** | **9,906,949** | **21,925,152** | **17,482,866** | **17,875,396** | **57,283,414** |
| Transfer to Stage 1 (from 2 or 3) | 129,533 | (58,736) | (103,125) | (32,328) | 4,027,229 | (223,044) | (4,469,881) | (665,696) |
| Transfer to Stage 2 (from 1 or 3) | 41,314 | 48,382 | (89,698) | (2) | (635,574) | 517,540 | 91,902 | (26,132) |
| Transfer to Stage 3 (from 1 or 2) | 89,130 | (36,962) | 1,146,927 | 1,199,095 | (122,401) | (22,942) | 778,139 | 632,796 |
| New financial assets originated or purchased | 1,296,924 | 45,421 | 81,613 | 1,423,958 | 6,511,103 | 368,669 | 2,533,045 | 9,412,817 |
| Derecognition of financial assets | (526,759) | (31,919) | (435,001) | (993,679) | (3,164,503) | (422,144) | (1,676,632) | (5,263,279) |
| Changes due to modifications that did not result in derecognition | (3,303,372) | 501,718 | 92,356 | (2,709,298) | (10,013,942) | (970,828) | 60,930 | (10,923,840) |
| Write-offs | (9) | - | (465,834) | (465,843) | - | - | (330,506) | (330,506) |
| Foreign exchange and other changes | (91,833) | 72,079 | (151,844) | (171,598) | (513,042) | 414,631 | (566,276) | (664,687) |
| **Allowance at 31 December 2022** | **3,115,930** | **863,802** | **4,177,522** | **8,157,254** | **18,014,022** | **17,144,748** | **14,296,117** | **49,454,887** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in allowance of loans to customers at amortised cost

**ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 December 2021 | Retail lending | | | | Corporate lending | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2021** | **2,721,848** | **864,617** | **5,509,607** | **9,096,072** | **18,769,803** | **22,699,878** | **20,127,433** | **61,597,114** |
| Transfer to Stage 1 (from 2 or 3) | 587,918 | (354,749) | (517,115) | (283,946) | 4,025,109 | (2,978,964) | (1,447,440) | (401,295) |
| Transfer to Stage 2 (from 1 or 3) | (36,572) | 186,552 | (122,747) | 27,233 | (1,898,234) | 3,954,531 | (2,053,895) | 2,402 |
| Transfer to Stage 3 (from 1 or 2) | (12,919) | (59,168) | 844,323 | 772,236 | (1,517,659) | (1,248,240) | 8,277,180 | 5,511,281 |
| New financial assets originated or purchased | 1,847,604 | 30,870 | 330,060 | 2,208,534 | 5,983,717 | 399,330 | 836,506 | 7,219,553 |
| Derecognition of financial assets | (380,056) | (71,775) | (1,129,702) | (1,581,533) | (1,340,876) | (1,138,424) | (4,176,251) | (6,655,551) |
| Changes due to modifications that did not result in derecognition | 1,003,113 | (150,983) | 671,989 | 1,524,119 | (2,807,637) | (2,024,821) | (872,669) | (5,705,127) |
| Write-offs | - | - | (1,208,850) | (1,208,850) | - | - | (1,060,197) | (1,060,197) |
| Foreign exchange and other changes | (249,934) | (29,254) | (260,619) | (539,807) | 710,929 | (1,525,197) | (1,755,272) | (2,569,540) |
| **Allowance at 31 December 2021** | **5,481,002** | **416,110** | **4,116,946** | **10,014,058** | **21,925,152** | **18,138,093** | **17,875,395** | **57,938,640** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

**CHANGES IN GROSS CARRYING AMOUNT OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)**

| 31 December 2022 | Due from Banks | | | | Investment Securities at FVOCI | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2022** | **437,548,067** | **1,704,676** | **-** | **439,252,743** | **2,169,291,960** | **5,667,355** | **-** | **2,174,959,315** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | (2,454,181) | 452,723 | 2,001,458 | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | (18,701,032) | 18,701,032 | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | (29,494,176) | (5,667,355) | 35,161,531 | - |
| New financial assets originated or purchased | 253,974,590 | - | - | 253,974,590 | 730,352,014 | 2,000,000 | 2,134,143 | 734,486,157 |
| Derecognition of financial assets | (311,950,554) | (1,604,815) | - | (313,555,369) | (651,482,337) | - | - | (651,482,337) |
| Changes due to modifications that did not result in derecognition | (36,591,900) | - | - | (36,591,900) | (8,872,638) | 62,623 | 902,220 | (7,907,795) |
| Reclassification of instruments measured at FVOCI to amortised cost | - | - | - | - | (946,713,544) | - | - | (946,713,544) |
| Write-offs | - | - | - | - | - | - | - | - |
| Foreign exchange and other changes | (2,998,275) | (99,861) | - | (3,098,136) | 11,874,426 | (497,997) | (1,703,148) | 9,673,281 |
| **Gross Balance at 31 December 2022** | **339,981,928** | **-** | **-** | **339,981,928** | **1,253,800,492** | **20,718,381** | **38,496,204** | **1,313,015,077** |

| 31 December 2022 | Investment Securities at amortised cost | | | | Loan Commitments and financial guarantee contracts | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2022** | **216,321,458** | **2,266,942** | **-** | **218,588,400** | **65,034,366** | **557,782** | **-** | **65,592,148** |
| Transfer to Stage 1 (from 2 or 3) | (9,908,818) | 8,854,061 | 1,054,757 | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | 106,707 | (106,707) | - | - |
| Transfer to Stage 3 (from 1 or 2) | (2,300,000) | (2,266,942) | 4,566,942 | - | - | - | - | - |
| New financial assets originated or purchased | 696,203,324 | 8,963,400 | - | 705,166,724 | 58,899,165 | - | - | 58,899,165 |
| Derecognition of financial assets | (92,430,193) | - | - | (92,430,193) | (32,087,953) | (365,045) | - | (32,452,998) |
| Changes due to modifications that did not result in derecognition | (1,252,353) | (19,897) | 59,257 | (1,212,993) | (31,600) | - | - | (31,600) |
| Write-offs | - | - | - | - | - | - | - | - |
| Reclassification of instruments measured at FVOCI to amortised cost | 946,713,544 | - | - | 946,713,544 | - | - | - | - |
| Foreign exchange and other changes | (59,068,672) | - | (132,799) | (59,201,471) | (2,287,758) | (86,030) | - | (2,373,788) |
| **Gross Balance at 31 December 2022** | **1,694,278,290** | **17,797,564** | **5,548,157** | **1,717,624,011** | **89,632,927** | **-** | **-** | **89,632,927** |

The gross carrying amounts include only Nominal amounts. Unamortized discount; Accrued interest and Marked to market gain/ (loss) are not included.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

**CHANGES IN GROSS CARRYING AMOUNT OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)**

| 31 December 2021 | Due from Banks | | | | Investment Securities at FVOCI | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2021** | **659,696,786** | **12,266,958** | **-** | **671,963,744** | **1,844,061,327** | **6,143,348** | **-** | **1,850,204,675** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | **-** | 2,530,000 | (2,530,000) | - | **-** |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | **-** | (6,133,479) | 6,133,479 | - | **-** |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | **-** | - | - | - | **-** |
| New financial assets originated or purchased | 381,122,685 | 1,704,676 | - | **382,827,361** | 1,114,416,420 | - | - | **1,114,416,420** |
| Derecognition of financial assets | (575,894,542) | (12,266,958) | - | **(588,161,500)** | (714,294,626) | (3,613,348) | - | **(717,907,974)** |
| Changes due to modifications that did not result in derecognition | (20,260,552) | - | - | **(20,260,552)** | (22,041,913) | - | - | **(22,041,913)** |
| Write-offs | - | - | - | **-** | - | - | - | **-** |
| Foreign exchange and other changes | (7,116,310) | - | - | **(7,116,310)** | (49,245,769) | (466,124) | - | **(49,711,893)** |
| **Gross Balance at 31 December 2021** | **437,548,067** | **1,704,676** | **-** | **439,252,743** | **2,169,291,960** | **5,667,355** | **-** | **2,174,959,315** |

| 31 December 2021 | Investment Securities at amortised cost | | | | Loan Commitments and financial guarantee contracts | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2021** | **166,191,968** | **-** | **-** | **166,191,968** | **66,058,132** | **2,224,484** | **-** | **68,282,616** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | **-** | 5,667 | (5,667) | - | **-** |
| Transfer to Stage 2 (from 1 or 3) | (2,453,392) | 2,453,392 | - | **-** | (170,021) | 170,021 | - | **-** |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | **-** | - | - | - | **-** |
| New financial assets originated or purchased | 133,610,872 | - | - | **133,610,872** | 27,543,758 | 283,368 | - | **27,827,126** |
| Derecognition of financial assets | (70,984,948) | - | - | **(70,984,948)** | (25,655,181) | (1,945,371) | - | **(27,600,552)** |
| Changes due to modifications that did not result in derecognition | - | - | - | **-** | 406,019 | - | - | **406,019** |
| Write-offs | - | - | - | **-** | - | - | - | **-** |
| Foreign exchange and other changes | (10,043,042) | (186,450) | - | **(10,229,492)** | (3,154,008) | (169,053) | - | **(3,323,061)** |
| **Gross Balance at 31 December 2021** | **216,321,458** | **2,266,942** | **-** | **218,588,400** | **65,034,366** | **557,782** | **-** | **65,592,148** |

The gross carrying amounts include only Nominal amounts. Unamortized discount; Accrued interest and Marked to market gain/ (loss) are not included.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

**Reconciliation of the accumulated impairment allowance of financial assets where impairment requirements apply (other than loans to customers)**

| 31 December 2022 | Due from Banks | | | | Investment Securities at FVOCI | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2022** | **1,415,309** | **3,211** | **-** | **1,418,520** | **5,404,593** | **65,761** | **-** | **5,470,354** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | (12,695) | 6,331 | 6,364 | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | (14,521) | 14,521 | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | (96,534) | (65,761) | 8,790,383 | 8,628,088 |
| New financial assets originated or purchased | 973,140 | - | - | 973,140 | 509,547 | 417,202 | 1,506,705 | 2,433,454 |
| Derecognition of financial assets | (481,452) | - | - | (481,452) | (1,072,214) | - | - | (1,072,214) |
| Reclassification of instruments measured at FVOCI to amortised cost | - | - | - | - | (2,155,991) | - | - | (2,155,991) |
| Write-offs | - | - | - | - | - | - | - | - |
| Changes in models/risk parameters | (511,919) | (3,023) | - | (514,942) | 24,487 | 5,437,165 | 15,496,456 | 20,958,108 |
| Foreign exchange and other movements | 47,240 | -188 | - | 47,052 | -24,938 | -72,239 | -1,140,822 | (1,237,999) |
| **Allowance at 31 December 2022** | **1,442,318** | **-** | **-** | **1,442,318** | **2,561,734** | **5,802,980** | **24,659,086** | **33,023,800** |

| 31 December 2022 | Debt Investment Securities at amortised cost | | | | Loan Commitments and financial guarantee contracts | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2022** | **1,272,206** | **29,690** | **-** | **1,301,896** | **694,376** | **6,292** | **-** | **700,668** |
| Transfer to Stage 1 (from 2 or 3) | (124,453) | 123,820 | 633 | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | 3,792 | (3,792) | - | - |
| Transfer to Stage 3 (from 1 or 2) | (7,297) | (29,690) | 1,141,736 | 1,104,749 | - | - | - | - |
| New financial assets originated or purchased | 1,298,283 | 11,524 | - | 1,309,807 | 256,624 | - | - | 256,624 |
| Derecognition of financial assets | (251,403) | - | - | (251,403) | (210,415) | (2,131) | - | (212,546) |
| Reclassification of instruments measured at FVOCI to amortised cost | 2,155,991 | - | - | 2,155,991 | | | | |
| Write-offs | - | - | - | - | - | - | - | - |
| Changes in models/risk parameters | (292,242) | 2,735,261 | 2,383,548 | 4,826,567 | (195,930) | - | - | (195,930) |
| Foreign exchange and other movements | 477,468 | - | (86,320) | 391,148 | (25,881) | (369) | - | (26,250) |
| **Allowance at 31 December 2022** | **4,528,553** | **2,870,605** | **3,439,597** | **10,838,755** | **522,566** | **-** | **-** | **522,566** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *ii Expected credit loss measurement (continued)*

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

**Reconciliation of the accumulated impairment allowance of financial assets where impairment requirements apply (other than loans to customers)**

| 31 December 2021 | Due from Banks | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2021** | **1,115,382** | **97,697** | **-** | **1,213,079** |
| | - | - | - | - |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - |
| New financial assets originated or purchased | 722,860 | 5,780 | - | **728,640** |
| Derecognition of financial assets | (609,320) | (97,697) | - | **(707,017)** |
| Write-offs | - | - | - | - |
| Changes in models/risk parameters | 306,103 | - | - | **306,103** |
| Foreign exchange and other movements | (57,641) | - | - | **(57,641)** |
| **Allowance at 31 December 2021** | **1,477,384** | **5,780** | **-** | **1,483,164** |

| 31 December 2021 | Debt Investment Securities at amortised cost | | | | Loan Commitments and financial guarantee contracts | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance at 1 January 2021** | **770,687** | **-** | **-** | **770,687** | **923,039** | **3,982** | **-** | **927,021** |
| | - | - | - | - | - | - | - | - |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | (11,280) | 23,335 | - | **12,055** | (146) | 146 | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - | - | - | - |
| New financial assets originated or purchased | 810,216 | - | - | **810,216** | 277,687 | 403 | - | **278,090** |
| Derecognition of financial assets | (186,363) | - | - | **(186,363)** | (74,421) | (58) | - | **(74,479)** |
| Write-offs | - | - | - | - | - | - | - | - |
| Changes in models/risk parameters | 246,969 | 8,796 | - | **255,765** | (359,523) | 2,121 | - | **(357,402)** |
| Foreign exchange and other movements | (83,797) | (2,442) | - | **(86,239)** | (71,011) | (303) | - | **(71,314)** |
| **Allowance at 31 December 2021** | **1,546,432** | **29,689** | **-** | **1,576,121** | **695,626** | **6,291** | **-** | **701,917** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis*

The following table sets out information about the credit quality of loan to customers in 2022 by asset quality at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**LOANS TO CUSTOMERS BY ASSET QUALITY AT AMORTISED COST**

| | Stage 1 | | | | | Stage 2 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2022** | **Non Past Due** | **Past due** | **Total** | **Allowance** | **Total Carrying Amount** | **Non Past Due** | **Past due** | **Total** | **Allowance** | **Total Carrying Amount** |
| **Retail lending** | **577,390,722** | **34,082,820** | **611,473,542** | **3,044,735** | **608,428,807** | **3,865,405** | **10,498,097** | **14,363,502** | **863,735** | **13,499,767** |
| Mortgage | 350,260,052 | 24,141,178 | 374,401,230 | 1,391,043 | 373,010,187 | 3,113,587 | 7,474,922 | 10,588,509 | 706,975 | 9,881,534 |
| Consumer | 215,976,345 | 9,494,467 | 225,470,812 | 1,498,141 | 223,972,671 | 751,629 | 2,910,144 | 3,661,773 | 141,827 | 3,519,946 |
| Credit cards | 11,154,325 | 447,175 | 11,601,500 | 155,551 | 11,445,949 | 189 | 113,031 | 113,220 | 14,933 | 98,287 |
| **Corporate lending** | **601,167,966** | **32,408,243** | **633,576,209** | **17,970,011** | **615,606,198** | **85,492,831** | **41,965,929** | **127,458,760** | **17,142,500** | **110,316,260** |
| Corporate | 483,284,134 | 22,667,737 | 505,951,871 | 14,896,602 | 491,055,269 | 77,388,036 | 38,907,783 | 116,295,819 | 16,368,566 | 99,927,253 |
| SME | 80,719,924 | 5,315,561 | 86,035,485 | 1,912,386 | 84,123,099 | 5,870,996 | 1,652,688 | 7,523,684 | 452,825 | 7,070,859 |
| Micro | 37,163,908 | 4,424,945 | 41,588,853 | 1,161,023 | 40,427,830 | 2,233,799 | 1,405,458 | 3,639,257 | 321,109 | 3,318,148 |
| **Total** | **1,178,558,688** | **66,491,063** | **1,245,049,751** | **21,014,746** | **1,224,035,005** | **89,358,236** | **52,464,026** | **141,822,262** | **18,006,235** | **123,816,027** |
| **Off balance sheet** | **-** | **-** | **-** | **119,772** | | | | | | |
| Retail Credit cards | - | - | - | 72,127 | | | | | | |
| Business Credit cards | - | - | - | 47,645 | | | | | | |

| | Stage 3 | | | | | | |
|---|---|---|---|---|---|---|---|
| **31 December 2022** | **Non Past Due** | **Past due** | **Total** | **Allowance** | **Total Carrying Amount** | **Total net amount at amortised cost** | **Value of collateral** |
| **Retail lending** | **3,205,847** | **7,868,933** | **11,074,780** | **4,176,657** | **6,898,123** | **628,826,697** | **734,034,204** |
| Mortgage | 2,514,789 | 3,646,574 | 6,161,363 | 1,350,846 | 4,810,517 | 387,702,238 | 541,541,387 |
| Consumer | 666,485 | 3,533,346 | 4,199,831 | 2,395,125 | 1,804,706 | 229,297,323 | 192,492,817 |
| Credit cards | 24,573 | 689,013 | 713,586 | 430,686 | 282,900 | 11,827,136 | - |
| **Corporate lending** | **23,082,314** | **20,264,983** | **43,347,297** | **14,294,731** | **29,052,566** | **754,975,024** | **1,561,082,826** |
| Corporate | 17,424,325 | 12,435,583 | 29,859,908 | 9,788,929 | 20,070,979 | 611,053,501 | 1,164,522,241 |
| SME | 4,159,794 | 4,933,049 | 9,092,843 | 2,925,384 | 6,167,459 | 97,361,417 | 267,231,206 |
| Micro | 1,498,195 | 2,896,351 | 4,394,546 | 1,580,418 | 2,814,128 | 46,560,106 | 129,329,379 |
| **Total** | **26,288,161** | **28,133,916** | **54,422,077** | **18,471,388** | **35,950,689** | **1,383,801,721** | **2,295,117,030** |

Past due related to each stage is referred as follows:

Stage 1: Past due 1-30 dpd, otherwise Non Past Due, Stage 2: Past due 31-90 dpd, otherwise Non Past Due, Stage 3: Past due over 90 dpd, otherwise Non Past Due.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis*

The following table sets out information about the credit quality of loan to customers in 2021 by asset quality at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**LOANS TO CUSTOMERS BY ASSET QUALITY AT AMORTISED COST**

| | Stage 1 | | | | | Stage 2 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2021** | **Non Past Due** | **Past due** | **Total** | **Allowance** | **Total Carrying Amount** | **Non Past Due** | **Past due** | **Total** | **Allowance** | **Total Carrying Amount** |
| **Retail lending** | **478,249,393** | **27,365,792** | **505,615,185** | **5,310,667** | **500,304,518** | **3,942,406** | **12,833,322** | **16,775,728** | **415,997** | **16,359,731** |
| Mortgage | 278,726,006 | 19,613,897 | 298,339,903 | 2,811,580 | 295,528,323 | 2,211,515 | 8,093,964 | 10,305,479 | 193,408 | 10,112,071 |
| Consumer | 191,332,179 | 7,257,754 | 198,589,933 | 2,203,025 | 196,386,908 | 1,730,534 | 4,617,032 | 6,347,566 | 217,666 | 6,129,990 |
| Credit cards | 8,191,208 | 494,141 | 8,685,349 | 296,062 | 8,389,287 | 357 | 122,326 | 122,683 | 4,923 | 117,760 |
| **Corporate lending** | **618,919,162** | **15,371,264** | **634,290,426** | **21,881,934** | **612,408,492** | **100,856,105** | **53,414,242** | **154,270,347** | **18,133,692** | **136,136,655** |
| Corporate | 515,128,938 | 10,423,770 | 525,552,708 | 18,877,193 | 506,675,515 | 90,605,980 | 43,002,348 | 133,608,328 | 16,873,171 | 116,735,157 |
| SME | 68,532,415 | 2,521,935 | 71,054,350 | 1,814,586 | 69,239,764 | 6,806,870 | 6,386,144 | 13,193,014 | 783,702 | 12,409,312 |
| Micro | 35,257,809 | 2,425,559 | 37,683,368 | 1,190,155 | 36,493,213 | 3,443,255 | 4,025,750 | 7,469,005 | 476,819 | 6,992,186 |
| **Total** | **1,097,168,555** | **42,737,056** | **1,139,905,611** | **27,192,601** | **1,112,713,010** | **104,798,511** | **66,247,564** | **171,046,075** | **18,549,689** | **152,496,386** |

| | | | | |
|---|---|---|---|---|
| **Off balance sheet** | **-** | **-** | **-** | **282,557** |
| Retail Credit cards | - | - | - | 227,043 |
| Business Credit cards | - | - | - | 55,514 |

| **31 December 2021** | Stage 3 | | | | | **Total net amount at amortised cost** | **Value of collateral** |
|---|---|---|---|---|---|---|---|
| | **Non Past Due** | **Past due** | **Total** | **Allowance** | **Total Carrying Amount** | | |
| **Retail lending** | **937,603** | **8,788,057** | **9,725,660** | **4,060,351** | **5,665,309** | **522,329,558** | **683,172,365** |
| Mortgage | 782,267 | 4,279,993 | 5,062,260 | 1,317,963 | 3,744,297 | 309,384,691 | 487,142,678 |
| Consumer | 146,975 | 3,604,674 | 3,751,649 | 2,088,939 | 1,662,710 | 204,179,518 | 196,029,687 |
| Credit cards | 8,361 | 903,390 | 911,751 | 653,449 | 258,302 | 8,765,349 | - |
| **Corporate lending** | **32,846,364** | **25,027,323** | **57,873,687** | **17,867,500** | **40,006,187** | **788,551,334** | **1,410,505,722** |
| Corporate | 26,142,315 | 17,717,770 | 43,860,085 | 13,521,948 | 30,338,137 | 653,748,809 | 1,037,990,949 |
| SME | 4,777,893 | 4,057,245 | 8,835,138 | 2,836,076 | 5,999,062 | 87,648,138 | 233,389,492 |
| Micro | 1,926,156 | 3,252,308 | 5,178,464 | 1,509,476 | 3,668,988 | 47,154,387 | 139,125,281 |
| **Total** | **33,783,967** | **33,815,380** | **67,599,347** | **21,927,851** | **45,671,496** | **1,310,880,892** | **2,093,678,087** |

Past due related to each stage is referred as follows:Stage 1: Past due 1-30 dpd, otherwise Non Past Due, Stage 2: Past due 31-90 dpd, otherwise Non Past Due, Stage 3: Past due ovr 90 dpd, otherwise Non Past Due.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the aging analyses of loan to customers in 2022 by business lines' products.

**LOANS TO CUSTOMERS AT AMORTISED COST**

| | **Retail lending** | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2022** | **Mortgage** | | | | **Consumer** | | | | **Credit cards** | | | |
| | Stage1 | Stage2 | Stage3 | **Total** | Stage1 | Stage2 | Stage3 | **Total** | Stage1 | Stage2 | Stage3 | **Total** |
| Current | 349,011,644 | 2,011,418 | 940,985 | 351,964,047 | 214,539,131 | 337,101 | 287,016 | 215,163,248 | 11,002,564 | (31) | 9,631 | 11,012,164 |
| 1 - 30 days | 23,998,543 | 721,103 | 569,096 | 25,288,742 | 9,433,540 | 367,390 | 22,747 | 9,823,677 | 443,385 | 168 | 572 | 444,125 |
| 31 - 90 days | - | 7,149,013 | 495,092 | 7,644,105 | - | 2,815,455 | 111,280 | 2,926,735 | - | 98,150 | 854 | 99,004 |
| 91 - 180 days | - | - | 476,953 | 476,953 | - | - | 211,431 | 211,431 | - | - | 7,605 | 7,605 |
| 181 - 360 days | - | - | 329,794 | 329,794 | - | - | 345,721 | 345,721 | - | - | 264,239 | 264,239 |
| > 361 days | - | - | 1,998,597 | 1,998,597 | - | - | 826,511 | 826,511 | - | - | - | - |
| **Total** | **373,010,187** | **9,881,534** | **4,810,517** | **387,702,238** | **223,972,671** | **3,519,946** | **1,804,706** | **229,297,323** | **11,445,949** | **98,287** | **282,901** | **11,827,137** |
| Value of collateral | 506,743,996 | 18,915,822 | 15,881,569 | 541,541,387 | 184,514,046 | 4,785,454 | 3,193,317 | 192,492,817 | - | - | - | - |

**LOANS TO CUSTOMERS AT AMORTISED COST**

| | **Corporate lending** | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2022** | **Large Corporate** | | | | **SME Corporate** | | | | **Micro Corporate** | | | |
| | Stage1 | Stage2 | Stage3 | **Total** | Stage1 | Stage2 | Stage3 | **Total** | Stage1 | Stage2 | Stage3 | **Total** |
| Current | 469,278,163 | 66,851,046 | 7,137,429 | 543,266,638 | 78,987,416 | 5,103,747 | 2,720,177 | 86,811,340 | 36,156,816 | 1,497,689 | 844,949 | 38,499,454 |
| 1 - 30 days | 21,777,106 | 1,165,380 | 4,258,702 | 27,201,188 | 5,135,683 | 447,569 | 441,396 | 6,024,648 | 4,271,014 | 491,049 | 63,393 | 4,825,456 |
| 31 - 90 days | - | 31,910,827 | 1,270,578 | 33,181,405 | - | 1,519,543 | 117,236 | 1,636,779 | - | 1,329,410 | 275,451 | 1,604,861 |
| 91 - 180 days | - | - | 32,099 | 32,099 | - | - | 306,841 | 306,841 | - | - | 383,735 | 383,735 |
| 181 - 360 days | - | - | - | - | - | - | 995,401 | 995,401 | - | - | 190,363 | 190,363 |
| > 361 days | - | - | 7,372,171 | 7,372,171 | - | - | 1,586,408 | 1,586,408 | - | - | 1,056,237 | 1,056,237 |
| **Total** | **491,055,269** | **99,927,253** | **20,070,979** | **611,053,501** | **84,123,099** | **7,070,859** | **6,167,459** | **97,361,417** | **40,427,830** | **3,318,148** | **2,814,128** | **46,560,106** |
| Value of collateral | 1,030,789,896 | 88,301,609 | 45,430,736 | 1,164,522,241 | 223,430,089 | 21,707,824 | 22,093,293 | 267,231,206 | 105,427,207 | 10,488,120 | 13,414,052 | 129,329,379 |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the aging analyses of loan to customers in 2021 by business lines' products.

**LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 December 2021 | Mortgage | | | | Consumer | | | | Credit cards | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Current | 276,088,049 | 2,174,923 | 495,030 | **278,758,002** | 189,210,919 | 1,690,726 | 65,904 | **190,967,549** | 7,909,696 | 323 | 2,932 | **7,912,951** |
| 1 - 30 days | 19,440,274 | 425,554 | 63,057 | **19,928,885** | 7,175,989 | 529,115 | 22,004 | **7,727,108** | 479,591 | - | 265 | **479,856** |
| 31 - 90 days | - | 7,511,594 | 112,294 | **7,623,888** | - | 3,910,059 | 41,548 | **3,951,607** | - | 117,437 | 208 | **117,645** |
| 91 - 180 days | - | - | 764,607 | **764,607** | - | - | 254,942 | **254,942** | - | - | 14,990 | **14,990** |
| 181 - 360 days | - | - | 445,236 | **445,236** | - | - | 333,337 | **333,337** | - | - | 239,907 | **239,907** |
| > 361 days | 276,088,049 | 2,174,923 | 495,030 | **278,758,002** | 189,210,919 | 1,690,726 | 65,904 | **190,967,549** | 7,909,696 | 323 | 2,932 | **7,912,951** |
| **Total** | **295,528,323** | **10,112,071** | **3,744,297** | **309,384,691** | **196,386,908** | **6,129,900** | **1,662,710** | **204,179,518** | **8,389,287** | **117,760** | **258,302** | **8,765,349** |
| Value of collateral | 450,347,893 | 23,277,363 | 13,517,422 | **487,142,678** | 183,803,785 | 9,349,802 | 2,876,100 | **196,029,687** | - | - | - | - |

**LOANS TO CUSTOMERS AT AMORTISED COST**

| 31 December 2021 | Corporate lending | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Large Corporate | | | | SME Corporate | | | | Micro Corporate | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Current | 497,028,147 | 79,944,729 | 19,157,100 | **596,129,976** | 66,841,350 | 6,487,454 | 3,733,621 | **77,062,425** | 34,152,309 | 3,213,787 | 1,512,093 | **38,878,189** |
| 1 - 30 days | 9,647,368 | 12,741,223 | 266,717 | **22,655,308** | 2,398,414 | 2,828,690 | 322,789 | **5,549,893** | 2,340,904 | 1,394,113 | 201,456 | **3,936,473** |
| 31 - 90 days | - | 24,049,205 | 601,475 | **24,650,680** | - | 3,093,168 | 10,391 | **3,103,559** | - | 2,384,286 | 50,401 | **2,434,687** |
| 91 - 180 days | - | - | 274,632 | **274,632** | - | - | 151,833 | **151,833** | - | - | 619,499 | **619,499** |
| 181 - 360 days | - | - | 2,071,525 | **2,071,525** | - | - | 606,634 | **606,634** | - | - | 218,360 | **218,360** |
| > 361 days | - | - | 7,966,688 | **7,966,688** | - | - | 1,173,794 | **1,173,794** | - | - | 1,067,179 | **1,067,179** |
| **Total** | **506,675,515** | **116,735,157** | **30,338,137** | **653,748,809** | **69,239,764** | **12,409,312** | **5,999,062** | **87,648,138** | **36,493,213** | **6,992,186** | **3,668,988** | **47,154,387** |
| Value of collateral | 836,828,337 | 145,200,429 | 55,962,183 | **1,037,990,949** | 173,084,305 | 37,220,258 | 23,084,929 | **233,389,492** | 99,072,833 | 27,015,166 | 13,037,282 | **139,125,281** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality of financial assets, other than loans to customers, measured at amortised cost, FVOCI debt investments in 2022. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

| | 2022 | | | | |
|---|---|---|---|---|---|
| | **12-month ECL** | **Lifetime ECL not credit-impaired** | **Lifetime ECL credit-impaired** | **Purchased credit-impaired** | **Total** |
| **Placements and Balances with banks at amortised cost** | | | | | |
| Aaa to Aa3 | - | - | - | - | **-** |
| A1 to A3 | 49,378,375 | - | - | - | **49,378,375** |
| Baa1 to Baa3 | 60,960,641 | - | - | - | **60,960,641** |
| Ba1 to Ba3 | 46,974,174 | - | - | - | **46,974,174** |
| B1 to B3 | 16,896,997 | - | - | - | **16,896,997** |
| Caa1 to Caa3 | - | | | | **-** |
| Unrated | 19,546,419 | - | - | - | **19,546,419** |
| Exposure before impairment | 193,756,606 | - | - | - | **193,756,606** |
| Loss allowance | 29,086 | - | - | - | **29,086** |
| Carrying amount | **193,727,520** | **-** | **-** | **-** | **193,727,520** |
| **Loans to Banks at amortised cost** | | | | | |
| Aa1 to Aa3 | - | - | - | - | **-** |
| A1 to A3 | - | - | - | - | **-** |
| Baa1 to Baa3 | - | - | - | - | **-** |
| Ba1 to Ba3 | 71,015,185 | - | - | - | **71,015,185** |
| B1 to B3 | 76,292,371 | - | - | - | **76,292,371** |
| Caa1 to Caa3 | - | - | - | - | **-** |
| Unrated | - | | - | - | **-** |
| Exposure before impairment | 147,307,556 | - | - | - | **147,307,556** |
| Loss allowance | 1,413,232 | - | - | - | **1,413,232** |
| Carrying amount | **145,894,324** | **-** | **-** | **-** | **145,894,324** |
| **Investment Securities at FVOCI** | | | | | |
| Aa1 to Aa3 | 235,919,915 | - | - | - | **235,919,915** |
| A1 to A3 | 105,862,748 | - | - | - | **105,862,748** |
| Baa1 to Baa3 | 115,324,368 | - | - | - | **115,324,368** |
| Ba1 to Ba3 | 140,796,457 | - | - | - | **140,796,457** |
| B1 to B3 | 471,330,948 | - | - | - | **471,330,948** |
| Caa1 to Caa3 | 7,248,572 | 1,079,564 | - | - | **8,328,136** |
| Unrated | 80,416,112 | - | 5,745,851 | - | **86,161,963** |
| Rating Withdrawn | - | 13,082,907 | 10,586,612 | | **23,669,519** |
| Exposure before impairment | 1,156,899,120 | 14,162,471 | **16,332,463** | - | **1,187,394,054** |
| Loss allowance | - | - | - | - | **-** |
| Carrying amount | **1,156,899,120** | **14,162,471** | **16,332,463** | **-** | **1,187,394,054** |
| **Investment Securities at Amortised Cost** | | | | | |
| Aa1 to Aa3 | 14,931,896 | - | - | - | **14,931,896** |
| A1 to A3 | 58,317,334 | - | - | - | **58,317,334** |
| Baa1 to Baa3 | 223,301,489 | - | 1,116,009 | - | **224,417,498** |
| Ba1 to Ba3 | 134,982,147 | - | - | - | **134,982,147** |
| B1 to B3 | 1,254,662,002 | 8,943,491 | - | - | **1,263,605,493** |
| Caa1 to Caa3 | 1,062,430 | 8,834,164 | - | - | **9,896,594** |
| Unrated | 15,262,415 | - | 2,238,599 | - | **17,501,014** |
| Rating Withdrawn | - | - | 2,388,283 | - | **2,388,283** |
| Exposure | **1,702,519,713** | **17,777,655** | **5,742,891** | **-** | **1,726,040,259** |
| Loss allowance | 21,434,478 | 2,870,605 | 3,439,596 | - | **27,744,679** |
| Carrying amount | **1,681,085,235** | **14,907,050** | **2,303,295** | **-** | **1,698,295,580** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality of financial assets, other than loans to customers, measured at amortised cost, FVOCI debt investments in 2021. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

| | 2021 | | | | |
|---|---|---|---|---|---|
| | **12-month ECL** | **Lifetime ECL not credit-impaired** | **Lifetime ECL credit-impaired** | **Purchased credit-impaired** | **Total** |
| **Placements and Balances with banks at amortised cost** | | | | | |
| Aa1 to Aa3 | - | - | - | - | **-** |
| A1 to A3 | 91,304,985 | - | - | - | **91,304,985** |
| Baa1 to Baa3 | 144,817,478 | - | - | - | **144,817,478** |
| Ba1 to Ba3 | 44,629,871 | - | - | - | **44,629,871** |
| B1 to B3 | 3,990,428 | - | - | - | **3,990,428** |
| Caa1 to Caa3 | - | | | | **-** |
| Unrated | 15,570,368 | - | - | - | **15,570,368** |
| Exposure before impairment | 300,313,130 | - | - | - | **300,313,130** |
| Loss allowance | 22,937 | - | - | - | **22,937** |
| Carrying amount | **300,290,193** | **-** | **-** | **-** | **300,290,193** |
| **Loans to Banks at amortised cost** | | - | | | |
| Aa1 to Aa3 | - | - | - | - | **-** |
| A1 to A3 | - | - | - | - | **-** |
| Baa1 to Baa3 | - | - | - | - | **-** |
| Ba1 to Ba3 | 46,295,752 | 1,704,676 | - | - | **48,000,428** |
| B1 to B3 | 91,706,139 | - | - | - | **91,706,139** |
| Caa1 to Caa3 | - | - | - | - | **-** |
| Unrated | - | | - | - | **-** |
| Exposure before impairment | 138,001,891 | 1,704,676 | - | - | **139,706,567** |
| Loss allowance | 1,457,659 | 2,569 | - | - | **1,460,228** |
| Carrying amount | **136,544,232** | **1,702,107** | **-** | **-** | **138,246,339** |
| **Investment Securities at FVOCI** | | | | | |
| Aa1 to Aa3 | 87,776,723 | - | - | - | **87,776,723** |
| A1 to A3 | 111,985,938 | - | - | - | **111,985,938** |
| Baa1 to Baa3 | 223,600,499 | - | - | - | **223,600,499** |
| Ba1 to Ba3 | 273,124,969 | - | - | - | **273,124,969** |
| B1 to B3 | 1,405,511,641 | - | - | - | **1,405,511,641** |
| Caa1 to Caa3 | 9,477,273 | - | - | - | **9,477,273** |
| Unrated | 120,437,300 | 5,770,435 | - | - | **126,207,735** |
| Exposure before impairment | 2,231,914,343 | 5,770,435 | - | - | **2,237,684,778** |
| Loss allowance | - | - | - | - | **-** |
| Carrying amount | **2,231,914,343** | **5,770,435** | **-** | **-** | **2,237,684,778** |
| **Investment Securities at Amortised Cost** | | - | | | |
| Aa1 to Aa3 | - | - | - | - | **-** |
| A1 to A3 | - | - | - | - | **-** |
| Baa1 to Baa3 | 6,834,822 | - | - | - | **6,834,822** |
| Ba1 to Ba3 | 18,319,161 | - | - | - | **18,319,161** |
| B1 to B3 | 160,920,259 | - | - | - | **160,920,259** |
| Caa1 to Caa3 | 8,418,668 | - | - | - | **8,418,668** |
| Unrated | 23,806,212 | 2,348,208 | - | - | **26,154,420** |
| Exposure | 218,299,122 | 2,348,208 | - | - | **220,647,330** |
| Loss allowance | 1,546,431 | 29,690 | - | - | **1,576,121** |
| Carrying amount | **216,752,691** | **2,318,518** | **-** | **-** | **219,071,209** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

#### *iii. Credit quality analysis (continued)*

Credit quality of financial assets other than loan and advances to customers, based on the internal rating system of the Bank is categorised as follows:

| 31 December 2022 | Cash and balances with Central Bank | Due from other banks | Investment securities | Other Assets | Total |
|---|---|---|---|---|---|
| Good | 537,491,661 | 619,796,336 | 2,911,791,378 | 10,891,554 | 4,079,970,929 |
| Acceptable | - | - | - | - | - |
| Close monitoring | - | - | - | - | - |
| **Total** | **537,491,661** | **619,796,336** | **2,911,791,378** | **10,891,554** | **4,079,970,929** |

| 31 December 2021 | Cash and balances with Central Bank | Due from other banks | Investment securities | Other Assets | Total |
|---|---|---|---|---|---|
| Good | 536,369,185 | 695,620,112 | 2,558,621,973 | 21,333,007 | 3,811,944,277 |
| Acceptable | - | - | - | - | - |
| Close monitoring | - | - | - | - | - |
| **Total** | **536,369,185** | **695,620,112** | **2,558,621,973** | **21,333,007** | **3,811,944,277** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality loans to customers for the corporate portfolio in 2022. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST - CORPORATE PORTFOLIO

| 31 December 2022 | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total |
|---|---|---|---|---|
| **Large Corporate** | | | | |
| Strong (rating A) | 6,374,636 | - | - | **6,374,636** |
| Satisfactory (rating B&C) | 419,083,906 | 50,279,076 | 47,101 | **469,410,083** |
| Watch list (higher risk) (rating D lower than C*)* | - | - | 16,532,286 | **16,532,286** |
| Default (Lower than D and over 90 days past due) | - | - | 13,265,397 | **13,265,397** |
| *Total Rated* | **425,458,542** | **50,279,076** | **29,844,784** | **505,582,402** |
| Non Rated | **80,493,329** | **66,016,743** | **15,124** | **146,525,196** |
| **Total gross amount** | **505,951,871** | **116,295,819** | **29,859,908** | **652,107,598** |
| Loss allowance | 14,896,602 | 16,368,566 | 9,788,929 | **41,054,097** |
| **Carrying amount** | *491,055,269* | *99,927,253* | *20,070,979* | ***611,053,501*** |
| Collateral held for credit impaired assets & assets at FVPL | **1,030,789,896** | **88,301,609** | **45,430,736** | **1,164,522,241** |
| **SME Corporate** | | | | |
| Strong (rating A) | 4,107,745 | - | - | **4,107,745** |
| Satisfactory (rating B&C) | 80,287,770 | 7,358,756 | 50,102 | **87,696,628** |
| Watch list (higher risk) (rating D lower than C*)* | - | - | 3,799,332 | **3,799,332** |
| Default (Lower than D and over 90 days past due) | - | - | 5,225,322 | **5,225,322** |
| *Total Rated* | *84,395,515* | *7,358,756* | *9,074,756* | ***100,829,027*** |
| Non Rated | 1,639,970 | 164,928 | 18,087 | **1,822,985** |
| **Total gross amount** | **86,035,485** | **7,523,684** | **9,092,843** | **102,652,012** |
| Loss allowance | *1,912,386* | *452,825* | *2,925,384* | ***5,290,595*** |
| **Carrying amount** | **84,123,099** | **7,070,859** | **6,167,459** | **97,361,417** |
| Collateral held for credit impaired assets & assets at FVPL | **223,430,089** | **21,707,824** | **22,093,293** | **267,231,206** |
| **Micro Corporate** | | | | |
| Strong (rating A) | 3,895,056 | - | - | **3,895,056** |
| Satisfactory (rating B&C) | 31,420,973 | 2,579,824 | 29,601 | **34,030,398** |
| Watch list (higher risk) (rating D lower than C*)* | - | - | 842,048 | **842,048** |
| Default (Lower than D and over 90 days past due) | - | - | 3,334,309 | **3,334,309** |
| *Total Rated* | *35,316,029* | *2,579,824* | *4,205,958* | ***42,101,811*** |
| Non Rated | 6,272,824 | 1,059,433 | 188,588 | **7,520,845** |
| **Total gross amount** | **41,588,853** | **3,639,257** | **4,394,546** | **49,622,656** |
| Loss allowance | 1,161,023 | 321,109 | 1,580,418 | **3,062,550** |
| **Carrying amount** | **40,427,830** | **3,318,148** | **2,814,128** | **46,560,106** |
| Collateral held for credit impaired assets & assets at FVPL | 105,427,207 | 10,488,120 | 13,414,052 | **129,329,379** |
| **OFF BALANCE SHEET** | | | | |
| Credit cards Loss allowance | 47,645 | - | - | **47,645** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality loans to customers for the corporate portfolio in 2021. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST - CORPORATE PORTFOLIO

| **31 December 2021** | **12-month ECL** | **Lifetime ECL not credit-impaired** | **Lifetime ECL credit-impaired** | **Total** |
|---|---|---|---|---|
| **Large Corporate** | | | | |
| Strong (rating A) | 6,251,326 | - | - | **6,251,326** |
| Satisfactory (rating B&C) | 439,700,685 | 58,807,666 | 28,132 | **498,536,483** |
| Watch list (higher risk) (rating D lower than C*)* | - | - | 26,977,835 | **26,977,835** |
| Default (Lower than D and over 90 days past due) | - | - | 16,844,874 | **16,844,874** |
| *Total Rated* | *445,952,011* | *58,807,666* | *43,850,841* | ***548,610,518*** |
| Non Rated | 79,600,697 | 74,800,662 | 9,244 | **154,410,603** |
| **Total gross amount** | **525,552,708** | **133,608,328** | **43,860,085** | **703,021,121** |
| Loss allowance | 18,877,193 | 16,873,171 | 13,521,948 | **49,272,312** |
| **Carrying amount** | 506,675,515 | 116,735,157 | 30,338,137 | **654,404,036** |
| Collateral held for credit impaired assets & assets at FVPL | **836,828,337** | **145,200,429** | **55,962,183** | **1,037,990,949** |
| **SME Corporate** | | | | |
| Strong (rating A) | 4,231,216 | - | - | **4,231,216** |
| Satisfactory (rating B&C) | 65,747,402 | 12,727,534 | 15,393 | **78,490,329** |
| Watch list (higher risk) (rating D lower than C*)* | - | - | 4,764,638 | **4,764,638** |
| Default (Lower than D and over 90 days past due) | - | - | 4,026,460 | **4,026,460** |
| *Total Rated* | *69,978,618* | *12,727,534* | *8,806,491* | ***91,512,643*** |
| Non Rated | 1,075,732 | 465,480 | 28,647 | **1,569,859** |
| **Total gross amount** | **71,054,350** | **13,193,014** | **8,835,138** | **93,082,502** |
| Loss allowance | 1,814,586 | 783,702 | 2,836,076 | **5,434,364** |
| **Carrying amount** | **69,239,764** | **12,409,312** | **5,999,062** | **87,648,138** |
| Collateral held for credit impaired assets & assets at FVPL | 173,084,305 | 37,220,258 | 23,084,929 | **233,389,492** |
| **Micro Corporate** | | | | |
| Strong (rating A) | 3,248,826 | - | - | **3,248,826** |
| Satisfactory (rating B&C) | 26,103,547 | 6,180,293 | 47,727 | **32,331,567** |
| Watch list (higher risk) (rating D lower than C*)* | - | - | 1,807,847 | **1,807,847** |
| Default (Lower than D and over 90 days past due) | - | - | 3,245,075 | **3,245,075** |
| *Total Rated* | *29,352,373* | *6,180,293* | *5,100,649* | ***40,633,315*** |
| Non Rated | 8,330,995 | 1,288,712 | 77,815 | 9,697,522 |
| **Total gross amount** | **37,683,368** | **7,469,005** | **5,178,464** | **50,330,837** |
| Loss allowance | 1,190,155 | 476,819 | 1,509,476 | **3,176,450** |
| **Carrying amount** | **36,493,213** | **6,992,186** | **3,668,988** | **47,154,387** |
| Collateral held for credit impaired assets & assets at FVPL | 99,072,833 | 27,015,166 | 13,037,282 | **139,125,281** |
| **OFF BALANCE SHEET** | | | | |
| Credit cards Loss allowance | 55,514 | - | - | **55,514** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2022. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST – RETAIL PORTFOLIO**

| 31 December 2022 | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total |
|---|---|---|---|---|
| **Mortgage** | | | | |
| Strong | 15,866,129 | - | 43,585 | **15,909,714** |
| Satisfactory | 274,086,702 | 9,765,112 | 576,679 | **284,428,493** |
| Watch list (higher risk) | - | - | 1,735,853 | **1,735,853** |
| Defaults | - | - | 3,805,246 | **3,805,246** |
| Non Rated | 84,448,399 | 823,397 | - | **85,271,796** |
| **Total gross amount** | **374,401,230** | **10,588,509** | **6,161,363** | **391,151,102** |
| Loss allowance | 1,391,043 | 706,975 | 1,350,846 | **3,448,864** |
| **Carrying amount** | **373,010,187** | **9,881,534** | **4,810,517** | **387,702,238** |
| Collateral held for credit impaired assets & assets at FVPL | 506,743,996 | 18,915,822 | 15,881,569 | **541,541,387** |
| **Consumer** | | | | |
| Strong | 13,853,525 | 36,192 | 2,860 | **13,892,577** |
| Satisfactory | 38,733,252 | 1,908,033 | 59,708 | **40,700,993** |
| Watch list (higher risk) | - | - | 380,265 | **380,265** |
| Defaults | - | - | 3,694,498 | **3,694,498** |
| Non Rated | 172,884,035 | 1,717,548 | 62,500 | **174,664,083** |
| **Total gross amount** | **225,470,812** | **3,661,773** | **4,199,831** | **233,332,416** |
| Loss allowance | 1,498,141 | 141,827 | 2,395,125 | **4,035,093** |
| **Carrying amount** | **223,972,671** | **3,519,946** | **1,804,706** | **229,297,323** |
| Collateral held for credit impaired assets & assets at FVPL | **184,514,046** | **4,785,454** | **3,193,317** | **192,492,817** |
| **Credit cards** | | | | |
| Defaults | - | - | 689,013 | **689,013** |
| Non Rated | 11,601,500 | 113,220 | 24,573 | **11,739,293** |
| **Total gross amount** | **11,601,500** | **113,220** | **713,586** | **12,428,306** |
| Loss allowance | 155,551 | 14,933 | 430,686 | **601,170** |
| **Carrying amount** | **11,445,949** | **98,287** | **282,900** | **11,827,136** |
| Collateral held for credit impaired assets & assets at FVPL | - | - | - | **-** |
| **OFF BALANCE SHEET** | | | | |
| Credit cards Loss allowance | 72,127 | - | - | **72,127** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2021. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST – RETAIL PORTFOLIO**

| 31 December 2021 | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total |
|---|---|---|---|---|
| **Mortgage** | | | | |
| Defaults | - | - | 4,313,331 | **4,313,331** |
| Non Rated | 298,339,903 | 10,305,479 | 748,929 | **309,394,311** |
| **Total gross amount** | **298,339,903** | **10,305,479** | **5,062,260** | **313,707,642** |
| Loss allowance | 2,811,580 | 193,408 | 1,317,963 | **4,322,951** |
| **Carrying amount** | **295,528,323** | **10,112,071** | **3,744,297** | **309,384,691** |
| Collateral held for credit impaired assets & assets at FVPL | 450,347,893 | 23,277,363 | 13,517,422 | **487,142,678** |
| **Consumer** | | | | |
| Defaults | - | - | 3,679,885 | **3,679,885** |
| Non Rated | 198,589,933 | 6,347,566 | 71,764 | **205,009,263** |
| **Total gross amount** | **198,589,933** | **6,347,566** | **3,751,649** | **208,689,148** |
| Loss allowance | 2,203,025 | 217,666 | 2,088,939 | **4,509,630** |
| **Carrying amount** | **196,386,908** | **6,129,900** | **1,662,710** | **204,179,518** |
| Collateral held for credit impaired assets & assets at FVPL | 183,803,785 | 9,349,802 | 2,876,100 | **196,029,687** |
| **Credit_cards** | | | | |
| Defaults | - | - | 902,445 | **902,445** |
| Non Rated | 8,685,349 | 122,683 | 9,306 | **8,817,338** |
| **Total gross amount** | **8,685,349** | **122,683** | **911,751** | **9,719,783** |
| Loss allowance | 296,062 | 4,923 | 653,449 | **954,434** |
| **Carrying amount** | **8,389,287** | **117,760** | **258,302** | **8,765,349** |
| Collateral held for credit impaired assets & assets at FVPL | - | - | - | **-** |
| **OFF BALANCE SHEET** | | | | |
| Credit cards Loss allowance | 227,043 | - | - | **227,043** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iii. Credit quality analysis (continued)*

*Loans with renegotiated terms*

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.

Once the loan is restructured, its performance is closely monitored for the purpose of impairment testing.

Set out below are the carrying amounts of loans to customers whose term have been renegotiated and are under monitoring:

FORBORNE LOANS TO CUSTOMERS ACCORDING TO THEIR CREDIT QUALITY AT AMORTISED COST

| 31 December 2022 | Total amount of Loans | Total amount of Forborne Loans (Permanent modification) | Forborne Loans (%) |
|---|---|---|---|
| Stage 1 | 1,245,049,751 | 10,719,083 | 0.9% |
| Stage 2 | 141,822,262 | 75,015,566 | 52.9% |
| Stage 3 | 54,422,077 | 11,493,576 | 21.1% |
| **Exposure before impairment** | **1,441,294,090** | **97,228,225** | **6.7%** |
| Stage 1 Allowance | 21,014,746 | 232,357 | 1.1% |
| Stage 2 Allowance | 18,006,235 | 13,606,329 | 75.6% |
| Stage 3 Allowance | 18,471,388 | 3,135,690 | 17.0% |
| **Total net amount** | **1,383,801,721** | **80,253,849** | **5.8%** |
| Value of collateral | 2,295,117,030 | 116,268,877 | 5.1% |
| **Off Balance Sheet Allowance** | **119,772** | **-** | **-** |

FORBORNE LOANS TO CUSTOMERS ACCORDING TO THEIR CREDIT QUALITY AT AMORTISED COST

| 31 December 2021 | Total amount of Loans | Total amount of Forborne Loans (Permanent modification) | Forborne Loans (%) |
|---|---|---|---|
| Stage 1 | 1,139,905,611 | 11,022,393 | 1.0% |
| Stage 2 | 171,046,075 | 84,285,559 | 49.3% |
| Stage 3 | 67,599,347 | 13,345,660 | 19.7% |
| **Exposure before impairment** | **1,378,551,033** | **108,653,612** | **7.9%** |
| Stage 1 Allowance | 27,192,601 | 254,965 | 0.9% |
| Stage 2 Allowance | 18,549,689 | 13,310,308 | 71.8% |
| Stage 3 Allowance | 21,927,851 | 3,943,808 | 18.0% |
| **Total net amount** | **1,310,880,892** | **91,144,531** | **7.0%** |
| Value of collateral | 2,093,678,087 | 122,796,567 | **5.9%** |
| **Off Balance Sheet Allowance** | **282,557** | **-** | **-** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *iv. Collateral and other credit enhancements*

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.
The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Financial Assets
- Charges over business assets such as premises, machineries, and accounts receivable;

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

Set out below is an analysis of collateral and credit enhancement obtained during the years:

| | | Loans to customers | |
|---|---|---|---|
| **31 December 2022** | **Retail** | **Corporate** | **Total Loans** |
| Residential, commercial or industrial Property | 1,075,167,285 | 1,443,429,538 | 2,518,596,823 |
| Financial assets | 52,563,863 | 924,229,550 | 976,793,413 |
| Other | 160,759,194 | 205,113,437 | 365,872,631 |
| **Total** | **1,288,490,342** | **2,572,772,525** | **3,861,262,867** |

| | | Loans to customers | |
|---|---|---|---|
| **31 December 2021** | **Retail** | **Corporate** | **Total Loans** |
| Residential, commercial or industrial Property | 961,923,639 | 1,322,011,075 | 2,283,934,714 |
| Financial assets | 47,179,540 | 913,178,143 | 960,357,683 |
| Other | 74,515,023 | 160,142,533 | 234,657,556 |
| **Total** | **1,083,618,202** | **2,395,331,751** | **3,478,949,953** |

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

*Impaired loans and securities*

Impaired loans and securities are loans and securities 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 loan / securities agreement(s). The Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes of grading and takes the necessary actions according to the monitoring procedures. The Risk Committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

*Past due but not impaired loans*

Past due but not impaired loans are those loans and securities, where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

*Allowances for impairment*

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio and other financial assets. It relates to the specific loss component for individually significant exposures.

*Write-off policy*

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Bank of Albania “On Credit Risk Management”. The write-off decision is taken 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, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

## 5. Financial risk management (continued)

### (b) Credit Risk (continued)

### *v. Concentrations of credit risk*

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and investment securities as at 31 December 2022 and 31 December 2021 is shown below:

| | Note | Loans to customers | | Loans to banks | | Investment Securities | |
|---|---|---|---|---|---|---|---|
| | | **31 December 2022** | **31 December 2021** | **31 December 2022** | **31 December 2021** | **31 December 2022** | **31 December 2021** |
| Carrying amount | 9,10,11 | **1,383,681,949** | **1,310,598,335** | **145,894,324** | **138,246,339** | **2,911,791,378** | **2,558,621,973** |
| **Concentration by sector** | | | | | | | |
| Corporate | | 753,572,033 | 786,443,094 | - | - | 342,014,464 | 327,269,172 |
| Government | | 1,355,346 | 2,052,726 | 16,465,437 | - | 2,030,613,264 | 1,655,903,963 |
| Banks | | - | - | 129,428,887 | 138,246,339 | 539,163,650 | 575,448,838 |
| Retail | | 628,754,570 | 522,102,515 | - | - | - | - |
| **Total** | | **1,383,681,949** | **1,310,598,335** | **145,894,324** | **138,246,339** | **2,911,791,378** | **2,558,621,973** |

| **Concentration by location** | **Note** | **Loans to customers** | | **Loans to banks** | | **Investment securities** | |
|---|---|---|---|---|---|---|---|
| | | **31 December 2022** | **31 December 2021** | **31 December 2022** | **31 December 2021** | **31 December 2022** | **31 December 2021** |
| Albania | | 767,785,462 | 775,006,240 | - | - | 1,527,106,476 | 1,345,807,234 |
| Kosovo | | 558,697,265 | 473,199,317 | - | - | 44,769,360 | 86,417,093 |
| Europe | | 21,525,333 | 27,798,136 | 92,977,620 | 46,482,144 | 813,078,001 | 693,885,560 |
| Asia | | - | - | 19,755,072 | 47,287,240 | 218,982,412 | 187,315,061 |
| Middle East and Africa | | - | - | 33,161,632 | 40,081,237 | 113,629,254 | 96,997,639 |
| America | | 35,673,889 | 34,594,642 | | 4,395,718 | 165,011,032 | 123,554,206 |
| Australia | | - | - | - | - | 29,214,843 | 24,645,180 |
| **Total** | 9,10,11 | **1,383,681,949** | **1,310,598,335** | **145,894,324** | **138,246,339** | **2,911,791,378** | **2,558,621,973** |

## 5. Financial risk management (continued)

### (c) Liquidity risk

**Liquidity risk** is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The purpose of Liquidity Risk Management (LRM) 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. Bank’s LRM policy includes how the Bank identifies, measures, monitors and control that risk.

**Organization of LRM:** Bank’s LRM Organization includes two different bodies in the monitoring and management of liquidity. The involvement of different bodies helps provide clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to the Treasury Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to the Risk Management Group. The main purpose of the Risk Management Group, which conducts daily overview of LRM reports, is to provide an early warning signal of liquidity risk to the senior management of the Bank.

**LRM Reports:** Bank’s LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under “business as usual” scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows/ outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity.

The LRM approach of the Bank results in positive liquidity gaps for all time stages up to one year as at 31 December 2022. This resulted mainly because of the following three assumptions:

- Using statistical method and historical data (derived since 2001), the actual LRM reports include analysis into the behavioural re-investment pattern of deposits;
- Short term securities available for sale are considered liquid through the secured funding from Bank of Albania;
- Bank’s reserve requirements held with BoA are considered as non-liquid assets.

An analysis of the Bank’s expected timing of cash flows by simple remaining maturity is shown in the following tables.

## 5. Financial risk management (continued)

### (c) Liquidity risk (continued)

As at 31 December 2022, the Bank's monetary assets and liabilities have remaining contractual maturities as follows:

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Bank | 537,491,661 | - | - | - | - | 537,491,661 |
| Placement and balances with banks | 438,682,238 | 6,328,325 | 28,891,449 | - | - | 473,902,012 |
| Investment securities | 57,368,597 | 260,564,100 | 400,369,021 | 1,653,219,584 | 540,270,076 | 2,911,791,378 |
| Loans to banks | - | - | 112,272,638 | 33,621,686 | - | 145,894,324 |
| Loans to customers | 45,960,431 | 40,355,069 | 315,585,244 | 609,582,263 | 372,198,942 | 1,383,681,949 |
| Other assets | 10,891,554 | - | - | - | - | 10,891,554 |
| **Total assets** | **1,090,394,481** | **307,247,494** | **857,118,352** | **2,296,423,533** | **912,469,018** | **5,463,652,878** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Customer deposits | 2,516,787,705 | 236,541,685 | 1,044,534,502 | 747,297,697 | 46,274,277 | 4,591,435,866 |
| Due to banks and financial institutions | 280,220,583 | 10,127,391 | 10,683,881 | 4,752,479 | - | 305,784,334 |
| Due to third parties | 4,294,958 | - | - | - | - | 4,294,958 |
| Accruals and other liabilities | 19,982,011 | - | - | - | 835,074 | 20,817,085 |
| Lease liabilities | 192,067 | 382,969 | 1,612,033 | 6,797,368 | 5,465,502 | 14,449,939 |
| Subordinated debt | - | - | 166,821 | 26,676,787 | 23,475,571 | 50,319,179 |
| **Total liabilities** | **2,821,477,324** | **247,052,045** | **1,056,997,237** | **785,524,331** | **76,050,424** | **4,987,101,361** |
| **Net Position** | **(1,731,082,843)** | **60,195,449** | **(199,878,885)** | **1,510,899,202** | **836,418,594** | **476,551,517** |
| **Cumulative Net Position** | **(1,731,082,843)** | **(1,670,887,394)** | **(1,870,766,279)** | **(359,867,077)** | **476,551,517** | **-** |

LRM reports are produced for each single currency Lek, Euro and USD and for the total statement of financial position as well. Maximum cumulative outflow limits, which are managed and monitored on a daily-basis, have been assigned for each of the above currencies.

## 5. Financial risk management (continued)

### (c) Liquidity risk (continued)

As at 31 December 2021, the Bank's monetary assets and liabilities have remaining contractual maturities as follows:

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Bank | 536,369,185 | - | - | - | - | 536,369,185 |
| Placement and balances with banks | 536,491,090 | 13,615,891 | 7,266,792 | - | - | 557,373,773 |
| Investment securities | 60,829,044 | 171,394,649 | 399,871,514 | 1,300,833,649 | 625,693,117 | 2,558,621,973 |
| Loans to banks | 10,045,870 | - | 68,584,249 | 59,616,220 | - | 138,246,339 |
| Loans to customers | 41,020,852 | 40,855,857 | 288,953,964 | 605,147,066 | 334,620,596 | 1,310,598,335 |
| Other assets | 21,333,007 | - | - | - | - | 21,333,007 |
| **Total assets** | **1,206,089,048** | **225,866,397** | **764,676,519** | **1,965,596,935** | **960,313,713** | **5,122,542,612** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Customer deposits | 2,288,901,898 | 240,529,255 | 993,051,229 | 617,589,406 | 42,104,335 | 4,182,176,123 |
| Due to banks and financial institutions | 303,296,127 | 51,191,309 | 6,189,471 | 12,268,352 | - | 372,945,259 |
| Due to third parties | 1,943,486 | - | - | - | - | 1,943,486 |
| Accruals and other liabilities | 23,011,471 | - | - | - | 893,015 | 23,904,486 |
| Lease liabilities | 209,087 | 419,087 | 1,865,776 | 7,902,837 | 7,328,087 | 17,724,874 |
| Subordinated debt | - | - | 68,913 | 28,336,775 | - | 28,405,688 |
| **Total liabilities** | **2,617,362,069** | **292,139,651** | **1,001,175,389** | **666,097,370** | **50,325,437** | **4,627,099,916** |
| **Net Position** | **(1,411,273,021)** | **(66,273,254)** | **(236,498,870)** | **1,299,499,565** | **909,988,276** | **495,442,696** |
| **Cumulative Net Position** | **(1,411,273,021)** | **(1,477,546,275)** | **(1,714,045,145)** | **(414,545,580)** | **495,442,696** | **-** |

## 5. Financial risk management (continued)

### (c) Liquidity risk (continued)

*Exposure to liquidity risk*

One of the key ratios used by the Bank for managing liquidity risk, which is required by Bank of Albania (BoA) at the same time, is the ratio of total liquid assets to total short-term liabilities on a daily basis. Based on the regulation No.71 dated 14.10.2009 "Liquidity risk management policy" amended with decision No. 75 dated 26.10.2011 the total liquidity ratio should be at a minimum of 25%, whereas the minimum of individual ratios for local and foreign currencies (FX) at 20%. Meanwhile, based on the changes of this regulation effective 15 May 2013, the minimum of total liquidity ratio was decreased to 20% and that of individual ratios to 15%. In addition, in March 2018 BoA has increased again the minimum of liquidity ratio for foreign currencies to 20%.

As per this regulation, article 19 point 4, liquid assets are considered: cash balance, current accounts with BoA including mandatory reserve, T-bills and securities according to their remaining maturity and ability to turn into liquidity, where the non-resident counterparties' balances are discounted with the respective haircuts according to international credit rating. Short-term liabilities are considered all liabilities with remaining maturity up to one year.

Details of the reported Bank ratio at the reporting dates were as follows:

| | **31-Dec-2022** | **31-Dec-2021** |
|---|---|---|
| Total Liquid Assets/Total Short Term Liabilities Ratio | 40.38% | 44.37% |
| Liquid Assets in local currency/Short Term Liabilities in local currency Ratio | 62.56% | 59.85% |
| Liquid Assets in foreign currency/Short Term Liabilities in foreign currency Ratio | 27.39% | 34.30% |

### (d) Market risk

#### *1) Foreign currency risk*

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Bank of Albania guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions.

## 5. Financial risk management (continued)

### (d) Market risk (continued)

### *1) Foreign currency risk (continued)*

The following tables present the USD equivalent amounts of monetary assets and liabilities by currency as at 31 December 2022 and 31 December 2021:

| *31 December 2022* | *Lek* | *USD* | *Euro* | *Other* | *Total* |
|---|---|---|---|---|---|
| **Assets** | | | *(In USD equivalent)* | | |
| Cash and balances with Central Bank | 174,945,328 | 26,485,556 | 316,295,130 | 19,765,647 | 537,491,661 |
| Placements and balances with banks | 945,085 | 155,034,396 | 301,560,884 | 16,361,647 | 473,902,012 |
| Investment securities | 1,196,565,978 | 476,177,089 | 1,151,923,336 | 87,124,975 | 2,911,791,378 |
| Loans to banks | - | 31,842,665 | 114,051,659 | - | 145,894,324 |
| Loans to customers | 551,195,906 | 69,412,573 | 763,073,457 | 13 | 1,383,681,949 |
| Other assets | 4,721,405 | (80,947) | 6,218,341 | 32,755 | 10,891,554 |
| **Total assets** | **1,928,373,702** | **758,871,332** | **2,653,122,807** | **123,285,037** | **5,463,652,878** |
| Foreign exchange contracts | **2,489,514** | **34,735,414** | **164,652,063** | **22,683,309** | **224,560,300** |
| **Liabilities** | | | | | |
| Customer deposits | 1,670,949,482 | 210,063,198 | 2,623,103,658 | 87,319,528 | 4,591,435,866 |
| Due to banks and financial institutions | 256,060,877 | 16,705,976 | 23,275,589 | 9,741,892 | 305,784,334 |
| Due to third parties | 4,294,958 | - | - | - | 4,294,958 |
| Accruals and other liabilities | 9,686,000 | 4,363,111 | 6,636,948 | 131,026 | 20,817,085 |
| Lease liabilities | 554,134 | 243,227 | 13,652,578 | - | 14,449,939 |
| Subordinated debt | - | - | 50,319,179 | - | 50,319,179 |
| **Total liabilities** | **1,941,545,451** | **231,375,512** | **2,716,987,952** | **97,192,446** | **4,987,101,361** |
| Foreign exchange contracts | **251,355** | **124,940,234** | **58,581,829** | **40,786,882** | **224,560,300** |
| **Net position (GAP)** | **(10,933,590)** | **437,291,000** | **42,205,089** | **7,989,018** | **476,551,517** |
| Total assets / Total liabilities | 99.44% | 222.73% | 101.52% | 105.79% | 109.14% |
| GAP / FX denominated assets | | 0.55 | 0.015 | 0.0547 | 0.08 |
| **Sensitivity analysis** | | | | | |
| Lek depreciates by 10% | | 39,753,727 | 3,836,826 | 726,274 | 44,316,827 |
| Lek depreciates by 5% | | 20,823,381 | 2,009,766 | 380,429 | 23,213,576 |
| Lek appreciates by 5% | | (23,015,316) | (2,221,320) | (420,475) | (25,657,111) |
| Lek appreciates by 10% | | (48,587,889) | (4,689,454) | (887,669) | (54,165,012) |

## 5. Financial risk management (continued)

### (d) Market risk (continued)

### *1) Foreign currency risk (continued)*

| *31 December 2021* | *Lek* | *USD* | *Euro* | *Other* | *Total* |
|---|---|---|---|---|---|
| **Assets** | | | *(In USD equivalent)* | | |
| Cash and balances with Central Bank | 183,566,034 | 21,073,119 | 309,206,171 | 22,523,861 | 536,369,185 |
| Placements and balances with banks | 1,092,611 | 75,676,331 | 470,668,359 | 9,936,472 | 557,373,773 |
| Investment securities | 1,163,162,369 | 496,026,301 | 807,205,384 | 92,227,919 | 2,558,621,973 |
| Loans to banks | - | 46,067,996 | 92,178,343 | - | 138,246,339 |
| Loans to customers | 586,345,914 | 75,719,625 | 648,532,792 | 4 | 1,310,598,335 |
| Other assets | 8,825,240 | 87,353 | 12,386,569 | 33,845 | 21,333,007 |
| **Total assets** | **1,942,992,168** | **714,650,725** | **2,340,177,618** | **124,722,101** | **5,122,542,612** |
| Foreign exchange contracts | **2,609,536** | **10,770,621** | **134,473,121** | **412,519** | **148,265,797** |
| **Liabilities** | | | | | |
| Customer deposits | 1,619,728,037 | 167,859,323 | 2,308,501,127 | 86,087,636 | 4,182,176,123 |
| Due to banks and financial institutions | 320,955,509 | 3,333,047 | 36,823,811 | 11,832,892 | 372,945,259 |
| Due to third parties | 1,943,486 | - | - | - | 1,943,486 |
| Accruals and other liabilities | 8,733,416 | 4,158,728 | 10,853,220 | 159,122 | 23,904,486 |
| Lease liabilities | 634,543 | 312,925 | 16,777,406 | - | 17,724,874 |
| Subordinated debt | - | - | 28,405,688 | - | 28,405,688 |
| **Total liabilities** | **1,951,994,991** | **175,664,023** | **2,401,361,252** | **98,079,650** | **4,627,099,916** |
| Foreign exchange contracts | **499,531** | **125,933,587** | **6,193,526** | **15,639,153** | **148,265,797** |
| **Net position (GAP)** | **(6,892,818)** | **423,823,736** | **67,095,961** | **11,415,817** | **495,442,696** |
| Total assets / Total liabilities | 99.65% | 240.53% | 102.79% | 110.04% | 110.37% |
| GAP / FX denominated assets | | 0.60 | 0.01 | 0.14 | 0.10 |
| **Sensitivity analysis** | | | | | |
| Lek depreciates by 10% | | 38,529,431 | 6,099,633 | 1,037,802 | 45,666,865 |
| Lek depreciates by 5% | | 20,182,083 | 3,195,046 | 543,610 | 23,920,739 |
| Lek appreciates by 5% | | (22,306,512) | (3,531,366) | (600,832) | (26,438,711) |
| Lek appreciates by 10% | | (47,091,526) | (7,455,107) | (1,268,424) | (55,815,057) |

### *2) Interest rate risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department of the Bank manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date were outstanding for the whole year.

## 5. Financial risk management (continued)

### (d) Market risk (continued)

### *2) Interest rate risk (continued)*

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2022 are as follows:

| | *Lek* | *USD* | *Euro* |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Bank | 2.75% | - | - |
| Placement and balances with banks | 3.40% | 4.49% | 2.20% |
| Investment securities | 3.38% | 5.21% | 3.46% |
| Loans to banks | - | 7.68% | 4.58% |
| Loans to customers | 5.25% | 5.34% | 4.66% |
| **Liabilities** | | | |
| Customer deposits | 1.02% | 0.62% | 0.64% |
| Due to banks and financial institutions | 2.80% | 4.54% | 1.10% |
| Lease Labilities | 7.06% | 4.25% | 3.15% |
| Subordinated debt | - | - | 7.04% |

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2021 were as follows:

| | *Lek* | *USD* | *Euro* |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Bank | 0.50% | - | (0.50%) |
| Placement and balances with banks | 1.08% | 0.25% | (0.38%) |
| Investment securities | 6.04% | 4.82% | 2.09% |
| Loans to banks | - | 2.97% | 3.03% |
| Loans to customers | 4.91% | 5.68% | 5.40% |
| **Liabilities** | | | |
| Customer deposits | 0.62% | 0.54% | 0.49% |
| Due to banks and financial institutions | 0.50% | 0.34% | 0.15% |
| Lease Labilities | 6.89% | 4.24% | 2.18% |
| Subordinated debt | - | - | 5.15% |

## 5. Financial risk management (continued)

### (d) Market risk (continued)

### *2) Interest rate risk (continued)*

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2022 are as follows:

| | *Up to 1 month* | *1-3 months* | *3-12 months* | *1-5 years* | *Over 5 year* | *Total* |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Bank | 537,491,661 | - | - | - | - | 537,491,661 |
| Placement and balances with banks | 438,682,238 | 6,328,325 | 28,891,449 | - | - | 473,902,012 |
| Investment securities | 544,221,909 | 842,902,193 | 1,524,667,276 | - | - | 2,911,791,378 |
| Loans to banks | - | 112,115,708 | 33,778,616 | - | - | 145,894,324 |
| Loans to customers | 465,842,887 | 53,095,097 | 486,797,952 | 212,380,453 | 165,565,560 | 1,383,681,949 |
| **Total** | **1,986,238,695** | **1,014,441,323** | **2,074,135,293** | **212,380,453** | **165,565,560** | **5,452,761,324** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Customer deposits | 2,516,787,705 | 236,541,685 | 1,044,534,502 | 747,297,697 | 46,274,277 | 4,591,435,866 |
| Due to banks and financial institutions | 290,358,300 | 11,110,523 | 4,315,511 | - | - | 305,784,334 |
| Subordinated debt | - | - | 50,319,179 | - | - | 50,319,179 |
| **Total** | **2,807,146,005** | **247,652,208** | **1,099,169,192** | **747,297,697** | **46,274,277** | **4,947,539,379** |

## 5. Financial risk management (continued)

### (d) Market risk (continued)

### *2) Interest rate risk (continued)*

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2021 were as follows:

| | *Up to 1 month* | 1-3 months | 3-12 months | 1-5 years | Over 5 year | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Bank | 536,369,185 | - | - | - | - | 536,369,185 |
| Placement and balances with banks | 536,491,090 | 13,615,891 | 7,266,792 | - | - | 557,373,773 |
| Investment securities | 491,654,762 | 851,229,671 | 1,196,829,536 | 18,908,004 | - | 2,558,621,973 |
| Loans to banks | 9,947,550 | - | 68,408,584 | 59,890,205 | - | 138,246,339 |
| Loans to customers | 583,720,047 | 34,568,946 | 387,136,155 | 219,815,111 | 85,358,076 | 1,310,598,335 |
| **Total** | **2,158,182,634** | **899,414,508** | **1,659,641,067** | **298,613,320** | **85,358,076** | **5,101,209,605** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Customer deposits | 2,288,901,898 | 240,529,255 | 993,051,229 | 617,589,406 | 42,104,335 | 4,182,176,123 |
| Due to banks and financial institutions | 301,295,927 | 68,320,870 | 1,135,407 | 2,193,055 | - | 372,945,259 |
| Subordinated debt | - | - | 28,405,688 | - | - | 28,405,688 |
| **Total** | **2,590,197,825** | **308,850,125** | **1,022,592,324** | **619,782,461** | **42,104,335** | **4,583,527,070** |

## 5. Financial risk management (continued)

### (d) Market risk (continued)

### *2) Interest rate risk (continued)*

**Interest rate sensitivity**

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The following is a stipulation of effects of changes in interest rate to the net profit, when the change is applied to the GAP position as per re-pricing terms presented in note above, assuming all the other variables are held constant:

| | *31 December 2022* | | *31 December 2021* | |
|---|---|---|---|---|
| | **Up to 1 year** | **Over 1 year** | **Up to 1 year** | **Over 1 year** |
| Interest rate increases by 2% | 61,145,712 | 52,833,193 | 54,155,741 | 48,597,433 |
| Interest rate increases by 1.5% | 45,859,284 | 39,624,895 | 40,616,806 | 36,448,075 |
| Interest rate increases by 1% | 30,572,856 | 26,416,596 | 27,077,870 | 24,298,716 |
| Interest rate decreases by 1% | (30,572,856) | (26,416,596) | (27,077,870) | (24,298,716) |
| Interest rate decreases by 1.5% | (45,859,284) | (39,624,895) | (40,616,806) | (36,448,075) |
| Interest rate decreases by 2% | (61,145,712) | (52,833,193) | (54,155,741) | (48,597,433) |

### (e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with internal standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

## 5. Financial risk management (continued)

### (f) Capital management

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. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises 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. There have been no material changes in the Bank's management of capital during the period.

*Regulatory capital*

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The new regulations "On the capital adequacy ratio" and "On the regulatory capital" entered into force in 2015 are issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 9662 date 18.12.2006 "On Banks in the Republic of Albania".

*Capital Adequacy Ratio*

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted exposures, calculated as the sum of the risk-weighted exposure amounts, on- and off-balance sheet for credit risk and for credit counterparty risk, capital requirement for market and operational risk.

The minimum Regulatory Capital Ratio against the risk weighted exposures required by Bank of Albania is 12%. The minimum Tier 1 Capital Ratio is 6.0% and the minimum Common Equity Tier 1 Ratio is 4.5%.

In December 2022, BKT has reported the following consolidated ratios:

- Regulatory Capital Ratio 17.17% (December 2021: 15.98%);
- Tier 1 Capital Ratio 15.83% (December 2021: 15.25%);
- Common Equity Tier 1 Ratio 15.83% (December 2021: 15.25%).

Starting from January 2019 the Bank has started to report on a stand-alone basis as well for statutory purposes, following the conversion of BKT Kosovo into a subsidiary during 2018. Based on the regulation of BoA nr. 4/2017 "On the consolidated supervision" the Bank should also monitor its capital adequacy ratio on a stand-alone basis. The same minimum regulatory ratios mentioned above are applied.

In December 2022, BKT has reported the following stand-alone ratios:

- Regulatory Capital Ratio 19.53% (December 2021: 18.80%);
- Tier 1 Capital Ratio 18.79% (December 2021: 17.82%);
- Common Equity Tier 1 Ratio 18.79% (December 2021: 17.82%).

*Risk-Weighted Assets (RWAs)*

For calculation of credit risk, exposures, on- and off-balance sheet are classified in 15 exposure classes. In general terms, client/ issuer type, loan destination and collateral are the main determinants of the exposure class. Each exposure class has its own specific requirements on how to assess the appropriate risk weight and respective risk weighted exposures. For credit risk and counterparty risk is applied the Standardised Approach. Market risk capital requirements are calculated in case the Bank has a Trading portfolio that fulfils the requirements defined by the regulation and/ or a total net open currency position that is larger than the defined minimum threshold. Operational risk capital requirement is calculated based on the Basic Indicator Approach.

## 6. Segmental reporting

| | 31 December 2022 | | | 31 December 2021 | | |
|---|---|---|---|---|---|---|
| ***Geographical Segments*** | **Albania** | **Kosovo** | **Consolidated** | **Albania** | **Kosovo** | **Consolidated** |
| **Assets** | | | | | | |
| Cash and balances with Central Bank | 424,252,624 | 113,239,037 | 537,491,661 | 405,076,749 | 131,292,436 | 536,369,185 |
| Placement and balances with banks | 393,402,219 | 80,499,793 | 473,902,012 | 523,948,012 | 33,425,761 | 557,373,773 |
| Intragroup Receivables | 46,851,471 | 44,818 | - | 23,804,490 | 251,354 | - |
| Investment securities | 2,676,830,296 | 234,961,082 | 2,911,791,378 | 2,314,619,990 | 244,001,983 | 2,558,621,973 |
| Loans to banks | 88,639,737 | 57,254,587 | 145,894,324 | 117,002,982 | 21,243,357 | 138,246,339 |
| Loans to customers | 824,984,684 | 558,697,265 | 1,383,681,949 | 837,399,018 | 473,199,317 | 1,310,598,335 |
| Investment in associates/subsidiaries | 35,426,345 | 229,388 | 1,090,943 | 36,071,731 | - | 933,964 |
| Property and equipment | 25,632,870 | 16,627,930 | 42,260,800 | 28,831,697 | 17,907,698 | 46,739,395 |
| Intangible assets | 7,434,937 | - | 7,434,937 | 12,958,443 | 4,724,607 | 17,683,050 |
| Right-of-use assets | 11,162,148 | 3,676,757 | 14,838,905 | 4,133,568 | - | 4,133,568 |
| Deferred tax assets | 11,136,494 | 1,781,593 | 12,918,087 | 2,023,654 | 324,098 | 2,347,752 |
| Other assets | 45,308,627 | 11,368,444 | 56,677,071 | 50,434,534 | 9,047,815 | 59,482,349 |
| **Total assets** | **4,591,062,452** | **1,078,380,694** | **5,587,982,067** | **4,356,304,868** | **935,418,426** | **5,232,529,683** |
| **Liabilities and shareholder's equity** | | | | | | |
| **Liabilities** | | | | | | |
| Customer deposits | 3,741,874,637 | 850,623,085 | 4,591,435,866 | 3,428,230,548 | 753,945,575 | 4,182,176,123 |
| Due to banks and financial institutions | 258,294,347 | 47,489,987 | 305,784,334 | 323,032,521 | 49,912,738 | 372,945,259 |
| Intragroup Payables | 44,818 | 46,851,471 | - | 251,354 | 23,804,490 | - |
| Due to third parties | 4,294,958 | - | 4,294,958 | 1,943,486 | - | 1,943,486 |
| Accruals and other liabilities | 74,875,553 | 2,979,758 | 77,855,311 | 69,019,399 | 4,347,548 | 73,366,947 |
| Lease Liability | 10,650,834 | 3,799,105 | 14,449,939 | 12,907,351 | 4,817,523 | 17,724,874 |
| Subordinated debt | 26,772,892 | 23,546,287 | 50,319,179 | 28,405,688 | - | 28,405,688 |
| **Total liabilities** | **4,116,808,039** | **975,289,693** | **5,044,139,587** | **3,863,790,347** | **836,827,874** | **4,676,562,377** |
| **Shareholder's equity** | | | | | | |
| Share capital | 300,000,000 | 33,079,215 | 300,000,000 | 300,000,000 | 35,137,601 | 300,000,000 |
| Legal reserve | 60,093,852 | - | 60,093,852 | 52,315,511 | - | 52,315,511 |
| Translation reserve | 2,834,477 | 1,348,194 | 4,182,671 | (1,924,052) | (434,072) | (2,358,124) |
| Fair value reserve and impairment of FVOCI | (17,833,989) | (10,259,824) | (28,093,813) | 43,989,590 | 553,250 | 44,542,840 |
| Retained earnings | 129,160,073 | 78,923,416 | 207,659,770 | 98,133,306 | 63,333,773 | 161,467,079 |
| **Total shareholder's equity** | **474,254,413** | **103,091,001** | **543,842,480** | **492,514,355** | **98,590,552** | **555,967,306** |
| **Total liabilities and shareholder's equity** | **4,591,062,452** | **1,078,380,694** | **5,587,982,067** | **4,356,304,702** | **935,418,426** | **5,232,529,683** |

Within "Investment in associates/subsidiaries" and "Customer deposits" for BKT Albania, it is included the amount of EUR 1,000,000, which represents the investment into the share capital of the company "BKT Pay" during 2022, and has been eliminated on consolidation.

## 6. Segmental reporting (continued)

| *Geographical Segments* | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Albania** | **Kosovo** | **Consolidated** | **Albania** | **Kosovo** | **Consolidated** |
| Interest | | | | | | |
| Interest income | 134,598,824 | 38,185,201 | 172,784,025 | 133,558,148 | 35,269,304 | 168,827,452 |
| - Intragroup transactions | 237,646 | 6,797 | - | 53,823 | 3,413 | - |
| Interest expense | (22,230,432) | (7,367,530) | (29,597,962) | (15,098,781) | (6,888,478) | (21,987,259) |
| - Intragroup transactions | (6,797) | (237,646) | - | (3,413) | (53,823) | - |
| **Net interest margin** | **112,368,392** | **30,817,671** | **143,186,063** | **118,459,367** | **28,380,826** | **146,840,193** |
| Non-interest income, net | | | | | | |
| Fees and commissions, net | 20,508,477 | 8,622,261 | 29,130,738 | 19,839,345 | 6,979,963 | 26,819,308 |
| Foreign exchange revaluation gain, net | (2,626,524) | (168,593) | (2,795,117) | 4,125,489 | (360,300) | 3,765,189 |
| Foreign exchange trading activities income, net | 2,258,660 | (147,416) | 2,111,244 | 2,001,077 | 587,534 | 2,588,611 |
| Securities trading gain, net | 51,408,983 | 2,067,314 | 53,476,297 | 927,003 | 1,861,950 | 2,788,953 |
| Other (expense) / income, net | 5,368,409 | 464,782 | 5,833,191 | 4,236,438 | 895,661 | 5,132,099 |
| **Total non-interest income, net** | **76,918,005** | **10,838,348** | **87,756,353** | **31,129,352** | **9,964,808** | **41,094,160** |
| Operating expenses | | | | | | |
| Personnel expenses | (21,186,835) | (6,496,585) | (27,683,420) | (19,002,207) | (6,414,728) | (25,416,935) |
| Administrative expenses | (36,288,922) | (7,528,751) | (43,817,673) | (32,861,866) | (7,076,292) | (39,938,158) |
| Depreciation and amortization | (7,876,562) | (1,502,015) | (9,378,577) | (7,914,321) | (1,786,671) | (9,700,992) |
| **Total operating expenses** | **(65,352,319)** | **(15,527,351)** | **(80,879,670)** | **(59,778,394)** | **(15,277,691)** | **(75,056,085)** |
| Impairment of loans | 6,869,466 | 414,821 | 7,284,287 | (2,335,972) | (1,684,638) | (4,020,610) |
| Impairment of other financial instruments | (31,061,482) | (5,036,577) | (36,098,059) | (285,621) | (732,069) | (1,017,690) |
| **Profit before taxes** | **99,742,062** | **21,506,912** | **121,248,974** | **87,188,732** | **20,651,236** | **107,839,968** |
| Income tax | (14,122,786) | (1,810,911) | (15,933,697) | (12,765,727) | (1,981,345) | (14,747,072) |
| **Net profit for the year** | **85,619,276** | **19,696,001** | **105,315,277** | **74,423,005** | **18,669,891** | **93,092,896** |

## 7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2022 and 31 December 2021 are detailed as follows:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Cash on hand | 71,850,887 | 69,280,576 |
| Deposits with the Central Bank of Kosovo | 77,593,780 | 97,456,505 |
| Bank of Albania | | |
| Current account | 59,202,562 | 71,869,335 |
| Statutory reserve | 328,808,949 | 297,773,231 |
| Accrued interest | 35,483 | (10,462) |
| | 388,046,994 | 369,632,104 |
| | **537,491,661** | **536,369,185** |

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum requirement based on regulation no.29 "On the minimum required reserve maintained by banks with the Bank of Albania" in Albania as a statutory reserve account, which during the month can be decreased to 70% of this level, provided that the monthly average is maintained.

Balances with CBK include the minimum required statutory reserve of 10% of customer deposits in Kosovo and the minimum cash deposit pledged as capital equivalency deposit.

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

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Cash and balances with Central Bank | 537,491,661 | 536,369,185 |
| Statutory reserve in Albania | (328,808,949) | (297,773,231) |
| Statutory reserve in Kosovo | (58,333,935) | (51,888,833) |
| Current accounts with banks | 234,356,201 | 239,853,628 |
| Demand deposits with banks | 20,262,363 | 42,335,379 |
| Placements with maturities of 3 months or less | 168,068,648 | 253,966,440 |
| | **573,035,989** | **722,862,568** |

## 8. Placements and balances with banks

Placements and balances with banks as at 31 December 2022 and 31 December 2021 consisted as follows:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Placements | 173,356,282 | 258,010,355 |
| Cash collateral held by financial institutions | 45,818,291 | 17,229,952 |
| Current accounts | 234,356,201 | 239,853,628 |
| Demand deposits | 20,262,407 | 42,335,419 |
| Accrued interest | 137,917 | (32,644) |
| Impairment | (29,086) | (22,937) |
| | **473,902,012** | **557,373,773** |

Placements are held with non-resident banks from Organisation for Economic Cooperation and Development ("OECD") countries and have contractual maturities up to 1 year. Current accounts represent balances with correspondent banks in the OECD countries.

Cash collateral represents mostly collateral held by financial institutions in relation to letters of credit issued to the Bank's clients and cash deposits that secure risks in relation to the credit cards activity of the Bank.

## 9. Investment securities

Investment securities as at 31 December 2022 and 31 December 2021 are presented as follows:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Investment securities - measured at FVOCI (Treasury bills available-for-sale) | 205,281,343 | 140,685,464 |
| Investment securities - measured at FVOCI (Available-for-sale securities) | 982,112,711 | 2,096,999,314 |
| Investment securities - measured at FVTPL (Held-for-trading securities) | 4,387,015 | 101,865,986 |
| Investment securities - measured at amortised cost (Held-to-maturity securities) | 1,698,295,580 | 219,071,209 |
| Investment securities - measured at amortised cost (Treasury bills held to maturity) | 21,714,729 | - |
| **Total** | **2,911,791,378** | **2,558,621,973** |

### a) Investment securities - measured at FVOCI (Treasury bills)

Treasury bills available-for-sale by original maturity as at 31 December 2022 and 31 December 2021 are presented as follows:

| | *31 December 2022* | | | |
|---|---|---|---|---|
| | **Purchase Value** | **Amortized discount** | **Marked to market gain (loss)** | **Fair Value** |
| 3 months | 1,391,225 | 9,550 | (45) | 1,400,730 |
| 6 months | 2,308,150 | 23,635 | (1,926) | 2,329,859 |
| 12 months | 199,638,861 | 2,716,951 | (805,058) | 201,550,754 |
| | **203,338,236** | **2,750,136** | **(807,029)** | **205,281,343** |

| | *31 December 2021* | | | |
|---|---|---|---|---|
| | **Purchase Value** | **Amortized discount** | **Marked to market gain (loss)** | Fair Value |
| 3 months | 265,657 | 682 | 32 | 266,371 |
| 12 months | 138,444,524 | 1,725,701 | 248,868 | 140,419,093 |
| | **138,710,181** | **1,726,383** | **248,900** | **140,685,464** |

### b) Investment securities - measured at FVOCI (Available-for-sale securities)

Available-for-sale securities as at 31 December 2022 comprise as follows:

| **Type** | **Nominal value** | **Unamortized discount** | **Accrued interest** | **Marked to market gain/ (loss)** | **Fair Value** |
|---|---|---|---|---|---|
| *Lek denominated* | 164,046,707 | (124,615) | 2,425,359 | (1,850,277) | 164,497,174 |
| *USD denominated* | 250,439,350 | (161,470) | 3,074,460 | (20,319,669) | 233,032,671 |
| *EUR denominated* | 598,178,992 | (7,031,054) | 6,379,523 | (53,919,832) | 543,607,629 |
| *TRY denominated* | 1,564,250 | - | 10,400 | (78,417) | 1,496,233 |
| *CAD denominated* | 6,420,634 | - | - | 7,407,606 | 13,828,240 |
| *GBP denominated* | 21,626,369 | 459,934 | 264,954 | (1,324,373) | 21,026,884 |
| *SEK denominated* | 48,962 | - | - | (40,149) | 8,813 |
| *CHF denominated* | 4,773,209 | (24,139) | 18,363 | (152,366) | 4,615,067 |
| | **1,047,098,473** | **(6,881,344)** | **12,173,059** | **(70,277,477)** | **982,112,711** |

### 9. Investment securities (continued)

Available-for-sale securities as at 31 December 2021 comprise as follows:

| Type | Nominal value | Unamortized discount | Accrued interest | Marked to market gain/ (loss) | Fair Value |
|---|---|---|---|---|---|
| *Lek denominated* | 961,865,966 | 2,249,240 | 13,537,365 | 35,311,295 | 1,012,963,866 |
| *USD denominated* | 369,846,000 | 6,257,141 | 4,492,070 | (1,423,534) | 379,171,677 |
| *EUR denominated* | 596,056,126 | 13,120,472 | 7,315,728 | (2,004,245) | 614,488,081 |
| *TRY denominated* | 2,198,235 | - | 21,211 | (43,852) | 2,175,594 |
| *CAD denominated* | 6,838,255 | - | - | 8,628,224 | 15,466,479 |
| *GBP denominated* | 60,729,497 | 1,555,326 | 1,168,817 | 41,547 | 63,495,187 |
| *SEK denominated* | 68,110 | - | - | (43,055) | 25,055 |
| *CHF denominated* | 8,991,215 | 112,664 | 65,258 | 44,238 | 9,213,375 |
| | **2,006,593,404** | **23,294,843** | **26,600,449** | **40,510,618** | **2,096,999,314** |

#### c) Investment securities - measured at FVTPL (Held-for-trading securities)

Held for trading securities as at 31 December 2022 comprise as follows:

| Type | Nominal value | Unamortized discount | Accrued interest | Marked to market gain/ (loss) | Fair Value |
|---|---|---|---|---|---|
| *ALL denominated* | 2,148,529 | (120,152) | 21,024 | (91,128) | 1,958,273 |
| *EUR denominated* | 2,667,679 | (216,722) | 24,396 | (46,611) | 2,428,742 |
| | **4,816,208** | **(336,874)** | **45,420** | **(137,739)** | **4,387,015** |

Held for trading securities as at 31 December 2021 comprise as follows:

| Type | Nominal value | Unamortized discount | Accrued interest | Marked to market gain/ (loss) | Fair Value |
|---|---|---|---|---|---|
| *ALL denominated* | 9,198,423 | 102,211 | 93,184 | 119,218 | 9,513,036 |
| *USD denominated* | 34,300,000 | 1,686,730 | 535,847 | (454,876) | 36,067,701 |
| *EUR denominated* | 54,859,996 | 1,501,540 | 588,875 | (1,398,359) | 55,552,052 |
| *CHF denominated* | 767,543 | (53,574) | 3,262 | 15,966 | 733,197 |
| | **99,125,962** | **3,236,907** | **1,221,168** | **(1,718,051)** | **101,865,986** |

#### d) Investment securities - measured at amortised cost (Held-to-maturity securities)

Held-to-maturity securities as at 31 December 2022 comprise as follows:

| Type | Nominal Value | Unamortized Premium / (Discount) | Accrued interest | Impairment | Net Value |
|---|---|---|---|---|---|
| *Lek denominated* | 795,807,567 | (2,470,735) | 11,581,984 | (1,804,365) | 803,114,451 |
| *USD denominated* | 241,733,000 | 1,323,085 | 2,973,365 | (2,885,028) | 243,144,422 |
| *EUR denominated* | 628,816,883 | (24,224,269) | 6,831,978 | (5,537,624) | 605,886,968 |
| *GBP denominated* | 43,778,607 | 390,509 | 691,416 | (12,728) | 44,847,804 |
| *CHF denominated* | 2,006,917 | (181,182) | 33,753 | (557,553) | 1,301,935 |
| | **1,712,142,974** | **(25,162,592)** | **22,112,496** | **(10,797,298)** | **1,698,295,580** |

**9. Investment securities (continued)**

Held-to-maturity securities as at 31 December 2021 comprise as follows:

| Type | Nominal Value | Unamortized Premium / (Discount) | Accrued interest | Impairment | Net Value |
|---|---|---|---|---|---|
| *USD denominated* | 80,139,724 | 326,955 | 972,775 | (652,533) | 80,786,921 |
| *EUR denominated* | 137,109,632 | 351,388 | 627,145 | (922,917) | 137,165,248 |
| *CHF denominated* | 1,096,490 | (4,975) | 28,196 | (671) | 1,119,040 |
| | **218,345,846** | **673,368** | **1,628,116** | **(1,576,121)** | **219,071,209** |

## e) Investment securities - measured at amortised cost (Treasury bills held to maturity)

| | | *31 December 2022* | | |
|---|---|---|---|---|
| | Purchase Value | Amortized discount | Impairment | Net Value |
| 12 months | 21,667,570 | 88,617 | (41,458) | 21,714,729 |
| | **21,667,570** | **88,617** | **(41,458)** | **21,714,729** |

There are no treasury bills measured at amortised cost as at 31 December 2021.

**10. Loans to banks**

During 2022 the Bank has purchased syndicated loans of some non-resident banks with ratings as follows:

| | | **31 December 2022** | | |
|---|---|---|---|---|
| | Principal | Interest | Impairment | Total |
| *USD denominated* | 31,428,571 | 572,003 | (157,910) | 31,842,664 |
| *EUR denominated* | 114,679,593 | 627,389 | (1,255,322) | 114,051,660 |
| | **146,108,164** | **1,199,392** | **(1,413,232)** | **145,894,324** |

During 2021 the Bank has purchased syndicated loans of some non-resident banks with ratings as follows:

| | | **31 December 2021** | | |
|---|---|---|---|---|
| | Principal | Interest | Impairment | Total |
| *USD denominated* | 46,064,286 | 414,394 | (410,683) | 46,067,997 |
| *EUR denominated* | 92,767,800 | 460,087 | (1,049,545) | 92, 178,342 |
| | **138,832,086** | **874,481** | **(1,460,228)** | **138,246,339** |

## 11. Loans to customers

Loans to customers consisted of the following:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Loans to customers, gross | 1,439,309,110 | 1,376,515,254 |
| Accrued interest | 6,874,328 | 6,792,467 |
| Less allowances for impairment on loans | (57,612,141) | (67,952,698) |
| Less unamortized deferred fee income | (4,889,348) | (4,756,688) |
| | **1,383,681,949** | **1,310,598,335** |

Movements in the allowance for impairment on loans:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **At 1 January** | 67,952,698 | 70,691,386 |
| Impairment charge for the year, net | (7,284,287) | 4,020,610 |
| Provision reversal of written off loans | (784,202) | (2,856,381) |
| Translation difference | (2,272,068) | (3,902,917) |
| **At the end of the year** | **57,612,141** | **67,952,698** |

All the loans are denominated in Lek, Euro and USD and bear interest at the following rates:

| | |
|---|---|
| Loans in Lek | 0.50% to 25.00% |
| Loans in Euro | 0.50% to 13.00% |
| Loans in USD | 3.09% to 9.00% |

The Bank has granted few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals or are granted to personnel under special conditions.

The classification of business loans by industry is as follows:

| | 31 December 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| | USD | % | USD | % |
| Construction | 198,152,150 | 25% | 189,319,911 | 21% |
| Wholesale and retail trade; repair of motor vehicles and motorcycles | 196,940,601 | 24% | 213,097,134 | 24% |
| Mining and Quarrying | 80,912,355 | 10% | 86,472,785 | 10% |
| Electricity, gas, steam and air conditioning supply | 75,202,910 | 9% | 82,414,448 | 9% |
| Manufacturing | 66,804,441 | 7% | 66,115,107 | 8% |
| Accommodation and food service activities | 42,316,432 | 5% | 41,016,523 | 5% |
| Financial and insurance activities | 35,224,897 | 4% | 42,918,600 | 5% |
| Transportation and storage | 25,236,100 | 3% | 11,977,308 | 1% |
| Agriculture, forestry and fishing | 17,748,633 | 2% | 17,159,117 | 2% |
| Water supply; sewerage, waste management and remediation activities | 14,578,051 | 2% | 15,618,291 | 2% |
| Human health and social work activities | 16,889,568 | 2% | 10,784,520 | 1% |
| Education | 10,136,931 | 1% | 12,458,028 | 1% |
| Real estate activities | 8,599,826 | 1% | 1,867,261 | 1% |
| Administrative and support service sctivities | 2,745,387 | 1% | 2,839,159 | 1% |
| Professional, scientific and technical activities | 1,738,311 | 1% | 430,974 | 1% |
| Public administration and defence; compulsory social security | 1,514,397 | 1% | 2,258,000 | 1% |
| Information and communication | 946,264 | 1% | 39,235,598 | 5% |
| Arts, entertainment and recreation | - | 0% | 5,380 | 1% |
| Other service activities | 5,195,942 | 1% | 7,383,597 | 1% |
| | **800,883,196** | **100%** | **843,371,741** | **100%** |

**11. Loans to customers (continued)**

The classification of retail loans by type is as follows:

| | 31 December 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| | **USD** | **%** | **USD** | **%** |
| Home purchase | 365,550,363 | 57% | 289,399,432 | 54% |
| Super Loan | 135,773,755 | 21% | 121,638,304 | 23% |
| Overdraft and credit cards | 23,426,023 | 4% | 20,207,899 | 4% |
| Shop purchase | 21,289,867 | 3% | 19,355,025 | 4% |
| Home improvement | 19,820,049 | 3% | 21,217,424 | 4% |
| Home reconstruction | 7,266,159 | 1% | 7,177,903 | 1% |
| Car purchase | 4,255,172 | 1% | 3,901,142 | 1% |
| Technical equipment | 1,494,990 | 1% | 1,757,056 | 1% |
| Other types | 59,549,536 | 9% | 48,489,328 | 8% |
| | **638,425,914** | **100%** | **533,143,513** | **100%** |

## 12. Investment in associates

Investment in associates of USD 1,090,943 (31 December 2021: USD 933,964) represents:

a) The equivalent amount of an investment of EUR 1,199,600 into the share capital of Albania Leasing Sh.a (the “Company”) at a participation ratio of 29.99%, decreased to recognise the Bank’s share of the accumulated loss at USD 423,719 (31 December 2021: USD 425,748). The Company was established in August 2, 2013 (inception date) as a Joint Stock Company. The Company obtained the license from the Bank of Albania on April 21, 2014 and started its leasing activity in June 2014.

b) The BKT Kosova’s equivalent amount of an investment of TRY 4,293,013 into the share capital of the company "The Islamic Corporation for the development of the Private Sector" at participation rate of 20%.

## 13. Property and equipment

Property and equipment as at 31 December 2022 and 31 December 2021 are composed as follows:

| | Land, buildings and leasehold improvements | Vehicles and other equipment | Computers and electronic equipment | Office equipment | Total |
|---|---|---|---|---|---|
| **Gross value** | | | | | |
| **At 1 January 2021** | **53,114,322** | **8,572,018** | **33,048,551** | **3,058,868** | **97,793,759** |
| Additions | 1,528,731 | 634,094 | 5,080,709 | 347,588 | **7,591,122** |
| Disposals / transfers | - | (36,118) | (1,568,725) | (50,634) | **(1,655,477)** |
| Translation difference | (3,311,755) | (511,017) | (1,945,650) | (179,443) | **(5,947,865)** |
| **At 31 December 2021** | **51,331,298** | **8,658,977** | **34,614,885** | **3,176,379** | **97,781,539** |
| Additions | 3,337,948 | 234,948 | 6,271,938 | 14,914 | **9,859,748** |
| Disposals / transfers | (10,485,699) | (291,166) | (4,505,303) | (6,478) | **(15,288,646)** |
| Translation difference | (1,286,145) | (172,069) | (572,597) | (51,618) | **(2,082,429)** |
| **At 31 December 2022** | **42,897,402** | **8,430,690** | **35,808,923** | **3,133,197** | **90,270,212** |
| **Accumulated depreciation** | | | | | |
| **At 1 January 2021** | **(18,687,071)** | **(6,369,830)** | **(22,398,526)** | **(2,682,507)** | **(50,137,934)** |
| Charge for the year | (1,038,518) | (879,735) | (2,606,855) | (192,864) | **(4,717,972)** |
| Disposals / write offs | - | 36,118 | 654,162 | 50,634 | **740,914** |
| Translation difference | 1,107,649 | 403,273 | 1,398,571 | 163,355 | **3,072,848** |
| **At 31 December 2021** | **(18,617,940)** | **(6,810,174)** | **(22,952,648)** | **(2,661,382)** | **(51,042,144)** |
| Charge for the year | (792,425) | (751,368) | (2,246,733) | (164,529) | **(3,955,055)** |
| Disposals / write offs | 6,043,859 | 274,723 | 45,647 | 5,722 | **6,369,951** |
| Translation difference | 227,440 | 83,694 | 270,175 | 36,527 | **617,836** |
| **At 31 December 2022** | **(13,139,066)** | **(7,203,125)** | **(24,883,559)** | **(2,783,662)** | **(48,009,412)** |
| **Net book value** | | | | | |
| **At 1 January 2021** | **34,427,251** | **2,202,188** | **10,650,025** | **376,361** | **47,655,825** |
| **At 31 December 2021** | **32,713,358** | **1,848,803** | **11,662,237** | **514,997** | **46,739,395** |
| **At 31 December 2022** | **29,758,336** | **1,227,565** | **10,925,364** | **349,535** | **42,260,800** |

As at 31 December 2022 the gross value of the assets which were fully depreciated and still in use was USD 36,353,433 (2021: USD 35,457,579).

## 14. Intangible assets

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

| | **Software** |
|---|---|
| **Gross value** | |
| **At 1 January 2021** | 18,049,222 |
| Additions | 2,316,898 |
| Translation difference | (965,652) |
| **At 31 December 2021** | **19,400,468** |
| Additions | 6,349,767 |
| Translation difference | (92,426) |
| **At 31 December 2022** | **25,657,809** |
| **Accumulated depreciation** | |
| **At 1 January 2021** | (13,889,771) |
| Charge for the year | (2,204,507) |
| Translation difference | 827,378 |
| **At 31 December 2021** | **(15,266,900)** |
| Charge for the year | (2,924,332) |
| Translation difference | (31,640) |
| **At 31 December 2022** | **(18,222,872)** |
| **Net book value** | |
| **At 1 January 2021** | **4,159,451** |
| **At 31 December 2021** | **4,133,568** |
| **At 31 December 2022** | **7,434,937** |

Software represents mainly the upgraded Bank's operating and accounting system, and the license and software for providing internet and mobile banking services.

## 15. Right of use asset & Lease Liability

The Bank has applied IFRS 16 using the modified retrospective approach. At lease commencement date, the Bank 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 Bank, 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 Bank 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. At the commencement date, the Bank 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 Bank's 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 Bank 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. The Bank 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.

## 15. Right of use asset & Lease Liability (continued)

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

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Buildings | 14,838,905 | 17,683,050 |
| IT Equipment | - | - |
| **Total** | **14,838,905** | **17,683,050** |

The depreciation expenses of right-of-use assets are amounting at USD 2,499,191 for the financial year 2022 (USD 2,778,513 for the financial year 2021).

The lease liabilities are secured by the related underlying assets. Future minimum lease payments are presented as follows:

| 31 December 2022 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Lease payments | 220,594 | 438,753 | 1,842,725 | 7,056,584 | 7,955,673 | 17,514,329 |
| Finance charges | (28,527) | (55,784) | (230,692) | (259,216) | (2,490,172) | (3,064,391) |
| **Net present values** | **192,067** | **382,969** | **1,612,033** | **6,797,368** | **5,465,501** | **14,449,938** |

| 31 December 2021 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Lease payments | 244,107 | 487,802 | 2,153,088 | 8,503,747 | 9,191,645 | 20,580,389 |
| Finance charges | (35,020) | (68,715) | (287,312) | (600,910) | (1,863,558) | (2,855,515) |
| **Net present values** | **209,087** | **419,087** | **1,865,776** | **7,902,837** | **7,328,087** | **17,724,874** |

## 16. Other assets

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

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Assets acquired through legal process, net | 35,378,395 | 33,959,288 |
| Payments in transit | 8,780,826 | 12,413,891 |
| Prepaid expenses | 5,356,397 | 3,585,334 |
| Inventory | 3,483,456 | 601,731 |
| Administration costs receivable from borrowers | 1,462,315 | 1,835,208 |
| Foreign exchange contracts revaluation gain | 1,125,118 | - |
| Advances to suppliers | 442,151 | 2,989 |
| Other debtors, net | 648,413 | 7,083,908 |
| | **56,677,071** | **59,482,349** |

Assets acquired through legal process represent the repossessed collaterals of some unrecoverable loans, the ownership of which was taken on behalf of the Bank. Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The Bank has established an Asset Sale Committee, responsible for the disposal of these assets.

## 16. Other assets (continued)

The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired. These assets are measured at the lower of their carrying amount and fair value less cost to sell. The Bank has estimated an impaired amount of USD 13,230,300 to the total gross amount of USD 48,608,695.
A number of these properties are leased to third parties. Subsequent renewals are negotiated with the lessee on an annual basis. Rental income from these properties of USD 119,071 (31 December 2021: USD 72,157) is recognised in other income.

Payments in transit represent customers' payments drawn on other banks that are in the process of being collected.

Other debtors, net are composed as follows:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Other debtors | 1,936,897 | 8,779,795 |
| Provision for other debtors | (1,288,484) | (1,695,887) |
| **Other debtors, net** | **648,413** | **7,083,908** |

Provision for other debtors includes the 100% specific provision allocated for the debt under collection amounting to TRL 9,840,829 (equivalent of USD 525,825).

The debt under collection represents the uncollected amount of cheques issued from non-resident counterparties.

The movement in provision for other debtors is detailed as below:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Balance at 1 January | (1,695,887) | (2,521,450) |
| Impairment charge of LG&LC | 139,845 | 225,106 |
| Translation difference | 267,558 | 600,457 |
| **Balance at the end of the year** | **(1,288,484)** | **(1,695,887)** |

## 17. Customer deposits

Customer deposits as at 31 December 2022 and 31 December 2021 are composed as follows:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Current accounts:** | | |
| Individuals | 977,015,780 | 881,406,452 |
| Private enterprises | 675,064,759 | 574,137,576 |
| State owned entities | 54,222,654 | 64,205,043 |
| | **1,706,303,193** | **1,519,749,071** |
| **Deposits:** | | |
| Individuals | 2,515,825,956 | 2,386,244,403 |
| Private enterprises | 189,256,298 | 155,033,183 |
| State owned entities | 109,864,935 | 46,522,517 |
| | **2,814,947,189** | **2,587,800,103** |
| **Other customer accounts:** | | |
| Individuals | 23,570,073 | 28,954,807 |
| Private enterprises | 46,377,893 | 45,412,332 |
| State owned entities | 237,518 | 259,810 |
| | **70,185,484** | **74,626,949** |
| | **4,591,435,866** | **4,182,176,123** |

## 17. Customer deposits (continued)

Current accounts and deposits can be further analysed by original maturity and currency as follows:

| | 31 December 2022 | | | 31 December 2021 | | |
|---|---|---|---|---|---|---|
| | **Local currency** | **Foreign currency** | **Total** | **Local currency** | **Foreign currency** | **Total** |
| **Current accounts** | **618,049,689** | **1,088,253,504** | **1,706,303,193** | **599,471,325** | **920,277,746** | **1,519,749,071** |
| **Deposits** | | | | | | |
| On demand | 125,227,542 | 376,757,844 | **501,985,386** | 123,619,464 | 338,101,155 | **461,720,619** |
| Up to 39 days | 55,578,224 | 31,904,263 | **87,482,487** | 34,044,755 | 42,236,236 | **76,280,991** |
| 40-99 days | 23,501,114 | 73,860,636 | **97,361,750** | 27,516,051 | 64,817,685 | **92,333,736** |
| 100-189 days | 45,635,847 | 81,045,362 | **126,681,209** | 54,603,188 | 78,728,345 | **133,331,533** |
| 190- 370 days | 420,209,651 | 603,323,497 | **1,023,533,148** | 437,203,792 | 582,257,733 | **1,019,461,525** |
| 371 days and over | 339,566,236 | 625,795,911 | **965,362,147** | 302,708,996 | 493,958,785 | **796,667,781** |
| Accrued interest on deposits | 5,593,234 | 6,947,828 | **12,541,062** | 3,871,529 | 4,132,389 | **8,003,918** |
| **Total deposits** | **1,015,311,848** | **1,799,635,341** | **2,814,947,189** | **983,567,775** | **1,604,232,328** | **2,587,800,103** |
| **Other customer accounts** | **37,587,945** | **32,597,539** | **70,185,484** | **36,688,937** | **37,938,012** | **74,626,949** |
| **Total customer deposits** | **1,670,949,482** | **2,920,486,384** | **4,591,435,866** | **1,619,728,037** | **2,562,448,086** | **4,182,176,123** |

Other customer accounts are composed as follows:

| | 31 December 2022 | | | 31 December 2021 | | |
|---|---|---|---|---|---|---|
| | **Local currency** | **Foreign currency** | **Total** | **Local currency** | **Foreign currency** | **Total** |
| Guarantees for letters of credit | - | 45 | **45** | - | 47 | **47** |
| Escrow accounts | 27,901,615 | 26,794,439 | **54,696,054** | 23,354,027 | 27,306,737 | **50,660,764** |
| Payment orders to be executed | 1,263,035 | 661,026 | **1,924,061** | 1,016,401 | 705,338 | **1,721,739** |
| Other | 8,423,295 | 5,142,029 | **13,565,324** | 12,318,509 | 9,925,890 | **22,244,399** |
| | **37,587,945** | **32,597,539** | **70,185,484** | **36,688,937** | **37,938,012** | **74,626,949** |

Deposit guarantee for letters of credit represent the cash collateral held by the Bank against similar collateral provided by the Bank to correspondent banks for letters of credit opened on behalf of its customers.

Escrow accounts balance represents sums blocked until the completion of an operation or the extinction of a risk. Amounts registered in these accounts mostly relate to cash coverage received from customers due to the issuance of bid and performance bonds by the Bank or due to treasury bill transactions with Bank of Albania intermediated by the Bank. Other represents deposits that are pending to be allocated into the relevant deposit category.

## 18. Due to banks and financial institutions

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

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Treasury bills sold under Repo agreements with Central Bank | 187,547,023 | 245,730,783 |
| Securities sold under Repo agreement | 30,709,490 | 28,147,025 |
| Deposits from banks | 70,109,308 | 82,154,337 |
| Current accounts of non-resident banks | 7,815,106 | 1,680,887 |
| Current accounts of resident banks | 96,922 | 102,866 |
| Borrowing from financial institutions | 9,506,485 | 15,129,361 |
| | **305,784,334** | **372,945,259** |

Treasury bills and Albanian Government Bonds and Securities with a total value of USD 343,225,900 (31 December 2021: USD 320,678,295) were used to secure Repo agreements and borrowings from banks.

Deposits from banks as at 31 December 2022 represent short-term borrowings obtained from resident and non-resident banks.

Borrowing from financial institutions represents borrowings of EUR 8,888,889 outstanding as at 31 December 2022 (31 December 2021: EUR 13,333,333), which are disbursed from EFSE (European Fund for Southeast Europe) and GGF (Green for Growth Fund Southeast) to BKT Kosovo, bearing an interest rate between 4.73% - 4.83%.

## 19. Due to third parties

The Bank acts as an agent for the tax authorities, either in the collection of taxes or in performing advance payments for the budget. In return, the Bank charges a commission to the taxpayers for the service rendered. The credit balance as at 31 December 2022 of USD 4,294,958 (31 December 2021: USD 1,943,486) represents the net outstanding amount of payments and collections made by the Bank to and from third parties, on behalf of tax authorities.

## 20. Deferred tax assets (liabilities)

Deferred income taxes are calculated using a tax rate of 15% for Albania and 10% for Kosovo. The movement on the deferred income tax account is as follows:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Asset (liability) at 1 January | 2,347,752 | 2,369,463 |
| Income for the period | 10,021,691 | 108,133 |
| Exchange differences | 548,644 | (129,844) |
| **Asset at the end of the year** | **12,918,087** | **2,347,752** |

Deferred income tax assets / (liabilities) are attributable to the following items:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Deferred income on fees on loans | 619,039 | 632,467 |
| Decelerated depreciation | 1,467,731 | 1,265,128 |
| Provision of other debtors | 542,429 | 545,026 |
| Allowance for loan impairment | 334,937 | 319,119 |
| Fair value reserve for AFS securities | 9,966,896 | (438,459) |
| Interest expenses on deposits | 60,265 | 16,807 |
| Net effect of IFRS 16 | (73,210) | 7,664 |
| | **12,918,087** | **2,347,752** |

## 21. Accruals and other liabilities

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Dividend payable | 50,000,000 | 45,000,000 |
| Foreign exchange contracts revaluation loss | 7,259,738 | 7,071,798 |
| Payments in transit | 7,066,845 | 10,557,456 |
| Due to tax authorities | 3,916,249 | 2,600,966 |
| Bonus payable | 3,189,089 | 2,708,561 |
| Accrued expenses | 2,806,093 | 1,558,618 |
| Creditors | 2,038,558 | 2,156,652 |
| Liability for retiring employees (note 3(s).ii.) | 835,074 | 893,015 |
| Payables to constructors for home loans | 363,963 | 441,875 |
| Social insurance | 315,884 | 302,877 |
| Cash guarantees from suppliers | 63,818 | 75,129 |
| | **77,855,311** | **73,366,947** |

Dividend payable represents the dividend payment suspended based on the respective decisions of the Supervisory Council of Bank of Albania until 2021 end and 2022 end, paid in February 2022 and February 2023 respectively, following Bank of Albania decisions (See note 1).

Creditors represent balances that relate to old transactions of the Albanian Government and are pending on the future determination of the rightful owner of these amounts.

Bonus payable represents the accrued yearly performance bonus for the Bank's staff and management, which is expected to be paid within the first quarter of 2023.

Liability for retiring employees represents a specific fund created in 2002 by the Bank, which will be paid to staff on their retirement. The investment in this fund has been stopped by the Bank on 30 September 2010 (See note 3(s).ii.).

## 22. Subordinated debt

Subordinated debt of USD 50,319,179 (31 December 2021: USD 28,405,688) represents the equivalent amount of a ten-year facility of EUR 25 million, bearing an interest rate of 7.63% and payable on its maturity date with bullet payment. Subordinated debt was obtained from the Green for Growth Fund Southeast Europe, under the Subordinated Term Loan Facility Agreement, signed on 22 December 2015 with the purpose of granting loans related to Energy Efficiency and Renewable Energy investments. Pursuant to the approvals granted by Bank of Albania, the subordinated debt was classified as second-tier capital and included in the regulatory capital of the Bank. Moreover, during 2022, BKT Kosova obtained the same ten-year facility instrument from Green for Growth Fund Southeast Europe and European Fund For Southeast Europe amounting in total at EUR 22 milion, bearing an interest rate of 6.38%.

## 23. Shareholder's equity and reserves

### Share Capital

At 31 December 2022 the authorised share capital comprised 24,291,498 ordinary shares (31 December 2021: 24,291,498). The shares have a par value of USD 12.35. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank's residual assets.

### Reserves

***Translation reserve***

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of consolidated financial statements from functional currency to presentation currency.

***Fair value reserve and impairment of FVOCI***

***c) Fair value reserve***

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments (investment securities measured at FVOCI), excluding impairment losses, until the investment is derecognised or impaired.

***d) Impairment of FVOCI***

Following the requirements of the standard "*IFRS 9-Financial Instruments*", impairment of FVOCI represents the impairment provision for debt securities measured at FVOCI recognised in other comprehensive income.

The impairment of FVOCI at USD 33,023,800 (31 December 2021: USD 5,822,888) for the financial year 2022 is composed of available-for-sale securities impairment provision at USD 32,847,021 (31 December 2021: USD 5,756,552) and treasury bills available-for-sale impairment provision at USD 176,779 (31 December 2021: USD 66,336).

### Retained earnings

Retained earnings as at 31 December 2022, includes the cumulative non distributed earnings. As described in Note 1, the Bank created legal reserves of Lek 859,352 thousand (equivalent of USD 7,523,659) and decided to distribute Lek 5,618,000 thousand (equivalent of USD 50,000,000) as dividends, using part of the statutory net profit for the year ended December 31, 2021 and part of the net profit of the year 2020. The remaining part of statutory profit for the year 2021 was kept as retained earnings. Retained earnings are distributable.

Retained earnings include the amount 9,887,370 USD representing the revaluation surplus, net of taxes, created for the ex-Head Office property which is sold within 2022 year at the revaluated amount, in accordance with the requirements of IAS 16 "Property, plant and equipment".

## 24. Interest income

Interest income is composed as follows:

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|---|---|
| Placements with banks and balances with Central Bank | 7,638,428 | 8,281,058 |
| Investment securities | 93,681,182 | 82,122,971 |
| Loans to customers | 71,464,415 | 78,423,423 |
| | **172,784,025** | **168,827,452** |

Interest income from investment securities can be further detailed as follows:

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|---|---|
| Treasury bills | 3,565,677 | 3,056,303 |
| Trading and available-for-sale financial assets | 41,246,964 | 71,816,555 |
| Held-to-maturity investments | 48,868,541 | 7,250,113 |
| | **93,681,182** | **82,122,971** |

## 25. Interest expense

Interest expense raised from financial liabilities measured at amortized cost is composed as follows:

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|---|---|
| Due to banks and financial institutions | 6,988,940 | 3,880,438 |
| Customer deposits | 22,247,979 | 17,674,453 |
| Lease liability | 361,043 | 432,368 |
| | **29,597,962** | **21,987,259** |

## 26. Fees and commissions, net

Fee and commission revenue and expense are comprised of the following items:

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|---|---|
| *Fee and commission income* | | |
| Electronic banking transactions | 10,964,620 | 8,871,235 |
| Payment services to clients | 7,704,236 | 7,920,981 |
| Customer accounts' maintenance | 5,257,416 | 5,133,149 |
| Inter-bank transactions | 4,357,706 | 2,557,918 |
| Lending activity | 892,430 | 1,630,032 |
| Cash transactions with clients | 849,981 | 985,017 |
| Other fees and commissions | 518,912 | 444,434 |
| | *30,545,301* | *27,542,766* |
| *Fee and commission expense* | | |
| Inter-bank transactions | (1,177,503) | (497,409) |
| Payment services to clients | (138,313) | (140,892) |
| Customer accounts' maintenance | (80,631) | (80,619) |
| Transactions with clients | (15,228) | (2,912) |
| Other fees and commissions | (2,888) | (1,626) |
| | *(1,414,563)* | *(723,458)* |
| **Fees and commissions, net** | **29,130,738** | **26,819,308** |

## 27. Foreign exchange revaluation gain/(loss), net

Foreign exchange revaluation gain/(loss) represents the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in Note 3(b) it also includes the revaluation of the Bank's share capital. The revaluation loss on the share capital revaluation for the year ended 31 December 2022 is USD 1,353,623 (year ended 31 December 2021 loss: USD 16,520,143).

## 28. Other (expense) / income, net

Other income and expenses are composed as follows:

| | **Year ended 31 December 2022** | **Year ended 31 December 2021** |
|---|---|---|
| *Other income* | | |
| Dividend income from equity investments | 2,795,904 | 3,685,663 |
| Gain on recovery of written off loans to customers | 1,151,425 | 4,464,043 |
| Income from market value of held-for-trading securities | 1,040,371 | - |
| Reversal of provisions on assets acquired through legal process | 729,932 | 814,670 |
| Gain on sale of assets acquired through legal process | 348,875 | 489,057 |
| Gain on sale of property and equipment | 215,549 | 112,006 |
| Income from operating lease | 153,283 | 72,157 |
| Reversal of staff pension fund | 12,914 | 5,451 |
| Reversal of other debtors | - | 210,517 |
| Sundry | 12,757 | 190,619 |
| | *6,461,010* | *10,044,183* |
| *Other expense* | | |
| Write off of loans to customers, net | (110,054) | (1,567,197) |
| Provisions on assets acquired through legal process | (74,334) | (844,489) |
| Loss on sale or write off of fixed assets and repossessed assets | (14,060) | (127,422) |
| Expense from market value of HFT | - | (2,061,195) |
| Sundry | (429,371) | (311,781) |
| | *(627,819)* | *(4,912,084)* |
| **Other (expense) / income, net** | **5,833,191** | **5,132,099** |

A reconciliation of expenses related to write off of loans to customers is as follows:

| | **Year ended 31 December 2022** | **Year ended 31 December 2021** |
|---|---|---|
| Write off of loans to customers, gross | (894,256) | (4,423,578) |
| Provision reversal of written off loans | 784,202 | 2,856,381 |
| **Write off of loans to customers, net** | **(110,054)** | **(1,567,197)** |

## 29. Personnel expenses

Personnel expenses are composed as follows:

| | **Year ended 31 December 2022** | **Year ended 31 December 2021** |
|---|---|---|
| Salaries | 18,162,155 | 17,405,392 |
| Performance bonus | 3,440,519 | 3,306,747 |
| Social insurance | 1,895,621 | 1,832,562 |
| Training | 248,327 | 189,902 |
| Life insurance | 254,093 | 141,699 |
| Other | 3,682,705 | 2,540,633 |
| | **27,683,420** | **25,416,935** |

## 30. Administrative expenses

Administrative expenses are composed as follows:

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|---|---|
| Credit/debit cards expenses | 12,744,641 | 10,884,160 |
| Deposit insurance expense | 10,670,735 | 10,961,000 |
| Telephone, electricity and IT expenses | 3,621,235 | 3,842,384 |
| Repairs and maintenance | 3,377,371 | 3,168,802 |
| Marketing expenses | 2,888,615 | 1,342,222 |
| Other external services (including external audit fees) | 2,650,700 | 3,059,406 |
| Security and insurance expenses | 1,828,920 | 1,728,314 |
| Extraordinary fund expenses | 1,711,200 | 1,722,767 |
| Taxes other than tax on profits | 961,197 | 244,193 |
| Transportation and business related travel | 715,606 | 565,517 |
| Office stationery and supplies | 363,966 | 298,784 |
| Representation expenses | 308,412 | 198,075 |
| Lease payments | 73,045 | 140,376 |
| Sundry | 1,902,030 | 1,782,158 |
| | **43,817,673** | **39,938,158** |

The law No. 25/2018 On Accounting and Financial Reporting requires the disclosure of the Audit fee related to the Statutory Audit. The expense for statutory audit included in the Other external services (including external audit fees) amounts to USD 87,997.

## 31. Impairment of financial assets, other than loans to customers

Movements in the allowance for impairment financial assets other than loan:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **At 1 January** | **9,584,090** | **9,081,196** |
| **Impairment charge/(reversal) for the period** | **36,098,059** | **1,017,690** |
| - on investment securities | 36,219,706 | 853,544 |
| - on placements | 7,369 | (36,120) |
| - on loans to banks | 10,829 | 380,912 |
| - on other assets | (139,845) | (180,646) |
| Translation difference | 145,290 | (514,796) |
| **At the end of the period** | **45,827,439** | **9,584,090** |

## 32. Income tax

Income tax is comprised of:

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|---|---|
| Current income tax | 16,515,803 | 14,855,204 |
| Deferred tax (income)/expense (note 20) | (582,106) | (108,132) |
| | **15,933,697** | **14,747,072** |

## 32. Income tax (continued)

The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Profit before taxes | **121,248,974** | **107,839,968** |
| Computed tax using statutory tax rate of 15 % | 14,961,309 | 13,078,310 |
| Effect of tax rates in foreign jurisdictions at 10% | 2,017,769 | 1,830,315 |
| Non tax deductible expenses | (67,437) | (177,527) |
| Foreign exchange difference | (977,944) | 15,974 |
| **Income tax** | **15,933,697** | **14,747,072** |
| **Effective tax rate** | **13.14%** | **13.67%** |

## 33. 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 Holding at 100% as at 31 December 2022. The ultimate controlling party is Mr. Ahmet Calik. ALBtelecom Sh.a., Aktif Yatirim Bankasi A.S. ("AktifGroup"), ArkEstate Investments, Kosovo Electricity Distribution and Supply Company J.S.C (KEDS) and Kosovo Electricity Supply Company J.S.C (KESCO) are controlled by Calik Holding. Albania Leasing sh.a represent an affiliate of the Group. On March 4$^{th}$, 2022, following the approval of the Albanian authorities, 4iG Plc. acquired 80.27 percent stake from Çalik Holding in ALBtelecom.

***Balances and transactions with related parties***

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Assets** | | |
| ***Placement and balances with banks:*** | | |
| Current accounts with Aktifbank | 112,198 | 91,592 |
| Placements with Aktifbank | 14,940,217 | - |
| Investment Securities with Calik Holding | 18,892,512 | - |
| ***Loans to customers:*** | | |
| Albtelecom | - | 38,148,737 |
| Albania Leasing | - | 3,212 |
| ArkEstate | 5,568,248 | - |
| ***Other assets:*** | | |
| Receivables from Albtelecom Sh.a | - | 10,311 |
| **Total assets** | **39,513,175** | **38,253,852** |
| | | |
| **Liabilities** | | |
| ***Due to banks and financial institutions:*** | | |
| Borrowings from Aktifbank | 15,080,244 | 18,005,053 |
| ***Customer deposits:*** | | |
| Albtelecom Sh.a. | - | 469,039 |
| Albania Leasing | 79,420 | 112,499 |
| KEDS / KESCO | 19,057,455 | 22,876,105 |
| ***Other Liabilities:*** | | |
| Dividend Payable to Calik Holding | 50,000,000 | 45,000,000 |
| **Total liabilities** | **84,217,119** | **86,462,696** |

## 33. Related party transactions (continued)

### *Balances and transactions with related parties (continued)*

| | 2022 | 2021 |
|---|---|---|
| **Statement of comprehensive income** | | |
| ***Interest income from:*** | | |
| Albtelecom Sh.a. | - | 1,672,560 |
| Albania Leasing | 6 | 612 |
| Aktifbank | 586,900 | - |
| Calik Holding | 372,862 | - |
| ArkEstate | 3,272 | - |
| ***Interest expenses for:*** | | |
| Aktifbank | (150,992) | (103,533) |
| ***Fees and commissions:*** | | |
| Account maintenance and lending fees from Albtelecom Sh.a. | - | 74,172 |
| Account maintenance and lending fees from Albania Leasing | 3,707 | 5,017 |
| Account maintenance and lending fees from KEDS / KESCO | 35,204 | 79,582 |
| ***Other income:*** | | |
| Operating lease income from Albtelecom Sh.a. | - | 66,216 |
| ***Operating expenses:*** | | |
| Albtelecom Sh.a. and Calik Holding | (514,144) | (2,326,201) |
| **Net** | **336,815** | **(531,575)** |

### *Balances and transactions with directors and executive officers*

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

| | **Year ended 31 December 2022** | **Year ended 31 December 2021** |
|---|---|---|
| Directors | 1,570,355 | 2,217,112 |
| Executive officers | 2,782,811 | 3,596,882 |
| | **4,353,166** | **5,813,994** |

As at 31 December 2022, the total deposits of directors held with the Bank were USD 4,495,731 (31 December 2021: USD 4,374,861), while the outstanding loans granted to directors were USD 540,572 (31 December 2021: USD 350,132).

## 34. Contingencies and commitments

**Guarantees and letters of credit**

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Guarantees in favour of customers | 89,325,877 | 58,334,441 |
| Guarantees received from credit institutions | 48,245,325 | 9,507,118 |
| Letters of credit issued to customers | 2,166,373 | 6,908,425 |

Guarantees and letters of credit issued in favour of customers mostly are counter guaranteed by other financial institutions or fully cash collateralised.

At present the Bank is operating as an agent of the Government in the administration and implementation of certain loans to state owned entities utilising credit lines received from international donors. These donors have received individual guarantees from the Government of Albania to cover the reimbursement of their lines of credit.

**Other**

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Undrawn credit commitments | 164,784,323 | 150,795,791 |
| Outstanding cheques of non-resident banks | 315,525 | 335,009 |
| Spot foreign currency contract | 224,560,300 | 148,265,797 |
| Collaterals for loan portfolio | 3,861,262,871 | 2,419,027,674 |
| Securities pledged as collateral (note 19) | 343,225,900 | 320,678,295 |

**Legal**

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 December 2022.

## 35. Subsequent events

There are no other subsequent events that would require either adjustments or other additional disclosures in the financial statements.