Banka Kombetare Tregtare Sh.a.

Independent auditor's report and
Consolidated interim financial statements
as at and for the six month period ended 30 June 2017

Contents

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Independent Auditor's Review Report

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

We have reviewed the accompanying Consolidated Statement of Financial Position of Banka Kombetare Tregtare Sh.a (hereafter referred as the "Bank", "BKT" or the "Group") as of 30 June 2017 and the related Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of the Consolidated Interim Financial Statements in accordance with the International Financial Reporting Standards. Our responsibility is to express a conclusion on the Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Basis for Qualified Conclusion

The Bank has treated its share capital issued in United States Dollar (USD) as a monetary item in the condensed consolidated financial statements and recognized the revaluation differences for the six-month period ended 30 June 2017 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 30 June 2017 would have been decreased by USD 10,553,452, retained earnings would have been increased by USD 36,129,668, and the net profit would have been decreased by USD 25,576,216 for the six month period ended 30 June 2017. Nevertheless, this would not have affected the total shareholders' equity.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the *Basis for Qualified Conclusion* section of our report, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view of the financial position of the Bank as at 30 June 2017 and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards.

Grant Thornton sh.p.k.
Tirana, Albania
3 August 2017

Kledian Kodra, FCCA

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Banka Kombetare Tregtare Sh.a.

Consolidated statement of financial position as at 30 June 2017

(Amounts in USD)

	Notes	30 June 2017	31 December 2016
Assets			
Cash and balances with Central Bank	7	233,418,483	238,956,317
Placement and balances with banks	8	234,462,475	182,831,892
Treasury bills available-for-sale	9	159,279,334	151,067,452
Trading and available-for-sale securities	10	899,554,325	895,017,446
Held-to-maturity securities	11	159,761,419	129,537,206
Loans to banks	12	406,440,179	355,013,362
Loans to customers	13	1,124,256,847	1,007,063,126
Investment in associates	14	1,367,626	1,265,678
Property and equipment	15	20,808,604	18,961,617
Intangible assets	16	1,833,222	1,651,692
Other assets	17	43,644,553	37,275,880
Total assets		**3,284,827,067**	**3,018,641,668**
Liabilities and shareholder's equity			
Liabilities			
Customer deposits	18	2,584,620,103	2,348,186,010
Due to banks and financial institutions	19	291,364,031	276,910,754
Due to third parties	20	3,942,917	4,672,432
Deferred tax liabilities	21	376,817	1,338,585
Accruals and other liabilities	22	12,211,710	11,408,765
Subordinated debt	23	28,566,957	26,441,225
Total liabilities		**2,921,082,535**	**2,668,957,771**
Shareholder's equity			
Share capital	24	274,350,310	250,000,000
Translation reserve	24	1,904,215	(1,823,607)
Fair value reserve	24	11,944,970	762,502
Retained earnings	24	75,545,037	100,745,002
Total shareholder's equity		**363,744,532**	**349,683,897**
Total liabilities and shareholder's equity		**3,284,827,067**	**3,018,641,668**

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 62.

The consolidated financial statements were authorised for release by the Board of Directors on 26 July 2017 and signed on its behalf by:

Seyhan Pencabligil
CEO and Board Member

Skender Emini
Head of Financial and IT Group

Consolidated statement of profit or loss and other comprehensive income for the six month period ended 30 June 2017

(Amounts in USD)

	Notes	Six-month period ended 30 June 2017	Three-month period ended 30 June 2017	Six-month period ended 30 June 2016	Three-month period ended 30 June 2016
Interest					
Interest income	**25**	63,148,724	32,639,310	61,272,831	30,690,394
Interest expense	**26**	(13,015,097)	(6,653,497)	(14,204,526)	(6,902,814)
Net interest margin		**50,133,627**	**25,985,813**	**47,068,305**	**23,787,580**
Non-interest income, net					
Fees and commissions, net	**27**	9,779,187	4,800,815	7,426,530	4,272,596
Foreign exchange revaluation, net	**28**	(7,685,473)	(7,409,083)	(766,652)	(4,681)
Foreign exchange trading activities income, net		589,760	333,085	1,267,488	685,677
Securities trading gain, net		3,323,078	1,418,536	6,606,152	4,575,023
Other (expense)/income, net	**29**	(1,489,371)	(924,576)	(944,539)	(348,475)
Total non-interest income, net		**4,517,181**	**(1,781,223)**	**13,588,979**	**9,180,140**
Operating expenses					
Personnel expenses	**30**	(8,497,774)	(4,302,286)	(8,309,856)	(4,188,253)
Administrative expenses	**31**	(11,165,061)	(6,229,806)	(10,779,375)	(6,128,208)
Depreciation and amortization	**15,16,17**	(1,780,287)	(912,926)	(2,062,319)	(1,036,899)
Total operating expenses		**(21,443,122)**	**(11,445,018)**	**(21,151,550)**	**(11,353,360)**
Impairment of loans	**13**	(3,343,451)	776,094	(4,112,577)	(3,565,692)
Profit before taxes		**29,864,235**	**13,535,666**	**35,393,157**	**18,048,668**
Income tax	**32**	(4,724,013)	(2,146,253)	(5,539,987)	(2,897,050)
Net profit for the period		**25,140,222**	**11,389,413**	**29,853,170**	**15,151,618**
Foreign currency translation differences		3,727,822	1,849,458	83,426	(287,382)
Net change in fair value reserves		11,182,468	390,477	32,316,414	15,656,946
Other comprehensive income for the period, net of income tax		**14,910,290**	**2,239,935**	**32,399,840**	**15,369,564**
Total comprehensive income for the period		**40,050,512**	**13,629,348**	**62,253,010**	**30,521,182**

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 62.

Consolidated statement of changes in equity for the six month period ended 30 June 2017

(Amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2016	**206,911,900**	**-**	**(2,229)**	**976,965**	**85,681,396**	**293,568,032**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners	-	-	-	-	-	**-**
Increase in share capital	43,088,100	-	-	-	(43,088,100)	**-**
Appropriation of year 2015 translation difference	-	-	-	-	(2,229)	**(2,229)**
Adjustment of retained earnings with June 2016 period end exchange rate	-	-	-	-	1,483,785	**1,483,785**
Total transactions with owners recorded in equity	*43,088,100*	-	-	-	*(41,606,544)*	***1,481,556***
Comprehensive income for the year						
Net profit for the year	-	-	-	-	29,853,170	**29,853,170**
Other comprehensive income, net of income tax						
Net change in fair value reserve	-	-	-	32,316,414	-	**32,316,414**
Foreign currency translation differences	-	-	83,426	-	-	**83,426**
Total other comprehensive income	-	-	83,426	32,316,414	-	**32,399,840**
Total comprehensive income for the year	-	-	*83,426*	*32,316,414*	*29,853,170*	***62,253,010***
Balance as at 30 June 2016	**250,000,000**	**-**	**81,197**	**33,293,379**	**73,928,022**	**357,302,598**

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 62.

Consolidated statement of changes in equity for the six month period ended 30 June 2017

(Amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2017	**250,000,000**	**-**	**(1,823,607)**	**762,502**	**100,745,002**	**349,683,897**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	24,350,310	-	-	-	(24,350,310)	**-**
Divident payment					(30,000,000)	**(30,000,000)**
Appropriation of year 2016 translation difference	-	-	-	-	(1,823,607)	**(1,823,607)**
Adjustment of retained earnings with June 2017 period end exchange rate	-	-	-	-	5,833,730	**5,833,730**
Total transactions with owners recorded in equity	*24,350,310*	-	-	-	*(50,340,187)*	***(25,989,877)***
Comprehensive income for the year						
Net profit for the year	-	-	-	-	25,140,222	**25,140,222**
Other comprehensive income, net of income tax						
Net change in fair value reserve	-	-	-	11,182,468	-	**11,182,468**
Foreign currency translation differences	-	-	3,727,822	-	-	**3,727,822**
Total other comprehensive income	-	-	3,727,822	11,182,468	-	**14,910,290**
Total comprehensive income for the year	-	-	*3,727,822*	*11,182,468*	*25,140,222*	***40,050,512***
Balance as at 30 June 2017	**274,350,310**	**-**	**1,904,215**	**11,944,970**	**75,545,037**	**363,744,532**

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 62.

Consolidated statement of cash flows as at and for the six month period ended 30 June 2017

(Amounts in USD)

	Notes	Six-month period ended 30 June 2017	Six-month period ended 30 June 2016
Cash flows from operating activities:			
Profit before taxes		29,864,235	35,393,157
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	26	13,015,097	14,204,526
Interest income	25	(63,148,724)	(61,272,831)
Depreciation and amortization	15,16,17	1,780,287	2,062,319
Gain on sale of property and equipment		-	(39,793)
Gain on sale of treasury bills		(77,360)	(45,932)
Gain on sale of non-current assets		(45,214)	(14,807)
Gain on recovery of written-off loans to customers		(243,565)	(43,201)
Write-off of property and equipment		278	31,142
Write-off of loans to customers		4,036,845	-
Write off of fixed assets and repossessed assets		5,600	586,135
Provision on other debtors		1,202,677	462,975
Loss from other debtors		219,687	46,527
Movement in the fair value reserve		10,341,689	32,173,253
Impairment of loans	13	3,343,451	4,112,577
Cash flows from operating profits before changes in operating assets and liabilities		294,983	27,656,047
(Increase)/decrease in operating assets:			
Restricted balances with central banks		(5,864,203)	(20,472,052)
Placements and balances with banks		17,499,646	658,769
Loans to banks		(13,770,311)	(32,846,050)
Loans to customers		(14,533,458)	(69,146,311)
Other assets		(4,788,061)	1,877,408
		(21,456,387)	(119,928,236)
Increase/(decrease) in operating liabilities:			
Customer deposits		(2,921,493)	3,398,952
Due to third parties		(1,123,514)	830,094
Accruals and other liabilities		2,442,133	(363,297)
Subordinated debt		(528,507)	10,082
		(2,131,381)	3,875,831
Divident payment, net		**(28,500,000)**	**-**
Interest paid		(12,982,443)	(15,142,581)
Interest received		56,160,662	62,753,243
Income taxes paid		(5,356,533)	(7,336,517)
Net cash flows from operating activities		**(13,971,099)**	**(48,122,213)**
Cash flows from investing activities			
Purchases of investment securities		(167,422,111)	(221,895,734)
Purchases of treasury bills		(18,979,467)	20,007,040
Investment in associates		25,360	-
Purchases of property and equipment		(1,710,662)	(1,428,773)
Proceeds from sale of property and equipment		272	298,714
Proceeds from sale of investment securities		233,384,260	149,228,662
Proceeds from sale of treasury bills		25,450,079	10,000,544
Net cash flows used in investing activities		**70,747,731**	**(43,789,547)**
Cash flows from financing activities			
Proceeds from short term borrowings	19	(12,985,056)	71,199,982
Net cash from financing activities		**(12,985,056)**	**71,199,982**
Net change in cash and cash equivalents		**43,791,576**	**(20,711,778)**
Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference)		(6,938,855)	786,401
Cash and cash equivalents at the beginning of the year	7	**218,528,323**	**200,159,020**
Cash and cash equivalents at the end of the period	7	**255,381,044**	**180,233,643**

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 62.

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, its branch 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, EMV-compliant debit and credit cards, ATMs, 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 29 March 2017, the Bank increased its paid-up capital by Lek 3,058,399 thousand (equivalent of USD 24,350,309.75) and distributed Lek 3,768,000 thousand (equivalent of USD 30,000,000) as dividends, using part of the statutory net profit for the year ended December 31, 2016 and part of the retained earnings. The capital increase and the dividends distribution were translated into USD using the exchange rate published by Bank of Albania as at 29 March 2017 (125.6 Lek per USD).

Following this increase, the shareholding structure remained the same as did the nominal value of shares at USD 12.35, while the number of shares increased by 1,971,685. The shareholding structure as at 30 June 2017 and 31 December 2016 was as follows:

	30 June 2017			***31 December 2016***		
	No. of shares	**Total in USD**	**%**	**No. of shares**	**Total in USD**	**%**
Calik Finansal Hizmetler A.S.	22,214,600	274,350,310	100	20,242,915	250,000,000.25	100

The headquarters of BKT is located in Tirana. The network of the Bank in Albania includes 64 branches and 2 custom agencies. Twenty-six 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 and Rinas Airport.

The network in Kosovo includes 26 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 1,319 (31 December 2016: 1,311) employees as at 30 June 2017, out of which 365 (31 December 2016: 362) employees belong to Kosovo Branch.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

(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.

(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.

(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.

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(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 = 116.3 Lek (2016: 128.17).
- 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.

3. Significant accounting policies (continued)

(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.

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.

(g) Financial assets and liabilities

(i) Recognition

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 accounting policy 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.

(ii) Classification

Financial assets are classified into the following specified categories: financial assets ‘held for trading, ‘held-to-maturity' investments, ‘available-for-sale' (AFS) financial assets and ‘loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

See also accounting policies 3(h), (i), (j) and (k).

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(iii) Derecognition

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.

(iv) 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.

(v) 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.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vi) 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. 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 into 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.

(vii) Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

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

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

The Bank considers evidence of impairment for loans and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to profit or loss. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

(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),(vi).

3. Significant accounting policies (continued)

(k) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity, which do not meet the definition of loans receivables, that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in profit or loss.

(iii) Held-for-trading

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

These financial assets are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

3. Significant accounting policies (continued)

(l) 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.

(m) 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.

3. Significant accounting policies (continued)

(n) 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.

(o) 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.

3. Significant accounting policies (continued)

(ii) Defined benefit plans

The Bank created a fully employer sponsored pension plan fund-Staff Support Program (See Note 22, “Liability for retiring employees”) 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.

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.

3. Significant accounting policies (continued)

(u) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below. Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's financial statements.

IFRS 9 "Financial Instruments"

The new standard for financial instruments (IFRS 9) introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the Group's financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed
- an expected credit loss-based impairment will need to be recognised on the Group's trade receivables and investments in debt-type assets currently classified as AFS and HTM, unless classified as at fair value through profit or loss in accordance with the new criteria
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value.

Changes in fair value will be presented in profit or loss unless the Group makes an irrevocable designation to present them in other comprehensive income.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.
Management has started to assess the impact of the new Standard.
IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.

3. Significant accounting policies (continued)

(u) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group (continued)

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact the Group are in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing their current disclosures for finance leases and operating leases (Note 34, Section, 'Lease commitments') as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions
- considering the IT system requirements and whether a new leasing system is needed. This is being considered in line with implementing IFRS 15 and IFRS 9 so the Group only have to undergo one set of system changes
- assessing the additional disclosures that will be required.

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

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).

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(g)(vii).

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortized cost.

Impairment of available-for-sale equity investments.

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

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)(vi). 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.

4. Use of estimates and judgements (continued)

Critical accounting judgements in applying the Bank's accounting policies

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)(vi).

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:

30 June 2017	**Note**	**Carrying Amount**			**Fair Value**	
			Level 1	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	8	234,462,475	-	234,462,475	-	234,462,475
Treasury bills available-for-sale	9	159,279,334	-	159,279,334	-	159,279,334
Trading and available-for-sale securities	10	899,554,325	212,218,705	687,335,620	-	899,554,325
Held-to-maturity securities	11	159,761,419	150,792,082	15,854,710	-	166,646,792
Loans to banks	12	406,440,179	-	406,440,179	-	406,440,179
Loans to customers	13	1,124,256,847	-	-	1,124,256,847	1,124,256,847
Total financial assets		**2,983,754,579**	**363,010,787**	**1,503,372,318**	**1,124,256,847**	**2,990,639,952**
Customer deposits	18	2,584,620,103	-	-	2,584,620,103	2,584,620,103
Due to banks and financial institutions	19	291,364,031	-	291,364,031	-	291,364,031
Subordinated debt	23	28,566,957	-	28,566,957	-	28,566,957
Total financial liabilities		**2,904,551,091**	**-**	**319,930,988**	**2,584,620,103**	**2,904,551,091**
31 December 2016	**Note**	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	8	182,831,892	-	182,831,892	-	182,831,892
Treasury bills available-for-sale	9	151,067,452	-	151,067,452	-	151,067,452
Trading and available-for-sale securities	10	895,017,446	285,971,696	609,045,750	-	895,017,446
Held-to-maturity securities	11	129,537,206	105,036,522	28,356,060	-	133,392,582
Loans to banks	12	355,013,362	-	355,013,362	-	355,013,362
Loans to customers	13	1,007,063,126	-	-	1,007,063,126	1,007,063,126
Total financial assets		**2,720,530,484**	**391,008,218**	**1,326,314,516**	**1,007,063,126**	**2,724,385,860**
Customer deposits	18	2,348,186,010	-	-	2,348,186,010	2,348,186,010
Due to banks and financial institutions	19	276,910,754	-	276,910,754	-	276,910,754
Subordinated debt	23	26,441,225	-	26,441,225	-	26,441,225
Total financial liabilities		**2,651,537,989**	**-**	**303,351,979**	**2,348,186,010**	**2,651,537,989**

The fair value of foreign exchange contracts approximates their carrying amount, which is disclosed in Notes 17 and 22. 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.

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 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 1,000,000 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)

Maximum credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Cash and balances with Central Bank	233,418,483	238,956,317
Treasury bills available-for-sale	159,279,334	151,067,452
Due from other banks	640,902,654	537,845,254
Loans to customers, net	1,124,256,847	1,007,063,126
Trading and available-for-sale securities	899,554,325	895,017,446
Held-to-maturity securities	159,761,419	129,537,206
Other Assets	15,158,309	9,669,023
Financial guarantees	83,081,303	60,842,387
Standby letters of credit	2,797,859	3,021,090
Commitments to extend credit	140,333,340	111,676,030
Maximum exposures to credit risk	**3,458,543,873**	**3,144,695,331**

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). These loans are graded A to D in the Bank's internal credit risk grading system. 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

5. Financial risk management (continued)

(b) Credit Risk (continued)

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.

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.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. It relates to the specific loss component for individually significant exposures. Refer to note 4.

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.

	Loans to customers			
30 June 2017	**Retail**	**Business**	**Advances**	**Total**
Neither past due nor impaired	301,679,723	720,249,555	806,951	1,022,736,229
Past due and individually tested but not impaired	32,337,675	40,131,180	43,503	72,512,358
Individually impaired	14,502,331	65,418,017	809,496	80,729,844
Total Loans, gross (Note 13)	**348,519,729**	**825,798,752**	**1,659,950**	**1,175,978,431**
Allowance for individual impairment	(8,574,027)	(30,493,202)	(756,980)	(39,824,209)
Allowance for collective impairment	(3,587,223)	(8,300,797)	(9,355)	(11,897,375)
Total Loans, net of impairment	**336,358,479**	**787,004,753**	**893,615**	**1,124,256,847**

	Loans to customers			
31 December 2016	**Retail**	**Business**	**Advances**	**Total**
Neither past due nor impaired	265,536,865	642,836,073	795,476	909,168,414
Past due and individually tested but not impaired	30,738,353	33,092,537	46,024	63,876,914
Individually impaired	13,118,482	67,170,348	911,048	81,199,878
Total Loans, gross (Note 13)	**309,393,700**	**743,098,958**	**1,752,548**	**1,054,245,206**
Allowance for individual impairment	(7,771,331)	(27,953,189)	(862,754)	(36,587,274)
Allowance for collective impairment	(3,179,542)	(7,406,008)	(9,256)	(10,594,806)
Total Loans, net of impairment	**298,442,827**	**707,739,761**	**880,538**	**1,007,063,126**

5. Financial risk management (continued)

(b) Credit Risk (continued)

Set out below is an analysis about the credit quality of corporate loans to customers:

Rating	**30 June 2017**	**31 December 2016**
A – Good	7,777,025	4,760,599
B – Acceptable	706,576,984	658,908,552
C – Close Monitoring	60,925,651	37,427,684
D – Unacceptable	38,153,858	36,866,085
(Note 13)	**813,433,518**	**737,962,920**
Accrued interest	14,392,906	7,246,826
Less: unamortized deferred fee income	(2,027,672)	(2,110,788)
Total	**825,798,752**	**743,098,958**

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

	Loans to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
30 June 2017	4,663,710	69,057,289	17,433	73,738,432
31 December 2016	4,418,987	62,789,699	16,411	67,225,097

Set out below is the ageing analysis of all past due loans either impaired or not impaired individually:

	Loans to customers			
30 June 2017	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	27,554,274	38,635,998	249,234	66,439,506
Past due 32-60 days	7,620,246	26,160,039	116,682	33,896,967
Past due 61-90 days	8,518,797	82,819,529	196,223	91,534,549
Past due 91-180 days	4,784,375	3,389,838	41,336	8,215,549
Past due 181 days- 365 days	4,540,865	2,190,484	13,141	6,744,490
Past due 1-2 years	3,279,649	30,738,155	7,730	34,025,534
Past due over 2 years	6,473,145	28,844,211	272,094	35,589,450
Total	**62,771,351**	**212,778,254**	**896,440**	**276,446,045**

	Loans to customers			
31 December 2016	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	25,478,935	16,576,800	283,781	42,339,516
Past due 32-60 days	7,799,249	4,041,606	156,459	11,997,314
Past due 61-90 days	8,496,022	6,478,878	115,234	15,090,134
Past due 91-180 days	2,305,143	1,684,031	15,997	4,005,171
Past due 181 days- 365 days	4,462,492	26,290,859	36,120	30,789,471
Past due 1-2 years	2,736,913	16,456,868	12,716	19,206,497
Past due over 2 years	6,379,937	18,491,213	369,249	25,240,399
Total	**57,658,691**	**90,020,255**	**989,556**	**148,668,502**

5. Financial risk management (continued)

(b) Credit Risk (continued)

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

	Loans to customers		
30 June 2017	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial Property	796,152,913	1,129,003,772	1,925,156,685
Financial assets	23,544,087	184,859,553	208,403,640
Other	145,272,726	306,843,780	452,116,506
Total	**964,969,726**	**1,620,707,105**	**2,585,676,831**

	Loans to customers		
31 December 2016	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial Property	714,788,877	1,011,319,949	1,726,108,826
Financial assets	20,541,756	192,506,429	213,048,185
Other	113,447,284	299,991,369	413,438,653
Total	**848,777,917**	**1,503,817,747**	**2,352,595,664**

Credit quality of other financial assets, based on the internal rating system of the Bank is detailed as follows:

30-Jun-17	**Cash and balances with Central Bank**	**Treasury Bills**	**Due from other banks**	**Available for sale portfolio**	**Held to maturity portfolio**	**Other Assets**	**Total**
Good	233,418,483	159,279,334	640,902,654	899,554,325	159,761,419	15,158,309	2,108,074,524
Acceptable	-	-	-	-	-	-	-
Close monitoring	-	-	-	-	-	-	-
Total	**233,418,483**	**159,279,334**	**640,902,654**	**899,554,325**	**159,761,419**	**15,158,309**	**2,108,074,524**

31-Dec-16	**Cash and balances with Central Bank**	**Treasury Bills**	**Due from other banks**	**Available for sale portfolio**	**Held to maturity portfolio**	**Other Assets**	**Total**
Good	238,956,317	151,067,452	537,845,254	895,017,446	129,537,206	9,669,023	1,962,092,698
Acceptable	-	-	-	-	-	-	-
Close monitoring	-	-	-	-	-	-	-
Total	**238,956,317**	**151,067,452**	**537,845,254**	**895,017,446**	**129,537,206**	**9,669,023**	**1,962,092,698**

5. Financial risk management (continued)

(b) Credit Risk (continued)

The Treasury Bills, Investments Available for Sale, and Investments Held to Maturity are rated as follows:

Moody's Ratings or equivalent	**Note**	**30 June 2017**	**31 December 2016**
Government bonds and treasury bills	**9,10,11**		
Rated A2		-	2,065,992
Rated Baa3 to Baa1		-	4,900,303
Rated Ba3 to Ba1		14,713,269	20,573,877
Rated B1		868,465,708	779,710,193
Not rated		49,441,144	38,067,288
Corporate bonds and asset backed securities	**10,11**		
Rated A3		1,454,299	1,452,549
Rated Baa3		32,313,602	34,284,146
Rated Ba3 to Ba1		11,251,971	11,778,891
Not rated		8,841,226	8,593,922
Bank bonds	**10,11**		
Rated A2		9,607,030	16,053,164
Rated Baa3 to Baa2		97,716,296	41,460,007
Rated Ba2 to Ba1		62,700,344	146,124,589
Rated Ba3		25,324,440	31,634,672
Rated B1		11,979,452	12,012,800
Not rated		-	1,728,998
Investments in equity			
Not rated		24,786,297	25,180,713
Total		**1,218,595,078**	**1,175,622,104**

The rating for Loans to banks is detailed in Note 12.

5. Financial risk management (continued)

(b) Credit Risk (continued)

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 30 June 2017 and 31 December 2016 is shown below:

	Note	Loans to customers		Loans to banks		Investment Securities	
		30 June 2017	**31 December 2016**	**30 June 2017**	**31 December 2016**	**30 June 2017**	**31 December 2016**
Carrying amount	9-11,12,13	1,124,256,847	1,007,063,126	406,440,179	355,013,362	1,218,595,078	1,175,622,104
Concentration by sector							
Corporate		782,181,456	703,157,777	-	-	78,647,395	81,290,221
Government		4,823,297	4,581,984	-	-	932,620,121	845,317,653
Banks		-	-	406,440,179	355,013,362	207,327,562	249,014,230
Retail		337,252,094	299,323,365	-	-	-	-
Total		**1,124,256,847**	**1,007,063,126**	**406,440,179**	**355,013,362**	**1,218,595,078**	**1,175,622,104**

Concentration by location	**Note**	**Loans to customers**		**Loans to banks**		**Investment securities**	
		30 June 2017	**31 December 2016**	**30 June 2017**	**31 December 2016**	**30 June 2017**	**31 December 2016**
Albania		622,613,412	563,532,812	-	-	868,392,647	777,021,466
Kosovo		228,809,205	196,305,023	-	-	49,441,144	38,067,288
Europe		236,785,660	214,381,047	332,634,234	301,629,246	271,393,330	309,352,583
Asia		-	-	21,672,202	6,884,849	-	1,728,998
Middle East and Africa		36,048,570	32,844,244	42,115,205	39,494,253	28,854,957	33,380,611
South America		-	-	10,018,538	7,005,014	513,000	16,071,158
Total	9-11,12,13	**1,124,256,847**	**1,007,063,126**	**406,440,179**	**355,013,362**	**1,218,595,078**	**1,175,622,104**

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 buckets up to one year as at 30 June 2017. 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 30 June 2017, 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	233,418,483	-	-	-	-	233,418,483
Placement and balances with banks	221,883,272	4,829,290	7,749,913	-	-	234,462,475
Treasury bills available-for-sale	102,851	6,005,888	153,170,595	-	-	159,279,334
Trading and available-for-sale securities	8,151,233	30,687,430	139,241,921	562,031,451	159,442,290	899,554,325
Held-to-maturity securities	3,941,167	5,312,915	27,701,713	61,525,486	61,280,138	159,761,419
Loans to banks	62,665,219	62,275,041	210,500,736	70,999,183	-	406,440,179
Loans to customers	70,863,965	31,791,212	304,130,030	511,273,925	206,197,715	1,124,256,847
Other assets	12,364,292	-	2,794,017	-	-	15,158,309
Total assets	**613,390,482**	**140,901,776**	**845,288,925**	**1,205,830,045**	**426,920,143**	**3,232,331,371**
Liabilities						
Customer deposits	975,054,723	467,132,149	805,919,299	303,098,723	33,415,209	2,584,620,103
Due to banks and financial institutions	187,372,774	96,221,099	2,075,514	5,694,644	-	291,364,031
Due to third parties	3,942,917	-	-	-	-	3,942,917
Accruals and other liabilities	7,621,682	-	-	-	919,343	8,541,025
Subordinated debt	65,237	-	-	-	28,501,720	28,566,957
Total liabilities	**1,174,057,333**	**563,353,248**	**807,994,813**	**308,793,367**	**62,836,272**	**2,917,035,033**
Net Position	**(560,666,851)**	**(422,451,472)**	**37,294,112**	**897,036,678**	**364,083,871**	**315,296,338**
Cumulative Net Position	**(560,666,851)**	**(983,118,323)**	**(945,824,211)**	**(48,787,533)**	**315,296,338**	**-**

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 2016, 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	238,956,317	-	-	-	-	238,956,317
Placement and balances with banks	173,610,139	4,574,414	4,119,578	527,761	-	182,831,892
Treasury bills available-for-sale	22,848,053	49,215,836	79,003,563	-	-	151,067,452
Trading and available-for-sale securities	10,342,012	58,930,500	149,702,027	535,125,435	140,917,472	895,017,446
Held-to-maturity securities	1,730,087	10,053,800	46,381,546	69,261,607	2,110,166	129,537,206
Loans to banks	17,170,875	33,032,439	253,593,968	51,216,080	-	355,013,362
Loans to customers	51,760,290	39,213,381	259,385,060	472,233,007	184,471,388	1,007,063,126
Other assets	9,669,023	-	-	-	-	9,669,023
Total assets	**526,086,796**	**195,020,370**	**792,185,742**	**1,128,363,890**	**327,499,026**	**2,969,155,824**
Liabilities						
Customer deposits	886,651,441	241,433,307	919,429,818	270,886,774	29,784,670	2,348,186,010
Due to banks and financial institutions	196,962,012	69,285,787	4,432,689	6,230,266	-	276,910,754
Due to third parties	4,672,432	-	-	-	-	4,672,432
Accruals and other liabilities	6,241,980	-	-	-	927,279	7,169,259
Subordinated debt	-	-	64,148	-	26,377,077	26,441,225
Total liabilities	**1,094,527,865**	**310,719,094**	**923,926,655**	**277,117,040**	**57,089,026**	**2,663,379,680**
Net Position	**(568,441,069)**	**(115,698,724)**	**(131,740,913)**	**851,246,850**	**270,410,000**	**305,776,144**
Cumulative Net Position	**(568,441,069)**	**(684,139,793)**	**(815,880,706)**	**35,366,144**	**305,776,144**	**-**

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 latest changes of this regulation effective 15 May 2013, the minimum of total liquidity ratio is decreased to 20% and that of individual ratios to 15%.

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:

	30-Jun-2017	**31-Dec-2016**
Total Liquid Assets/Total Short Term Liabilities Ratio	33.88%	33.42%
Liquid Assets in local currency/Short Term Liabilities in local currency Ratio	49.81%	49.71%
Liquid Assets in foreign currency/Short Term Liabilities in foreign currency Ratio	21.63%	20.61%

(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 30 June 2017 and 31 December 2016:

30 June 2017	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	89,654,124	13,066,886	126,717,220	3,980,253	233,418,483
Placements and balances with banks	862,951	106,557,718	95,479,785	31,562,021	234,462,475
Treasury bills available-for-sale	146,094,519	-	13,184,815	-	159,279,334
Trading and available-for-sale securities	637,308,256	101,615,748	109,791,803	50,838,518	899,554,325
Held-to-maturity securities	-	83,299,241	76,462,178	-	159,761,419
Loans to banks	-	88,882,904	317,557,275	-	406,440,179
Loans to customers	483,465,431	121,075,888	519,697,191	18,337	1,124,256,847
Other assets	5,816,794	467,491	6,973,849	1,900,175	15,158,309
Total assets	**1,363,202,075**	**514,965,876**	**1,265,864,116**	**88,299,304**	**3,232,331,371**
Foreign exchange contracts	**2,062,661**	**36,239,479**	**45,856,991**	**14,504,625**	**98,663,756**
Liabilities					
Customer deposits	1,176,034,322	125,893,665	1,236,814,112	45,878,004	2,584,620,103
Due to banks and financial institutions	214,208,389	44,459,043	11,324,464	21,372,135	291,364,031
Due to third parties	3,942,917	-	-	-	3,942,917
Accruals and other liabilities	1,366,572	3,589,411	3,554,444	30,598	8,541,025
Subordinated debt	-	-	28,566,957	-	28,566,957
Total liabilities	**1,395,552,200**	**173,942,119**	**1,280,259,977**	**67,280,737**	**2,917,035,033**
Foreign exchange contracts	**6,579,893**	**34,540,403**	**26,016,087**	**31,527,373**	**98,663,756**
Net position (GAP)	**(36,867,357)**	**342,722,833**	**5,445,043**	**3,995,819**	**315,296,338**
Total assets / Total liabilities	97.37%	264.39%	100.42%	104.04%	110.46%
GAP / FX denominated assets		0.62	0.004	0.0389	0.09
Sensitivity analysis					
Lek depreciates by 10%		31,156,621	495,004	363,256	32,014,881
Lek depreciates by 5%		16,320,135	259,288	190,277	16,769,700
Lek appreciates by 5%		(18,038,044)	(286,581)	(210,306)	(18,534,931)
Lek appreciates by 10%		(38,080,315)	(605,005)	(443,980)	(39,129,300)

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

31 December 2016	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	99,562,473	12,283,932	120,956,300	6,153,612	238,956,317
Placements and balances with banks	14,473	47,973,260	108,378,829	26,465,330	182,831,892
Treasury bills available-for-sale	139,607,179	-	11,460,273	-	151,067,452
Trading and available-for-sale securities	557,048,847	146,940,583	137,322,878	53,705,138	895,017,446
Held-to-maturity securities	1,097,795	51,802,864	76,636,547	-	129,537,206
Loans to banks	-	85,367,934	269,645,428	-	355,013,362
Loans to customers	438,663,256	116,720,621	451,654,798	24,451	1,007,063,126
Other assets	5,450,663	76,689	2,716,721	1,424,950	9,669,023
Total assets	**1,241,444,686**	**461,165,883**	**1,178,771,774**	**87,773,481**	**2,969,155,824**
Foreign exchange contracts	**2,562,261**	**52,773,826**	**35,811,483**	**25,342,094**	**116,489,664**
Liabilities					
Customer deposits	1,075,345,589	107,687,895	1,128,247,535	36,904,991	2,348,186,010
Due to banks and financial institutions	197,725,603	44,673,020	13,682,957	20,829,174	276,910,754
Due to third parties	4,672,432	-	-	-	4,672,432
Accruals and other liabilities	1,183,913	3,902,729	2,070,993	11,624	7,169,259
Subordinated debt	-	-	26,441,225	-	26,441,225
Total liabilities	**1,278,927,537**	**156,263,644**	**1,170,442,710**	**57,745,789**	**2,663,379,680**
Foreign exchange contracts	**-**	**49,211,526**	**18,901,552**	**48,376,586**	**116,489,664**
Net position (GAP)	**(34,920,590)**	**308,464,539**	**25,238,995**	**6,993,200**	**305,776,144**
Total assets / Total liabilities	97.27%	250.12%	102.12%	106.59%	111.00%
GAP / FX denominated assets		0.60	0.018	0.0618	0.10
Sensitivity analysis					
Lek depreciates by 10%		28,042,231	2,294,454	635,745	30,972,430
Lek depreciates by 5%		14,688,788	1,201,857	333,010	16,223,655
Lek appreciates by 5%		(16,234,976)	(1,328,368)	(368,063)	(17,931,407)
Lek appreciates by 10%		(34,273,838)	(2,804,333)	(777,022)	(37,855,193)

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 30 June 2017 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	0.88%	N/A	N/A
Placement and balances with banks	1.45%	1.23%	0.53%
Treasury bills available-for-sale	2.42%	N/A	0.15%
Investment securities	4.79%	5.48%	3.57%
Loans to banks	N/A	3.8%	1.32%
Loans to customers	6.19%	7.55%	6.22%
Liabilities			
Customer deposits	1.12%	0.67%	0.44%
Due to banks and financial institutions	1.28%	2.33%	2.29%
Subordinated debt	-	-	5.15%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2016 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	0.88%	N/A	N/A
Placement and balances with banks	N/A	0.73%	0.58%
Treasury bills available-for-sale	1.84%	N/A	0.35%
Investment securities	4.20%	4.56%	3.48%
Loans to banks	N/A	3.58%	0.90%
Loans to customers	5.80%	7.55%	6.42%
Liabilities			
Customer deposits	1.16%	0.70%	0.47%
Due to banks and financial institutions	1.27%	1.92%	2.45%
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 30 June 2017 are as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Cash and balances with Central Bank	233,418,483	-	-	-	-	233,418,483
Placement and balances with banks	221,883,272	4,829,290	7,749,913	-	-	234,462,475
Treasury bills available-for-sale	102,851	6,005,888	153,170,595	-	-	159,279,334
Trading and available-for-sale securities	8,466,675	36,684,897	149,402,419	545,613,207	159,387,127	899,554,325
Held-to-maturity securities	3,953,351	5,341,517	27,557,555	61,628,858	61,280,138	159,761,419
Loans to banks	123,877,226	135,324,589	147,238,364	-	-	406,440,179
Loans to customers	35,322,674	22,216,171	921,453,235	128,533,275	16,731,492	1,124,256,847
Total	**627,024,532**	**210,402,352**	**1,406,572,081**	**735,775,340**	**237,398,757**	**3,217,173,062**
Liabilities						
Customer deposits	975,054,723	467,132,149	805,919,299	303,098,723	33,415,209	2,584,620,103
Due to banks and financial institutions	187,372,774	96,221,099	7,770,158	-	-	291,364,031
Subordinated debt	-	-	28,566,957	-	-	28,566,957
Total	**1,162,427,497**	**563,353,248**	**842,256,414**	**303,098,723**	**33,415,209**	**2,904,551,091**

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 2016 were 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	238,956,317	-	-	-	-	238,956,317
Placement and balances with banks	173,610,139	4,574,414	4,119,578	527,761	-	182,831,892
Treasury bills available-for-sale	22,848,053	49,215,836	79,003,563	-	-	151,067,452
Trading and available-for-sale securities	10,263,663	64,288,778	162,017,325	519,596,594	138,851,086	895,017,446
Held-to-maturity securities	1,730,087	10,131,217	46,271,666	69,294,070	2,110,166	129,537,206
Loans to banks	89,420,778	106,657,390	158,935,194	-	-	355,013,362
Loans to customers	639,992,541	24,580,927	234,797,485	107,692,173	-	1,007,063,126
Total	**1,176,821,578**	**259,448,562**	**685,144,811**	**697,110,598**	**140,961,252**	**2,959,486,801**
Liabilities						
Customer deposits	886,651,441	241,433,307	919,429,818	270,886,774	29,784,670	2,348,186,010
Due to banks and financial institutions	196,962,012	71,395,953	8,552,789	-	-	276,910,754
Subordinated debt	-	-	26,441,225	-	-	26,441,225
Total	**1,083,613,453**	**312,829,260**	**954,423,832**	**270,886,774**	**29,784,670**	**2,651,537,989**

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:

	30 June 2017		***31 December 2016***	
	Up to 1 year	**Over 1 year**	**Up to 1 year**	**Over 1 year**
Interest rate increases by 2%	7,197,662	19,930,866	5,311,725	16,059,733
Interest rate increases by 1.5%	5,398,247	14,948,149	3,983,793	12,044,799
Interest rate increases by 1%	3,598,831	9,965,433	2,655,862	8,029,866
Interest rate decreases by 1%	(3,598,831)	(9,965,433)	(2,655,862)	(8,029,866)
Interest rate decreases by 1.5%	(5,398,247)	(14,948,149)	(3,983,793)	(12,044,799)
Interest rate decreases by 2%	(7,197,662)	(19,930,866)	(5,311,725)	(16,059,733)

(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 June 2017, BKT has reported the following ratios:

- Regulatory Capital Ratio 14.62% (December 2016: 14.08%);
- Tier 1 Capital Ratio 13.34% (December 2016: 12.92%);
- Common Equity Tier 1 Ratio 13.34% (December 2016: 12.92%).

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.

Compliance

The Bank and its individually regulated operations have complied with all internally and externally imposed capital requirements throughout the period.

6. Segmental reporting

	30 June 2017			31 December 2016		
Geographical Segments	**Albania**	**Kosovo**	**Combined**	**Albania**	**Kosovo**	**Combined**
Assets						
Cash and balances with Central Bank	196,687,535	36,730,948	233,418,483	198,371,935	40,584,382	238,956,317
Placement and balances with banks	227,820,082	6,642,393	234,462,475	176,703,176	6,128,716	182,831,892
Treasury bills available-for-sale	146,088,714	13,190,620	159,279,334	139,612,983	11,454,469	151,067,452
Trading and available-for-sale securities	864,102,233	35,452,092	899,554,325	869,266,073	25,751,373	895,017,446
Held-to-maturity securities	159,761,419	-	159,761,419	129,537,206	-	129,537,206
Loans to banks	364,547,606	41,892,573	406,440,179	306,452,292	48,561,070	355,013,362
Loans to customers	895,447,642	228,809,205	1,124,256,847	810,758,103	196,305,023	1,007,063,126
Investment in associates	1,367,626	-	1,367,626	1,265,678	-	1,265,678
Property and equipment	18,922,340	1,886,264	20,808,604	16,819,560	2,142,057	18,961,617
Intangible assets	1,833,222	-	1,833,222	1,651,692	-	1,651,692
Other assets	37,148,006	6,496,547	43,644,553	22,432,061	14,843,819	37,275,880
Total assets	**2,913,726,425**	**371,100,642**	**3,284,827,067**	**2,672,870,759**	**345,770,909**	**3,018,641,668**
Liabilities and shareholder's equity						
Liabilities						
Customer deposits	2,262,771,946	321,848,157	2,584,620,103	2,045,551,159	302,634,851	2,348,186,010
Due to banks and financial institutions	283,037,620	8,326,411	291,364,031	267,763,125	9,147,629	276,910,754
Due to third parties	3,942,917	-	3,942,917	4,672,432	-	4,672,432
Deferred tax liabilities	376,817	-	376,817	1,338,585	-	1,338,585
Accruals and other liabilities	9,474,095	2,737,615	12,211,710	10,272,274	1,136,491	11,408,765
Subordinated debt	28,566,957	-	28,566,957	26,441,225	-	26,441,225
Total liabilities	**2,588,170,352**	**332,912,183**	**2,921,082,535**	**2,356,038,800**	**312,918,971**	**2,668,957,771**
Shareholder's equity						
Share capital			274,350,310			250,000,000
Translation reserve			1,904,215			(1,823,607)
Fair value reserve			11,944,970			762,502
Retained earnings			75,545,037			100,745,002
Total shareholder's equity			**363,744,532**			**349,683,897**
Total liabilities and shareholder's equity			**3,284,827,067**			**3,018,641,668**

Within "Other assets" for Kosovo Branch, it is included the amount of USD 2,182,834, which represents intragroup transactions between Head Office/Branches in Albania and Kosovo Branch as at 30 June 2017, and has been eliminated on combination (31 December 2016: USD 11,458,745).

6. Segmental reporting (continued)

Geographical Segments	30 June 2017			30 June 2016		
	Albania	**Kosovo**	**Combined**	**Albania**	**Kosovo**	**Combined**
Interest						
Interest income	55,059,756	8,088,968	63,148,724	53,307,646	7,965,185	61,272,831
Interest expense	(11,458,907)	(1,556,190)	(13,015,097)	(12,472,288)	(1,732,238)	(14,204,526)
Net interest margin	**43,600,849**	**6,532,778**	**50,133,627**	**40,835,358**	**6,232,947**	**47,068,305**
Non-interest income, net						
Fees and commissions, net	7,682,247	2,096,940	9,779,187	5,916,294	1,510,236	7,426,530
Foreign exchange revaluation gain, net	(7,683,767)	(1,706)	(7,685,473)	(766,183)	(469)	(766,652)
Foreign exchange trading activities income, net	633,408	(43,648)	589,760	1,309,492	(42,004)	1,267,488
Securities trading gain, net	3,323,078	-	3,323,078	6,606,152	-	6,606,152
Other (expense) / income, net	(1,489,371)	-	(1,489,371)	(944,539)	-	(944,539)
Total non-interest income, net	**2,465,595**	**2,051,586**	**4,517,181**	**12,121,216**	**1,467,763**	**13,588,979**
Operating expenses						
Personnel expenses	(6,260,157)	(2,237,617)	(8,497,774)	(6,245,495)	(2,064,361)	(8,309,856)
Administrative expenses	(8,777,677)	(2,387,384)	(11,165,061)	(8,496,464)	(2,282,911)	(10,779,375)
Depreciation and amortization	(1,342,557)	(437,730)	(1,780,287)	(1,472,783)	(589,536)	(2,062,319)
Total operating expenses	**(16,380,391)**	**(5,062,731)**	**(21,443,122)**	**(16,214,742)**	**(4,936,808)**	**(21,151,550)**
Impairment of loans	(2,890,908)	(452,543)	(3,343,451)	(3,863,065)	(249,512)	(4,112,577)
Profit before taxes	**26,795,145**	**3,069,090**	**29,864,235**	**32,878,767**	**2,514,390**	**35,393,157**
Income tax	(4,364,170)	(359,843)	(4,724,013)	(5,230,928)	(309,059)	(5,539,987)
Net profit for the year	**22,430,975**	**2,709,247**	**25,140,222**	**27,647,839**	**2,205,331**	**29,853,170**

Interest income of USD 41,212 (30 June 2016: USD 699,188), which represents interest earned from Kosovo Branch on intra-group balances was eliminated on combination.

7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 30 June 2017 and 31 December 2016 are detailed as follows:

	30 June 2017	31 December 2016
Cash on hand	41,003,525	37,948,423
Deposits with the Central Bank of Kosovo	20,868,540	26,398,175
Bank of Albania		
Current account	-	6,934,337
Statutory reserve	171,541,189	167,669,443
Accrued interest	5,229	5,939
	171,546,418	174,609,719
	233,418,483	**238,956,317**

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits in Albania with the Bank of Albania as a statutory reserve account, which during the month can be decreased to 60% of this level, provided that the monthly average is maintained.

Deposits with the Central Bank of Kosovo include the statutory reserve of 10% of customer deposits in Kosovo, which may not be less than half of the applicable minimum reserve requirement.

Cash and cash equivalents as at 30 June 2017 and 31 December 2016 are presented as follows:

	30 June 2017	31 December 2016
Cash and balances with Central Bank	233,418,483	238,956,317
Statutory reserve in Albania	(171,541,189)	(167,669,443)
Statutory reserve in Kosovo	(20,868,540)	(18,876,083)
Current accounts with banks	71,351,474	94,225,066
Placements with maturities of 3 months or less	143,020,816	71,892,466
	255,381,044	**218,528,323**

8. Placements and balances with banks

Placements and balances with banks as at 30 June 2017 and 31 December 2016 consisted as follows:

	30 June 2017	31 December 2016
Placements	157,426,423	81,666,723
Cash collateral held by financial institutions	5,563,928	6,782,854
Current accounts	71,351,474	94,225,066
Accrued interest	120,650	157,249
	234,462,475	**182,831,892**

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. Treasury bills available-for-sale

Treasury bills available-for-sale by original maturity as at 30 June 2017 and 31 December 2016 are presented as follows:

	30 June 2017			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair Value
3 months	-	-	-	-
6 months	3,703,016	970	454	3,704,440
12 months	153,910,510	1,361,285	303,099	155,574,894
	157,613,526	**1,362,255**	**303,553**	**159,279,334**

	31 December 2016			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair Value
3 months	2,837,185	880	30	2,838,095
6 months	1,089,317	539	159	1,090,015
12 months	145,901,986	1,544,729	(307,373)	147,139,342
	149,828,488	**1,546,148**	**(307,184)**	**151,067,452**

10. Trading and available-for-sale securities

The Bank's trading and available-for-sale portfolio as at 30 June 2017 includes financial assets available for sale amounting USD 899,554,325 (31 December 2016: USD 888,558,632), while there are no financial assets held for trading (31 December 2016: USD 6,458,814).

Trading and available-for-sale securities as at 30 June 2017 comprise as follows:

Type	**Nominal value**	**Unamortized discount**	**Accrued interest**	**Marked to market gain/ (loss)**	**Fair Value**
Lek denominated	602,343,525	12,791,899	9,004,046	13,168,786	637,308,256
USD denominated	98,876,000	1,224,507	804,676	710,565	101,615,748
EUR denominated	103,909,290	2,317,622	1,645,303	1,919,588	109,791,803
TRY denominated	31,000,600	-	2,664,360	(137,595)	33,527,365
CAD denominated	10,300,164	-	-	(3,250,355)	7,049,809
GBP denominated	9,389,053	678,958	133,650	36,957	10,238,618
SEK denominated	72,723	-	-	(49,997)	22,726
	855,891,355	**17,012,986**	**14,252,035**	**12,397,949**	**899,554,325**

10. Trading and available-for-sale securities (continued)

Trading and available-for-sale securities as at 31 December 2016 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
Lek denominated	532,831,801	13,020,704	7,831,093	3,365,249	557,048,847
USD denominated	145,322,128	1,178,108	1,473,984	(1,033,637)	146,940,583
EUR denominated	131,292,510	3,082,220	1,695,242	1,252,906	137,322,878
TRY denominated	33,751,097	-	1,883,339	(137,535)	35,496,901
CAD denominated	9,923,349	-	-	(2,484,597)	7,438,752
GBP denominated	10,072,924	359,453	218,809	89,094	10,740,280
SEK denominated	67,862	-	-	(38,657)	29,205
	863,261,671	**17,640,485**	**13,102,467**	**1,012,823**	**895,017,446**

11. Held-to-maturity securities

Held-to-maturity securities as at 30 June 2017 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek denominated	-	-	-	-
USD denominated	82,170,822	87,537	1,040,882	83,299,241
EUR denominated	74,649,901	(110,585)	1,922,862	76,462,178
	156,820,723	**(23,048)**	**2,963,744**	**159,761,419**

Held-to-maturity securities as at 31 December 2016 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek denominated	1,092,299	-	5,496	1,097,795
USD denominated	50,659,954	341,708	801,202	51,802,864
EUR denominated	75,887,971	(109,505)	858,081	76,636,547
	127,640,224	**232,203**	**1,664,779**	**129,537,206**

12. Loans to banks

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

Moody's or equivalent	30 June 2017	31 December 2016
Rated A3 to A1	1,502,701	8,279,781
Rated Baa3 to Baa1	76,806,567	57,320,055
Rated Ba3 to Ba1	237,022,690	246,133,146
Rated B2 to B1	12,185,299	23,227,264
Rated Caa3 to Caa1	20,283,289	10,028,062
Not rated	58,639,633	10,025,054
	406,440,179	**355,013,362**

13. Loans to customers

Loans to customers consisted of the following:

	30 June 2017	31 December 2016
Loans to customers, gross	1,164,400,936	1,049,901,499
Accrued interest	15,919,663	8,571,977
Less allowances for impairment on loans	(51,721,584)	(47,182,080)
Less unamortized deferred fee income	(4,342,168)	(4,228,270)
	1,124,256,847	**1,007,063,126**

Movements in the allowance for impairment on loans:

	30 June 2017	31 December 2016
At 1 January	47,182,080	26,801,415
Impairment charge for the year, net	3,343,451	22,247,372
Provision reversal of written off loans	(3,600,554)	(691,249)
Translation difference	4,796,607	(1,175,458)
At the end of the period	**51,721,584**	**47,182,080**

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

Loans in Lek	0.50% to 25.00%
Loans in Euro	0.50% to 22.00%
Loans in USD	2.80% to 9.69%
Loans in GBP	3.00% to 3.00%

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.

13. Loans to customers (continued)

The classification of business loans by industry is as follows:

	30 June 2017		31 December 2016	
	USD	**%**	**USD**	**%**
Wholesale Trade	122,287,584	15%	115,718,569	16%
Electricity, Gas and Water Supply	112,753,609	14%	101,406,190	14%
Construction	85,274,431	10%	66,057,164	9%
Real Estate, Renting and Business Activity	73,163,134	9%	70,176,591	9%
Financial Intermediation	60,823,536	7%	56,521,536	8%
Retail Trade	50,897,822	6%	42,912,129	6%
Mining and Quarrying	46,856,236	6%	42,407,162	6%
Other Community, Social and Personal Activities	29,899,980	4%	30,739,608	4%
Manufacturing of Other Non-metallic Products	25,993,885	3%	28,262,328	4%
Manufacturing of Basic Metals and Fabricated Metal Products	21,814,454	3%	12,521,193	2%
Hotels and Restaurants	17,620,077	2%	12,196,633	2%
Manufacture of Food Products, Beverages	13,934,034	2%	9,647,143	1%
Personal Needs	12,072,751	1%	10,740,677	1%
Transport, Storage and Communication	10,806,297	1%	9,504,940	1%
Agriculture, Hunting and Forestry	9,604,117	1%	7,913,519	1%
Education	5,567,077	1%	5,367,707	1%
Manufacture of Rubber and Plastic Products	4,737,060	1%	4,379,876	1%
Health and Social Work	3,604,638	1%	3,557,193	1%
Manufacture of Pulp, Paper and Paper Products	2,817,342	1%	3,010,891	1%
Manufacture of Wood and Wood Products	2,619,504	1%	2,093,145	1%
Other Sectors	100,285,950	11%	102,828,726	11%
	813,433,518	**100%**	**737,962,920**	**100%**

The classification of retail loans by type is as follows:

	30 June 2017		31 December 2016	
	USD	**%**	**USD**	**%**
Home purchase	210,604,376	60%	190,860,823	61%
Super Loan	53,667,281	15%	42,147,003	14%
Home improvement	22,993,918	6%	22,322,891	7%
Overdraft and credit cards	19,322,597	5%	16,934,051	5%
Shop purchase	14,301,236	4%	13,881,066	4%
Home reconstruction	6,235,230	2%	5,963,081	2%
Home advances	1,648,825	1%	1,741,032	1%
Car purchase	822,463	1%	515,808	1%
Technical equipment	793,664	1%	454,162	1%
Other types	20,577,828	5%	17,118,662	4%
	350,967,418	**100%**	**311,938,579**	**100%**

14. Investment in associates

Investment in associates of USD 1,367,626 (31 December 2016: 1,265,678) represents 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%. 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.

15. Property and equipment

Property and equipment as at 30 June 2017 and 31 December 2016 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 2016	**26,401,844**	**5,288,431**	**15,883,899**	**2,037,553**	**49,611,727**
Additions	406,121	381,933	1,229,401	127,225	2,144,680
Disposals / transfers	-	(509,052)	(550,328)	(34,902)	(1,094,282)
Translation difference	(537,745)	(119,392)	(363,124)	(45,502)	(1,065,763)
At 31 December 2016	**26,270,220**	**5,041,920**	**16,199,848**	**2,084,374**	**49,596,362**
Additions	280,915	423,417	697,632	84,440	1,486,404
Disposals / transfers	-	(20,102)	(499)	(8,713)	(29,314)
Translation difference	2,612,167	483,557	1,554,296	201,103	4,851,123
At 30 June 2017	**29,163,302**	**5,928,792**	**18,451,277**	**2,361,204**	**55,904,575**
Accumulated depreciation					
At 1 January 2016	**(10,438,762)**	**(4,435,525)**	**(12,679,192)**	**(1,612,458)**	**(29,165,937)**
Charge for the year	(1,225,516)	(383,341)	(1,448,125)	(196,887)	(3,253,869)
Disposals / write offs	-	455,644	549,084	34,725	1,039,453
Translation difference	257,371	112,576	333,153	42,508	745,608
At 31 December 2016	**(11,406,907)**	**(4,250,646)**	**(13,245,080)**	**(1,732,112)**	**(30,634,745)**
Charge for the year	(481,617)	(193,824)	(657,513)	(91,502)	(1,424,456)
Disposals / write offs	-	19,810	499	8,713	29,022
Translation difference	(1,157,372)	(419,968)	(1,315,026)	(173,426)	(3,065,792)
At 30 June 2017	**(13,045,896)**	**(4,844,628)**	**(15,217,120)**	**(1,988,327)**	**(35,095,971)**
Net book value					
At 1 January 2016	**15,963,082**	**852,906**	**3,204,707**	**425,095**	**20,445,790**
At 31 December 2016	**14,863,313**	**791,274**	**2,954,768**	**352,262**	**18,961,617**
At 30 June 2017	**16,117,406**	**1,084,164**	**3,234,157**	**372,877**	**20,808,604**

As at 30 June 2017 the gross value of the assets which were fully depreciated and still in use was USD 23,335,619 (2016: USD 20,358,537).

16. Intangible assets

Intangible assets as at 30 June 2017 and 31 December 2016 are composed as follows:

	Software
Gross value	
At 1 January 2016	**6,775,381**
Additions	1,021,387
Translation difference	(125,813)
At 31 December 2016	**7,670,955**
Additions	394,440
Translation difference	782,925
At 30 June 2017	8,848,320
Accumulated depreciation	
At 1 January 2016	**(5,571,746)**
Charge for the year	(568,555)
Translation difference	121,038
At 31 December 2016	**(6,019,263)**
Charge for the year	(355,831)
Translation difference	(640,004)
At 30 June 2017	**(7,015,098)**
Net book value	
At 1 January 2016	**1,203,635**
At 31 December 2016	**1,651,692**
At 30 June 2017	**1,833,222**

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

17. Other assets

Other assets as at 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Assets acquired through legal process, net	25,833,436	24,819,086
Payments in transit	4,702,820	3,138,716
Administration costs receivable from borrowers	2,649,645	2,548,486
Prepaid expenses	1,747,090	873,122
Inventory	839,379	561,042
Advances to suppliers	66,339	170,104
Foreign exchange contracts revaluation gain	-	1,183,503
Other debtors, net	7,805,844	3,981,821
	43,644,553	**37,275,880**

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 Group in settlement of overdue loans. The Group 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.

17. 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 2,528,523 to the total gross amount of USD 28,361,959.
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 59,231 (30 June 2016: USD 95,734) 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:

	30 June 2017	31 December 2016
Other debtors	9,202,852	5,377,672
Provision for other debtors	(1,397,008)	(1,395,851)
Other debtors, net	**7,805,844**	**3,981,821**

Provision for other debtors is the specific provision of TRL 4,920,415 (equivalent of USD 1,397,009) for the debt under collection amounting to TRL 9,840,829 (equivalent of USD 2,794,017).

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:

	30 June 2017	31 December 2016
Balance at 1 January	(1,395,851)	(1,217,453)
Provision charge	-	(461,683)
Translation difference	(1,157)	283,285
Balance at the end of the year	**(1,397,008)**	**(1,395,851)**

18. Customer deposits

Customer deposits as at 30 June 2017 and 31 December 2016 are composed as follows:

	30 June 2017	31 December 2016
Current accounts:		
Individuals	297,944,489	257,422,866
Private enterprises	254,097,183	241,067,645
State owned entities	31,573,415	34,495,732
	583,615,087	**532,986,243**
Deposits:		
Individuals	1,834,399,040	1,664,527,013
Private enterprises	81,487,728	79,179,914
State owned entities	30,390,841	22,927,856
	1,946,277,609	**1,766,634,783**
Other customer accounts:		
Individuals	26,545,598	6,687,187
Private enterprises	27,460,693	41,100,198
State owned entities	721,116	777,599
	54,727,407	**48,564,984**
	2,584,620,103	**2,348,186,010**

18. Customer deposits (continued)

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

	30 June 2017			31 December 2016		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Current accounts	**235,785,440**	**347,829,647**	**583,615,087**	**224,120,796**	**308,865,447**	**532,986,243**
Deposits						
On demand	31,127,902	110,119,848	**141,247,750**	19,827,934	78,552,464	**98,380,398**
Up to 39 days	23,142,038	38,774,516	**61,916,554**	17,651,505	38,425,826	**56,077,331**
40-99 days	39,963,322	54,433,967	**94,397,289**	38,716,059	52,721,369	**91,437,428**
100-189 days	82,541,447	85,429,192	**167,970,639**	79,723,914	83,812,629	**163,536,543**
190- 370 days	506,947,614	518,088,021	**1,025,035,635**	472,313,976	480,735,241	**953,049,217**
371 days and over	223,185,195	222,769,795	**445,954,990**	196,331,753	198,883,930	**395,215,683**
Accrued interest on deposits	6,285,523	3,469,229	**9,754,752**	5,768,724	3,169,459	**8,938,183**
Total deposits	**913,193,041**	**1,033,084,568**	**1,946,277,609**	**830,333,865**	**936,300,918**	**1,766,634,783**
Other customer accounts	**27,055,841**	**27,671,566**	**54,727,407**	**20,890,928**	**27,674,056**	**48,564,984**
Total customer deposits	**1,176,034,322**	**1,408,585,781**	**2,584,620,103**	**1,075,345,589**	**1,272,840,421**	**2,348,186,010**

Other customer accounts are composed as follows:

	30 June 2017			31 December 2016		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Guarantees for letters of credit	-	394,020	**394,020**	-	8,051	**8,051**
Escrow accounts	17,114,501	16,827,669	**33,942,170**	12,651,425	16,257,111	**28,908,536**
Payment orders to be executed	519,190	646,580	**1,165,770**	549,502	563,360	**1,112,862**
Other	9,422,150	9,803,297	**19,225,447**	7,690,001	10,845,534	**18,535,535**
	27,055,841	**27,671,566**	**54,727,407**	**20,890,928**	**27,674,056**	**48,564,984**

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 the next business day (value date).

19. Due to banks and financial institutions

Due to banks as at 30 June 2017 and 31 December 2016 consisted as follows:

	30 June 2017	31 December 2016
Treasury bills sold under Repo agreements with Central Bank	188,186,315	152,273,394
FX securities sold under Repo agreement	54,258,070	48,556,497
Deposits from banks	36,971,495	60,877,840
Current accounts of non-resident banks	1,783,149	2,760,572
Current accounts of resident banks	103,454	49,031
Borrowing from financial institutions	10,061,548	12,393,420
	291,364,031	**276,910,754**

Treasury bills and Albanian Government Bonds and FX securities with a total value of USD 266,425,365 (31 December 2016: USD 244,395,436) were used to secure Repo agreements and borrowings from banks.

Deposits from banks as at 30 June 2017 represent short-term borrowings obtained from resident and non-resident banks.

Borrowing from financial institutions represents seven-year borrowings of EUR 8,815,000 outstanding as at 30 June 2017 (31 December 2016: EUR 11,725,000) bearing an interest rate of 2.51%, obtained from European Fund for Southeast Europe (EFSE), under the Framework Agreement signed on 20 September 2010 for granting loans to SME customers of the Bank. Part of this borrowing as at 31 December 2015 are the two tranches amounting to EUR 5,000,000 each, disbursed from EFSE to BKT Kosovo, during December 2013 and June 2014.

20. 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 30 June 2017 of USD 3,942,917 (31 December 2016: USD 4,672,432) represents the net outstanding amount of payments and collections made by the Bank to and from third parties, on behalf of tax authorities.

21. Deferred tax liabilities

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

	30 June 2017	31 December 2016
Liability at 1 January	1,338,585	722,574
(Income) / expense for the period	(1,022,923)	649,862
Exchange differences	61,155	(33,851)
Liability at the end of the year	**376,817**	**1,338,585**

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

	30 June 2017	31 December 2016
Deferred income on fees on loans	(651,325)	(634,241)
Decelerated depreciation	(817,249)	(712,719)
Provision of other debtors	(296,605)	(269,136)
Allowance for loan impairment	1,104,532	1,277,626
Fair value reserve for AFS securities	1,037,464	1,677,055
	376,817	**1,338,585**

22. Accruals and other liabilities

	30 June 2017	31 December 2016
Payments in transit	3,760,140	2,214,156
Creditors	1,839,435	1,835,783
Due to tax authorities	1,775,787	1,050,847
Accrued expenses	1,700,391	1,636,320
Bonus payable	1,265,344	1,638,948
Liability for retiring employees (note 3(s).ii.)	919,343	927,279
Payables to constructors for home loans	507,999	471,363
Social insurance	194,507	165,204
Foreign exchange contracts revaluation loss	144,740	-
Cash guarantees from suppliers	104,024	81,730
Reversed temporary differences payable to tax authorities	-	1,387,135
	12,211,710	**11,408,765**

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 2018.

23. Subordinated debt

Subordinated debt of USD 28,566,957 (31 December 2016: 26,441,225) represents the equivalent amount of a ten-year facility of EUR 25 million, bearing an interest rate of 5.15% 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.

24. Shareholder's equity and reserves

Share Capital

At 30 June 2017 the authorised share capital comprised 22,214,600 ordinary shares (31 December 2016: 20,242,915). 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

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

Retained earnings

Retained earnings as at 30 June 2017, includes the cumulative non distributed earnings. As described in Note 1, the Bank increased its paid-up capital by Lek 3,058,399 thousand (equivalent of USD 24,350,309.75) and distributed Lek 3,768,000 thousand (equivalent of USD 30,000,000) as dividends, using part of the statutory net profit for the year ended December 31, 2016 and part of the retained earnings. Retained earnings are distributable.

25. Interest income

Interest income is composed as follows:

	Six-month period ended 30 June 2017	Six-month period ended 30 June 2016
Placements with banks and balances with Central Bank	4,161,036	2,339,952
Treasury bills and investment securities	24,985,941	27,017,204
Loans to customers	34,001,747	31,915,675
	63,148,724	**61,272,831**

Interest income can be further detailed as follows:

	Six-month period ended 30 June 2017	Six-month period ended 30 June 2016
Held-to-maturity investments	7,349,493	5,551,334
Trading and available-for-sale financial assets	21,797,484	23,805,822
Loans and receivables	34,001,747	31,915,675
	63,148,724	**61,272,831**

Interest income on individually impaired loans for the six-month period ended 30 June 2017 was USD 132,074 (30 June 2016: USD 193,323).

26. Interest expense

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

	Six-month period ended 30 June 2017	Six-month period ended 30 June 2016
Due to banks and financial institutions	4,373,167	2,623,198
Customer deposits	8,641,930	11,581,328
	13,015,097	**14,204,526**

27. Fees and commissions, net

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

	Six-month period ended 30 June 2017	Six-month period ended 30 June 2016
Fee and commission income		
Inter-bank transactions	2,703,891	1,461,978
Payment services to clients	2,560,587	2,325,178
Lending activity	2,053,131	1,707,376
Electronic banking transactions	1,434,472	1,215,959
Customer accounts' maintenance	1,172,808	879,768
Cash transactions with clients	273,639	168,430
Other fees and commissions	100,108	81,379
	10,298,636	*7,840,068*
Fee and commission expense		
Inter-bank transactions	(421,163)	(310,922)
Payment services to clients	(42,572)	(16,963)
Customer accounts' maintenance	(28,914)	(52,474)
Transactions with clients	(26,795)	(33,145)
Other fees and commissions	(5)	(34)
	(519,449)	*(413,538)*
Fees and commissions, net	**9,779,187**	**7,426,530**

28. 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 gain on the share capital revaluation for the six-month period ended 30 June 2017 is USD 25,576,216 (six-months ended 30 June 2016 gain: USD 3,971,255).

29. Other (expense) / income, net

Other income and expenses are composed as follows:

	Six-month period ended 30 June 2017	**Six-month period ended 30 June 2016**
Other income		
Gain on recovery of written off loans to customers	243,565	43,201
Income from operating lease	59,231	95,734
Gain on sale of assets acquired through legal process	45,214	14,807
Reversal of staff pension fund	2,378	15,327
Gain on sale of property and equipment	-	39,793
Sundry	4,002	6,089
	354,390	*214,951*
Other expense		
Provisions on assets acquired through legal process, net	(1,152,204)	-
Write off of loans to customers, net	(436,439)	-
Loss from other debtors	(219,687)	(46,527)
Loss on sale or write off of fixed assets and repossessed assets	(5,878)	(617,278)
Provision of other debtors	-	(462,975)
Sundry	(29,553)	(32,710)
	(1,843,761)	*(1,159,490)*
Other (expense) / income, net	**(1,489,371)**	**(944,539)**

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

	Six-month period ended 30 June 2017	**Six-month period ended 30 June 2016**
Write off of loans to customers, gross	(4,036,993)	-
Provision reversal of written off loans	3,600,554	-
Write off of loans to customers, net	**(436,439)**	**-**

30. Personnel expenses

Personnel expenses are composed as follows:

	Six-month period ended 30 June 2017	**Six-month period ended 30 June 2016**
Salaries	6,417,209	6,375,300
Performance bonus	954,926	950,367
Social insurance	629,166	620,860
Training	153,228	190,669
Life insurance	42,815	45,422
Other	300,430	127,238
	8,497,774	**8,309,856**

31. Administrative expenses

Administrative expenses are composed as follows:

	Six-month period ended 30 June 2017	Six-month period ended 30 June 2016
Deposit insurance expense	3,414,047	3,072,330
Credit/debit cards expenses	1,737,639	1,399,395
Lease payments	1,265,760	1,303,346
Repairs and maintenance	1,034,771	729,763
Telephone, electricity and IT expenses	1,014,346	1,052,201
Security and insurance expenses	668,981	459,319
Other external services (including external audit fees)	486,268	346,189
Marketing expenses	447,594	1,050,535
Transportation and business related travel	340,453	389,331
Office stationery and supplies	151,768	199,105
Taxes other than tax on profits	123,759	112,385
Representation expenses	95,963	100,573
Sundry	383,712	564,903
	11,165,061	**10,779,375**

32. Income tax

Income tax is comprised of:

	Six-month period ended 30 June 2017	Six-month period ended 30 June 2016
Current income tax	5,746,936	6,078,770
Deferred tax (income)/expense (note 21)	(1,022,923)	(538,783)
	4,724,013	**5,539,987**

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

	Six-month period ended 30 June 2017	Six-month period ended 30 June 2016
Profit before taxes	**29,864,235**	**35,393,157**
Computed tax using applicable tax rate of 15 %	4,479,635	5,308,974
Non tax deductible expenses	365,774	167,983
Foreign exchange difference	(121,396)	63,030
Income tax	**4,724,013**	**5,539,987**
Effective tax rate	**15.82%**	**15.65%**

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 Finansal Hizmetler, which is owned by Calik Holding at 100% as at 30 June 2017. The ultimate controlling party is Mr. Ahmet Calik.

ALBtelecom Sh.a., Eagle Mobile Sh.a., Albania Leasing, Aktif Yatirim Bankasi A.S. ("Aktifbank"), GAP Pazarlama FZE, Gap İnşaat Yatırım ve Dış Ticaret A.Ş., Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S, Kosovo Electricity Distribution and Supply Company J.S.C (KEDS) and Kosovo Electricity Supply Company J.S.C (KESCO) are controlled by Calik Holding. Sara-AT shpk is a company financially dependent from Albtelecom for the loan repayment.

Balances and transactions with related parties

	30 June 2017	31 December 2016
Assets		
Placement and balances with banks:		
Current accounts with Aktifbank	126,969	92,422
Placement with Albania Leasing	-	349,427
Loans to customers:		
KEDS / KESCO	716,975	799,969
ALBtelecom	11,620,392	11,451,942
GAP Pazarlama FZE	1,254,285	2,220,164
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	13,628,486	12,727,456
Albania Leasing	372,916	255,649
Sara-AT shpk	131,901	218,749
Other assets:		
Receivables from ALBtelecom Sh.a	21,520	5,162
Prepaid expenses to Calik Holding	128,571	-
Total assets	**28,002,015**	**28,120,940**
Liabilities		
Due to banks and financial institutions:		
Borrowings from Aktifbank	2,844,852	1,484,284
Borrowings from Albania Leasing	-	401,013
Customer deposits:		
ALBtelecom Sh.a.	237,934	288,375
Albania Leasing	-	37,319
Other liabilities:		
Payables to ALBtelecom Sh.a	-	12,540
Total liabilities	**3,082,786**	**2,223,531**

33. Related party transactions (continued)

Balances and transactions with related parties (continued)

	Six months period ended 30 June 2017	Six months period ended 30 June 2016
Statement of comprehensive income		
Interest income from:		
GAP Pazarlama FZE	50,859	40,549
KEDS / KESCO	19,095	22,302
ALBtelecom Sh.a.	351,531	314,304
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	477,115	492,836
Albania Leasing	11,698	12,693
Aktifbank	83,366	-
Sara-AT shpk	9,272	13,662
Interest expenses for:		
ALBtelecom Sh.a. and Eagle Mobile Sh.a.	(157)	(99)
Aktifbank	(117,510)	(71,008)
Albania Leasing	(1,427)	(3,640)
Fees and commissions:		
Letters of guarantee:		
ALBtelecom Sh.a.	-	30
Calik Enerji Sanayi Ve. Ticaret A.S	33,837	34,646
Account maintenance and lending fees from ALBtelecom Sh.a. and Eagle Mobile Sh.a.	74,788	2,604
Other income:		
Operating lease income from ALBtelecom Sh.a.	31,668	32,652
Operating expenses:		
ALBtelecom Sh.a., Eagle Mobile Sh.a. and Calik Holding	(495,990)	(425,940)
Net	**528,145**	**465,591**

In addition, during 2017, the Bank performed the following transaction with related parties:

Month	Related Party	Purchase price in USD	Asset purchased
May 2017	Aktifbank	59,000,000	Asset-Backed Trust Certificates

The Asset-Backed Trust Certificates (‘Sukuk bonds’) were issued by ‘Aktif Bank Sukuk Varlik Kiralama A.S’ (the ‘ALC-Asset Lease Company’), which has been established by Aktifbank in 2013. These Sukuk bonds represent debt instruments secured by the underlying asset of the ALC. The underlying asset is an Office Building at Zincirlikuyu District, Istanbul, owned by GAP Insaat Yatirim ve Dis Ticaret A.S.

Within a framework of contractual partnership for the completion of the office building based on a Sukuk al Mudarabah structure, in accordance with the Turkish CMB (Capital Markets Board) regulations, GAP Insaat Yatirim is the originator and the Mudarib, and ALC is the issuer and the Rab al-maal. According to the Turkish CML (Capital Markets Law), the ALC cannot grant pledges or other similar rights on its assets and rights in favor of third parties except for those expressly permitted by its articles of association approved by the CMB. Furthermore the disposal of the ALC’s assets and rights to the detriment of the sukuk holders’ interests is forbidden.

33. Related party transactions (continued)

The issued Sukuk bonds have been offered to qualified investors in the Irish Stock Exchange. The holders of such securities have the right and priority to the proceeds to be derived from rental and sale of such assets in proportion to their shares. Repayment of the Sukuk bonds is linked to the performance of the underlying asset solely, without any obligation of any Calik Holding companies.
For the sake of clarity, these Sukuk bonds are not on the balance sheet of Aktifbank or GAP Insaat Yatirim and do not represent their obligations.

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:

	Six-month period ended 30 June 2017	**Six-month period ended 30 June 2016**
Directors	54,706	57,463
Executive officers	1,411,156	1,395,460
	1,465,862	**1,452,923**

As at 30 June 2017, the total deposits of directors held with the Bank were USD 1,216,050 (31 December 2016: USD 970,990), while the outstanding loans granted to directors were USD 306,207 (31 December 2016: USD 333,959).

34. Contingencies and commitments

Guarantees and letters of credit

	30 June 2017	**31 December 2016**
Guarantees in favour of customers	83,081,303	60,842,387
Guarantees received from credit institutions	23,743,591	6,712,448
Letters of credit issued to customers	2,797,859	3,021,090

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

	30 June 2017	**31 December 2016**
Undrawn credit commitments	140,333,340	111,676,030
Outstanding cheques of non-resident banks	385,303	358,928
Spot foreign currency contract	98,663,756	116,489,664
Collaterals for loan portfolio	2,585,676,831	2,352,595,664
Securities pledged as collateral (note 19)	266,425,365	244,395,436

34. Contingencies and commitments (continued)

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 30 June 2017.

Lease commitments

Such commitments for the years ended 30 June 2017 and 31 December 2016 are composed as follows:

	30 June 2017	31 December 2016
Not later than 1 year	2,179,953	2,441,333
Later than 1 year and not later than 5 years	4,567,185	4,526,889
Later than 5 years	2,372,444	1,675,590
Total	**9,119,582**	**8,643,812**

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2017 with a maximum duration of ten years.

The Bank had 88 rented buildings as at 30 June 2017, in which are included the rented space dedicated to offsite disaster recovery and the 27 buildings rented for units of Kosovo Branch.

The Bank may cancel these leases upon giving three months' notice. Therefore, at 30 June 2017, the maximum non-cancellable commitment payable not later than one year is USD 544,988 (31 December 2016: USD 610,333).

The Bank leases a number of properties under operating leases. The leases typically run for a period of up to 1 year, with an option to renew the lease after that period.

35. Subsequent events

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