Banka Kombetare Tregtare Sh.a.

Independent auditor’s report and
Consolidated financial statements
as at and for the year ended 31 December 2017

Contents

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

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

Independent Auditor's Report

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

Qualified Opinion

We have audited the consolidated financial statements of Banka Kombetare Tregtare Sh.a (hereafter referred as the "Bank" or the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies

In our opinion, except for the effects of the matter described in the *'Basis for Qualified Opinion'* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2017, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

The Bank has treated its share capital issued in United States Dollar (USD) as a monetary item in the consolidated financial statements and recognized the revaluation differences for the year ended 31 December 2017 within the net profits in the consolidated statement of profit or loss and other comprehensive income. This treatment is not in accordance with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" which requires share capital to be treated as a non-monetary item and carried at the exchange rate of the date of the transaction. Had the Bank treated its share capital in accordance with IAS 21 requirements, the share capital as at 31 December 2017 would have been increased by USD 978,349, retained earnings would have been increased by USD 37,820,706 and the net profit would have been decreased by USD 38,799,055 for the year ended 31 December 2017. Nevertheless, this would not have affected the total shareholders' equity.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Kledian Kodra, FCCA

Grant Thornton sh.p.k.

Tirana, Albania
26 March 2018

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

Consolidated statement of financial position as at 31 December 2017

(Amounts in USD)

	Notes	31 December 2017	31 December 2016
Assets			
Cash and balances with Central Bank	7	295,119,649	238,956,317
Placement and balances with banks	8	293,887,630	182,831,892
Treasury bills available-for-sale	9	209,396,356	151,067,452
Trading and available-for-sale securities	10	1,002,510,212	895,017,446
Held-to-maturity securities	11	160,524,664	129,537,206
Loans to banks	12	424,728,134	355,013,362
Loans to customers	13	1,172,497,193	1,007,063,126
Investment in associates	14	1,435,525	1,265,678
Property and equipment	15	38,905,448	18,961,617
Intangible assets	16	3,080,573	1,651,692
Other assets	17	57,251,927	37,275,880
Total assets		**3,659,337,311**	**3,018,641,668**
Liabilities and shareholder's equity			
Liabilities			
Customer deposits	18	2,867,899,348	2,348,186,010
Due to banks and financial institutions	19	343,706,001	276,910,754
Due to third parties	20	4,856,919	4,672,432
Deferred tax liabilities	21	431,014	1,338,585
Accruals and other liabilities	22	21,054,729	13,753,490
Subordinated debt	23	29,989,497	26,441,225
Total liabilities		**3,267,937,508**	**2,671,302,496**
Shareholder's equity			
Share capital	24	274,350,310	250,000,000
Translation reserve	24	3,004,286	(1,823,607)
Fair value reserve	24	4,908,867	762,502
Retained earnings	24	109,136,340	98,400,277
Total shareholder's equity		**391,399,803**	**347,339,172**
Total liabilities and shareholder's equity		**3,659,337,311**	**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 67.

The consolidated financial statements were authorised for release by the Board of Directors on 23 January 2018 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 year ended 31 December 2017

(Amounts in USD)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest			
Interest income	25	138,624,420	123,681,345
Interest expense	26	(27,282,800)	(26,691,013)
Net interest margin		**111,341,620**	**96,990,332**
Non-interest income, net			
Fees and commissions, net	27	18,623,051	14,575,792
Foreign exchange revaluation, net	28	(10,520,992)	4,756
Foreign exchange trading activities income, net		324,702	2,570,981
Securities trading gain, net		3,582,910	23,587,643
Other (expense) / income, net	29	(3,952,938)	(1,832,583)
Total non-interest income, net		**8,056,733**	**38,906,589**
Operating expenses			
Personnel expenses	30	(18,021,107)	(16,792,205)
Administrative expenses	31	(26,302,101)	(23,400,068)
Depreciation and amortization	15,16,17	(3,855,229)	(4,045,379)
Total operating expenses		**(48,178,437)**	**(44,237,652)**
Impairment of loans	13	(1,546,308)	(22,247,372)
Profit before taxes		**69,673,608**	**69,411,897**
Income tax	32	(10,797,108)	(10,969,611)
Net profit for the year		**58,876,500**	**58,442,286**
Foreign currency translation differences		4,827,893	(1,821,378)
Net change in fair value reserves		4,146,365	(214,463)
Other comprehensive income/(expense) for the year, net of income tax		**8,974,258**	**(2,035,841)**
Total comprehensive income for the year		**67,850,758**	**56,406,445**

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 67.

Consolidated statement of changes in equity for the year ended 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 2016 year end exchange rate	-	-	-	-	(288,351)	**(288,351)**
Total transactions with owners recorded in equity	*43,088,100*	-	-	-	*(43,378,680)*	***(290,580)***
Comprehensive income for the year						
Net profit for the year	-	-	-	-	58,442,286	**58,442,286**
2016 correction_IR reimbursement	-	-	-	-	(2,344,725)	**(2,344,725)**
Other comprehensive income, net of income tax						
Net change in fair value reserve	-	-	-	(214,463)	-	**(214,463)**
Foreign currency translation differences	-	-	(1,821,378)	-	-	**(1,821,378)**
Total other comprehensive income	-	-	(1,821,378)	(214,463)	-	**(2,035,841)**
Total comprehensive income for the year	-	-	*(1,821,378)*	*(214,463)*	*56,097,561*	***54,061,720***
Balance as at 31 December 2016	**250,000,000**	**-**	**(1,823,607)**	**762,502**	**98,400,277**	**347,339,172**

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 67.

* The correction of 2016 relates to the reimbursement performed from Kosovo branch toward its loan clients for the correction of the interest rates. The amount accumulated for the periods up to 2016 year-end is EUR 2,222,314 (equivalent of USD 2,344,725).

Consolidated statement of changes in equity for the year ended 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**	**98,400,277**	**347,339,172**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	24,350,310	-	-	-	(24,350,310)	**-**
Dividend payment					(30,000,000)	**(30,000,000)**
Appropriation of year 2016 translation difference	-	-	-	-	(1,823,607)	**(1,823,607)**
Adjustment of retained earnings with December 2017 year end exchange rate	-	-	-	-	8,033,480	**8,033,480**
Total transactions with owners recorded in equity	*24,350,310*	-	-	-	*(48,140,437)*	***(23,790,127)***
Comprehensive income for the year						
Net profit for the year	-	-	-	-	58,876,500	**58,876,500**
Other comprehensive income, net of income tax						
Net change in fair value reserve	-	-	-	4,146,365	-	**4,146,365**
Foreign currency translation differences	-	-	4,827,893	-	-	**4,827,893**
Total other comprehensive income	-	-	4,827,893	4,146,365	-	**8,974,258**
Total comprehensive income for the year	-	-	*4,827,893*	*4,146,365*	*58,876,500*	**67,850,758**
Balance as at 31 December 2017	**274,350,310**	**-**	**3,004,286**	**4,908,867**	**109,136,340**	**391,399,803**

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 67.

Banka Kombetare Tregtare Sh.a.

Consolidated statement of cash flows for the year ended 31 December 2017

(Amounts in USD)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities:			
Profit before taxes		69,673,608	69,411,897
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	26	27,282,800	26,691,013
Interest income	25	(138,624,420)	(123,681,345)
Depreciation and amortization	15,16,17	3,855,229	4,045,379
Gain on sale of property and equipment		(14,556)	(217,423)
Gain on sale of treasury bills		(90,760)	(66,455)
Gain on sale of non-current assets		(129,457)	(36,686)
Gain on recovery of written-off loans to customers		(525,277)	(103,437)
Write-off of property and equipment		21,265	35,141
Write-off of loans to customers		6,296,710	816,442
Write off of fixed assets and repossessed assets		5,600	586,135
Provision on other debtors		3,951,143	1,646,204
Reversal of other debtors		(66,935)	-
Movement in the fair value reserve		3,758,882	(202,695)
Impairment of loans	13	1,546,308	22,247,372
Cash flows from operating profits before changes in operating assets and liabilities		(23,059,860)	1,171,542
(Increase)/decrease in operating assets:			
Restricted balances with central banks		(47,780,318)	(17,818,717)
Placements and balances with banks		31,406,849	(2,189,060)
Loans to banks		(13,580,109)	(113,454,979)
Loans to customers		(17,158,600)	(132,314,056)
Other assets		(18,086,100)	641,295
		(65,198,278)	(265,135,517)
Increase/(decrease) in operating liabilities:			
Customer deposits		149,601,436	176,902,317
Due to third parties		(497,623)	1,958,264
Accruals and other liabilities		8,423,045	522,225
		157,526,858	179,382,806
Dividend payment, net		**(28,500,000)**	**-**
Interest paid		(28,484,877)	(31,229,068)
Interest received		135,607,458	126,257,690
Income taxes paid		(11,856,656)	(14,393,755)
Net cash flows from operating activities		**136,034,645**	**(3,946,302)**
Cash flows from investing activities			
Purchases of investment securities		(283,239,008)	(543,627,407)
Purchases of treasury bills		(67,722,960)	(7,115,056)
Investment in associates		22,967	19,810
Purchases of property and equipment		(20,857,680)	(4,069,207)
Proceeds from sale of property and equipment		11,619	860,803
Proceeds from sale of investment securities		301,958,091	439,712,982
Proceeds from sale of treasury bills		36,021,562	20,628,515
Net cash flows used in investing activities		**(33,805,409)**	**(93,589,560)**
Cash flows from financing activities			
Proceeds from short term borrowings	19	22,484,540	115,215,676
Subordinated debt		(478,630)	(412,840)
Net cash from financing activities		**22,005,910**	**114,802,836**
Net change in cash and cash equivalents		**124,235,146**	**17,266,974**
Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference)		(7,321,523)	1,102,329
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	**335,441,946**	**218,528,323**

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 67.

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, Europay / MasterCard / Visa ("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 31 December 2017 and 31 December 2016 was as follows:

	31 December 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 65 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 1,292 (31 December 2016: 1,311) employees as at 31 December 2017, out of which 348 (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 International Financial Reporting Standards (IFRSs).

(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 = 111.10 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) New and revised standards that are effective for annual periods beginning on or after 1 January 2017

The Bank has not adopted any new standards or amendments that have a significant impact on the Group's results or financial position.

The standards and amendments that are effective for the first time in 2017 (for entities with a 31 December 2017 year end) and could be applicable to the Bank are:

'Annual Improvements to IFRSs' 2014-2016 cycle (Amendments IFRS 1, IFRS 12 dhe IAS 28)
Amendments to IAS 7 'Cash flow Statement'.

These amendments do not have a significant impact on these financial statements and therefore disclosures have not been made.

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

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"

IFRS 9 "Financial instruments" (IFRS 9) replaces IAS 39 "Financial instruments: Recognition and measurement" and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 has introduced a new concept of classification and measurement of financial assets and a new "expected credit loss" model for the impairment of financial assets. The Bank has adopted new accounting policies, implementing the requirements of IFRS 9, effective as of 1 January 2018. The Bank also assessed the impact of IFRS 9 on its financial assets and upgraded and customized existing business applications and adopted new regulations to include IFRS 9 requirements.

The Bank assessed the impact of IFRS 9, in the following areas:

1) Classifications of the financial assets

Classification and measurement of financial instruments on or after 1 January 2018 is based on new criteria that take into account the contractual cash flows of financial instruments and the business model in which they are managed. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost (AC), measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit and loss (FVPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

i. Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

As per the new standard, one of the conditions for financial assets to be classified either under 'amortised cost' or 'Fair Value Through Other Comprehensive Income ("FVOCI")' category is that the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank has performed the SPPI test and has determined the business models for its financial assets.

3. Significant accounting policies (continued)

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

ii. Business model assessment

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

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

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

Treasury

Treasury assets as at 31 December 2017 consist of cash or equivalents, Government Bonds, Investment securities such as Eurobonds, Bonds and Certificates.
The Bank also considers Loans to banks such as Syndicated Loans, Bilateral Loans and Murabaha as treasury products.
Investment securities are accounted for depending on their classification as either Held-to-Maturity (“HTM”), or Available-for-Sale (“AFS”) and in some cases as Held-for-Trading (“TRD”).

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

Retail

The Retail assets as at 31 December 2017 consist of various financing facilities to individuals (e.g. Mortgage loans, Consumer loans, Home improvement loans, Car loans, Credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.
The fair value of the Retail assets is not a critical aspect in the Bank’s management of the portfolio.

The business model of the Banks under IFRS 9 is "HTC" and the Retail loans shall be measured at amortised cost.

Corporate

The Corporate assets as at 31 December 2017 consist of various financing facilities to corporates (e.g. Cash loans, Non-cash loans, Agro loans, Project & structured finance, Business credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.
The fair value of the Corporate assets is not a critical aspect in the Bank’s management of the portfolio.

The business model of the Banks under IFRS 9 is "HTC" and the corporate loans shall be measured at amortised cost.

3. Significant accounting policies (continued)

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

Based on selected business models, the Bank has decided to classify its financial assets into following categories as at 1 January 2018:

Portfolio reviewed as at 31 December 2017	IAS 39 Classification Measurement		SPPI Test	Business Model	IFRS 9 Classification measurement	Conclusion
Treasury						
Cash and other advances to banks	HTM	AC	Expected to meet SPPI criteria	Held to collect contractual cash flows	AC	No financial impact identified
Placement and balances with banks	HTM	AC	Expected to meet SPPI criteria	Held to collect contractual cash flows	AC	No financial impact identified
Treasury bills	AFS	FVOCI	Expected to meet SPPI criteria	Held to collect and sell	FVOCI	No financial impact identified
Available to sale Securities	AFS	FVOCI	Expected to meet SPPI criteria	Held to collect and sell	FVOCI	No financial impact identified at this stage. However any new instruments failing the SPPI test in the future will be measured at FVPL with consequential P&L volatility due to change in FV.
Held to maturity Securities	HTM	AC	Expected to meet SPPI criteria	Held to collect contractual cash flows	AC	
Loans to Banks	LAR	AC	Expected to meet SPPI criteria	Held to collect contractual cash flows	AC	Only 3% of loans to bank portfolio was sold in 2017, 13% in 2016 and 10.4% in 2015. Given their frequency and insignificance in prior years the sales may be consistent with a business model whose objective is to hold financial assets in order to collect contractual cash flows. More over the Bank's management intention is to keep these assets until maturity.
Loans to customers						
Retail and corporate Loans	LAR	AC	Expected to meet SPPI criteria	Held to collect contractual cash flows	AC	No financial impact identified

3. Significant accounting policies (continued)

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

2) IFRS 9 Expected Credit Loss Provisioning

The International Financial Reporting Standards (IFRS 9) is a new set of standards which will replace the IAS 39 regulatory framework. These new requirements are the core changes that will impact banks on the short term as they came into effect at the beginning of 2018. In particular, IFRS 9 raises new provision and impairment requirements in IFRS 9 which are based on an expected credit loss model.

An entity shall measure expected credit losses of a financial instrument in a way that reflects:
(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(b) the time value of money; and
(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank will apply IFRS 9 on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date.

Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Banks's equity at 1 January 2018 is approximately USD 6,137,861, or 12.3% more than the current provisions allocated under IAS39.

The total provisions amount to USD 55,921,887, or equivalently 1.84% of the total exposure of the financial assets.

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

- "Bucket 1" comprises of assets that have not suffered any significant deterioration of credit quality since initial recognition;
- "Bucket 2" comprises of assets that have suffered significant deterioration since initial recognition;
- "Bucket 3" concerns all assets where a default has occurred.

Under this general approach, the ECL for an asset is calculated over different time horizons according to the bucket it was assigned to. We have the following two measure bases:
- ECL over one year for assets in bucket 1;
- ECL over remaining lifetime for assets in bucket 2 and bucket 3.

The bucket assignment is done according to the following rules: - Impairment: if the counterparty for the considered asset has defaulted, the asset is assigned to "Bucket 3". An asset is considered as having defaulted if any repayment (principal or interest) is overdue for more than 90 days or if the counterparty is in a proven situation of default (bankruptcy).
- Qualitative factors: IFRS 9 has advised to take into account qualitative factors such as watch lists or financial analysis by experts. Similarly to the previous case, there is also a second time threshold. In case the asset has more than 30 days overdue, it is assigned to "Bucket 2".
- Absolute Threshold: if the rating of the counterparty is above a specific pre-defined absolute threshold, it is assigned to "Bucket 2"
- Relative Threshold: if the counterparty has suffered significant deterioration in credit risk, that is if its credit quality since initial recognition has dropped more than a specific pre-defined relative threshold, then it is assigned to "Bucket 2".
- All assets that are not in the previous cases are assigned to "Bucket 1"

3. Significant accounting policies (continued)

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

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- Probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL is estimated under Baseline (typical), Best (favourable) and Adverse (unfavourable) conditions.

i. Probability of Default

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

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

The Bank used external default rate data for each relevant sector and region. A number of macro-economic variables sourced from the IMF2, including historical data spanning 1990 – 2016 and baseline projections for 2017 – 2020, were considered in modelling of PIT PD.

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

ii. Loss Given Default (LGD)

The Bank assumed the fixed Based Estimates. The Banks mapped each collateral type in BKT portfolios to the Basel LGD segments1, each with their own LGD estimate: Eligible financial collateral (0%), secured (25%), senior unsecured (45%) and subordinated unsecured (75%). When an account has collateral(s) belonging to the same Basel LGD segment, the LGD value assigned to that segment is used for all accounts under the concerning counterparty. In the case where an account has several types of collateral, the collateral value-weighted LGD is used for all accounts under the concerning counterparty. For the Treasury and Project and Structured Finance portfolios, LGD values are assigned on an asset type level.

iii. Exposure at Default (EAD)

The Bank assumed no Point-in-Time cycle dependency in EAD estimates.

For off balance sheet exposures, it is required that provisions are held against undrawn commitments.

iv. Expected Credit Loss

IFRS9 ECL is a probability weighted average of three economic forecasts, namely Baseline, Best and Adverse. The only Point-in-Time estimates are for Probability of Default. LGD assumes Basel estimates and EAD uses amortisation type payment schedules.

3. Significant accounting policies (continued)

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

v. Impact Assessment

The most significant impact on the Group's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Banks's equity at 1 January 2018 is approximately USD 6,137,861.
The total provisions amount to USD 55,921,887, or equivalently 1.84% of the total exposure.

Corporates and Individuals / Retail accounted for 81% and 16% of provisions, respectively. The difference between the 'Best' and 'Adverse' economic forecast is driven by the Point-in-Time Probability of Default estimates. Given data available, the Bank did not incorporate PIT EAD and LGD.
With high unemployment and lower than average real GDP in Albania, the ECL assuming PIT estimates is higher than if we used Through-the-Cycle estimates (USD 55,921,887 versus USD 48,740,735).

The Bank has decided to not restate comparative periods at initial application of IFRS 9. Implementation of IFRS 9 and change of accounting policy for the impact of the opening balance of the Bank on 1 January 2018 on asset side and equity side as presented in the following tables:

Assets	**31 December 2017**	**Restatement of opening balance**	**1 January 2018**
Cash and balances with Central Bank	295,119,649		295,119,649
Placement and balances with banks	293,887,630		293,887,630
Treasury bills available-for-sale	209,396,356		209,396,356
Trading and available-for-sale securities	1,002,510,212	435,063	1,002,075,149
Held-to-maturity securities	160,524,664	135,930	160,388,734
Loans to banks	424,728,134	827,877	423,900,257
Loans to customers	1,172,497,193	4,578,049	1,167,919,144
Investment in associates	1,435,525		1,435,525
Property and equipment	38,905,448		38,905,448
Intangible assets	3,080,573		3,080,573
Other assets	57,251,927	160,942	57,090,985
Total	**3,659,337,311**	**6,137,861**	**3,653,199,450**

Shareholder's equity	**31 December 2017**	**Restatement of opening balance**	**1 January 2018**
Share capital	274,350,310		274,350,310
Translation reserve	3,004,286		3,004,286
Fair value reserve	4,908,867		4,908,867
Retained earnings	109,136,340	6,137,861	102,998,479
Total shareholder's equity	**391,399,803**	**6,137,861**	**385,261,942**

3. Significant accounting policies (continued)

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

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.

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:

31 December 2017	**Note**	**Carrying Amount**			**Fair Value**	
			Level 1	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	8	293,887,630	-	293,887,630	-	293,887,630
Treasury bills available-for-sale	9	209,396,356	-	209,396,356	-	209,396,356
Trading and available-for-sale securities	10	1,002,510,212	249,931,729	752,578,483	-	1,002,510,212
Held-to-maturity securities	11	160,524,664	133,027,029	33,516,057	-	166,543,086
Loans to banks	12	424,728,134	-	424,728,134	-	424,728,134
Loans to customers	13	1,172,497,193	-	-	1,172,497,193	1,172,497,193
Total financial assets		**3,263,544,189**	**382,958,758**	**1,714,106,660**	**1,172,497,193**	**3,269,562,611**
Customer deposits	18	2,867,899,348	-	-	2,867,899,348	2,867,899,348
Due to banks and financial institutions	19	343,706,001	-	343,706,001	-	343,706,001
Subordinated debt	23	29,989,497	-	29,989,497	-	29,989,497
Total financial liabilities		**3,241,594,846**	**-**	**373,695,498**	**2,867,899,348**	**3,241,594,846**
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 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Cash and balances with Central Bank	295,119,649	238,956,317
Treasury bills available-for-sale	209,396,356	151,067,452
Due from other banks	718,615,764	537,845,254
Loans to customers, net	1,172,497,193	1,007,063,126
Trading and available-for-sale securities	1,002,510,212	895,017,446
Held-to-maturity securities	160,524,664	129,537,206
Investment in associates	1,435,525	1,265,678
Other Assets	19,278,692	9,669,023
Financial guarantees	106,584,007	60,842,387
Standby letters of credit	2,100,965	3,021,090
Commitments to extend credit	110,429,590	111,676,030
Maximum exposures to credit risk	**3,798,492,617**	**3,145,961,009**

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			
31 December 2017	**Retail**	**Business**	**Advances**	**Total**
Neither past due nor impaired	330,752,200	682,698,398	746,667	1,014,197,265
Past due and individually tested but not impaired	33,137,407	96,757,292	45,663	129,940,362
Individually impaired	13,857,852	63,547,710	738,030	78,143,592
Total Loans, gross (Note 13)	**377,747,459**	**843,003,400**	**1,530,360**	**1,222,281,219**
Allowance for individual impairment	(7,288,061)	(29,380,874)	(683,056)	(37,351,991)
Allowance for collective impairment	(3,907,179)	(8,516,140)	(8,716)	(12,432,035)
Total Loans, net of impairment	**366,552,219**	**805,106,386**	**838,588**	**1,172,497,193**

	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	31 December 2017	31 December 2016
A – Good	7,342,143	4,760,599
B – Acceptable	731,956,938	658,908,552
C – Close Monitoring	63,069,547	37,427,684
D – Unacceptable	34,247,199	36,866,085
(Note 13)	**836,615,827**	**737,962,920**
Accrued interest	8,424,729	7,246,826
Less: unamortized deferred fee income	(2,037,156)	(2,110,788)
Total	**843,003,400**	**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**
31 December 2017	4,604,362	77,894,876	18,230	82,517,468
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			
31 December 2017	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	27,454,550	62,248,602	235,553	89,938,705
Past due 32-60 days	8,063,792	8,568,834	128,310	16,760,936
Past due 61-90 days	8,249,831	9,107,730	31,330	17,388,891
Past due 91-180 days	2,593,247	1,515,605	-	4,108,852
Past due 181 days- 365 days	3,406,466	1,613,604	20,901	5,040,971
Past due 1-2 years	2,734,558	8,788,201	21,069	11,543,828
Past due over 2 years	6,947,534	32,474,238	247,205	39,668,977
Total	**59,449,978**	**124,316,814**	**684,368**	**184,451,160**

	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:

31 December 2017	Loans to customers Retail	Corporate	Total Loans
Residential, commercial or industrial Property	845,197,410	1,259,185,632	2,104,383,042
Financial assets	28,521,738	200,444,266	228,966,004
Other	173,823,699	314,797,178	488,620,877
Total	**1,047,542,847**	**1,774,427,076**	**2,821,969,923**

31 December 2016	Loans to customers 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:

31-Dec-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	295,119,649	209,396,356	718,615,764	1,002,510,212	160,524,664	19,278,692	2,405,445,337
Acceptable	-	-	-	-	-	-	-
Close monitoring	-	-	-	-	-	-	-
Total	**295,119,649**	**209,396,356**	**718,615,764**	**1,002,510,212**	**160,524,664**	**19,278,692**	**2,405,445,337**

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**	**31 December 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		26,218,970	20,573,877
Rated B1		932,878,908	779,710,193
Not rated		67,060,494	38,067,288
Corporate bonds and asset backed securities	**10,11**		
Rated A3		1,450,799	1,452,549
Rated Baa3		63,929,214	34,284,146
Rated Ba3 to Ba1		11,653,312	11,778,891
Not rated		9,054,650	8,593,922
Bank bonds	**10,11**		
Rated A2		9,562,031	16,053,164
Rated Baa3 to Baa2		100,151,872	41,460,007
Rated Ba2 to Ba1		97,340,599	146,124,589
Rated Ba3		24,905,166	31,634,672
Rated B1		2,827,050	12,012,800
Not rated		-	1,728,998
Investments in equity			
Not rated		25,398,167	25,180,713
Total		**1,372,431,232**	**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 31 December 2017 and 31 December 2016 is shown below:

	Note	Loans to customers		Loans to banks		Investment Securities	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Carrying amount	9-11,12,13	1,172,497,193	1,007,063,126	424,728,134	355,013,362	1,372,431,232	1,175,622,104
Concentration by sector							
Corporate		800,111,348	703,157,777	-	-	111,486,142	81,290,221
Government		4,995,038	4,581,984	-	-	1,026,158,372	845,317,653
Banks		-	-	424,728,134	355,013,362	234,786,718	249,014,230
Retail		367,390,807	299,323,365	-	-	-	-
Total		**1,172,497,193**	**1,007,063,126**	**424,728,134**	**355,013,362**	**1,372,431,232**	**1,175,622,104**

Concentration by location	Note	Loans to customers		Loans to banks		Investment securities	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Albania		681,065,501	563,532,812	-	-	926,554,882	777,021,466
Kosovo		253,791,951	196,305,023	-	-	67,060,492	38,067,288
Europe		214,969,694	214,381,047	370,036,599	301,629,246	344,890,969	309,352,583
Asia		-	-	12,077,986	6,884,849	-	1,728,998
Middle East and Africa		22,670,047	32,844,244	32,529,155	39,494,253	29,646,961	33,380,611
South America		-	-	10,084,394	7,005,014	4,277,928	16,071,158
Total	9-11,12,13	**1,172,497,193**	**1,007,063,126**	**424,728,134**	**355,013,362**	**1,372,431,232**	**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 31 December 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 31 December 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	295,119,649	-	-	-	-	295,119,649
Placement and balances with banks	217,209,617	68,256,300	8,421,713	-	-	293,887,630
Treasury bills available-for-sale	22,756,111	62,575,994	124,064,251	-	-	209,396,356
Trading and available-for-sale securities	11,357,364	32,707,565	224,932,538	547,057,305	186,455,440	1,002,510,212
Held-to-maturity securities	12,337	10,815,084	27,350,680	60,953,224	61,393,339	160,524,664
Loans to banks	337,547	60,921,699	295,978,789	67,490,099	-	424,728,134
Loans to customers	53,311,916	43,174,486	335,860,985	491,550,117	248,599,689	1,172,497,193
Other assets	19,278,692	-	-	-	-	19,278,692
Total assets	**619,383,233**	**278,451,128**	**1,016,608,956**	**1,167,050,745**	**496,448,468**	**3,577,942,530**
Liabilities						
Customer deposits	1,162,285,761	260,990,885	1,052,579,509	363,913,673	28,129,520	2,867,899,348
Due to banks and financial institutions	237,385,471	99,252,588	1,090,577	5,977,365	-	343,706,001
Due to third parties	4,856,919	-	-	-	-	4,856,919
Accruals and other liabilities	16,187,794	-	-	-	914,883	17,102,677
Subordinated debt	-	-	72,756	-	29,916,741	29,989,497
Total liabilities	**1,420,715,945**	**360,243,473**	**1,053,742,842**	**369,891,038**	**58,961,144**	**3,263,554,442**
Net Position	**(801,332,712)**	**(81,792,345)**	**(37,133,886)**	**797,159,707**	**437,487,324**	**314,388,088**
Cumulative Net Position	**(801,332,712)**	**(883,125,057)**	**(920,258,943)**	**(123,099,236)**	**314,388,088**	**-**

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	8,586,705	-	-	-	927,279	9,513,984
Subordinated debt	-	-	64,148	-	26,377,077	26,441,225
Total liabilities	**1,096,872,590**	**310,719,094**	**923,926,655**	**277,117,040**	**57,089,026**	**2,665,724,405**
Net Position	**(570,785,794)**	**(115,698,724)**	**(131,740,913)**	**851,246,850**	**270,410,000**	**303,431,419**
Cumulative Net Position	**(570,785,794)**	**(686,484,518)**	**(818,225,431)**	**33,021,419**	**303,431,419**	**-**

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:

	31-Dec-2017	**31-Dec-2016**
Total Liquid Assets/Total Short Term Liabilities Ratio	31.52%	33.42%
Liquid Assets in local currency/Short Term Liabilities in local currency Ratio	50.42%	49.71%
Liquid Assets in foreign currency/Short Term Liabilities in foreign currency Ratio	17.62%	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 31 December 2017 and 31 December 2016:

31 December 2017	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	125,520,706	14,333,290	150,445,191	4,820,462	295,119,649
Placements and balances with banks	10,403	154,442,338	102,067,221	37,367,668	293,887,630
Treasury bills available-for-sale	190,271,282	-	19,125,074	-	209,396,356
Trading and available-for-sale securities	671,015,682	118,963,577	129,062,380	83,468,573	1,002,510,212
Held-to-maturity securities	-	81,284,371	79,240,293	-	160,524,664
Loans to banks	-	48,335,968	376,392,166	-	424,728,134
Loans to customers	513,286,618	111,190,604	548,019,971	-	1,172,497,193
Other assets	9,898,381	183,316	8,691,367	505,628	19,278,692
Total assets	**1,510,003,072**	**528,733,464**	**1,413,043,663**	**126,162,331**	**3,577,942,530**
Foreign exchange contracts	**2,353,600**	**43,325,940**	**82,089,409**	**20,639,778**	**148,408,727**
Liabilities					
Customer deposits	1,271,218,338	141,064,271	1,402,186,157	53,430,582	2,867,899,348
Due to banks and financial institutions	282,160,411	43,537,606	7,431,678	10,576,306	343,706,001
Due to third parties	4,848,635	-	8,284	-	4,856,919
Accruals and other liabilities	3,205,354	4,181,847	9,690,353	25,123	17,102,677
Subordinated debt	-	-	29,989,497	-	29,989,497
Total liabilities	**1,561,432,738**	**188,783,724**	**1,449,305,969**	**64,032,011**	**3,263,554,442**
Foreign exchange contracts	**598,560**	**38,389,002**	**29,647,194**	**79,773,971**	**148,408,727**
Net position (GAP)	**(49,674,626)**	**344,886,678**	**16,179,909**	**2,996,127**	**314,388,088**
Total assets / Total liabilities	96.82%	251.82%	101.09%	102.08%	109.21%
GAP / FX denominated assets		0.60	0.011	0.0204	0.08
Sensitivity analysis					
Lek depreciates by 10%		31,353,334	1,470,901	272,375	33,096,610
Lek depreciates by 5%		16,423,175	770,472	142,673	17,336,320
Lek appreciates by 5%		(18,151,930)	(851,574)	(157,691)	(19,161,195)
Lek appreciates by 10%		(38,320,742)	(1,797,768)	(332,903)	(40,451,413)

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	4,415,718	11,624	9,513,984
Subordinated debt	-	-	26,441,225	-	26,441,225
Total liabilities	**1,278,927,537**	**156,263,644**	**1,172,787,435**	**57,745,789**	**2,665,724,405**
Foreign exchange contracts	**-**	**49,211,526**	**18,901,552**	**48,376,586**	**116,489,664**
Net position (GAP)	**(34,920,590)**	**308,464,539**	**22,894,270**	**6,993,200**	**303,431,419**
Total assets / Total liabilities	97.27%	250.12%	102.92%	106.59%	110.91%
GAP / FX denominated assets		0.60	0.019	0.0618	0.10
Sensitivity analysis					
Lek depreciates by 10%		28,042,231	2,081,297	635,745	30,759,273
Lek depreciates by 5%		14,688,788	1,090,203	333,010	16,112,001
Lek appreciates by 5%		(16,234,976)	(1,204,962)	(368,063)	(17,808,001)
Lek appreciates by 10%		(34,273,838)	(2,543,808)	(777,022)	(37,594,668)

2) Interest rate risk

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

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 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	N/A	2.47%	2.40%
Treasury bills available-for-sale	2.43%	N/A	0.15%
Investment securities	4.88%	5.20%	3.36%
Loans to banks	N/A	4.38%	1.45%
Loans to customers	6.03%	7.65%	5.87%
Liabilities			
Customer deposits	1.07%	0.66%	0.41%
Due to banks and financial institutions	1.31%	2.50%	2.73%
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 31 December 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	295,119,649	-	-	-	-	295,119,649
Placement and balances with banks	217,209,617	68,256,300	8,421,713	-	-	293,887,630
Treasury bills available-for-sale	22,756,111	62,575,994	124,064,251	-	-	209,396,356
Trading and available-for-sale securities	11,813,949	37,669,701	233,218,224	533,388,067	186,420,271	1,002,510,212
Held-to-maturity securities	12,337	10,815,084	27,255,020	61,048,884	61,393,339	160,524,664
Loans to banks	93,392,213	182,835,291	148,500,630	-	-	424,728,134
Loans to customers	692,765,944	30,945,251	292,250,898	147,377,448	9,157,652	1,172,497,193
Total	**1,333,069,820**	**393,097,621**	**833,710,736**	**741,814,399**	**256,971,262**	**3,558,663,838**
Liabilities						
Customer deposits	1,162,285,761	260,990,885	1,052,579,509	363,913,673	28,129,520	2,867,899,348
Due to banks and financial institutions	237,385,472	106,320,529	-	-	-	343,706,001
Subordinated debt	-	-	29,989,497	-	-	29,989,497
Total	**1,399,671,233**	**367,311,414**	**1,082,569,006**	**363,913,673**	**28,129,520**	**3,241,594,846**

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:

	31 December 2017		*31 December 2016*	
	Up to 1 year	**Over 1 year**	**Up to 1 year**	**Over 1 year**
Interest rate increases by 2%	10,785,495	22,920,345	5,311,725	16,059,733
Interest rate increases by 1.5%	8,089,121	17,190,258	3,983,793	12,044,799
Interest rate increases by 1%	5,392,748	11,460,172	2,655,862	8,029,866
Interest rate decreases by 1%	(5,392,748)	(11,460,172)	(2,655,862)	(8,029,866)
Interest rate decreases by 1.5%	(8,089,121)	(17,190,258)	(3,983,793)	(12,044,799)
Interest rate decreases by 2%	(10,785,495)	(22,920,345)	(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 December 2017, BKT has reported the following ratios:

- Regulatory Capital Ratio 14.28% (December 2016: 14.08%);
- Tier 1 Capital Ratio 13.08% (December 2016: 12.92%);
- Common Equity Tier 1 Ratio 13.08% (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

	31 December 2017			31 December 2016		
Geographical Segments	**Albania**	**Kosovo**	**Combined**	**Albania**	**Kosovo**	**Combined**
Assets						
Cash and balances with Central Bank	251,423,002	43,696,647	295,119,649	198,371,935	40,584,382	238,956,317
Placement and balances with banks	292,243,354	1,644,276	293,887,630	176,703,176	6,128,716	182,831,892
Treasury bills available-for-sale	190,271,994	19,124,362	209,396,356	139,612,983	11,454,469	151,067,452
Trading and available-for-sale securities	955,266,965	47,243,247	1,002,510,212	869,266,073	25,751,373	895,017,446
Held-to-maturity securities	160,524,664	-	160,524,664	129,537,206	-	129,537,206
Loans to banks	388,184,367	36,543,767	424,728,134	306,452,292	48,561,070	355,013,362
Loans to customers	918,705,242	253,791,951	1,172,497,193	810,758,103	196,305,023	1,007,063,126
Investment in associates	1,435,525	-	1,435,525	1,265,678	-	1,265,678
Property and equipment	36,502,306	2,403,142	38,905,448	16,819,560	2,142,057	18,961,617
Intangible assets	3,080,573	-	3,080,573	1,651,692	-	1,651,692
Other assets	48,721,959	8,529,968	57,251,927	22,432,061	14,843,819	37,275,880
Total assets	**3,246,359,951**	**412,977,360**	**3,659,337,311**	**2,672,870,759**	**345,770,909**	**3,018,641,668**
Liabilities and shareholder's equity						
Liabilities						
Customer deposits	2,506,890,356	361,008,992	2,867,899,348	2,045,551,159	302,634,851	2,348,186,010
Due to banks and financial institutions	336,614,115	7,091,886	343,706,001	267,763,125	9,147,629	276,910,754
Due to third parties	4,856,919	-	4,856,919	4,672,432	-	4,672,432
Deferred tax liabilities	431,014	-	431,014	1,338,585	-	1,338,585
Accruals and other liabilities	17,603,465	3,451,264	21,054,729	10,272,274	3,481,216	13,753,490
Subordinated debt	29,989,497	-	29,989,497	26,441,225	-	26,441,225
Total liabilities	**2,896,385,366**	**371,552,142**	**3,267,937,508**	**2,356,038,800**	**315,263,696**	**2,671,302,496**
Shareholder's equity						
Share capital			274,350,310			250,000,000
Translation reserve			3,004,286			(1,823,607)
Fair value reserve			4,908,867			762,502
Retained earnings			109,136,340			98,400,277
Total shareholder's equity			**391,399,803**			**347,339,172**
Total liabilities and shareholder's equity			**3,659,337,311**			**3,018,641,668**

Within "Other assets" for Kosovo Branch, it is included the amount of USD 4,285,337, which represents intragroup transactions between Head Office/Branches in Albania and Kosovo Branch as at 31 December 2017, and has been eliminated on combination (31 December 2016: USD 11,458,745).

6. Segmental reporting (continued)

Geographical Segments	2017			2016		
	Albania	**Kosovo**	**Combined**	**Albania**	**Kosovo**	**Combined**
Interest						
Interest income	121,023,455	17,600,965	138,624,420	108,786,631	14,894,714	123,681,345
Interest expense	(23,971,695)	(3,311,105)	(27,282,800)	(23,605,713)	(3,085,300)	(26,691,013)
Net interest margin	**97,051,760**	**14,289,860**	**111,341,620**	**85,180,918**	**11,809,414**	**96,990,332**
Non-interest income, net						
Fees and commissions, net	13,882,479	4,740,572	18,623,051	11,133,872	3,441,920	14,575,792
Foreign exchange revaluation gain, net	(10,518,077)	(2,915)	(10,520,992)	4,087	669	4,756
Foreign exchange trading activities income, net	425,681	(100,979)	324,702	2,653,116	(82,135)	2,570,981
Securities trading gain, net	3,582,910	-	3,582,910	23,587,643	-	23,587,643
Other (expense) / income, net	(4,122,709)	169,771	(3,952,938)	(1,832,583)	-	(1,832,583)
Total non-interest income, net	**3,250,284**	**4,806,449**	**8,056,733**	**35,546,135**	**3,360,454**	**38,906,589**
Operating expenses						
Personnel expenses	(13,314,076)	(4,707,031)	(18,021,107)	(12,796,712)	(3,995,493)	(16,792,205)
Administrative expenses	(20,818,042)	(5,484,059)	(26,302,101)	(18,858,594)	(4,541,474)	(23,400,068)
Depreciation and amortization	(3,003,595)	(851,634)	(3,855,229)	(2,995,126)	(1,050,253)	(4,045,379)
Total operating expenses	**(37,135,713)**	**(11,042,724)**	**(48,178,437)**	**(34,650,432)**	**(9,587,220)**	**(44,237,652)**
Impairment of loans	(1,114,842)	(431,466)	(1,546,308)	(21,214,056)	(1,033,316)	(22,247,372)
Profit before taxes	**62,051,489**	**7,622,119**	**69,673,608**	**64,862,565**	**4,549,332**	**69,411,897**
Income tax	(10,151,342)	(645,766)	(10,797,108)	(10,590,668)	(378,943)	(10,969,611)
Net profit for the year	**51,900,147**	**6,976,353**	**58,876,500**	**54,271,897**	**4,170,389**	**58,442,286**

Interest income of USD 97,326 (31 December 2016: USD 816,161), 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 31 December 2017 and 31 December 2016 are detailed as follows:

	31 December 2017	31 December 2016
Cash on hand	43,261,846	37,948,423
Deposits with the Central Bank of Kosovo	26,503,139	26,398,175
Bank of Albania		
Current account	17,133,208	6,934,337
Statutory reserve	208,212,605	167,669,443
Accrued interest	8,851	5,939
	225,354,664	174,609,719
	295,119,649	**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 31 December 2017 and 31 December 2016 are presented as follows:

	31 December 2017	31 December 2016
Cash and balances with Central Bank	295,119,649	238,956,317
Statutory reserve in Albania	(208,212,605)	(167,669,443)
Statutory reserve in Kosovo	(26,113,238)	(18,876,083)
Current accounts with banks	68,717,775	94,225,066
Placements with maturities of 3 months or less	205,930,365	71,892,466
	335,441,946	**218,528,323**

8. Placements and balances with banks

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

	31 December 2017	31 December 2016
Placements	219,374,592	81,666,723
Cash collateral held by financial institutions	5,321,671	6,782,854
Current accounts	68,717,775	94,225,066
Accrued interest	473,592	157,249
	293,887,630	**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 31 December 2017 and 31 December 2016 are presented as follows:

	31 December 2017			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair Value
3 months	-	-	-	-
6 months	298,906	118	85	299,109
12 months	206,388,523	2,823,118	(114,394)	209,097,247
	206,687,429	**2,823,236**	**(114,309)**	**209,396,356**

	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 31 December 2017 includes financial assets available for sale amounting USD 1,002,510,212 (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 31 December 2017 comprise as follows:

Type	**Nominal value**	**Unamortized discount**	**Accrued interest**	**Marked to market gain/ (loss)**	**Fair Value**
Lek denominated	642,862,754	10,980,460	9,841,939	7,330,526	671,015,679
USD denominated	117,842,000	1,228,643	1,013,995	(1,121,060)	118,963,578
EUR denominated	123,126,891	2,078,061	1,288,404	2,569,026	129,062,382
TRY denominated	61,414,994	-	4,017,278	(369,471)	65,062,801
CAD denominated	10,671,500	-	-	(2,932,775)	7,738,725
GBP denominated	9,758,222	600,028	138,905	144,037	10,641,192
SEK denominated	75,018	-	-	(49,163)	25,855
	965,751,379	**14,887,192**	**16,300,521**	**5,571,120**	**1,002,510,212**

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 31 December 2017 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek denominated	-	-	-	-
USD denominated	80,350,000	8,204	926,167	81,284,371
EUR denominated	78,487,155	(101,641)	854,779	79,240,293
	158,837,155	**(93,437)**	**1,780,946**	**160,524,664**

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	31 December 2017			31 December 2016		
	Principal	**Interest**	**Total**	**Principal**	**Interest**	**Total**
Rated A3 to A1	-	-	-	8,275,415	4,366	8,279,781
Rated Baa3 to Baa1	31,720,072	123,293	31,843,365	57,042,327	277,728	57,320,055
Rated Ba3 to Ba1	298,136,800	800,850	298,937,650	245,753,071	380,075	246,133,146
Rated B2 to B1	21,171,692	69,230	21,240,922	23,188,539	38,725	23,227,264
Rated Caa3 to Caa1	10,000,000	30,981	10,030,981	10,000,000	28,062	10,028,062
Not rated	62,217,848	457,368	62,675,216	10,000,000	25,054	10,025,054
	423,246,412	**1,481,722**	**424,728,134**	**354,259,352**	**754,010**	**355,013,362**

13. Loans to customers

Loans to customers consisted of the following:

	31 December 2017	31 December 2016
Loans to customers, gross	1,216,722,383	1,049,901,499
Accrued interest	10,049,925	8,571,977
Less allowances for impairment on loans	(49,784,026)	(47,182,080)
Less unamortized deferred fee income	(4,491,089)	(4,228,270)
	1,172,497,193	**1,007,063,126**

Movements in the allowance for impairment on loans:

	31 December 2017	31 December 2016
At 1 January	47,182,080	26,801,415
Impairment charge for the year, net	1,546,308	22,247,372
Provision reversal of written off loans	(5,881,869)	(691,249)
Translation difference	6,937,507	(1,175,458)
At the end of the period	**49,784,026**	**47,182,080**

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

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

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:

	31 December 2017		31 December 2016	
	USD	**%**	**USD**	**%**
Electricity, Gas and Water Supply	125,670,775	15%	101,406,190	14%
Wholesale Trade	117,568,923	14%	115,718,569	16%
Construction	115,732,038	13%	66,057,164	9%
Real Estate, Renting and Business Activity	62,812,823	7%	70,176,591	9%
Financial Intermediation	59,545,681	7%	56,521,536	8%
Mining and Quarrying	54,905,046	7%	42,407,162	6%
Retail Trade	53,076,519	6%	42,912,129	6%
Manufacturing of Other Non-metallic Products	27,113,500	3%	28,262,328	4%
Hotels and Restaurants	23,281,395	3%	12,196,633	2%
Manufacturing of Basic Metals and Fabricated Metal Products	23,218,930	3%	12,521,193	2%
Other Community, Social and Personal Activities	22,171,853	3%	30,739,608	4%
Transport, Storage and Communication	17,793,052	2%	9,504,940	1%
Manufacture of Food Products, Beverages	14,164,973	2%	9,647,143	1%
Agriculture, Hunting and Forestry	14,041,910	2%	7,913,519	1%
Personal Needs	10,266,072	1%	10,740,677	1%
Manufacture of Rubber and Plastic Products	5,090,817	1%	4,379,876	1%
Education	4,958,145	1%	5,367,707	1%
Health and Social Work	3,468,185	1%	3,557,193	1%
Manufacture of Pulp, Paper and Paper Products	2,615,916	1%	3,010,891	1%
Manufacture of Wood and Wood Products	2,588,949	1%	2,093,145	1%
Other Sectors	76,530,325	7%	102,828,726	11%
	836,615,827	**100%**	**737,962,920**	**100%**

The classification of retail loans by type is as follows:

	31 December 2017		31 December 2016	
	USD	**%**	**USD**	**%**
Home purchase	224,586,216	58%	190,860,823	61%
Super Loan	62,755,514	17%	42,147,003	14%
Home improvement	23,705,961	6%	22,322,891	7%
Overdraft and credit cards	19,511,525	5%	16,934,051	5%
Shop purchase	15,309,417	4%	13,881,066	4%
Home reconstruction	6,426,525	2%	5,963,081	2%
Home advances	1,522,493	1%	1,741,032	1%
Car purchase	1,193,379	1%	515,808	1%
Technical equipment	733,445	1%	454,162	1%
Other types	24,362,081	5%	17,118,662	4%
	380,106,556	**100%**	**311,938,579**	**100%**

14. Investment in associates

Investment in associates of USD 1,435,525 (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 31 December 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	17,366,794	1,006,135	1,778,022	148,333	**20,299,284**
Disposals / transfers	(81,040)	(308,694)	(1,237)	(9,298)	**(400,269)**
Translation difference	3,722,859	746,606	2,650,420	309,735	**7,429,620**
At 31 December 2017	**47,278,833**	**6,485,967**	**20,627,053**	**2,533,144**	**76,924,997**
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	(1,001,228)	(440,266)	(1,377,559)	(180,032)	**(2,999,085)**
Disposals / write offs	70,235	297,963	1,237	9,298	**378,733**
Translation difference	(1,784,273)	(656,431)	(2,053,640)	(270,108)	**(4,764,452)**
At 31 December 2017	**(14,122,173)**	**(5,049,380)**	**(16,675,042)**	**(2,172,954)**	**(38,019,549)**
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 31 December 2017	**33,156,660**	**1,436,587**	**3,952,011**	**360,190**	**38,905,448**

As at 31 December 2017 the gross value of the assets which were fully depreciated and still in use was USD 26,155,498 (2016: USD 20,358,537).

16. Intangible assets

Intangible assets as at 31 December 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	(125,812)
At 31 December 2016	7,670,956
Additions	2,084,545
Translation difference	1,178,606
At 31 December 2017	**10,934,107**
Accumulated depreciation	
At 1 January 2016	**(5,571,746)**
Charge for the year	(568,555)
Translation difference	121,037
At 31 December 2016	**(6,019,264)**
Charge for the year	(856,144)
Translation difference	(978,126)
At 31 December 2017	**(7,853,534)**
Net book value	
At 1 January 2016	**1,203,635**
At 31 December 2016	**1,651,692**
At 31 December 2017	**3,080,573**

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 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Assets acquired through legal process, net	36,307,721	24,819,086
Payments in transit	11,153,396	3,138,716
Administration costs receivable from borrowers	2,716,627	2,548,486
Prepaid expenses	977,302	873,122
Inventory	358,770	561,042
Advances to suppliers	329,442	170,104
Foreign exchange contracts revaluation gain	-	1,183,503
Other debtors, net	5,408,669	3,981,821
	57,251,927	**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 3,964,020 to the total gross amount of USD 40,271,741.
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 121,613 (31 December 2016: USD 167,914) is recognised in other income.

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

Other debtors, net are composed as follows:

	31 December 2017	31 December 2016
Other debtors	8,058,127	5,377,672
Provision for other debtors	(2,649,458)	(1,395,851)
Other debtors, net	**5,408,669**	**3,981,821**

Provision for other debtors represents mainly the 100% specific provision allocated for the debt under collection amounting to TRL 9,840,829 (equivalent of USD 2,609,458).

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

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

	31 December 2017	31 December 2016
Balance at 1 January	(1,395,851)	(1,217,453)
Provision charge	(1,344,729)	(461,683)
Translation difference	91,122	283,285
Balance at the end of the year	**(2,649,458)**	**(1,395,851)**

18. Customer deposits

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

	31 December 2017	31 December 2016
Current accounts:		
Individuals	361,213,478	257,422,866
Private enterprises	287,833,210	241,067,645
State owned entities	32,928,980	34,495,732
	681,975,668	**532,986,243**
Deposits:		
Individuals	1,998,431,746	1,664,527,013
Private enterprises	93,302,854	79,179,914
State owned entities	34,790,608	22,927,856
	2,126,525,208	**1,766,634,783**
Other customer accounts:		
Individuals	26,243,639	6,687,187
Private enterprises	32,441,102	41,100,198
State owned entities	713,731	777,599
	59,398,472	**48,564,984**
	2,867,899,348	**2,348,186,010**

18. Customer deposits (continued)

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

	31 December 2017			31 December 2016		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	**285,378,195**	**396,597,473**	**681,975,668**	**224,120,796**	**308,865,447**	**532,986,243**
Deposits						
On demand	41,663,186	148,571,232	**190,234,418**	19,827,934	78,552,464	**98,380,398**
Up to 39 days	20,909,064	40,627,364	**61,536,428**	17,651,505	38,425,826	**56,077,331**
40-99 days	38,328,436	56,112,159	**94,440,595**	38,716,059	52,721,369	**91,437,428**
100-189 days	83,798,944	88,189,303	**171,988,247**	79,723,914	83,812,629	**163,536,543**
190- 370 days	523,578,866	581,494,788	**1,105,073,654**	472,313,976	480,735,241	**953,049,217**
371 days and over	245,075,583	249,293,107	**494,368,690**	196,331,753	198,883,930	**395,215,683**
Accrued interest on deposits	5,580,895	3,302,281	**8,883,176**	5,768,724	3,169,459	**8,938,183**
Total deposits	**958,934,974**	**1,167,590,234**	**2,126,525,208**	**830,333,865**	**936,300,918**	**1,766,634,783**
Other customer accounts	**26,905,169**	**32,493,303**	**59,398,472**	**20,890,928**	**27,674,056**	**48,564,984**
Total customer deposits	**1,271,218,338**	**1,596,681,010**	**2,867,899,348**	**1,075,345,589**	**1,272,840,421**	**2,348,186,010**

Other customer accounts are composed as follows:

	31 December 2017			31 December 2016		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Guarantees for letters of credit	-	11	**11**	-	8,051	**8,051**
Escrow accounts	18,349,852	21,368,613	**39,718,465**	12,651,425	16,257,111	**28,908,536**
Payment orders to be executed	630,518	597,989	**1,228,507**	549,502	563,360	**1,112,862**
Other	7,924,799	10,526,690	**18,451,489**	7,690,001	10,845,534	**18,535,535**
	26,905,169	**32,493,303**	**59,398,472**	**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 31 December 2017 and 31 December 2016 consisted as follows:

	31 December 2017	31 December 2016
Treasury bills sold under Repo agreements with Central Bank	246,552,737	152,273,394
FX securities sold under Repo agreement	50,985,741	48,556,497
Deposits from banks	38,723,134	60,877,840
Current accounts of non-resident banks	267,913	2,760,572
Current accounts of resident banks	108,535	49,031
Borrowing from financial institutions	7,067,941	12,393,420
	343,706,001	**276,910,754**

Treasury bills and Albanian Government Bonds and FX securities with a total value of USD 340,865,572 (31 December 2016: USD 244,395,436) were used to secure Repo agreements and borrowings from banks.

Deposits from banks as at 31 December 2017 represent short-term borrowings obtained from resident and non-resident banks.

Borrowing from financial institutions represents seven-year borrowings of EUR 5,905,000 outstanding as at 31 December 2017, disbursed from (European Fund for Southeast Europe) EFSE to BKT Kosovo, during December 2013 and June 2014 (31 December 2016: EUR 11,725,000), bearing an interest rate of 2.73%,. Borrowing from financial institutions as at 31 December 2016 included also the EFSE loan disbursed to BKT Albania (USD 4,241,645) on 20 September 2010, which was matured and fully repaid in September 2017 .

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 31 December 2017 of USD 4,856,919 (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:

	31 December 2017	31 December 2016
Liability at 1 January	1,338,585	722,574
(Income) / expense for the period	(1,038,549)	649,862
Exchange differences	130,978	(33,851)
Liability at the end of the year	**431,014**	**1,338,585**

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

	31 December 2017	31 December 2016
Deferred income on fees on loans	(673,663)	(634,241)
Decelerated depreciation	(865,211)	(712,719)
Provision of other debtors	(522,656)	(269,136)
Allowance for loan impairment	977,877	1,277,626
Fair value reserve for AFS securities	1,514,667	1,677,055
	431,014	**1,338,585**

22. Accruals and other liabilities

	31 December 2017	31 December 2016
Payments in transit	9,952,773	2,214,156
Due to tax authorities	2,117,517	1,050,847
Creditors	1,896,555	1,835,783
Creditors for Kosovo Branch clients	-	2,344,725
Bonus payable	1,892,104	1,638,948
Foreign exchange contracts revaluation loss	1,827,896	-
Accrued expenses	1,638,392	1,636,320
Liability for retiring employees (note 3(s).ii.)	914,882	927,279
Payables to constructors for home loans	500,708	471,363
Social insurance	196,143	165,204
Cash guarantees from suppliers	117,759	81,730
Reversed temporary differences payable to tax authorities	-	1,387,135
	21,054,729	**13,753,490**

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.

Creditors for KS Branch clients represent the reimbursement performed from Kosovo branch toward its loan clients for the correction of the interest rates, which was fully paid during 2017. The amount accumulated for the periods up to 2016 year-end is EUR 2,222,314 (equivalent of USD 2,344,725).

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 29,989,497 (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 31 December 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 31 December 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:

	Year ended 31 December 2017	Year ended 31 December 2016
Placements with banks and balances with Central Bank	9,855,302	5,529,510
Treasury bills and investment securities	53,495,215	51,638,981
Loans to customers	75,273,903	66,512,854
	138,624,420	**123,681,345**

Interest income can be further detailed as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Held-to-maturity investments	17,497,957	11,914,047
Trading and available-for-sale financial assets	45,852,560	45,254,444
Loans and receivables	75,273,903	66,512,854
	138,624,420	**123,681,345**

Interest income on individually impaired loans for the year ended 31 December 2017 was USD 262,179 (31 December 2016: USD 422,648).

26. Interest expense

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

	Year ended 31 December 2017	Year ended 31 December 2016
Due to banks and financial institutions	9,197,217	5,666,286
Customer deposits	18,085,583	21,024,727
	27,282,800	**26,691,013**

27. Fees and commissions, net

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

	Year ended 31 December 2017	Year ended 31 December 2016
Fee and commission income		
Inter-bank transactions	5,666,290	4,568,008
Payment services to clients	5,618,889	4,789,737
Electronic banking transactions	3,526,488	2,768,806
Customer accounts' maintenance	2,498,340	1,966,989
Lending activity	1,067,754	939,422
Cash transactions with clients	892,013	382,840
Other fees and commissions	353,068	166,917
	19,622,842	*15,582,719*
Fee and commission expense		
Inter-bank transactions	(774,418)	(802,633)
Payment services to clients	(113,607)	(30,389)
Transactions with clients	(63,080)	(65,581)
Customer accounts' maintenance	(48,681)	(107,870)
Other fees and commissions	(5)	(454)
	(999,791)	*(1,006,927)*
Fees and commissions, net	**18,623,051**	**14,575,792**

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 year ended 31 December 2017 is USD 38,799,055 (year ended 31 December 2016 gain: USD 5,438,568).

29. Other (expense) / income, net

Other income and expenses are composed as follows:

	Year ended 31 December 2017	**Year ended 31 December 2016**
Other income		
Gain on recovery of written off loans to customers	525,277	217,423
Gain on sale of assets acquired through legal process	129,457	36,686
Income from operating lease	121,613	167,914
Reversal of other debtors	66,935	63,089
Gain on sale of property and equipment	14,556	103,437
Reversal of staff pension fund	2,378	18,320
Sundry	41,697	17,869
	901,913	*624,738*
Other expense		
Provisions on assets acquired through legal process	(2,509,820)	(1,184,521)
Provision of other debtors	(1,344,729)	(461,683)
Write off of loans to customers, net	(414,841)	(125,193)
Loss from other debtors	(354,932)	-
Loss on sale or write off of fixed assets and repossessed assets	(26,865)	(621,276)
Sundry	(203,664)	(64,648)
	(4,854,851)	*(2,457,321)*
Other (expense) / income, net	**(3,952,938)**	**(1,832,583)**

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

	Year ended 31 December 2017	**Year ended 31 December 2016**
Write off of loans to customers, gross	(6,296,710)	(816,442)
Provision reversal of written off loans	5,881,869	691,249
Write off of loans to customers, net	**(414,841)**	**(125,193)**

30. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2017	**Year ended 31 December 2016**
Salaries	13,563,742	12,762,579
Performance bonus	2,255,894	2,043,539
Social insurance	1,330,904	1,234,841
Training	313,267	356,853
Life insurance	126,899	87,890
Other	430,401	306,503
	18,021,107	**16,792,205**

31. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Deposit insurance expense	7,276,321	6,220,870
Credit/debit cards expenses	4,419,482	3,676,729
Lease payments	2,703,535	2,613,453
Telephone, electricity and IT expenses	2,479,659	2,282,829
Repairs and maintenance	2,445,834	1,925,469
Other external services (including external audit fees)	1,557,725	853,237
Security and insurance expenses	1,352,838	966,924
Marketing expenses	1,249,131	2,121,634
Transportation and business related travel	784,795	767,103
Taxes other than tax on profits	400,275	327,415
Office stationery and supplies	332,416	380,657
Representation expenses	300,434	260,705
Sundry	999,656	1,003,043
	26,302,101	**23,400,068**

32. Income tax

Income tax is comprised of:

	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax	11,835,657	10,319,749
Deferred tax (income)/expense (note 21)	(1,038,549)	649,862
	10,797,108	**10,969,611**

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

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before taxes	**69,673,608**	**69,411,897**
Computed tax using applicable tax rate of 15 %	10,451,041	10,411,785
Non tax deductible expenses	611,810	510,389
Foreign exchange difference	(265,743)	47,437
Income tax	**10,797,108**	**10,969,611**
Effective tax rate	**15.50%**	**15.80%**

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 31 December 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. Related parties with Albtelecom represent two companies financially dependent from Albtelecom for their loan repayment.

Balances and transactions with related parties

	31 December 2017	31 December 2016
Assets		
Placement and balances with banks:		
Current accounts with Aktifbank	15,164,172	92,422
Placements with Aktifbank	99,867,949	-
Placement with Albania Leasing	-	349,427
Loans to customers:		
KEDS / KESCO	591,802	799,969
Albtelecom	10,515,796	11,451,942
GAP Pazarlama FZE	-	2,220,164
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	-	12,727,456
Albania Leasing	298,015	255,649
Related Parties with Albtelecom	50,696	218,749
Other assets:		
Receivables from Albtelecom Sh.a	5,863	5,162
Total assets	**126,494,293**	**28,120,940**
Liabilities		
Due to banks and financial institutions:		
Borrowings from Aktifbank	-	1,484,284
Borrowings from Albania Leasing	-	401,013
Customer deposits:		
Albtelecom Sh.a.	498,097	288,375
Albania Leasing	-	37,319
Other liabilities:		
Payables to Albtelecom Sh.a	-	12,540
Total liabilities	**498,097**	**2,223,531**

33. Related party transactions (continued)

Balances and transactions with related parties (continued)

	2017	2016
Statement of comprehensive income		
Interest income from:		
GAP Pazarlama FZE	80,210	99,484
KEDS / KESCO	36,444	32,386
Albtelecom Sh.a.	663,024	660,044
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	909,865	984,071
Albania Leasing	19,851	23,879
Aktifbank	351,411	106,533
Related Parties with Albtelecom	15,428	26,680
Interest expenses for:		
Albtelecom Sh.a. and Eagle Mobile Sh.a.	(28,742)	(143)
Aktifbank	(197,471)	(149,099)
Albania Leasing	(1,427)	(6,813)
Fees and commissions:		
Letters of guarantee:		
Albtelecom Sh.a.	-	30
KEDS / KESCO	333	3,039
Calik Enerji Sanayi Ve. Ticaret A.S	102,159	38,954
Account maintenance and lending fees from Albtelecom Sh.a. and Eagle Mobile Sh.a.	502,345	9,268
Other income:		
Operating lease income from Albtelecom Sh.a.	66,177	64,840
Operating expenses:		
Albtelecom Sh.a., Eagle Mobile Sh.a. and Calik Holding	(1,649,027)	(1,173,301)
Net	**870,580**	**719,852**

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:

	Year ended 31 December 2017	Year ended 31 December 2016
Directors	118,741	114,014
Executive officers	2,956,408	2,843,827
	3,075,149	**2,957,841**

As at 31 December 2017, the total deposits of directors held with the Bank were USD 1,174,069 (31 December 2016: USD 970,990), while the outstanding loans granted to directors were USD 261,098 (31 December 2016: USD 333,959).

34. Contingencies and commitments

Guarantees and letters of credit

	31 December 2017	31 December 2016
Guarantees in favour of customers	106,584,007	60,842,387
Guarantees received from credit institutions	25,604,355	6,712,448
Letters of credit issued to customers	2,100,965	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

	31 December 2017	31 December 2016
Undrawn credit commitments	110,429,590	111,676,030
Outstanding cheques of non-resident banks	493,368	358,928
Spot foreign currency contract	148,408,727	116,489,664
Collaterals for loan portfolio	2,821,969,922	2,352,595,664
Securities pledged as collateral (note 19)	340,865,572	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 31 December 2017.

Lease commitments

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

	31 December 2017	31 December 2016
Not later than 1 year	2,033,734	2,441,333
Later than 1 year and not later than 5 years	4,678,242	4,526,889
Later than 5 years	2,549,793	1,675,590
Total	**9,261,769**	**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 31 December 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 31 December 2017, the maximum non-cancellable commitment payable not later than one year is USD 508,434 (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

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