ANNUAL REPORT 2022

TIRANA BANK

HERE FOR YOU

TIRANA BANK

HERE FOR YOU

TABLE OF CONTENTS

1. **LETTER FROM** THE GENERAL EXECUTIVE **DIRECTOR**

DRITAN MUSTAFA
General Executive Director

Dear Clients,
Dear Partners and Collaborators,
Dear Bank Colleagues,

2022 was an extraordinary year for Tirana Bank in terms of economic and financial performance. For the first time in the almost three decades of activity in the local market, the total of our assets reached an equivalent value of 1 billion Euro, almost twice as much compared to the beginning of 2019 when the shareholder structure was changed and the activity expansion strategy was put in place.

Our liquidity base, mainly supported by client deposits, has also considerably increased by 25% compared to one year ago, reaching a level of approximately 850 million Euro. This shows client loyalty and trust to Tirana Bank, which has further improved crediting growth and investment portfolio expansion.

In 2022, we successfully grew the credit portfolio by 24%, reaching an equivalent value of 480 million Euro. In addition, our non-performing loan ratio has decreased considerably and is now one of the lowest in the banking system. This achievement shows our commitment to maintaining the quality of our credit portfolio and to effective credit management.

We successfully emitted two new long term corporate bonds with a value of 9.4 million Euro to strengthen our capital structure and to support further growth. Sustainable growth is reported in regard to economic and financial outcomes, driven by growth in revenue from interests, commissions and trade revenue. Annual

> Annual revenue has grown **28%** compared to the previous year, while gross profit has grown by **35%**, to some 12 million Euro, which marks **the best financial outcome achieved by Tirana Bank in recent years.**

revenue has grown 28% compared to the previous year, while gross profit has grown by 35%, to some 12 million Euro, which marks the best financial outcome achieved by Tirana Bank in recent years.

In closing, I would like to express my gratitude to each member of our team. You tireless work, commitment and engagement have been at the foundation of our success. While we look to the future, I am confident that thanks to the commitment and professionalism of our staff, and the trust of our collaborators and clients, Tirana Bank will remain one of the most important and dynamic financial institutions in the banking system for years to come.

2. GROUP PROFILE

The BALFIN Group is one of the main investment groups in Southeastern Europe. The Group was established in 1993 by Samir Mane in Vienna. The main economic sectors in which the BALFIN group is engaged are retail and wholesale trade, the banking industry, real estate development and tourism. The Group is a trusted partner of national and international organizations, including global leaders in electronic products, well-known supermarket chains, prestigious development and construction studios, and international banking and financial institutions.

The BALFIN Group employees approximately 4,500 staff and has a work culture that allows everyone to give their best, in line with the best business and ethics standards. In addition to its social engagement, the economic growth and employment generated by the BALFIN Group have a tangible impact benefiting the community.

The Balfin Group operates in **9 countries** and **8 industries**

In 2022, total Group assets reached **1.60 billion €**

Ladies hold 6 out of the 10 leadership positions at Balfin

In 2022, the Group paid approximately **60 million € in taxes**

Some **30,000 individuals** benefited from the Social Responsibility initiatives of the Group

Balfin Group companies have created a network of **more than 231 sales points** overall

By the end of 2022, **total** capital investments reached **819 million €**, of which **85 million €** of investments were executed in **2022** alone

BALFIN
BALKAN FINANCE INVESTMENT GROUP

Building a better future

3. TIRANA BANK CORPORATE GOVERNANCE AND COMMITTEES

Tirana Bank has put in place a Corporate Governance System aimed at ensuring effective organization, operation and management of the company, and especially aiming to protect stakeholder interests. The Tirana Bank Corporate Governance System implements all legislative and regulatory acts regulating its operation. In more concrete terms, in its quality as a shareholder company, Tirana Bank complies with Law No. 9901, dated 14.4.2008 "On commercial persons and companies" as amended, and it Statute.

Among other things, the Bank Statute defines its goal, the activities to be undertaken, company bodies and their operation, Board of Directors member responsibilities, while also defining the regulations that will govern the Bank.

In its quality of banking institution under the oversight of the Bank of Albania, Tirana Bank complies with the provisions of Law No. 9662, dated 18.12.2006 "On banks in the Republic of Albania" as amended and Regulation No. 63/2012 of the Bank of the Albania "On the core principles for managing foreign banks and bank branches, and requirements for approving their administrators", as amended, and Regulation No. 67/2015 of the Bank of Albania "On the internal audit system" as amended, regarding banking institutions operation principles, and requirements for assessing their Internal Audit System.

In addition, Tirana Bank has developed and implements its Internal Operation Regulation ("Regulation"), which is an internal bank document. The Regulation includes rules stemming from the legal framework applicable at the institutional level. The Regulation refers in detail to competencies, responsibilities and operation of key Bank bodies.

Bank managing and oversight bodies, and Internal Audit, Risk Administration and Compliance systems are i place and operate pursuant to the abovementioned Corporate Governance legal and regulatory framework, which is implemented through:

- the Statute
- Internal Operation Regulation
- Board of Directors Appointment Policy
- Board of Directors Terms of Reference
- Audit Committee Charter

GENERAL SHAREHOLDER ASSEMBLY

The Tirana Bank General Shareholder Assembly is the highest ranking company body and is, inter alia, responsible for electing Board of Directors members and external auditors, and for adopting annual Financial Statements. The responsibilities of the General Assembly are provided in the applicable legal provisions and the Bank Statute.

BOARD OF DIRECTORS

The Board of Directors is the Bank decision making and oversight body. The Board of Directors decides on any matter related to Bank administration, activity management, and following up on overall goals. The Board of Directors does not have the right to decide on matters, which according to Law No. 9901/14.4.2008 or the Statute are the competence of the General Shareholder Assembly.

The Board of Directors meets at least every 3 (three) months.

In 2022, the Board of Directors met 6 times, of which 4 were routine meetings and 2 were limited order of business meetings.

Pursuant to Article 32 of its Statute as currently applicable, the Bank is lead by a Board of Directors composed of an odd number of members between no less than 5 (five) and no more than 9 (nine) members. The number is defined by Decision of the Shareholder Assembly.

Pursuant to Law No. 9662/18.12.2006, the majority of Council members must be independent, under the meaning of Article 44, paragraph 2 of the abovementioned law. In addition, Law No. 9662/18.12.2006 provides, inter alia, the following with regard to the Bank Board of Directors composition: (a) Audit Committee Members may be Board of Directors members; (b) a Council member must be the Chair of the Audit Committee; (c) Directorate members may be members of the Board of Directors, but they should not have the majority of the Council members; (d) the Board of Directors Chair and Deputy Chair many not be concurrently Directorate members.

The Bank Board of Directors member mandate shall be four (4) years, with the right of reelection.

It is of note that the Board of Directors has adopted a Board of Directors Member Appointment Policy. This policy is based on the Bank regulatory obligations and includes the following: (a) provisions of Law No. 9662/18.12.2006 "On banks in the Republic of Albania", as amended, and (b) provisions of the Bank of Albania Regulation No. 63, dated 14.11.2012 "On the core principles for managing foreign banks and bank branches, and requirements for approving their administrators", as amended.

The policy describes the general principles, procedures and requirements for Council member appointment, which, inter alia, include the following: (i) adequate appropriateness and reputation requirements, (ii) avoiding conflict of interest requirements, (iii) availability and commitment requirements to allocated adequate time to completing Board of Directors functions, (iv) requirements regarding financial experience in the banking sector, engagement in implementing good banking practices, especially with regard to risk management, compliance and internal audit systems, adequate knowledge of the regulatory and business environment in which the Bank operates, and (v) requirements related to independence, character and personality of the candidate.

Furthermore, according to the regulatory framework, every Council member is subject to a preliminary compatibility approval by the Bank of Albania.

The Bank Board of Directors is composed of members with international expertise and leadership know-how.

Council members also have in-depth banking market knowledge and experience and actively contribute to the improvement of the corporate governance framework.

In addition, the "diversity" of Board of Directors members form the aspects of skills, educational background and professional experience, and the different origin of every member, ensure the tabling of varied perspectives during Steering Committee activities, based on constructive dialog and avoiding the "thinking as a group" mentality.

In any case, the Bank recognizes and embraces the importance and benefits of "diversity" in maintaining and improving competitiveness and development in the bank, and achieving optimal Council effectiveness and efficiency. In this context, a combination of elements are taken into account when appointing new Council members or executive directors, including among others: skills, abilities, qualifications, knowledge, experience, educational achievements and professional experience, gender, age and other qualities, which may change depending on business needs or Bank strategy.

It is of note that the Board of Directors has adopted its own Terms of Reference, defining Council organization and operational procedures, and specifying member rights and obligations. These Terms of Reference have been developed pursuant to the requirements of Law No. 9662/18.12.2006, Bank of Albania Regulation No. 63/14.11.2012, Law No. 9901/14.04.2008, the Statute, and the Tirana Bank Internal Operational Regulation.

BOARD OF DIRECTORS

Hubert DE SAINT JEAN
Independent Member

Periklis DROUGKAS
Deputy Chairperson / Independent Member

Ernst WELTEKE
Independent Member

Steven GRUNERUD
Chairperson

Dritan MUSTAFA
Member / General Executive Director

PARTICIPATION RATIOS AND/OR HOLDINGS IN OTHER COMPANIES

Members	Participation ratios and/or holdings in other companies in 2022
Steven Grunerud	N/A
Ernst Welteke	N/A
Hubert de Saint Jean	100% shareholder of the "de Saint Jean & Associés" company shares, which is an advisory and consultancy company based in Lion, France. 100% shareholder of the "de Saint Jean & Associés" company shares, which is an advisory and consultancy company based in Abidjan, Ivory Coast.
Periklis Drougkas	N/A
Dritan Mustafa	N/A

AUDIT COMMITTEE

Hubert DE SAINT JEAN
Chairperson

Periklis DROUGKAS
Member

Steven GRUNERUD
Member

EXECUTIVE COMMITTEE

Dritan MUSTAFA
Chief Executive Officer

Eralda TAFAJ GURGA
Operations Director

Manjola CAPO
Credit Risk Director

Elona GJIPALI
Recovery Division Director

Elvira KAPOLI
Financial Director

Lila CANAJ
Retail Director

Glenda KURTI
Corporate Business Division Director

Brisilda BALA
Risk Management Director

4. TREASURY AND FINANCIAL INDICATORS

The main Treasury and Financial Markets Directorate function is to manage Bank liquidity, ensuring that (i) all bank business lines have access to the liquidity they may need for their business activities, and that (ii) liquidity surplus is invested adequately. Thus, this directorate ensures that the Bank is financially sound, stable and capable of operating efficiently. Some to the functions include maximizing profit from investments within an accepted margin of risk, managing risk stemming from fluctuations in interest rates and exchange rate.

The Treasury and Financial Markets Directorate regularly follows the latest local and foreign (large economies) economy developments with regard to their macro-economic indicators, market indices and the monetary policies followed by Central Banks. Based on these developments impact assessment on financial markets, Treasury focuses on increasing Bank profitability through asset management and obligations in line with market tendencies.

The global inflation rate rose considerably in 2022. The factors driving inflation were energy prices and food costs caused from disruptions in the supply chain, resulting from the pandemic and the Russian war against Ukraine. In response, central banks across the world have tightened their policies sooner than expected. The Federal Reserve was the first to start hiking rates. Last year, it increased key interest rates by 425 p.p from 0.25% to 4.50%. The ECB increased rates by 250 p.p from 0% to 2.50%. The Bank of Albania increased the key interest rate five times in the course of 2022 from 0.5% to 2.75%. The high level of insecurity, mainly during the first half of the year, affected financial markets with financial instrument prices decreasing sharply. This tendency was also present in the domestic market, where Albanian Government bond yields increased considerably as a result of the weak participation in primary auctions. As a result, in the wake of the key interest rate level increase, deposit and loan interest rates were higher in 2022 compared to the pervious year.

The Treasury and Financial Markets Directorate has actively participated in managing bank deposits balances, aiming at increasing funds in addition to stability. Following the increased liquidity surplus resulting from the increase of client deposits, the securities investment portfolio increased by some 20%, mainly affected by foreign currency.

The Treasury and Financial Markets Directorate provides financial products / services tailored to clients. The activity of mediating primary Albanian Government securities issue auctions and the trade of these securities in the secondary market experienced much higher volumes compared to the previous year, as a result of the higher market yields, especially in the second half of the year.

The Treasury and Financial Markets Directorate is an important player in the currency exchange market. In line with Bank business development, currency exchange volumes have increased by 77% in 2022 compared to the previous year. Because of the careful management of the Bank currency position and its liquidity position, treasury activities have had a considerable positive impact on Bank profits, which has exceeded expectations for 2022. On 31 December 2022, treasury managed assets made up some 50% of the total Bank assets.

All activities undertaken by the Treasury and Financial Markets Directorate were in line with Bank policies and regulatory requirements.

4.1 FINANCIAL INDICATORS

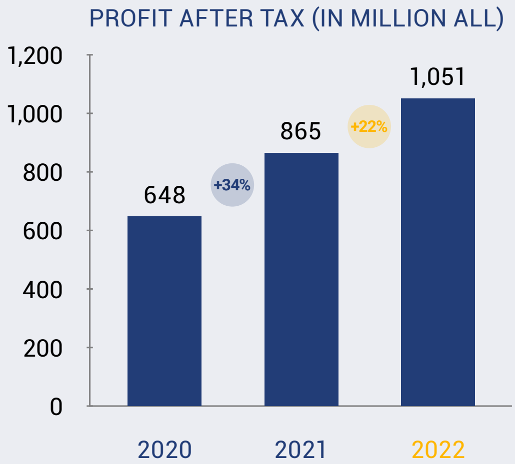
Amounts in million ALL

Tirana Bank		December 2022	December 2021
Total assets	▲	**114,702**	97,078
Net loans	▲	**52,710**	44,809
Deposits	▲	**97,662**	82,411
Net profit after tax	▲	**1,051**	865
Return on assets (ROA)	–	**1%**	1%
Return on equity (ROE)	▲	**10.1%**	8.5%
Capital Adequacy Ratio (CAR)	▼	**17.0%**	17,4%
NPL	▼	**3.8%**	4.4%
Loan/Deposit Ratio	▼	**56.0%**	56,8%
Costs/Revenue Ratio	▼	**55.5%**	63,7%
Number of branches	▼	**33**	35
Number of employees	▼	**460**	501
Number of clients	▲	**134,150**	132,261

** The main indicators presented since and for the years ending on 31 December 2022 and 2021 were developed in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).*

2022 showed extraordinary results for Tirana Bank, where for the first time in its almost three decades of history in the domestic market, total Tirana Bank assets have reached an amount equivalent to 1 billion Euro, twice as much than the start of 2019, when the shareholding structure was changed and the strategy to expand bank activity was put into implementation.

Throughout the year, revenues in our Bank have increased by 25%, reaching for the first time the level of 4,211 million ALL, mainly driven by the increase in interest, commissions and exchange revenues. 2022 shows considerable improvement in Bank profitability margins, reflecting business indicator improvements and optimized financing costs.



As a result, we increased net profits by +22% year on year, to 1,051 million ALL (2021: 865 million ALL). This is Tirana Bank's best result in recent years and is a testimonial to our dynamism and stability in challenging times. The other financial indicators enhance this stability.

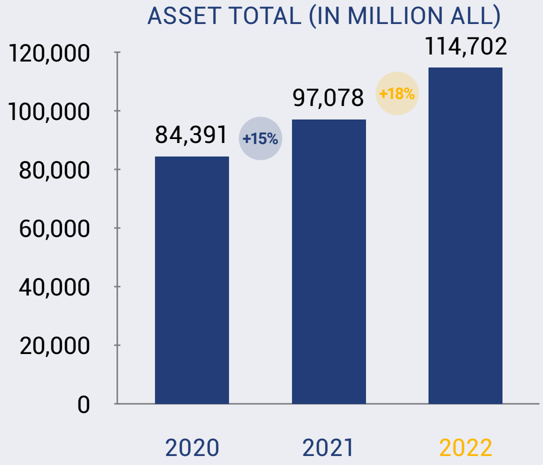
With the exception of the revaluation from the exchange rate impact, the Bank has achieved net profits of some 12 million Euro and positive ROA and ROE in 2022, with 1.3% and 13% (2021 with 1.2% and 10%) respectively higher than the budget, because of high profitability, even though total assets have increased in the course of the year.

Net revenue from interests have increased 26% compared to last year (764 million ALL) (2021: 12%, 288 million ALL). The considerable increase in revenue from interest is mainly a result of the loan portfolio revenue increase (36%) and revenues from investment in securities (14%). Interest expenses in 2021 are higher than last year by some 56%% (2021: 26%), almost in line with the budget, because of the increase in client financing, interest rates and subordinate securities issuing, within expectations.

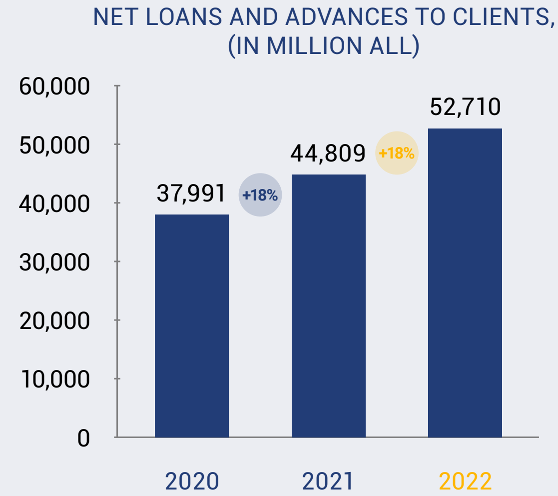
In 2022, revenue from commissions have increased by some 73 million ALL or 14% compared to the same period of last year. Overall, all commission types have marked increases over the previous year, including commissions on cars, disbursement fees, money transfers, and receivables fees, remaining above the budgeted figures.

Overall, 2022 shows improvement in Bank profitability margins, reflecting business indicator improvements and optimized financing costs. Operating expenses have increased in the 2021-2022 period, reflecting inflationist tendencies and are in line with the Bank growth and expansion strategy. The cost to revenue ratio has also improved to 55.5% in 2022 (from 64% in December 2021).

The Bank remains well capitalized to some 17.0% in December 2022 (December 2021: 17.4%). In December 2022, the Capital Adequacy Ratio is estimated at some 19%, including the capitalized profit for 2022 (additional 6.6 million Euro) and the subordinate debt (additional 4.4 million Euro) recognition.

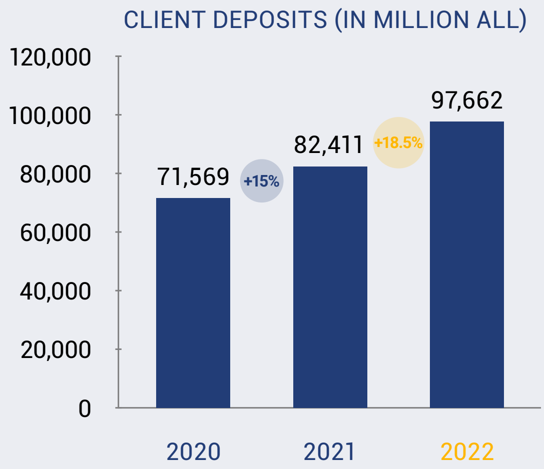


On 31 December 2022, total Bank assets reached some 114,702 million ALL, marking an increase by some 17,624 million ALL (2021: 12,687 million ALL) or some 18% compared to end of year 2021. This growth was mainly driven by client financing and increase of obligations to banks for the purposes of administering liquidity, and has been mainly focused on the loan portfolio and investment securities.



The Bank has increased its net loan portfolio by 18% (7,901 million ALL), compared to the end of 2021, achieving a total of some 52,710 million ALL at the end of December 2022. The gross increase in lending in 2022 is a result of the increased lending to individuals 18% (848 million ALL), increased corporate lending 17% (249 million ALL) and increased SME lending with some 14% (816 million ALL).

The Bank has considerably improved the non-performing loan (NPL) ration in recent years, reaching a level of 3.8% in December 2022 (December 2021: 4.4%) and is building a quality performance portfolio, in accordance with the overall market conditions. The non-performing loan ratio (3.8%) continues to be one of the lowest in the market and NPL coverage according to IFRS is approximately 55%.



Client financing has increased by 15,251 million ALL in the course of 2022 or 18.5% (2021: 10,841 million ALL or 15%), reaching a level of 97,662 million ALL, reflecting client trust and securing more funds for investing activities. The Bank has been able to increase the main financing resource with optimized financing cost.

In 2022, Tirana Bank issued two new corporate securities totaling 9.4 million Euro, to strengthen its capital structure and support further growth. Funds raised from issuing securities will increase Bank supplementary capital, pursuant applicable legislation and approvals by regulatory authorities.

In addition to the above, the Bank has also focused on digital penetration and an enriched digital platform with improved functionalities and performance, and on increasing the number of transactions through alternative channels (annual increase of 10-15%). Trade volumes grew considerably (between 30 and 70% compared with the same period in 2021).

5. MAIN TIRANA BANK INDICATORS

5.1 RETAIL BANKING ACTIVITY

In 2022, Tirana Bank has continued further developing and consolidating its position as one of the most important financial institutions in the Albanian market.

Our main focus in the individual clients segment has been to increase existing clients banking activities, promoting beneficial and long term relations with them, and of course attracting new clients, mainly young age groups, through the continuous improvement of service quality.

Provision of innovational products for clients, providing products and services that are completely tailored to their demands, is at the center of the Tirana Bank strategy. Digital transformation and investing in our digital platform has been and will continue to be our roadmap to enhance the Albanian banking market, the image of the reliable and innovational bank, while introducing innovation and new products for our clients.

The implementation of the development strategy has continued smoothly in 2022, marking very positive performance in the main commercial indicators of Deposits and Loans.

We are committed to continuously improving our clients' journey, to increase the use of banking products and services, to attract new groups of clients, to optimize and facilitate processes, with the aim of providing an excellent cooperation and service experience.

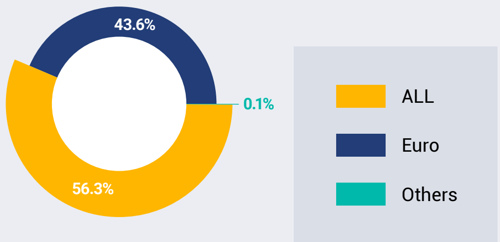
THE LENDING PROCESS

In 2022, the lending process was very dynamic in the Retail Lending segment, meeting its annual objective at a level of 149%. During this challenging year for any global economy, our efforts were focused on the proper evaluation of clients' position in the lending portfolio.

Notwithstanding the challenges, Tirana Bank ranked among the most active banks with regard to financing and meeting client borrowing needs for investment and individual consumption loans, providing them with a broader range of lending products.

The Bank has noted growth and has been highly stable in Consumer Loan and Mortgage lending, transforming the lending process into a simple and flexible process for all parties involved. In addition, the Bank has carefully revised lending terms and conditions for all its lending products, with the aim of facilitating them, and has continued to improve service quality for borrowing clients, resulting in a stable growth of the portfolio.

2022 RETAIL LENDING PERFORMING PORTFOLIO



The main individual lending objectives are the following:

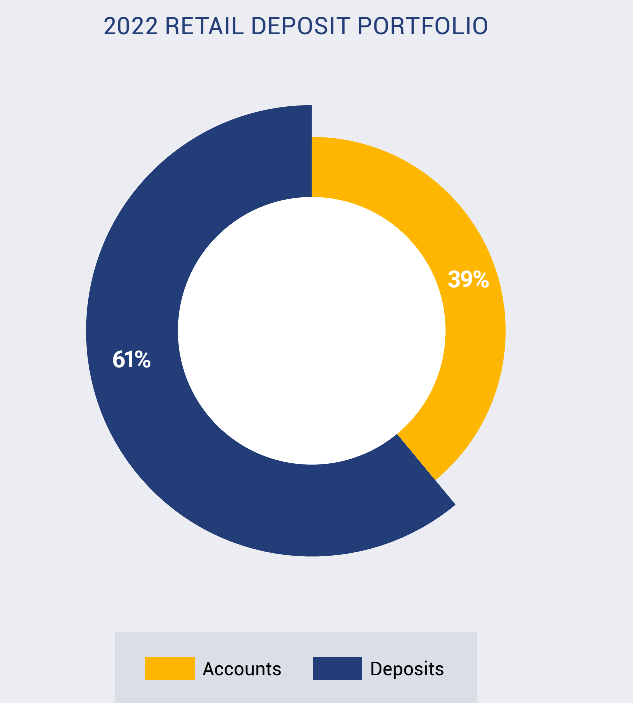
- Improving retail performing portfolio;
- Continuously monitoring and managing the non-performing portfolio, with the aim or limiting and recovering these loans, and aiming and working hard for this part of the portfolio to once again become performing loans;
- Penetrating deeper in our existing client base and increasing cross sales to new clients, such as those receiving wages in the bank and standard clients.

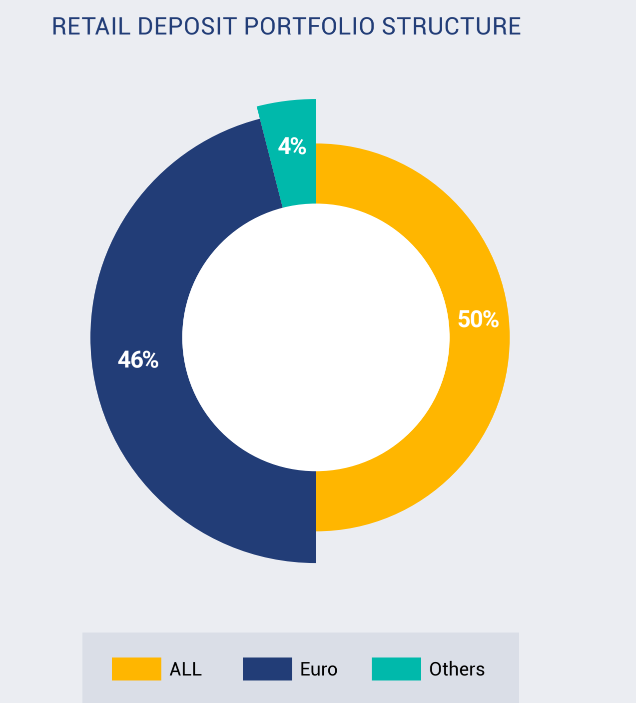
DEPOSITS WITH TIRANA BANKA

In 2022, we have achieved considerable growth in the deposit portfolio, and we have met budget objectives at the level of 110%. This positive trend has led to the implementation of bank strategy and objectives for 2022, while also ensuring high liquidity levels.

An important contribution in meeting 2022 objectives was made by the execution of term deposit product campaigns, and the launching of new deposit products, providing a wide range of banking services, with the aim of improving customer satisfaction.

The initiatives and campaigns implemented in 2022 attracted new clients and provided existing ones with more choice and opportunity to invest with Tirana Bank and increase their savings.





ALTERNATIVE CHANNEL PRODUCTS

DIGITAL PLATFORM

Digital transformation with the TiBank platform was the main guiding goal of the bank, optimizing further services for clients and overachieving on the objectives set for 2022.

We are now faced with the undeniable fact that technology has become of major importance in any aspect of our client lives. Considering this fact, Tirana Bank has prioritized digitalization and has developed an ambitious strategy to achieve this, and to transform clients' banking experiences into a simple and reliable interaction for them.

The Bank provides clients with a new digital dimension, which includes a wide range of online services and transactions, allowing them to act swiftly and without any restrictions in the digital platform, regardless of them using computers, laptops or mobile phones as communication channels.

The "Student Hub" project was implemented for the first time at Tirana Bank as an innovation providing university students with the opportunity to become bank digital transformation promoters as "Digital Bankers" in the network of our branches. Their main objectives was to establish a line of cooperation between the Bank and youth to get to know the organization, through the investment in their professional development and their positioning in the labor market.

Another objective was to establish a new approach in increasing TiBank service sales volume, increasing use of the service by clients that already had TiBank and guiding individual clients presenting themselves to bank windows towards our digital platform, to benefit from advantages such as high quality services, comfort and easy access to banking products on a 24/7 basis.

By the end of 2022, record figures were achieved and the objectives set in line with the Retail Division strategy were exceeded, reaching 184% increase in the number of active platform users.

We plan to invest further in our TiBank digital platform, enabling the provision of any Bank product and service to our existing and new clients.

DEBIT AND CREDIT CARD PRODUCTS

Vontinued to progress positively in 2022 as well, where the Debit and Credit cards products marked considerable growth.

One of the main objectives this past year was the development and launching of client incentivizing campaigns focused on growing the card use portfolio.

For the second year in a row, Tirana Bank has been awarded by our partner VISA, and this year the award was for the launch of the first co-branded credit car in cooperation with the Happy loyalty program. This product, which is the only and first of its type in Albania, is the result of our continued engagement to provide innovational products that increase the satisfaction of our clients.

Client security while making online purchases with their cards is very important to us, and that is why we launched the 3D Secure service last year for our debit and credit cards. This service ensures higher levels of security when using cards for online purchases, through the prevention of unauthorized card use.

POS AND ATM NETWORK

2022 is considered highly successful as regards developments and growing revenue from the POS network, whereby activity increased by 52% compared to 2021. In 2022, Tirana Bank focused on the identification of new clients to supply with POSs, mainly strengthening our presence in large commercial operators, such as commercial centers, restaurants, hotels, etc.

In the course of 2022, Tirana Bank also focused on improving its image, increasing the ATM network activities, installing ATMs in commercial centers, tourism residences and areas with heavy tourist traffic, with the aim of making them more easily accessible. In 2022, a total of 71 ATMs were active across the Albanian territory.

BANK INSURANCE

Tirana Bank is licensed by the Financial Supervision Authority with Board Decision No. 76, dated 15.06.2020 on activities of Insurance mediation for Life and Non-Life insurance categories, for clients.

Insurance brokerage is provided through bank staff licensed as physical brokers, on behalf and on account of Tirana Bank, to protect the interest of the insured by managing client requests related to insurance products, that are provided by insurance companies operating in the country.

The activity contributes to decreasing risk for the insured and uninsured loans portfolio, to protecting clients from damages caused by unforeseen events, and to increasing revenues from mediation commissions generated by relevant segments.

In 2022, the brokering activity was very dynamic and productive: 100% reimbursement/compensation of event/damage claims, revenue increase of 20% compared to 2021, insurance products/packages were launched to meet client needs/demand, overall activity sales and productivity growth.

CLIENT DEVELOPMENT AND EXPERIENCE DEPARTMENT

In line with the Balfin Group spirit, Tirana Bank focuses on addressing the client voice as part of its philosophy and strategy, with the aim of ensuring the best experience, and professional quality and timely services for clients.

In line with the above, the establishment of a client center culture led to continued investments in this regard in 2022, with the aim of focusing on clients, addressing their needs and translating them to appropriate services/products.

Client concerns and suggestions, which were channeled through the main client voice pillars, have contributed to the continued transformation and the undertaking of a number of initiatives to optimize, improve, and reduce operational processes, documentation for signature and time spent in receiving services in the bank.

With the client in focus, the Department has engaged in the effective management of client feedback, in understanding and analyzing needs, and in resolving concerns. Quick handling of each case has resulted in an average response time of 1 working day.

In addition, dedicated training rounds on sales techniques have been delivered to branch staff. The main objective was sales process standardization and optimization, while improving customer care and communication skills.

SMALL BUSINESS SEGMENT

In 2022, the Bank has paid special attention to developing the Small Business segment, focusing on strengthening relations with existing clients and guiding them towards digital services, while at the same time broadening the client base. This approach was complemented with the establishment of dedicated structures in the General Directorate and the creation of working conditions tailored to this group of clients.

With a clear direction towards the latest techniques, the Bank has developed its strategy and product base, after having intimate knowledge of client demands. This has led to the development of new financing products based on this demand. This has all been complemented by simplified procedures and processes, providing clients with quick and professional services.

2022 marked the successful completion of the abovementioned projects and at the same time field preparations in the Branches Network for the start of 2023.

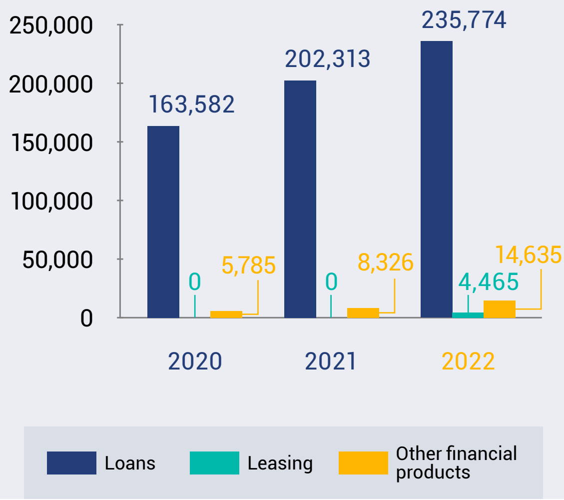
5.2 CORPORATE BANKING DIVISION

The market had "great appetite" for lending in 2022. Large companies restarted projects previously suspended or postponed as a result of the pandemic. This project revitalization led to a revitalization of the market in general with direct positive impact on the Corporate Division portfolio.

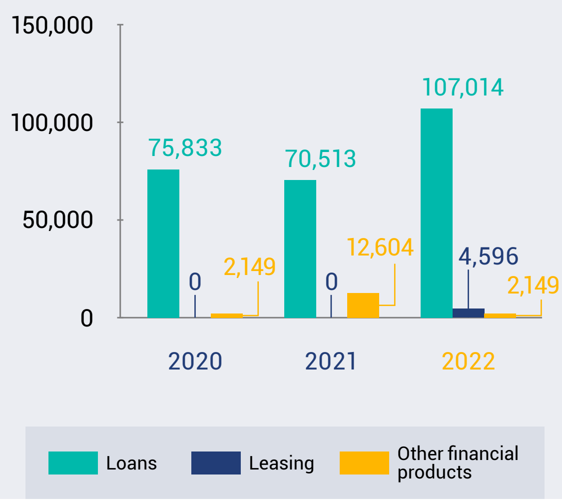
The end 2022 data are the clearest indicators of this positive trend. The Corporate Division team was well-prepared to manage continuous requests by business clients, quickly and accurately accommodating their requests for both borrowing and consultancy regarding other financial products.

For these reasons, the lending portfolio grew by 21% this year compared to 2021 *(note: from EUR 210 million in 2021 to EUR 254 million at the end of 2022)*, while the objective set for new disbursements was surpassed by 167%.

CREDIT PORTFOLIO BALANCES ('000 EUR)



CREDIT PRODUCTS DISBURSEMENTS ('000 EUR)



The lion share of the Corporate Division work was focused on increasing the client base, and not only with regard to existing business clients in the bank, but also with new clients. This was done using new approaches and offering a range of other banking products suitable for business needs. It should be noted that the Leasing and Project Financing products have received special attention.

This increased attention by corporate division consultants on the client base has resulted effective in increasing business volume and growth of other banking products and services. Of note here is the increase in incoming and outgoing transfer volumes by more than 147%, the increase in currency exchanges by 168%, the increase in the Corporate clients annual turnover by 50%, and the increase in the number and volume of payments to third parties, whether private companies or budgetary institutions, when comparing 2022 with 2021. It should also be noted that our clients can now initiate payment of their fiscal invoices through the TiBank e-banking platform, avoiding lines in the branch and protecting the environment (less printed paperwork).

The goal and priority of the corporate division remains the provision of a wide range of banking services and products, possibly tailored to corporate clients, with the aim of meeting their business needs and providing adequate financial and operational solutions for them. We are convinced that with the current market demand and the concrete work being done by lending consultants, the Corporate Division will again achieve its goals for 2023.

5.3 SMALL AND MEDIUM ENTERPRISES (SME)

2022 continued with considerable growth in all SME segment indicators in line with the Bank strategy for growth and expansion of the lending, deposits, revenue, etc. portfolios. After 4 years as part of the Balfin Group, this year marked the biggest volume of disbursed loans, meeting and surpassing the defined budget. New disbursements reached 20 million EUR compared to a projected budget of 19 million EUR and disbursements of 16.5 million EUR of the previous year. This increase in disbursement volumes automatically led to a considerable growth of the realized lending portfolio, which reached 57,115 million EUR compared to 44 million EUR at the end of 2021, or double the volume at the time when Tirana Bank became part of the Balfin Group.

With its now consolidated experience, the SME department staff focused on growing the number of businesses cooperating with Tirana Bank in 2022, while also improving quality services for existing clients. During the year, some 60 existing clients were supported with new credit lines, while some 55 new businesses were successfully provided credit lines.

Considering market needs and keeping the pace with other competitor banks, the SME Department launched two new lending products, described below:

- The first one concerns financing for investment in solar panels for self-generation, which was a need resulting from a number of economic and policy factors. Higher energy prices resulting from the war in Ukraine and other climate factors, drove many businesses to rely on self-generation through solar panels for their supply. This type of investment allows these businesses to be autonomous from the distribution network, to efficiently manage their costs and to protect themselves from market price fluctuations, while in a 4 to 5 year period they own 100% of their investment asset. Considering this opportunity, the SME department supported some 15 businesses with loans for investment in solar panels, at a total amount of approximately 1.6 million EUR.

- The second is related to providing unbacked overdraft to all businesses with a considerable volume of business with Tirana Bank. Businesses showing a level of loyalty to the Bank and that showed satisfactory levels of turnover, were offered this new overdraft product at very tolerant conditions, based on some very simple selection and approval requirements.

Considering the latest local and global trends, and investments made in the digitalization process, great focus was placed on the penetration and use of the internet banking platform with regard to businesses. Bank teams dedicated time to acquainting clients and for them to become TiBank platform users, with the clear objective of decreasing the volume of transactions completed in brick and mortar Bank branches. In addition to the continuous contact with each client to explain the advantages of the platform, the Bank took other incentivizing steps, increasing some of transaction fees in brick and mortar branches, and lowering them on the TiBank internet platform.

The SME department did not only continue to focus on loan portfolios, but also on a stable increase of the Bank liquidity. Thus, in 2022, the deposit portfolio grew by 9 million EUR, reaching a total of 56 million EUR, as a result of the consolidation of relations with existing businesses, and attraction of new clients to the Bank. Thus, from the 1,300 active clients in our database at the end of 2021, 2022 was closed with a total 1,875 active clients. Increasing the number of Tirana Bank clients resulted in a growth of all other aspects, including domestic and foreign transfers, currency exchange, number of payroll receiving clients, number of credit and debit cards, etc.

6. RISK MANAGEMENT

TIRANA BANK POSITIONING

At the end of 2022, Tirana Bank recorded total assets at approximately 1 billion Euro, marking an annual increase of some 25%. It market position in terms of total assets was estimated at some 6.1% in December 2022, compared to 5.5% during the previous year, ranking the bank 7th, while ranking 6th in terms of credit (with 7.6% share of the total banking system lending) and in terms of deposits (with 6% share of the total banking system deposits). The credit portfolio has grown by some 24%in annual terms, while deposits have grown by some 26%. Tirana Bank annual growth has surpassed that of the banking system in terms of the main growth indicators.

In recent years, Tirana Bank has surpassed the banking system performances in terms of reducing non-performing loans as well, because at the end of 2020 its non-performing loans marked lower levels than the banking system and continued to show a falling trend in successive years, reaching a level of 3.8% at the end of 2022. Currently, Tirana Bank ranks among the banks with the lowest rate of non-performing loans.

RISK MANAGEMENT

Effective risk monitoring and management have continued to have the same importance when doing business, and the Bank has continued to focus on maintaining stability, financial soundness, and operational continuity. The Bank approach to risk management is documented in its Risk and Capital strategy, which is revised annually and adopted by the Board of Directors. Beyond the Risk and Capital Strategy, the internal complete and effective risk management framework, based on organizational risk culture, includes governance, policy, procedure and methodology components supported by the relevant infrastructure.

The Board of Directors is responsible for overseeing the development and implementation of the internal risk management framework, which is also ensured through a number of specialized committees. The Risk Administration Department is administratively independent from other Bank units. The Bank has defined detailed processes and adequate control mechanisms to identify, manage, monitor and report risk. This ensures independence between undertaking risk, managing it and the relevant control functions. The current organizational structure ensures division of duties and aims at preventing situations that could lead to conflict of interest.

The Tirana Bank Risk Administration Department is composed of the following risk management units:

- Credit risk management, reporting, provisional and weighted risk asset estimations unit
- Market, liquidity and operational risk management unit
- Information security unit
- Modeling function

RISK APPETITE

The Bank expresses its risk appetite through a comprehensive Risk Appetite Framework (RAF), in line with best practices, which consists of qualitative and quantitative Risk Appetite Statements with established limits and early warning levels to serve as a monitoring tool to the Board of Directors and the Senior Management.

The Risk Appetite Framework is revised annually and with material developments in the internal or external environment or regulatory framework. It is adopted by the Board of Directors, following pre-approval by the Executive Committee. It takes into account general strategic guidelines, provided by the Board of Directors, and is developed in line with the recommendations and regulatory requirements.

Tirana Bank Risk Appetite

The Bank prioritizes: the maintenance of a solid capital base, the diversification of financing sources, the safeguarding of the quality of assets and loan portfolio diversification and the cost effective management of operating expenses.

It seeks to combine satisfactory profitability preserving the Bank's credit standards and ensuring that risk exposures are commensurate with the risk appetite framework approved by the Board of Directors.

The Bank is committed to continuously enhance its risk management practices, ensuring it runs under a clear and rigorous risk management system, with optimal IT infrastructure, guaranteeing a prominent role of risk management in strategic planning. It continuously improves the risk management processes, policies, models and tools for identifying, measuring and monitoring risk exposures in line with regulations and international best practices.

The Tirana Bank Board of Directors recognizes all material risks and has the responsibility to adopt the risk management framework.

The Bank has appropriate processes for approving the launch of new products or changes to processes in place, in order to assess potential impact on the Bank's risk levels.

The Bank maintains a communication policy and culture aims at that strengthening the confidence of customers, shareholders, investors, employees and partners.

It aims at ensuring the availability and adequacy of resources necessary for the effective implementation of the internal risk management framework.

The Bank seeks to guarantee the highest quality of available data and the adoption of best practices.

The Bank maintains a remuneration policy that is not conducive to excessive risk-taking.

Capital - Risk Appetite

Tirana Bank aims at maintaining a strong capital base that supports its business plans and ensures the ability to continue its operations smoothly at all times.

It maintains capital adequacy ratios exceeding minimum regulatory limits, in order to ensure the confidence of depositors and sufficient reserves to overcome economic challenges.

It maintains adequate infrastructure, policies, procedures and methodologies to support and meet regulatory compliance requirements for capital management.

Credit - Risk Appetite

Tirana Bank seeks to control credit risk through sound lending requirements, which include the repayment option (first way out), the provision of collateral (second way out) and the careful evaluation of the customer. The process is supported by the use of internal rating systems with discriminating abilities and systems for credit risk measurement and estimations of capital demand.

Its focus is in growing its lending portfolio in key sectors with better growth prospects, while aiming at curbing new arrears through credit risk identification, continuous monitoring and countervailing measures.

It effectively manages its non-performing loans levels through the Non-performing Loans Recovery

Division reducing the rate of performing loans that turn to non-performing loans and ultimately lowering the level of NPLs.

The Bank operates at all times within the credit approving limits defined by the Board of Directors, which are regularly updated and cover all Bank activities, in order to mitigate credit risk. All lending decisions are made in compliance with the Credit Policies & Practice Manual in place.

Centralized monitoring of all credit risk exposures at borrower level as well as connected borrowers level is in place.

Liquidity - Risk Appetite

The Bank aims at maintaining a diversified funding base while closely monitoring liquidity levels.

It maintains liquidity indicators within the regulatory and internally established risk appetite limits.

The Bank runs stress tests on a regular basis, as part of the routine risk management processes and runs tailored stress tests on an ad hoc basis, in response to external developments with potential impact on its activities.

The Bank relies on effective Asset and Liability Management in order to ensure sufficient availability of highly liquid assets.

Market - Risk Appetite

The Bank aims to maintain a low-level market risk exposure resulting from its trading activities and centrally and directly manages and monitors market risks arising from customer activities, while maintaining exposure within the market risk limits determined by the Board of Directors.

Operational - Risk Appetite

The Bank wishes to avoid operational losses caused by the inadequacy and ineffectiveness of the Internal Audit System or to the non-compliance of all parties involved with principles and objectives of the audit environment.

The Bank has zero tolerance for losses caused by internal fraud and losses related to all forms of corruption, including fraud, bribery, market abuse or manipulation, and use of financial institutions for money laundering or terrorism financing purposes. In this context, the Bank has implemented adequate measures and policies to prevent such practices and to protect its reputation of business ethics, financial integrity and staff reliability. Continuous compliance of human resources with the code of ethics and the code of conduct in banking, as well as the principles of corporate governance and the Bank internal operation regulation are necessary to avoid such losses.

The Bank has zero tolerance for incidents with significant negative impact on its corporate image. These incidents include loss of life, threat to the physical integrity or health of customers and employees, non-compliance with the regulatory and supervisory framework, non-compliance with Corporate and Social Responsibility principles (society, culture, and environment) or business continuity and/or information systems operations.

Information Security - Risk Appetite

The Bank takes continuous measures to enhance its defenses from cyberattacks, with the aim of preventing incidents and losses from cyberattacks on its systems, making constant improvement, expanding and using advanced protection mechanisms, infrastructure and technical controls for monitoring, prevention and mitigation of the relevant risks.

The Bank wishes to avoid incidents leading to unavailability of systems that support its critical business functions and aims to minimize the time needed for recovery of critical operations as defined by the identified and agreed RTOs (Recovery Time Objectives).

The Bank wishes to avoid IT system-related incidents generated by weak change management practices, while it is open to new technologies to improve its efficiency and productivity, aiming to harmonize digital innovation with information security.

Compliance - Risk Appetite

The Bank is committed to combating financial crime and ensuring that accounts held at the Bank are not misused for the purpose of money laundering or terrorism financing. Tirana Bank does not accept, nor tolerate any intentional or willingly negligent involvement in, or association with, Money Laundering, Bribery and Corruption, or non-compliance with Sanctions & Embargoes, or non-compliance with relevant rules, regulations, laws and policies.

It aims at always maintaining updated fight against money laundering related policies, procedures, sanctions and embargoes, Anti-Bribery & Corruption Policies, and Anti-Fraud Programs that comply with applicable laws and regulations.

Tirana Bank delivers continuous training and conducts monitoring to make customer due diligence when required, conduct enhanced oversight and suspicious and prohibited transaction monitoring, and maintains an adequate monitoring system for these activities.

The Bank will never knowingly offer products or services to clients or parties engaging in money laundering, terrorism financing, or support to parties or regimes subject to governmental sanctions as prohibited by law or by special risk country restrictions, or who seek to use Tirana Bank banking services to facilitate illegal activities including bribery, corruption, or tax evasion.

RISK PROFILE

In 2022, Tirana Bank paid particular attention to the risks to which the banking system and the Bank are exposed. It understands the effects of the pandemic on the economy, including the supply chain disruptions, and has taken measures to cover in advance possible losses arising from unfavorable economic developments. During the year, the main focus continued to on maintaining asset quality, especially the recoverability of the existing non-performing loans, while building up its performing portfolio and preventing performing loans from deteriorating to non-performing loans.

Credit Risk is the most material risk type and has the greatest contribution in capital requirements under both pillar I and pillar II (ICAAP), followed by operational risk, while capital requirement for market risk continues to equal zero.

Capital adequacy

The Bank recognizes the importance of maintaining a strong capital base against risks undertaken. It has retained a sound capital base, capable to support Bank business, strategic plans, and the smooth continuation of operations. Capital requirements are calculated against all material types of risks that the Bank undertakes, in full compliance with all applicable regulatory oversight requirements. The capital adequacy ratio has exceeded the minimum regulatory limit, with a level of 16.95% by end of 2022, ensuring compliance with all regulatory requirements, the confidence of depositors and its sufficient armor against economic conditions challenges. The Bank has twice issued sub-debt in 2022, once again confirming investor trust in the Bank's financial position.

Capital adequacy (Mil €/%)	31.12.2021	31.12.2022
Tier 1 Capital	75	**84.7**
Tier 2 Capital	5	**10**
Total Capital (Tier 1 + 2)	80	**94.8**
Risk weighted assets	459	**559**
Of which: Credit Risk	412	**500.6**
Market Risk	0	**0**
Operational Risk	47	**58.5**
Tier one Capital Ratio*	16.3%	**15.2%**
Capital Adequacy Ratio**	17.44%	**16.95%**
Macro prudential capital buffers fulfillment	244%	**230%**

***** *including the remaining profit certification for 2022, reaches the level of 18.24% (2021: 18.12%).*

As a function, capital management and planning ensures Bank sustainability under normal and stressed economic and financial conditions, taking into account the risks to which the Bank is exposed. Capital adequacy ratio targets aim to ensure sufficient stability to protect depositors, while maintaining a comfort buffer over minimum regulatory requirements.

Capital management is also an integral part of the Internal Capital Adequacy Assessment Process which aims to assess capital requirements in accordance with the Bank's risk profile and strategy. In this context, and in order to assess capital adequacy, the Bank regularly performs projections for both capital requirements and available capital, taking into account macroeconomic developments, the Bank's current business profile as well as regulatory framework changes that could affect capital adequacy in upcoming periods. The abovementioned process is overseen by top management Committees and the Board of Directors.

Credit risk

Tirana Bank closed 2022 with a Non-performing Loans Ratio at the level of 3.8% from 4.9% by the end of the previous year. Estimated risk cost for the loans portfolio recorded a level of 17 bps, which is considered low given the general macroeconomic developments and below Bank expectations.

Relative loan portfolio growth has been similar for the three key business segments and higher than the average of the Banking system, which has led to increased share of Tirana Bank in the banking system in terms of loans at approx. 7.7% compared to 7.1% one year prior. The non-performing loans ratio showed a decrease during the year for the three key business segments and overall new entries in the non-performing category have been neutralized by repayments and upgrades from this category.

By the end of the year the Bank recorded an increase in the coverage of its non-performing loans portfolio by provisions, resulting mainly from targeted allocation of provisions, while it recorded decrease of the performing category coverage due to decrease of its default rate. The Bank has shown overall stability in the composition per stages overall.

Credit risk (%)	31.12.2021	31.12.2022
Non-performing loans ratio to total loans	4.9%	**3.8%**
Non-performing loans coverage by provisions	53%	**55%**
Performing loans coverage by provisions	1.8%	**1.6%**
Stage 1 share	90.2%	**90.4%**
Stage 2 share	4.1%	**5.1%**
Stage 3 share	5.8%	**4.5%**
Risk Cost (bps)	-17 bps	**17 bps**

Liquidity Risk

The Bank recognizes liquidity risk as one of the major risk types that may have a significant impact on the capacity of the Bank to fund its commercial operations and to meet its financial obligations. The management of liquidity risk is a key objective for the Bank and involves a wide range of activities from the close and continued monitoring of its liquidity position, to the management of its financial resources and the uses of funds, in a way that does not compromise the ability of the Bank to meet its obligations.

The Bank has adopted best practices and regulatory guidelines to assess its liquidity position and the potential effects of adverse maturity changes (and non-renewal) of its funding resources as well as potential reduction of its liquid assets value.

It exercises close monitoring of the cost of liquidity and it has ensured compliance with the regulatory liquidity risk management framework while maintaining and regularly reviewing methodologies, policies, procedures and systems so as to effectively manage liquidity risk.

The bank has been carefully monitoring its liquidity levels ensuring they remain above the regulatory minimums.

Deposits from customers remain well diversified despite the increase of deposits from businesses in 2022 and the annual growth of deposits has reached 18.5%. The loans-to-deposits ratio remains low, the Bank has showed stability of account and term deposit balances, stability of cost of funds and cost of debt, and the analysis of outflows and inflows as required by the Liquidity Coverage Ratio regulation compared to current ones, shows the Bank's capability to accommodate even very stressed situation even when compared to previous crisis. Key liquidity indicators remain above regulatory requirements.

Liquidity risk indicators	31.12.2021	31.12.2022
Loan / Deposits	57%	**56%**
Liquid Assets / Short term liabilities - Total	45%	**38%**
Liquid assets / Short term liabilities - foreign currency	34%	**23%**
Liquid Assets / Short term liabilities - ALL	58%	**60%**
LCR – ALL	338%	**232%**
LCR – Main foreign currencies	95%	**126%**
LCR Total	201%	**189%**

Market Risk

The Bank has adequate measurement methods in place to monitor and control market risk, including interest rate risk in the banking book.

Tirana Bank applies an interest rate risk management policy and adopts risk assessment techniques based on the interest rate gap analysis. It assesses interest rate risk through the "Earnings-at-Risk" indicator, which expresses the negative impact on projected annual interest rate over a specified period caused by a change in interest rates across all maturities and currencies.

In addition, it assesses interest rate risk through the expected change in the Net Present Value of assets and liabilities caused by a change in interest rates by 1 basis points.

Throughout the year the Bank has maintained market risk regulatory indicators within regulatory limits.

Market Risk	31.12.2021	31.12.2022
Net foreign exchange open position / Regulatory capital	1.52%	**0.69%**
Exposure to interest rate risk in the banking book / Regulatory capital	9.34%	**5.88%**

Operational Risk

Special attention has been paid to operational risk in 2022, through the revision of Bank operations, aimed at identifying possible improvements for the purposes of reducing operational losses and other adverse impacts (whether reputational, regulatory, etc). Careful monitoring of the operational losses, key risk indicators and the risk control self-assessment exercise, as well as the assessment of extreme scenarios, remain the main methods of the internal operational risk management framework.

Information security risk

The cyberthreats landscape encountered by the banking system has changed significantly in 2022 and a number of cyberattacks were recorded by critical infrastructure operators. As a result of increased threats, Tirana Bank undertook a complete and continuous review of its security measures to ensure protection against increasingly sophisticated attacks. The Bank had no incidents in 2022 related to information security with financial, reputational and/or operational impact and the Bank's security performance was at the highest levels.

The Bank developed and documented an internal risk management framework, aimed at mitigating cyber risks and information technology risks. Information security remains an area under major focus with the aim of further improving security. Continuous awareness raising among the public and staff on the topic is considered as paramount for improving protection.

7. ONLINE PLATFORM AND FUNCTIONALITIES

We have the please to introduce the finalized development of our online banking platform, TiBank, which has noticeably improved the banking experience of our clients in 2022. These developments have resulted in added convenience, effectiveness and flexibility when managing financial transactions and accounts, and interrelated activities. Below are some of the main developments included in TiBank.

PAYMENT OF FISCAL INVOICES

Now TiBank provides many possibilities to pay fiscal invoices. Using the QR scanning technology on fiscal invoices, clients can make payments through the TiBank app. Furthermore, clients can manually input the NIVF unique code tied to the invoice, which is another way of paying these invoices. In addition, TiBank introduces a function to pay for a series of invoices, allowing clients to upload an Excel file containing up to 2,000 invoices to be paid to various issuers, thus facilitating large scale payment operations.

ACCOUNT STATEMENTS

When accessing our TiBank from a PC, clients have the possibility to download their account statements directly from the platform. Going to the account statement section, clients can obtain comprehensive and up-to-date information regarding their financial transactions, making it easier for them to monitor their financial transactions and keep their information accurate.

TAILORED COMMUNICATION WITH CLIENTS

To improve communication between TiBank and our clients, we have introduced messages sent to the app inbox. This functionality allows us to send personalized messages directly to the client TiBank inbox. Uploading a CSV file, we can send updates, notifications and important offers tailored to the individual client profiles, ensuring effective communication and promoting strong relations with our clients.

PREFERENTIAL EXCHANGE RATES

A preferential exchange rate is applied to all clients using TiBank for transfers in various currencies. This improvement gives clients access to preferential exchange rates when making transactions in foreign currencies on the online banking platform. Providing preferential fees, TiBank mitigates costs and provides better value for clients engaged in international financial activities.

These developments have strengthened TiBank's position as one of the main internet banking solutions, providing innovational features and functionalities created to meet every need our clients may have. We remain committed to offering an exceptional banking experience that prioritizes convenience, security and user friendliness.

8. CORPORATE **SOCIAL RESPONSIBILITY**

Corporate Social Responsibility projects in 2022 were developed and implemented not only in accordance with the mission and vision of the Bank, but also the main Social Responsibility pillars of our organization, increasing the positive impact Tirana Bank has in Society.

The successful implementation of CSR and Sponsorship projects in 2022, was a fundamental element not only to grow Bank reputation in the community, but to also retain relations and trust between stakeholders and to establish new relations.

Especially in 2022, Tirana Bank made sure that CSR and Sponsorship projects integrated Bank staff more, as an undivided part of the support given to the community, and because we believe that active participation in such projects increases the productivity and satisfaction of our staff at work.

The mos meaningful CSR and Sponsorship projects implemented in 2022 are described below:

A different March 8th at Tirana Bank

All Tirana Bank ladies enjoyed an afternoon outside the office and went to the theater to see the premier of "Our Stories - Free Women", to strengthen friendships and socialize in a context of Entertainment and Culture, while also contributing to the humanization initiative that this play brought as part of FemFest. FemFest was the theater play festival organized between March 5 and 8 to promote a completely humanitarian message. All proceeds from ticket sales from the plays, including the play selected by Tirana Bank, went for the education expenses of four girls that could not afford the cost of higher education, even though their wish to study was great.

One day, many smiles! Tirana Bank celebrates with women in economic hardship.

In the framework of the International Women's Day and its Social Responsibility Projects, Tirana Bank in cooperation with the Albanian Red Cross and the participation of renowned film and National Theater actress, Roza Anagnosti, celebrated with women in economic hardship.
We truly believe that women are the main characters giving the world its colors with their strength, courage and love, and we were there to support them and to promote equal rights for all from all groups in society.
Under the slogan of "One day, many smiles" Tirana Bank staff representatives donated their time at the Red Cross kitchen to serve lunch to ladies in needs and kept them company for the day.

"Let's play together" at Latitude Tirana

Tirana Bank organized an event dedicated to the children of its staff called "Let's play together". We purposefully chose the end of the school term, taking care to use the event to clearly relay messages of gratitude to the children for their commitment in school, and to gift the Bank staff/parents and their children some beautiful moments of entertainment together.

"Make it green, plant, recycle", Tirana Bank plants trees at the Lake of Paskuqan.

Activities with positive impact on improving quality of life and environmental protection, continue to be one of the main objectives that Tirana Bank has supported and will continue to support in the future.
Tirana Bank made its contribution in expanding green spaces in the Lake of Paskuqan area, under the slogan of "Make it Green, Plant, Recycle".
Tirana Bank will remain committed and will continue to contribute to the greening of other area in the city, because this is a smart investment for the future of the city and the society.

The Green Businesses Competition and partnership with Partners Albania

This project aimed at promoting and encouraging innovations around green businesses at the local level and to investigate the role of philanthropy when engaging with local communities to generate business ideas based on the use of local resources, revitalization of production traditions and local markets, while taking a friendly approach to the environment.
Being a bank that pays proper attention to projects with local economy impact, Tirana Bank did not just elect to fund the project, but was represented by Ms. Manjola Capo, Lending Division Manager, who evaluated project ideas with the best potential for development and to improve quality of life in the community.

The entrepreneurs of tomorrow and Tirana Bank support

"Entrepreneurs of Tomorrow" is the project that Tirana Bank supported in partnership with the Tirana Business University, once again emphasizing the Bank's commitment to promote young entrepreneurship and a better future for youth, through its social responsibility policies.
Ms. Eralda Tafaj, Operations Division Director at Tirana Bank was the direct Bank representative, who on behalf of the organization reconfirmed that through these events, that have become a tradition, we have the opportunity to contribute and facilitate the journey of future entrepreneurs.

The digital banker as a unique experience at Tirana Bank

With the will to support youth with their initiatives, but to also get the best possible experiences from this generation, Tirana Bank takes good care to develop and maintain relations with youth through its Students Hub program.
Focusing on digital transformation under the LearnByDoingGoesDigital slogan, the Tirana Bank Students Hub led the unique "Digital Banker" experience.
Students selected for this program developed their professional skills and made successful achievements, sharing their best digital approach experience with Tirana Bank clients.
The top three performers of this program were awarded prizes in the concluding event organized at the end of the three month program.

Tirana Bank was the main supporter of the National Student Companies Competition and Fair organized by Junior Achievement Albania.

Tirana Bank promotes introducing youth to the world of economics and creating opportunities for youth to try being an entrepreneur. This was the basis for the support that the Bank provided to the event organized by Junior Achievement Albania called, the National Students Competition and Fair.
The fair is considered the highest level event after nine months of continuous training and attending

the "leader for a day" and "Student enterprise" elective modules that Junior Achievement Albania has developed for students of grades 10, 11, and 12 at the national level.
The jury composed of senior Bank representatives, evaluated the companies established by the students this year, emphasizing the commitment of Tirana Bank in supporting initiatives focusing on youth education and skilling.

Tirana Bank supports tradition - National "Nona" Festival, Permet

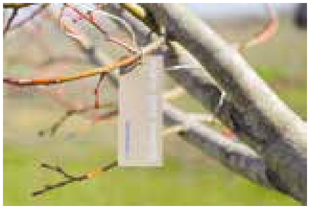
Tirana Bank has once again supported tradition, as the official partner of the national grandmothers "Nona" festival, organized in Permet from August 5 to 7, 2022.
The magic of our grandmothers cooking, the best known singers, and the colors of every region strengthen our trust in our mission to pass on traditions from generation to generation, while supporting the best initiatives to do so.

The "Business Challenges" Competition in partnership with B4Students

Participating students joined the "Business Challenges" Competition organized by Tirana Bank in partnership with B4Students, with their proposals, nine of which qualified for the final stage.
A jury composed of the following Bank executives: Ms. Elona Gjipali, Ms. Glenda Kurti and Mr. Idlir Mezini, selected the three best ideas.
The winners were awarded a money prize, professional training on international online platforms, and participation in the professional internship and employment program of the BALFIN group companies.
At the end of the event, all finalists were issued certificates in appreciation of their commitment and high level of preparation.
Such events organized by Tirana Bank and B4Student aim at promoting student innovation and analytical thinking for solutions that can be devised for actual challenges businesses face in Albania.








9. HUMAN RESOURCES

The Tirana Bank team of 460 strong continued to contribute to the Bank success in 2022, developing the best and quickest financial solutions for our clients, and assisting them achieve their objectives. Dedication, professionalism and active participation in daily duties are what sets our team apart.

STAFF ENGAGEMENT

As we do every year, we conducted with Staff Engagement Survey with continued active participation, in order for each of our voices regarding our experience with Tirana Bank, to be heard.
Promoting staff engagement through effective communication, activities, rewards, and discussion about promotion, has been an important pillar of our strategy to make our people feel appreciated and respected.

REVITALIZING THE BRANCHES NETWORK

Following the joint engagement to continuously improve the clients experience with Tirana Bank, the branch service model has been redeveloped to provide a multi-functional approach. The implementation of the "Personal Banker" position in the branch network has been followed by the re-conceptualization of the "Cashier" and "Customer Service" positions into a new position called "Customer Services at the Register". This position is a merging of the duties and responsibilities of the current positions, improving work flow in the branch, and improving productivity and sales skills. In addition, from an employee professional development aspect, this change provides a wider space of knowledge gaining about products, processes, area of responsibility, and career path progression. Our in-house talent is our greatest asset and we strive to create an environment that promotes growth and development.

MAIN HUMAN RESOURCES INDICATORS

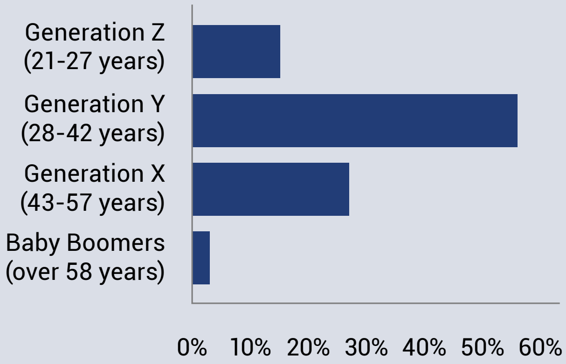
We base our decision making for effective labor force management on Human Resources metrics that drive us to define and evaluate the effectiveness and efficiency of our policies and practices from the data perspective (the data provided below are as of 31.12.2022).

Staff number	**460**
Average age	**38 years**
Length of employment with Bank	**8 years**
Promotion rate	**8%**
New recruitment	**69**
Average time for filling vacancies	**26 days**
Student recruitment	**7,2%**

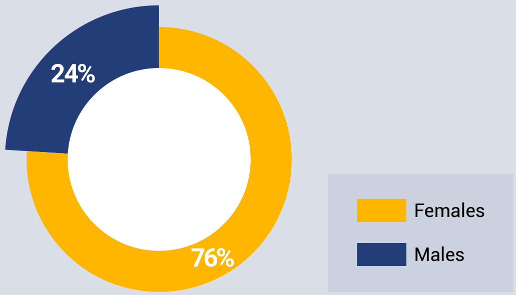
OPTIMIZING ORGANIZATIONAL DESIGN

Human resources play an important role in transforming organizations to achieve better performance. In cooperation with, and with the great commitment, of both the Human Resources team and the business unit leaders, we have optimized/designed organizational structures that have an effect on business performance, such as the Retail Division and the Branches Network, the Banking Recovery Division and the Operations Division. This important bank-wide project led by the Human Resources Department was implemented, communicated and followed up until its successful realization.

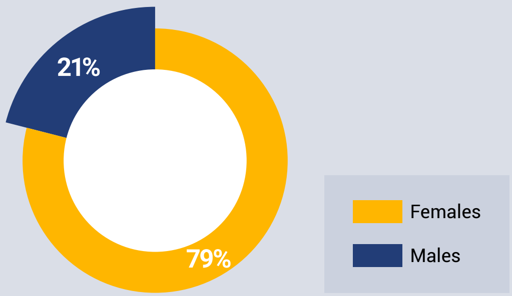
LABOR FORCE DEMOGRAPHICS



WOMEN TO MEN



KEY MANAGEMENT



The Tirana Bank "Learn by Doing" Student Center - has continued its standardized internship program, promoting and implementing the Digital Banker project as well. In 2022, participation in the internship program was as follows: 65 students.

MAIN 2022 INITIATIVES/ACHIEVEMENTS

The training package for all New Tirana Bank Employees has been improved to provide overall knowledge of functions and duties required, through on-boarding training activities, as an induction program.

Training on management and leadership has been provided, along with tailored senior management certification modules and programs.

Training on new digital skills have been developed for the Branches Network employees, and a training plan focusing on skill improvement has been developed for the Branches Network.

Activities for employees such as the "Children corner", the theater events,Sport events, and informative sessions on health have been in focus during the year.

A flexible coming-to-work schedule has been implemented with the aim of a positive impact on the employees engagement in their daily work.

BENEFITS AND REWARDS

The compensation strategy focused on supporting Bank development and growth. The compensation framework promotes and rewards sustainable performance and contribution based on outcomes, conduct and action at all organizational levels.

The stimulation scheme for business lines has been reviewed and improved to increase sales/referrals between business lines. The Annual Bonus scheme and ceilings have been improved. The bonus scheme for the dependent debt emission has been improved.

Wages for the staff overall have been increased (5% / 7%) Wages for main staff have been increased, such as the Increase of the minimum wage at bank level (from 42,000 to 52,000 ALL).

The loan policy has been revised and improved (Terms and Conditions for all products).

Board of Director bonuses for 2022 are at 10,693,821 ALL for unchanging bonus elements, while other bonuses have amounted to 1,637,468 ALL.

Bonuses for Executive Officers in 2022 have amounted to 57,684,369 ALL for unchanging bonus elements and other bonuses have amounted to 16,709,341 ALL.

9.1 ORGANIZATIONAL STRUCTURE

10. TIRANA BANK SHA

INDEPENDENT AUDITOR'S REPORT AND THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2022

TIRANA BANK
HERE FOR YOU

EY
Building a better working world

Ernst & Young Certified Auditors
Albania Branch
NUIS: K61911012I
Ibrahim Rugova Str, Sky Tower, 6th floor
1001, Tirana, Albania

Tel: +35542419575
ey.com

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF BANKA E TIRANËS SH.A
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Banka e Tiranës sh.a (the "Bank"), which comprise the statement of financial position as at December 31, 2022 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Bank as at December 31, 2022 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

BASIS FOR OPINION

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

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

OTHER INFORMATION INCLUDED IN BANKA E TIRANËS SH.A 2022 ANNUAL REPORT

Other information consists of the information included in Bank's 2021 Annual Report, prepared in accordance with articles 17 and 19 of the Law no. 25/2018 "For Accounting and Financial Statements", other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2022 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Bank's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young - Ekspertë Kontabël të Autorizuar
Dega në Shqipëri

Ernst & Young

7 mars 2023
Tiranë, Shqipëri

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

Mario Vangjel
Auditues Ligjor

TABLE
OF CONTENTS

(All amounts are in thousands Albanian Lek unless otherwise stated)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDING ON 31 DECEMBER 2022

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
Interest and similar income	10	4,099,981	3,176,083
Interest and similar expense	11	(442,945)	(283,345)
Net interest income		**3,657,036**	**2,892,738**
Fee and commission income	12	590,885	517,792
Fee and commission expense	12	(36,071)	(28,026)
Net fee and commission income		**554,814**	**489,766**
Expected credit losses from loans and advances to customers	20	(123,962)	(84,037)
Expected credit losses from advances to Banks, Securities and Off-balance sheet items	13	(105,726)	(8,066)
Total expected credit losses		**(229,688)**	**(92,103)**
Other income, net	17	67,755	232,955
Foreign exchange (losses)/gains		(178,876)	(46,204)
Personnel expenses	14	(908,384)	(794,050)
Impairment of repossessed assets	23	(135,030)	(122,127)
Other Provisions		(8,194)	(54,552)
Amortization of intangible assets	24	(97,924)	(102,766)
Depreciation of property, equipment and right-of-use assets	25	(317,544)	(324,743)
Other operating expenses	15	(1,108,804)	(1,002,243)
		(2,687,001)	**(2,213,730)**
Profit before income tax		**1,295,161**	**1,076,670**
Income tax expense	16	(243,920)	(211,641)
Profit for the year		**1,051,240**	**865,029**
Other comprehensive income:			
Items that may be reclassified subsequently to profit/loss:			
- Net fair value loss on FVOCI financial assets	21	(2,475,592)	(24,951)
- Deferred tax related to fair value gain recorded directly in other comprehensive income	16	371,339	5,125
Other comprehensive expense for the year		**(2,104,253)**	**(19,826)**
Totali i të ardhurave gjithëpërfshirëse për vitin		**(1,053,013)**	**845,203**

Pasqyrat financiare u miratuan nga Drejtimi i Bankës më 8 mars 2023 dhe u nënshkruan në emër të tyre nga:

BANKA E TIRANËS SH.A.

Dritan Mustafa	Elvira Kapoli
Drejtor i Përgjithshëm Ekzekutiv	Drejtuese Financiare

The accompanying notes on pages 5 to 79 form an integral part of these financial statements.

(All amounts are in thousands Albanian Lek unless otherwise stated)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Notes	December 31, 2022	December 31, 2021
ASSETS			
Cash and balances with the Central Bank	**18**	14,560,495	8,808,519
Due from banks	**19**	4,369,487	3,400,028
Loans and advances to customers,	**20**	52,710,061	44,808,715
Financial assets at fair value through other comprehensive income	**21**	24,557,267	30,807,125
Financial assets at amortized cost	**22**	15,100,155	5,587,591
Repossessed assets	**23**	1,156,748	1,536,400
Other assets	**26**	749,974	700,254
Intangible assets	**24**	352,694	401,534
Property, equipment and right-of-use assets	**25**	755,814	1,004,452
Deferred tax assets	**16**	389,111	22,952
TOTAL ASSETS		**114,701,806**	**97,077,570**
LIABILITIES			
Due to banks	**27**	3,921,667	890,898
Due to customers	**28**	97,661,951	82,410,517
Subordinated Debt	**29**	1,650,635	607,176
Other liabilities	**30**	1,432,850	2,106,195
Provisions	**31**	258,232	233,300
TOTAL LIABILITIES		**104,925,335**	**86,248,086**
Equity			
Paid-in capital	**32**	5,917,986	5,917,986
Share premium	**32**	1,735,494	1,735,494
Reserves	**32**	(292,318)	1,768,685
Retained earnings		2,415,309	1,407,319
TOTAL EQUITY		**9,776,471**	**10,829,484**
TOTAL LIABILITIES AND EQUITY		**114,701,806**	**97,077,570**

The financial statements were approved by the Bank's Management on March 8, 2023 and signed on its behalf by:

The accompanying notes on pages 5 to 79 form an integral part of these financial statements.

(All amounts are in thousands Albanian Lek unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022

	Paid-in capital	Share premium	Legal and other reserves	Fair value reserve	Retained Earnings	Total Equity
As at January 1, 2021	**5,917,986**	**1,735,494**	**1,394,292**	**361,805**	**575,205**	**9,984,782**
Transaction with owners recorded directly in equity						
Appropriation of retained profit to legal reserves	-	-	32,413	-	(32,413)	-
Comprehensive income for the year	**5,917,986**	**1,735,494**	**1,426,705**	**361,805**	**542,791**	**9,984,782**
Profit of the year	-	-	**-**	**-**	865,029	865,029
Net change in Reserves for Financial Assets at FVOCI	-	-		(19,826)	-	(19,826)
Total comprehensive income for the year	**-**	**-**	**-**	**(19,826)**	**865,029**	**845,203**
As at December 31, 2021	**5,917,986**	**1,735,494**	**1,426,705**	**341,979**	**1,407,820**	**10,829,484**
Transaction with owners recorded directly in equity						
Appropriation of retained profit to legal reserves	-	-	43,251	-	(43,251)	**-**
Comprehensive income for the year	**5,917,986**	**1,735,494**	**1,469,956**	**341,979**	**1,364,569**	**10,829,484**
Profit of the year	-	-	-	-	1,051,240	**1,051,240**
Net change in Reserves for Financial Assets at FVOCI	-	-	-	(2,104,253)	-	**(2,104,253)**
Total comprehensive income for the year	**-**	**-**	**-**	**(2,104,253)**	**1,051,240**	**(1,053,013)**
As at December 31, 2022	**5,917,986**	**1,735,494**	**1,469,956**	**(1,762,274)**	**2,415,309**	**9,776,471**

Pasqyrat financiare u miratuan nga Drejtimi i Bankës më 8 mars 2023 dhe u nënshkruan në emër të tyre nga:

Dritan Mustafa
Drejtor i Përgjithshëm Ekzekutiv

Elvira Kapoli
Drejtuese Financiare

The accompanying notes on pages 5 to 79 form an integral part of these financial statements.

(All amounts are in thousands Albanian Lek unless otherwise stated)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
OPERATING ACTIVITIES:			
Profit before tax		**1,295,161**	**1,076,670**
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation expense	**24,25**	415,469	427,509
Impairment of reposessed properties	**23**	(44,073)	3,313
Charge for loan loss provisions	**20**	123,962	84,037
Charge of provisions for Banks, Securities, Off- balance sheet and other		113,920	62,618
Interest Income	**10**	(3,898,850)	(3,176,083)
Interest expenses	**11**	442,945	283,345
Changes in operating assets and liabilities			
Compulsory reserve		(1,649,392)	(1,085,859)
Loans and advances banks		687	16
Loans and advances to customers		(7,987,038)	(6,719,236)
Other assets		(15,910)	(211,077)
Repossessed assets		423,725	403,819
Due to banks		3,028,120	(971,407)
Due to customers		15,155,408	10,826,454
Other liabilities		(1,263,305)	1,236,074
Interest received		3,821,993	3,002,515
Interest paid		(338,545)	(263,613)
Income tax paid		(243,661)	(227,620)
Net cash from operating activities		**9,380,616**	**4,582,765**
INVESTING ACTIVITIES:			
Purchases of investment securities		(10,797,104)	(12,558,938)
Proceeds from maturity\sale of securities		5,369,986	6,228,800
Proceeds from sale of PPE and Intangible assets		230,747	81,055
Purchases of intangible assets		(49,083)	(320,546)
Purchases of property and equipment		(299,654)	(459,051)
Net cash used in investing activities		**(5,545,108)**	**(7,028,680)**
FINANCING ACTIVITIES:			
Issuance of subordinated debt	**33**	1,037,736	603,800
Repayment of principal portion of lease liabilities	**25**	189,326	175,355
Net cash for financing activities		**1,227,062**	**779,155**
Net Decrease in cash and cash equivalents		**5,062,570**	**(1,666,760)**
Cash and cash equivalents, beginning of year		**5,741,010**	**7,407,770**
Cash and cash equivalents, end of year	**33**	**10,803,580**	**5,741,010**

The financial statements were approved by the Bank's Management on March 8, 2023 and signed on its behalf by:

(All amounts are in thousands Albanian Lek unless otherwise stated)

1. CORPORATE INFORMATION

Tirana Bank SHA (the "Bank") was founded in 1996 to operate as a bank in all fields of commercial and retail banking activity in Albania. According to article 4 of its Statute, the scope of work of the Bank is to execute, on its behalf or on behalf of third parties, any and every operation acknowledged or delegated by law to banks. Principal activity of the Bank consists in banking and financial activities under a full operating banking licence issued by the Bank of Albania.

Licence was given in accordance with Law No. 8365, "On Banks in the Republic of Albania", dated 2 July 1998, which was subsequently replaced by Law No. 9662 dated 18 December 2006 "On Banks in the Republic of Albania", as amended. The Bank is also subject to Law No. 9901 dated 14 April 2008, "On entrepreneurs and commercial companies", as amended, as well as other relevant laws.

As at December 31, 2022 and 2021 Tirana Bank SHA ownership structure is presented below:

Shareholder	Shares	In %
Balfin shpk	501.975	100%
Totali	**501.975**	**100%**

As at December 31, 2022 the Bank has 33 branches (2021: 35) within the Republic of Albania and has no overseas operations.
The Bank's registered address is Ibrahim Rugova Street, P.O. Box 2400/1, Tirana, Albania. At December 31, 2022 the Bank had 460 employees (as at December 31, 2021: 501 employees).
As at December 31, 2022 and 2021 the Executive Committee is comprised as follows:

Dritan Mustafa	Chief Executive Director
Elvira Kapoli	Chief Financial Officer
Brisilda Bala*	Chief Risk Officer
Eralda Tafaj	Chief Operation Officer
Elona Gjipali	Head of Recovery Division
Manjola Capo	Chief Credit Officer
Lila Canaj	Chief Retail Officer
Glenda Kurti	Head of Corporate Division

**effective on Feb 22*

Principal activity

The Bank's principal business activity is commercial and retail banking operations within the Republic of Albania. The Bank has been operating under a full banking license issued by the Central Bank of the Republic of Albania ("Bank of Albania" or "BoA") since 1996.

2. STATEMENT OF COMPLIANCE

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).
The accounting policies adopted are consistent with those of the previous financial year.

3. PRESENTATION OF FINANCIAL STATEMENTS

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.
Financial assets and financial liabilities are generally reported gross in the statement of financial position except when IFRS netting criteria are met.

4. BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis, except for fair value through other comprehensive income ("FVOCI") financial investments that have been measured at fair value and repossessed collaterals which are measured at the lower of cost and net realizable value. The financial statements are presented in Albanian Lek and all values are rounded to the nearest thousand (LEK '000) except when otherwise indicated.

4. BASIS OF PREPARATION (CONTINUED)

4.1 GOING CONCERN

Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources.
The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern.
The Covid pandemic has contributed to an unprecedented situation in the business environment in Albania. In

response to this situation, the Bank of Albania undertook immediate measures to support the Albanian economy and approved certain measures toward commercial banks to overcome this situation at less negative effects possible.
Bank of Albania has requested specifically that Tirana Bank maintains a minimum capital adequacy ratio of 15%, until February 2022, and a minimum ratio of 13,5% after that date.
The Bank is also monitoring the current situation with the Russia – Ukraine conflict and its impact on the economy particularly in inflationary terms. The Bank has no direct investment exposed to these countries and no large lending clients that have significant business concentrations with them, thus there are no direct risks other than the general economic environment. The Bank has responded with a cautious approach towards exposure in credit losses, and increased alertness towards monitoring of loan portfolios.
The Bank has recognized and prepared itself for the possible negative effects that the last years' developments may present and considered the challenges faced with the required attention.
Since the earthquake of 2019, the pandemic of 2020 and the worldwide effects of the Russia-Ukraine war materialized in high inflation and turbulence in the markets, the Bank has been constantly stress testing its loans and securities portfolios and increase provisions coverage in anticipation of possible increases in defaults.
As a result, the coverage of provision for stage 2 loans has increased from Dec'19: 5.9% to Dec'22: 10.7%, despite the decrease in the share of stage 2 loans over the total portfolio (from Dec'19: 6.3% to Dec'22:5.1%). The strategy is followed with stage 3 exposures for which coverage changed over the last years from Dec'19:36.7% to Dec'22: 50.8% while the share of stage 3 loans decreased over the same time frame (from Dec'19: 11% to Dec'22: 4.5%).
In anticipation of possible increase of defaults due to interest rate increases as result of the restrictive Central Banks' policies in attempt to fight inflation, the Bank continuously performs stress tests and reviews of its exposures to estimate their impact and ensure adequate measures are taken to reduce the possible negative effects of these events. The Bank has realized satisfactory level of profit and it has sufficient capital and liquidity buffers to stand resilient towards any shock presented.
Therefore, the financial statements continue to be prepared on the going concern basis.

5. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

5.1 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Bank has not early adopted any new standards, interpretation or amendments that have been issued but are not yet effective in these financial statements.
Other amendments and interpretations apply for the first time in 2022, but do not have an impact on the Bank's financial statements, briefly described below:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases

(All amounts are in thousands Albanian Lek unless otherwise stated)

- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- AIP IAS 41 Agriculture – Taxation in fair value measurements

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

6.1 FOREIGN CURRENCY TRANSLATION

Functional and presentational currency

The functional and presentation currency of the Bank is Albanian Lek ("Lek"). Lek is the primary currency in the economic environment in which the Bank operates, the Republic of Albania. The amounts presented in these financial statements are rounded to the nearest thousand, unless otherwise stated.

Transactions and balances (continued)

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. The foreign currency gains 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 spot exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies, which are measured at historic cost, are translated using the spot exchange rates as at the date of recognition.

Foreign currency differences arising on translation are generally recognised in profit or loss, except for foreign currency differences arising from the translation of available-for-sale equity instruments, which are recognised in OCI.

The applicable rates of exchange (Lek to foreign currency unit) for the principal currencies as at December 31, 2022 and 2021 were as follows:

	As at December 2022	As at December 2021
USD	**107.05**	**106.54**
EUR	**114.23**	**120.76**

6.2 REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

a) Interest and similar income and expense

Interest and similar income include coupons earned on fixed income investments, any discount and premium on zero coupon treasury bills recognised using in profit or loss the effective interest rate method and interest income on loans and advances. For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018). The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
6.2 REVENUE RECOGNITION (CONTINUED)

b) Fee and commission income

In accordance with IFRS 15, revenue from contracts with customers is recognised when the Bank has fulfilled its performance obligations by transferring the promised services to the customer. Revenue is recognised at an amount reflecting the consideration expected to be received in return.

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

i. Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission account servicing fees, card and E-banking maintenance fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

ii. Fee income from providing transaction services recognised at a point in time
These fees and commission include fees from payment and transfer orders of the customers, and other banking services offered. These fees or components of fees that are linked to a certain performance and are recognised as the related services are performed.

Lending fees
The fees included here include among other things fees charged for servicing a loan, a letter of credit or bank guarantee.
Other fees and commission income and expenses arise on financial services operated by the Bank and are recognized when the corresponding service is provided or received.

6.3 FINANCIAL INSTRUMENTS – INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

a) Date of recognition
Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

b) Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments as described in Note 6.2. Financial instruments are initially measured at fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the bank accounts for the Day 1 profit or loss, as described below.

c) Day 1 profit or loss

When the fair value of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and the fair value in net trading income. In those cases, where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

d) Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost (AC)
- Fair value through other comprehensive income (FVOCI)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading or the fair value designation is applied. See accounting policies 6.3.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.3 FINANCIAL INSTRUMENTS INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT (CONTINUED)

e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

f) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognising). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished. i.e. when the obligation specified in the contract, is discharged, cancelled, or expires.

g) Write-offs

The Bank writes off financial assets in their entirety or a portion thereof when it has exhausted all practical recovery efforts and has no reasonable expectations of recovery. Criteria indicating that that there is no reasonable expectation of recovery include default period, quality of collateral and different stages of enforcement procedures. The Bank may write-off financial assets that are still subject to enforcement activities, but this does not affect its rights in the enforcement procedures. The Bank still seeks to recover all amounts it is legally entitled to in full. Write-off reduces the gross carrying amount of a financial asset and allowance for the impairment. Any subsequent recoveries are credited to credit loss expense.

6.4 DETERMINATION OF FAIR VALUE

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions, a significant decrease in the average daily trading volume of all the shares under consideration in country over the last 5 years, etc.

- Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.

- Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
6.4 DETERMINATION OF FAIR VALUE (CONTINUED)

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other relevant valuation models. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.
The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

6.5 FINANCIAL ASSETS AND LIABILITIES
i. Measurement and classification

Financial instruments are classified as per IFRS 9 rules based on the:
- Bank's business model for managing the financial asset and
- Contractual cash flow characteristics (referred as to as the 'SPPI test').

Based on the above criteria, the Bank classifies financial instruments into one of the following three categories: (a) at Amortized cost (b) at FVOCI and (c) at FVTP
A financial asset (i.e. Due from Banks, Loans and advances to customers, and other financial investments securities) is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Bank has no FVTPL instruments as at reporting date.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The Bank has finalized its business model as well as the SPPI testing and has concluded as below stated:

GOVERNMENT BONDS AND TREASURY BILLS PORTFOLIO

For the Bank's treasury products (bonds and T-bills), the identified business models are the "Hold to collect" and "Hold to collect and sell" that require measurement at fair value through other comprehensive income (FVTOCI) if also the conditions of SPPI test are met.

According to IFRS 9 (4.1.2A), a financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

BUSINESS MODEL ASSESSMENT

FVTOCI financial assets are subsequently measured at fair value with gains and losses arising due to change in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for financial asset is explained in note 6.5 ii). On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Tirana Bank does not maintain securities portfolio for trading purposes therefore, with the objective of actively buying/selling depending on the assets' fair value.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
6.5 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)
i. Measurement and classification (continued)

LOANS AND ADVANCES TO CUSTOMERS

For the Bank's loans and advances to customers' portfolio the business model identified is the "Hold to collect" business model and therefore, loans classified in this business model will be measured at amortized cost if also the conditions of SPPI test are met. Any loans that will fail the SPPI test will be measured at fair value through PL.

According to the IFRS 9 (4.1.2), a financial asset shall be measured at amortized cost if both of the following conditions are met:

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

The Bank's business model is to originate loans and to collect their contractual cash flows. Any sales of financial assets within this business model are carried out due to the loans' credit deterioration and in order to reduce NPE's and NPL's and does not in any case reflect the initial purpose of the lending activity.

Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

Interest rates on retail loans made by the Bank are based on Internal Rates that are set at the discretion of the Bank. In these cases, the Bank assess whether the SFR set are in line with market rates and provide the Bank with sufficient returns to cover for the:

- time value of money,
- credit risk associated with the principal amount outstanding during a particular period of time, and
- other basic lending risks and costs, as well as a profit margin.

All of the Banks retail loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.5 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

ii. Impairment

The Bank has been recording the allowance for expected credit losses for all loans and other financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. This requires estimate over changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

In addition to Financial Assets measured at Amortized Cost, the new impairment model had applied also to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs depending on the assessment of the risk of default in comparison to the moment of initial recognition. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Bank will recognize loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized, will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment-grade’; and

- loans and debt investment securities for which credit risk has not increased significantly since initial recognition hence, they are classified Stage 1.

The impairment requirements of IFRS 9 are complex and require management judgments, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- Estimating the key inputs into ECL, being probability of default (PD), loss given default (LGD and exposure at default (EAD).
- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Inputs in the measurement of ECLs

The main inputs in the measurement of ECLs are likely to be the long-term structure of the following variables: PD, Loss given default (LGD), and Exposure at default (EAD).
These parameters derive from internally developed statistical models and other historical data. They are tailored to reflect future information as described below.
Credit risk levels will be a primary contribution to determining the long-term structure of the PD for exposures. The Bank uses statistical models to analyze the collected data and generate estimates of the remaining PD of the exposures and how these are expected to change over time.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
6.5 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)
ii. Impairment (continued)

• Inputs in the measurement of ECLs (continued)
This analysis includes identifying and calibrating the relationship between changes in default rates and changes in key macroeconomic factors. For most exposures, key macroeconomic indicators are likely to include GDP growth, interest rates unemployment and exchange rate. The Bank's approach to the inclusion of future information in this assessment is discussed below.

- LGD (Loss given default) is the size of the possible loss if the borrower defaults. The Bank assesses LGD's parameters based on the history of recovery rates of claims against defaulted parties. LGD models consider the structure, collateral, seniority of the claim and the recovery costs of any collateral that is part of the financial asset.
- EAD (Exposure at default) represents the expected exposure in the event of a default. The EAD of a financial asset will be the gross carrying amount in default. For lending commitments and financial guarantees, EAD will consider the amount withdrawn as well as future potential amounts that can be drawn or paid under the contract, which are assessed based on historical observations and future projections

The Bank measures ECLs taking into account the risk of default for the maximum contractual period (including the borrower's extension options) over which it is exposed to credit risk. The maximum contractual period lasts until the date on which the Bank has the right to request an advance payment or to terminate a commitment or loan guarantee.
For retail overdrafts and credit card facilities and some rotating corporate structures that include both a loan and a component of unmanaged engagement, the Bank may measure ECLs for a longer period than the maximum contractual period if the contractual ability of the Bank to request repayment and cancellation of non-re-computable commitments does not limit the Bank's exposure to credit losses in the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank may cancel them with immediate effect, but this contractual right does not apply to normal day-to-day management but only when the Bank becomes aware of an increase in credit risk at the facility level.
However, this period will be assessed considering the credit risk management actions that the Bank expects to undertake and serve to mitigate ECLs. These includes a reduction in the limits and cancellation of the facility.

When modelling of a parameter is carried out on a collective basis, financial instruments will be grouped on the basis of common risk characteristics that include:

- type of instrument/customer; and
- credit risk classification.

Clusters are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For investment in debt securities in respect of which the Bank has limited historical data, external reference information published by recognized foreign credit rating agencies such as Moody's are used to supplement available data within the country.

Definition of default

Under IFRS 9, the Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank.

This definition is largely consistent with the definition used for regulatory purposes for loans classified as substandard, doubtful or lost.

Under IFRS 9, the Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.5 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

ii. Impairment (continued)

Inputs in the measurement of ECLs (continued)

The identification of the below characteristics results to default.

a. Days past due (DPD). Exposures more than 90 days past due at the reporting date (using the pulling effect of 20% - at debtor level).
b. Unlikeliness to Pay (UTP)
c. Credit impaired asset as defined in IFRS 9 requirements
d. Forborne Non-Performing Exposures (FNPEs)
e. Forborne Performing Exposures (FPEs) during the probation period (24 months after cure period) for which either additional forbearance measures are extended, or they have more than 90 days past due.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Credit risk grades
The Bank allocates each business exposure to a credit risk grade based on requirements set forth by Credit Risk Management regulation by using qualitative and quantitative factors that are indicative of the risk of default. In addition to the risk classes introduced for regulatory purposes, the Bank identifies and monitors separately standard loans in past due from standard loans not in past due.
Each business exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

DETERMINING WHETHER CREDIT RISK HAS INCREASED SIGNIFICANTLY

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information. The Bank considers both quantitative and qualitative criteria in order to assess whether significant increase in credit risk has occurred.

The quantitative element is calculated based on the change in lifetime PDs by comparing:

- the PD as at the reporting date; with
- the PD that was estimated based on facts and circumstances at the time of initial recognition of the exposure

The bank defines criteria for the relative quantitative increases in PD that are indicative of a significant increase in credit risk.
The Bank has set three kinds of indicators, a) primary, b) secondary and c) backstop to demonstrate the priority of indicators used to assess whether significant increase in credit risk has occurred. Despite their priority, all criteria have the same weight in the assessment process for significant increase in credit risk.

Primary or secondary indicators may vary per each portfolio and include but not limited to relative changes in life time PD, Internal/external rating changes in notches, maximum days past due during the last 6 months, modification of forbearance, while backstop indicator is present on the following conditions:

- Instruments which are more than 30 days past due

All loans showing significant increase in credit risk are classified in Stage 2.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
6.5 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)
ii. Impairment (continued)

- Determining whether credit risk has increased significantly (continued)

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable; and
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired.

FORBORNE AND MODIFIED FINANCIAL ASSETS
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the Bank will consider whether the asset's credit risk has increased significantly by analyzing quantitative and qualitative factors affecting risk of default.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and business loans are subject to the forbearance policy. Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit. Following forbearance, a customer needs to demonstrate consistently good payment behavior over twenty-four months before the exposure is measured at an amount equal to 12-month ECLs.

FORWARD-LOOKING INFORMATION

Under IFRS 9, the Bank has incorporated forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank has formulated a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios and consideration of a variety of external actual and forecast information.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organizations such as the European Commission and the International Monetary Fund, and selected private sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes, such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Bank also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, aiming at continuously testing the relationships between macroeconomic variables and credit risk and credit losses and reverts to expert judgement decisions only when such relationships are not reliably identified, or past relationships are impaired. The key macroeconomic drivers tested are CPI, FX rates, unemployment rates and GDP forecasts over a time horizon of minimum 5 years.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.6 REPOSSESSED ASSETS

In certain circumstances, the collateral is repossessed following the foreclosure on loans that are in default. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred as inventory ("repossessed assets") at which moment they are measured at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy. As inventories, these assets are to be measured at the lowest of cost or net realizable value (IAS 2.9). In order to properly determine whether the net realizable value of these assets has decreased below their cost, the Bank collects various valuation reports from several independent valuators and records the lowest of these valuations for each respective property. Any write-down to net realizable value is recognized as an expense in the period in which write-down occurs. Any reversal is recognized in profit and loss statement in the period in which reversal occurs.

6.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash on hand, current accounts with Central Bank and amounts due from other banks on demand and with an original maturity of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. The statutory reserve with the Central Bank is not available for the Bank's day-to-day operations and is not included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are carried at amortised cost. Further details of what cash and cash equivalents comprises can be found in Note 33.

6.8 REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership.
The corresponding cash received, including accrued interest, is recognised in the statement of financial position as a "Due to Banks", reflecting its economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are recorded as due from other banks or loans and advances to customers, as appropriate. The corresponding cash paid, including accrued interest, is recognised in the

statement of financial position as “Due from Banks”. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
6.9 LEASES

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

i. Bank as a Lessee
The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.
The right-of-use assets are presented within Note 24 Property, equipment and right-of-use assets and are subject to impairment in line with the Bank's policy as described in Note 6.10 Impairment of non-financial assets.

i. Bank as a Lessee (continued)
LEASE LIABILITIES

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments, less any lease incentives receivable. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate.

ii. Bank as a Lessor

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

6.10 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSET

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Right-of-use assets are presented together with property and equipment in the statement of financial position – refer to the accounting policy in Note 6.10. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Own Buildings: up to 20 years
- Furniture and other equipment: 5 years
- Vehicles: 5 years
- Computer hardware: 4 years
- Leasehold improvements: the shorter of useful life and lease term

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Other operating income" or "Other operating expenses" in profit or loss in the year the asset is derecognised.

6.11 INTANGIBLE ASSETS

Intangible assets are stated at cost less accumulated amortization and any impairment losses. Amortization is calculated on a straight-line basis over the expected useful life of the asset. The estimated useful live for the current and comparative periods are as follows:

	in years
• IT software and applications	4-10

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.12 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, and inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rate basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

6.13 FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in profit or loss the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is taken to profit or loss under other operating expenses.

Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight - line basis over the life of the commitment.

6.14 DEBT ISSUED AND OTHER BORROWED FUNDS

Subordinated debt issued is recognized initially on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. The Bank recognizes subordinated bond liabilities when funds are transferred to the Bank. After initial measurement, subordinated debt issued is subsequently measured at amortised cost. Transaction costs are recognized in profit or loss when they occur. Interest expense is calculated at the nominal interest rate and recognized in profit or loss when calculated. Interest accrued but not due is transferred to the income account and is recognized as an asset or liability in the "accrued interest" account.

6.15 EMPLOYEE BENEFITS

The Bank contributes to its employees post retirement plans as prescribed by the domestic social security legislation. Bank's pension obligations relate only to defined contribution plans. Defined contribution plans, based on salaries, are made to the state administered institution (i.e. Social Security Institute) responsible for the payment of pensions. Once the contributions have been paid, the Bank has no further payment obligations. The contributions constitute net periodic costs for the year in which they are due and as such they are included in "Personnel expenses" in the statement of comprehensive income. The bank does not have any pension plans in scope of IAS 19.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.16 PROVISIONS

A provision is recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

6.17 INCOME TAX

Income taxes have been provided for in the financial statements in accordance with Albanian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of comprehensive income except if it is recognised in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income.

CURRENT TAX

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date 2022:15% (2021: 15%).

DEFERRED TAX

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.18 EQUITY

Income taxes have been provided for in the financial statements in accordance with Albanian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of comprehensive income except if it is recognised in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income.

7. TANDARDS ISSUED BUT NOT YET EFFECTIVE

The following amendments are effective for the periods after 31 December 2022 and are not expected to have a material impact on the Bank.

- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments). The amendment introduces new guidance on application of materiality concept and in particular amends the requirement to disclose material accounting policies in place of current requirement to disclose significant accounting policies. The amendment may lead to removal of disclosure of non-material accounting policies.
- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments). The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The effect of these amendments is subject to the nature of future changes in policies and estimates.
- IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments) -The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning

liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The amendment may have an impact on lease accounting by the bank where the recognition of lease liability and right of use assets typically give rise to temporary differences that are almost equal.

- IFRS 17: Insurance Contracts - The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The Bank does not issue contracts in scope of IFRS 17; therefore its application does not have an impact on the Bank's financial performance, financial position or cash flows.
- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments). The amendment has introduced certain clarifications related to classification in cases of rights to defer settlement or compliance with covenants. The Bank presents its assets and liabilities in order of liquidity however it does provide current vs non-current disclosures in the notes. As a result, the impact of the amendment is expected to be limited.
- IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)- No impact is expected from the amendment as the Bank rarely enters in such transactions.
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. These standards do not apply to the Bank as it has no consolidated financial statements nor any investments in associates.

8. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Bank makes estimates and judgments that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades.
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
- LGD of government securities is determine from specific LGD referring to defaults of sovereign debts belonging to governments having similar rating to the governments which the securities of the Bank belong to;
- specific counterparty-related PDs reflects the risk of the counterparty.
- LGD of other non-sovereign papers represents LGD of the specific security.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.
The moratoria in response to Covid-19, to the extent they were not borrower specific but rather addressed to broad ranges of product classes and customers, have not been automatically classified as forbearance measures, as for IFRS 9 and the definition of default.
The above has not removed the obligation of the Bank to assess the credit quality of the exposures and therefore identify situations of unlikeness to pay of the borrowers, which has been reflected in stage classification accordingly.
The terms offered under the moratoria did not necessarily lead to a reclassification of any loan under the definition of forbearance, as either performing or non-performing forborne, as the definition of forbearance is designed to be reported when credit institutions offer specific measures to help a specific borrower who is experiencing or likely to experience temporary financial difficulties with their repayment obligations. The individual assessment of the borrower's financial difficulties and granting measures tailored to this financial situation of that borrower are at the core of the default definition.
Considering the characteristics of the pandemic and the related moratoria, the Bank has not followed a general practice of automatic re-classification of customers benefiting from moratoria at lower stages, as these treatments have not been recognized as forbearance measures. The Bank has reclassifying at lower stages customer for which the financial situation was expected to be significantly affected and therefore the credit risk significantly increased even following the implementation of the moratoria, while it has materially increased the FLI parameter for potential defaults during year 2021, following with a revision for 2022 at a

lower magnitude and continuing for 2023 at the same levels, given the performance of its loans' portfolio during the year 2022 and the expectations for the following year. .
It was noted that the FLI for year 2022 was not materialized to the expected extend in increases of the probability of default and the quality of the loans portfolio has been kept at good levels. The Bank has performed its estimations considering the latest developments with reference to the Ukraine-Russia war, the inflation and the interest rate evolution, and performed respective stress tests, concluding that the FLIs of 2022 are valid as well for year 2023. Estimation of possible performance has been based both on individual level and collective assessments, identifying customers who may be more sensible to the macroeconomic changes including interest rate evolutions, and their impact on the overall loans portfolio quality. The Bank considers that the implemented FLIs for year 2023 cover bank's expectations in the baseline and more adverse scenario.

8. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(B) FAIR VALUE OF FINANCIAL INSTRUMENT

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 6.4 and Note 9.4

(C) TAX EXPOSURES

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(D) DEFERRED TAX ASSETS
Deferred tax assets are recognised in respect of temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

(E) LITIGATION RISK
The Bank Management has established an internal process with respect to recognition and measurement of provisions and contingencies due to actual or threaten litigations. Key assumptions about the likelihood and magnitude of an outflow of resources are based on the internal and external legal advice following the respective successful defense strategies against resulting actions. Each action and corresponding risk are assessed on its merits and the underlying constructive or legal obligation and the estimate of cash outflows considered payable. Management believes, that existing or potential future litigation are remote, however due to causes beyond legal background and framework further risks might be triggered.

(F) DETERMINATION OF THE LEASE TERM FOR LEASE CONTRACTS WITH RENEWAL AND TERMINATION OPTIONS (BANK AS A LESSEE)
The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.
After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

(G) ESTIMATING THE INCREMENTAL BORROWING RATE
The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (‘IBR’) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank ‘would have to pay’, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

9. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by an independent risk department in the Bank under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as, credit risk, foreign exchange risk, interest rate risk and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The Bank is exposed to credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate and other price risk. It is also subject to country risk and various operating and business risks.

9.1. CREDIT RISK

Credit risk is the risk of loss for the Bank, arising from the potential failure of counterparty to meet its contractual obligations. Tirana Bank analysis the full spectrum of credit risk including its sub-categories such as lending risk, counterparty risk, issuer risk, settlement risk, concentration risk, foreign currency lending risk, sovereign risk and residual risk. Such assessment is translated into the internal evaluation of the capital need for credit risk. Credit risk is the most material risk for the bank requiring the major part of the minimum capital and it mainly derives from lending activities (loans and advances) to customers and investments in debt securities as presented in its structure of the balance sheet. On and off-balance sheet exposures are analyzed in terms of the possible loss they can produce and provisioned accordingly as per the documented provisioning methodologies approved by the Board of Directors.

The Bank's Corporate Governance principles ensure proper allocation of responsibility and accountability based on the risk origination, aiming to align the risk-taking process with the risk appetite. The Bank's exposure to credit risk is regularly monitored in relation to the approved risk appetite ensuring that the risk profile of the Bank stays within the acceptable levels. Deviations, if any, from the risk appetite are escalated according to the Board of Directors.

The main targets of the Bank's Credit Risk Management are to:
1. Set centralized policies in compliance with Central Bank requirements.
2. Monitor the Bank's portfolio exposed to credit risk.
3. Managing risk pro-actively to identify and analyse risk at an early stage
4. Create risk management function independent of commercial lines of the business
5. Integrate the risk management function into the organizational business process
6. Report on risk across the organization

The Audit Committee and Internal Auditing Department follow up the compliance with policies and procedures.

9.1.1. CREDIT RISK MEASUREMENT

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The procedures described below relate to credit risk measurements for operational purpose as well as for reporting under local regulatory and legislative requirements. Impairment losses on loans and advances for financial reporting are determined based on the procedures described in Note 9.1.3.

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

9.1. CREDIT RISK (CONTINUED)

9.1.1. CREDIT RISK MEASUREMENT (CONTINUED)

(A) LOANS AND ADVANCES

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the ‘probability of default’ by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the ‘exposure at default’; and (iii) the likely recovery ratio on the defaulted obligations (the ‘loss given default’).

The Bank assesses the probability of default of individual business counterparties through analysis of defaults within groups with similar characteristics. Therefore, the Bank utilizes an internal grading for Business customers which are grouped in five bigger categories. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. With reference to exposures towards Banks and Governments, the Bank uses mainly the ratings produced by external rating agencies, specifically Moody's, and therefore the specific probability of default of the counterparty as retrieved from Moody's assessments.

Bank's internal grading groups:
- Excellent
- Satisfactory
- Weak
- Special Mention
- Default

Excellent Group:
Refers to companies that present excellent performance to the following criteria:
- structure and quality of assets
- equity base and strong capacity to raise additional capital
- stable and recurring profitability
- liquidity and cash flow generation
- capable and effective management
- dominant position in an industry manifesting positive medium-term prospects

It is estimated that the company's ability to honor short-term obligations will be minimally impaired by any temporary adverse conditions in the economic and business environment.

Satisfactory Group:
It includes three internal ratings specifically: Strong, Good and Satisfactory. This group refers to companies that present strong, good and satisfactory performance to the following criteria:
- structure and quality of assets
- equity base and capacity to raise additional capital

- recurring profitability
- liquidity and cash flow generation
- management
- position in an industry and medium-term prospects

It is estimated that the company's ability to honour short -term obligations will be impaired to a small/ controllable degree by any temporary adverse conditions in the economic and business environment.

Weak Group:
It includes three internal ratings specifically: Adequate, Weak and Poor. This group refers to companies that present adequate, weak and poor performance to the following criteria:
- structure and quality of assets
- equity base (probably impaired capacity to raise additional capital, weak or negative net worth)
- marginal, non-recurring profitability
- deteriorated or restricted liquidity and cash flow generation
- managerial weaknesses
- Participation in an industry manifesting fluctuation or with deteriorating conditions and prospects

It is estimated that any temporary adverse conditions in the economic and business environment, will probably lead to conditional honoring of obligations or the customer has relatively high probability of default / inability to honor obligations.

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.1. CREDIT RISK MEASUREMENT (CONTINUED)
(A) LOANS AND ADVANCES (CONTINUED)

Special mention Group:
Refers to companies that present:
- material deterioration of financials
- material adverse conditions towards the industry to which they participate
- undesirable changes in shareholder or management structure or serious managerial problems
- events requiring special attention (fire, flood, strikes, forced auction of assets, reduction on security value etc.)
- high probability of default / inability to honor obligations
- Early delinquency (up to 90 days) Interest-accruing claim.

Default Group:

It includes three internal ratings specifically: Distressed Restructuring, Substandard and Doubtful/Lost.

Distressed restructuring internal rating

Usually refers to borrowers with facilities already categorized as Temporarily Delinquent over ninety (90) days (Substandard) and of Permanently Delinquent (Doubtful / Loss), which are subsequently restructured by Bank's decision or Ministerial Decree or Law. Also, refers to companies whose credit facilities, even if not classified as Temporarily Delinquent over ninety (90) days (Substandard) or Permanently Delinquent (Doubtful / Loss), have been restructured in such a way that the restructuring leads to a reduction of the economic value of the Bank's exposure (distressed restructuring).

Indicatively, the following cases of distressed restructuring are mentioned:

- Restructuring of debt repayment terms (i.e. interest rate reduction, extension of tenor) to a level that the Bank, under usual circumstances, would not grant to customers with similar creditworthiness.
- Reduction of the amount of the Bank's receivable with simultaneous recognition of loss or corresponding specific provision.

Within the framework of a debt restructuring and on special occasions, the authorized approving body may consider additional financing. Interest-accruing or non-interest-accruing claim, according to the Bank's decision.

Substandard internal rating

Refers to companies that manifest delinquency over ninety (90) days, expected to be settled in a short period of time, without recourse to judicial actions.

Companies can be also classified as Substandard if they manifest high probability of default / inability to comply with their obligations (subjective criteria); still the Bank does not need to rely on judicial actions.

The full settlement of debt obligation is under question, while further downgrading is possible

Interest-accruing or non-interest-accruing claim, according to the Bank's decision.

Doubtful/Lost internal rating

Refers to companies that manifest i) delinquency over 90 days judged to be permanent with judicial action deemed necessary and ii) companies that even if they have not yet defaulted on their debt obligations, it is considered certain that they will do so in the near future, while liquidation of any exposure is expected through legal action by liquidating all kinds of collateral/ security that the Bank has in its possession including the bankruptcy of the debtor.

High probability of partial recovery of claim due to non-existence of adequate sources of repayment or partial coverage from the existing collateral / security, or total loss of it. Non-interest accruing claim.

Probabilitet i lartë i rikuperimit të pjesshëm të dëmit për shkak të mosekzistencës së burimeve të pranueshme të shlyerjes ose mbulimit të pjesshëm nga kolaterali/siguria ekzistuese, ose humbje totale e tij. Pretendim pa akumulim interesi.

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.1. CREDIT RISK MEASUREMENT (CONTINUED)

(B) DEBT SECURITIES AND OTHER BILLS
For debt securities and other bills, the risk department for managing of the credit risk exposures uses ratings depending on the issuer. The investments in investments in Albanian Government Bonds and Treasury Bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

9.1.2. RISK LIMIT CONTROL AND MITIGATION POLICIES
The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors. For concentration by industry is disclosed in Note 20.

As at 31 December 2022, the top - 20 groups of clients of the Bank have an exposure of Lek 20,389 milion (2021: Lek 9,842 milion) which represents 37% of the gross portfolio (2021: 21%), with the largest single exposure representing 3.5% (2021: 5.1%).

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Some other specific control and mitigation measures are outlined below.

i. Collateral
The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Cash, banks and first-class companies' guarantees;
- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Loans to corporate entities and individuals are generally secured; over drafts and credit cards issued to individuals are secured mostly by cash deposits and collateral in cases of credit customers at the full amount of principal, interest and other charges. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Refer to note 9.1.6.
Debt securities, treasury and other eligible bills are generally unsecured.

ii. Credit-related contingencies
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans and are secured with same collateral as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Refer to note 9.1.5 and note 37.

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.3. IMPAIRMENT AND PROVISIONING POLICIES

The Bank shall recognize a loss allowance for expected credit losses on a financial asset, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply.

The financial assets which are subject to impairment calculation are the following:
a. financial assets measured at amortised cost (Note 22)
b. financial assets measured at fair value through other comprehensive income (Note 21)
c. lease receivables (Note 22)
d. loan commitments to provide a loan at a below-market interest rate financial guarantee contracts (Note 37)

The Bank is required to 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.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the Bank expects to be paid in full but later than when contractually due.

9.1.3.1. SIGNIFICANT INCREASE IN CREDIT RISK
At each reporting date, the Bank shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Bank shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, a comparison of the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition should be done and reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition should be considered.

The credit risk on a financial instrument is considered low, if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. Financial instruments are not considered to have low credit risk when they are regarded as having a low risk of loss simply because of the value of collateral and the financial instrument without that collateral would not be considered low credit risk. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the Bank's other financial instruments or relative to the credit risk of the jurisdiction within which the Bank operates.
If reasonable and supportable forward-looking information is available without undue cost or effort, the Bank cannot rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, the Bank may use past due information to determine whether there have been significant increases in credit risk since initial recognition. Regardless of the way in which a Bank assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Bank can rebut this presumption if it has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. When it determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply.

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.3. IMPAIRMENT AND PROVISIONING POLICIES (CONTINUED)
9.1.3.2. TIMING OF EXPECTED CREDIT LOSSES MEASUREMENT

At each reporting date, the Bank measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

In case, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses should be measured.

9.1.3.3 ISSUES RELATED TO EXPECTED CREDIT LOSSES CALCULATION
9.1.3.3.1 DERECOGNITION

Before evaluating whether, and to what extent, derecognition is appropriate, the Bank determines whether derecognition should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety, as follows:

a. Derecognition is applied to a part of a financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions.
   i. The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets).
   ii. The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets).
   iii. The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).
b. In all other cases, derecognition is applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety).

The Bank shall derecognize a financial asset when, and only when:
a. the contractual rights to the cash flows from the financial asset expire, or
b. it transfers the financial asset and the transfer qualifies for derecognition.

On derecognition of a financial asset in its entirety, the difference between:
a. the carrying amount (measured at the date of derecognition) and
b. the consideration received (including any new asset obtained less any new liability assumed) shall be recognised in profit or loss.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognised and the part that is derecognised, on the basis of the relative fair values of those parts on the date of the transfer. For this purpose, a retained servicing asset shall be treated as a part that continues to be recognised. The difference between:
a. the carrying amount (measured at the date of derecognition) allocated to the part derecognised and
b. the consideration received for the part derecognised (including any new asset obtained less any new liability assumed) shall be recognised in profit or loss.

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

9.1. CREDIT RISK (CONTINUED)

9.1.3. IMPAIRMENT AND PROVISIONING POLICIES (CONTINUED)

9.1.3.3 ISSUES RELATED TO EXPECTED CREDIT LOSSES CALCULATION (CONTINUED)

9.1.3.3.2. POCI (PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS)

For purchased or originated credit-impaired financial assets, expected credit losses shall be discounted using the credit-adjusted effective interest rate determined at initial recognition.

At the reporting date, the Bank shall only recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

At each reporting date, the Bank shall recognise in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. The Bank recognises favorable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

9.1.3.3.3. CREDIT IMPAIRED FINANCIAL ASSETS

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

a. significant financial difficulty of the issuer or the borrower;
b. a breach of contract, such as a default or past due event;
c. the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d. it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.
e. the disappearance of an active market for that financial asset because of financial difficulties; or
f. the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.

9.1.3.3.4. COLLECTIVELY VS INDIVIDUALLY

In order to meet the objective of recognizing lifetime expected credit losses for significant increases in credit risk since initial recognition, it may be necessary to perform the assessment of significant increases in credit risk on a collective basis by considering information that is indicative of significant increases in credit risk on, for example, a group or sub-group of financial instruments. This is to ensure that the Bank meets the objective of recognizing lifetime expected credit losses when there are significant increases in credit risk, even if evidence of such significant increases in credit risk at the individual instrument level is not yet available.

Lifetime expected credit losses are generally expected to be recognized before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example, a modification or restructuring) are observed. Consequently, when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk.

However, depending on the nature of the financial instruments and the credit risk information available for particular groups of financial instruments, the Bank may not be able to identify significant changes in credit risk for individual financial instruments before the financial instrument becomes past due. This may be the case for financial instruments such as retail loans for which there is little or no updated credit risk information that is routinely obtained and monitored on an individual instrument until a customer breaches the contractual terms. If changes in the credit risk for individual financial instruments are not captured before they become past due, a loss allowance based only on credit information at an individual financial instrument level would not faithfully represent the changes in credit risk since initial recognition.

In some circumstances the Bank does not have reasonable and supportable information that is available without undue cost or effort to measure lifetime expected credit losses on an individual instrument basis. In that case, lifetime expected credit losses shall be recognized on a collective basis that considers comprehensive credit risk information. This comprehensive credit risk information must incorporate not only past due information but also all relevant credit information, including forward-looking macroeconomic information, in order to approximate the result of recognizing lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition on an individual instrument level.

For the purpose of determining significant increases in credit risk and recognizing a loss allowance on a collective basis, the Bank groups the financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. The Bank should not obscure this information by grouping financial instruments with different risk characteristics.

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.3. IMPAIRMENT AND PROVISIONING POLICIES (CONTINUED)
9.1.3.3 ISSUES RELATED TO EXPECTED CREDIT LOSSES CALCULATION (CONTINUED)
9.1.3.3.5. PROBABILITY-WEIGHTED OUTCOME

The purpose of estimating expected credit losses is neither to estimate a worst-case scenario nor to estimate the best-case scenario. Instead, an estimate of expected credit losses shall always reflect the possibility that a credit loss occurs and the possibility that no credit loss occurs even if the most likely outcome is no credit loss.

9.1.4. CREDIT QUALITY

The below tables show information about the credit quality of Financial Assets measured at Amortized Cost:

i. Cash and Balances with Central Bank

	As at December 31, 2022				
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard	12,771,640	-	-	-	12,771,640
Special monitoring, substandard Doubtful and Lost	-	-	-	-	-
Total Gross Balances	**12,771,640**	**-**	**-**	**-**	**12,771,640**
Standard	78	-	-	-	78
Special monitoring, substandard Doubtful and Lost	-	-	-	-	-
Total Allowance	**78**	**-**	**-**	**-**	**78**
Balances Net of Impairment	**12,771,562**	**-**	**-**	**-**	**12,771,562**

	As at December 31, 2022				
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard	6,937,407	-	-	-	6,937,407
Special monitoring, substandard Doubtful and Lost	-	-	-	-	-
Total Gross Balances	**6,937,407**	**-**	**-**	**-**	**6,937,407**
Standard	25	-	-	-	25
Special monitoring, substandard Doubtful and Lost	-	-	-	-	-
Total Allowance	**25**	**-**	**-**	**-**	**25**
Balances Net of Impairment	**6,937,382**	**-**	**-**	**-**	**6,937,382**

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
ii. Due from banks

					As at December 31, 2022
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard	4,369,534	-	-	-	4,369,534
Special monitoring, substandard Doubtful and Lost	-	-	-	-	-
Total Gross Balances	**4,369,534**	**-**	**-**	**-**	**4,369,534**
Standard	47	-	-	-	47
Special monitoring, substandard Doubtful and Lost	-	-	-	-	-
Total Allowance	**47**	**-**	**-**	**-**	**47**
Balances Net of Impairment	**4,369,487**	**-**	**-**	**-**	**4,369,487**

					As at December 31, 2021
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard	3,400,124	-	-	-	3,400,124
Special monitoring, substandard Doubtful and Lost	-	-	-	-	-
Total Gross Balances	**3,400,124**	**-**	**-**	**-**	**3,400,124**
Standard	95	-	-	-	95
Special monitoring, substandard Doubtful and Lost	-	-	-	-	-
Total Allowance	**95**	**-**	**-**	**-**	**95**
Balances Net of Impairment	**3,400,028**	**-**	**-**	**-**	**3,400,028**

(All amounts are in thousands Albanian Lek unless otherwise stated)

iii. Loans and advances to Customers

	As at December 31, 2022				
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard (only Retail)	16,189,317	458,134	94,345	-	16,741,796
Excellent	7,543,428	225,238	-	-	7,768,666
Satisfactory	22,116,793	488,735	-	-	22,605,528
Weak	3,591,221	563,041	1,448	-	4,155,710
Special mention	28,858	1,031,400	286,719	-	1,346,977
Default	-	-	2,077,677	-	2,077,677
Total Gross Balances	**49,469,617**	**2,766,548**	**2,460,189**	**-**	**54,696,354**
Standard (only Retail)	96,228	64,193	20,222	-	180,643
Excellent	2,566	68	-	-	2,634
Satisfactory	209,717	9,673	-	-	219,390
Weak	126,649	40,510	77	-	167,236
Special mention	277	182,134	84,682	-	267,093
Default	-	-	1,149,297	-	1,149,297
Total Allowance	**435,437**	**296,578**	**1,254,278**	**-**	**1,986,293**
Balances Net of Impairment	**49,034,180**	**2,469,970**	**1,205,911**	**-**	**52,710,061**

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.4. CREDIT QUALITY (CONTINUED)

					As at December 31, 2021
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard (only Retail)	14,015,608	242,514	96,100	-	14,354,222
Excellent	1,948,095	-	-	-	1,948,095
Satisfactory	22,772,389	219,287	-	-	22,991,676
Weak	2,832,428	917,443	42,043	-	3,791,914
Special mention	649,452	729,186	290,832	-	1,669,470
Default	-	-	2,061,968	-	2,061,968
Total Gross Balances	**42,217,972**	**2,108,430**	**2,490,943**	**-**	**46,817,345**
Standard (only Retail)	147,135	37,744	16,452	-	201,331
Excellent	596	-	-	-	596
Satisfactory	166,841	10,064	-	-	176,905
Weak	94,527	20,230	26,168	-	140,925
Special mention	112,833	148,492	77,502	-	338,827
Default	-	-	1,150,045	-	1,150,045
Total Allowance	**521,932**	**216,530**	**1,270,167**	**-**	**2,008,629**
Balances Net of Impairment	**41,696,040**	**1,891,900**	**1,220,776**	**-**	**44,808,716**

The internal rating systems described in Note 9.1.1 focus more on credit-quality mapping from the inception of the lending and investment activities. The impairment provision shown in the balance sheet at year-end is derived from each of the six internal rating grades. However, the majority of the impairment provision comes from two grades, Standard and Satisfactory.

(All amounts are in thousands Albanian Lek unless otherwise stated)

The table below shows the percentage of the Bank's on-balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's Internal rating

	2022		2021	
	Loans and advances (%)	**Impairment provision level (%)**	**Loans and advances (%)**	**Impairment provision level (%)**
Standard (only Retail)	31%	9%	31%	10%
Excellent	14%	0%	4%	0%
Satisfactory	41%	11%	49%	9%
Weak	8%	8%	8%	7%
Special mention	2%	13%	4%	17%
Default	4%	58%	4%	57%
Total	**100**		**100**	

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

9.1. CREDIT RISK (CONTINUED)

9.1.5. MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

	Maximum exposure	
	2022	**2021**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with Central Bank	12,771,562	6,937,382
Due from banks	4,369,487	3,400,028
Loans and advances to customers:		
Loans to individuals		
− Consumer/Overdrafts	3,333,474	3,449,628
− Credit cards	200,232	163,132
− Mortgages	13,597,812	11,169,915
	17,131,518	**14,782,675**
Loans to corporate entities:		
− Large corporate customers	29,331,518	24,582,537
− Small and medium size enterprises (SMEs)	6,247,025	5,443,503
	35,578,543	**30,026,041**
Total loans and advances to customers	**52,710,061**	**44,808,715**
Financial assets at fair value through OCI	24,557,267	30,807,125
Financial assets at amortized cost	15,100,155	5,587,591
Other financial assets (Note 20)	375,830	349,208
Credit risk exposures relating to off-balance sheet items are as follows:		
Loans Commitment	8,733,919	6,664,855
Letters of Guarantees	2,075,300	1,169,806
Letters of Credit	768,880	116,413
At 31 December	**120,942,720**	**99,841,124**

The above table represents a worst-case scenario of credit risk exposure to the Bank at December 31, 2022 and 2021, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

(All amounts are in thousands Albanian Lek unless otherwise stated)

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- 96.20% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2021: 95.6 %);
- Loans to SMEs, which represents the biggest group in the portfolio, are backed by collateral;
- 83.77% of the loans and advances portfolio are considered to be neither past due nor impaired (2021: 86.11 %); and
- The Bank has introduced a more stringent selection process upon granting loans and advances.

Changes and movement between risk categories are further detailed in Note 20.
Loans and advances are summarized as follows:

	December 31, 2022		December 31, 2022	
	Loans and advances to customers	**Due from banks**	**Loans and advances to customers**	**Due from banks**
Performing	45,818,693	4,369,534	40,314,737	3,400,124
Past due but not impaired	6,604,049	-	4,547,458	-
Individually impaired	2,273,612	-	1,955,150	-
Gross	**54,696,354**	**4,369,534**	**46,817,345**	**3,400,124**
Less: allowance for impairment	(1,986,293)	(47)	(2,008,629)	(95)
Carrying amount	**52,710,061**	**4,369,487**	**44,808,715**	**3,400,028**

Further information of the allowance for impairment of Due from banks and Loans and advances to customers is provided in Notes 19 and 20.

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

9.1. CREDIT RISK (CONTINUED)

9.1.6. LOANS AND ADVANCES

A) LOANS AND ADVANCES NEITHER PAST DUE NOR IMPAIRED

The credit quality of the portfolio of loans and advances that were neither past due nor impaired (classified as standard) as at 31 December 2022 and 31 December 2021 can be assessed by reference to the internal rating system adopted by the Bank, as follows:

			Individual (retail customers)
	Consumer/ Overdrafts	**Credit cards**	**Mortgages**
Gross carrying amount	2,862,157	171,393	11,425,986
Less: allowance for impairment	(77,603)	(8,285)	(38,419)
Net carrying amount	**2,784,554**	**163,108**	**11,387,567**

			Individual (retail customers)
	Consumer/ Overdrafts	**Credit cards**	**Mortgages**
Gross carrying amount	2,994,698	149,159	9,126,853
Less: allowance for impairment	(75,250)	(5,222)	(62,190)
Net carrying amount	**2,919,448**	**143,937**	**9,064,663**

(All amounts are in thousands Albanian Lek unless otherwise stated)

			December 31, 2022
			Loans and advances to customers
	Corporate entities		
Large corporate customers	**SMEs**	**Total Loans and advances to customers**	**Due to Banks**
26,440,456	4,918,894	**45,818,886**	**4,369,534**
(277,797)	(50,785)	**(452,889)**	**(47)**
26,162,659	**4,868,109**	**45,365,997**	**4,369,487**

			December 31, 2022
			Loans and advances to customers
	Corporate entities		
Large corporate customers	**SMEs**	**Total Loans and advances to customers**	**Due to Banks**
23,237,606	4,806,421	40,314,737	**3,400,124**
(232,074)	(46,890)	(421,626)	**(95)**
23,005,532	**4,759,531**	**39,893,111**	**3,400,028**

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.6. LOANS AND ADVANCES (CONTINUED)

Loans and advances in the Weak and Special mention grades were considered not to be impaired after taking into consideration the recoverability from collateral for retail customer mortgage and consumer loans.

B) LOANS AND ADVANCES PAST DUE BUT NOT IMPAIRED

Past due but not impaired loans refer to loans that show past dues, but they are not material enough to be classified as impaired neither in terms of days past due nor in amounts.

Gross amount of loans and advances that are past due but not impaired:

		Corporate and SMEs
	December 31, 2022	**December 31, 2022**
Past due 1 up to 30 days	3,127,529	1,093,068
Past due 31-90 days	730,840	667,998
Past due > 90 days	9,241	117,582
Total	**3,867,610**	**1,878,648**
Fair value of collateral	**2,228,610**	**1,863,961**
Total loans and advances past due but not impaired at December 31	**6,604,049**	**4,547,458**

				December 31, 2022
				Individual (retail customers)
	Consumer/ Overdrafts	**Mortgages**	**Visa Card**	**Total**
Past due 1 up to 30 days	427,324	1,867,903	30,059	**2,325,286**
Past due 31-90 days	96,019	281,887	11,061	**388,967**
Past due > 90 days	-	22,187	-	**22,187**
Total	**523,343**	**2,171,977**	**41,120**	**2,736,440**
Fair value of collateral	**319,774**	**1,708,921**	**-**	**2,028,695**

				December 31, 2021
				Individual (retail customers)
	Consumer/ Overdrafts	**Mortgages**	**Visa Card**	**Total**
Past due 1 up to 30 days	409,679	1,678,143	15,350	**2,103,172**
Past due 31-90 days	109,774	355,441	3,573	**468,788**
Past due > 90 days	-	96,850	-	**96,850**
Total	**519,453**	**2,130,434**	**18,923**	**2,668,810**
Fair value of collateral	**238,398**	**1,863,183**	**-**	**2,101,581**

There are no loans and advances to banks as at December 31, 2022 and 2021, which are past due but not impaired.

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.6. LOANS AND ADVANCES (CONTINUED)

C) LOANS AND ADVANCES IMPAIRED

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	Consumer and Visa Cards	Mortgage	Corporate and SMEs	Total
December 31, 2022				
Individually impaired loans	59,838	-	1,466,867	1,526,705
Fair value of collateral	**-**	**-**	**-**	**-**
December 31, 2021				
Individually impaired loans	28	-	1,233,822	1,233,850
Fair value of collateral	-	-	**1,206,032**	**1,206,032**

The breakdown of the gross amount of collectively impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	Consumer and Visa Cards	Mortgage	Corporate and SMEs	Total
December 31, 2022				
Collectively impaired loans	248,657	234,761	263,490	746,907
Fair value of collateral	**90,665**	**235,375**	**215,192**	**541,232**
December 31, 2021				
Collectively impaired loans	270,076	220,116	231,108	721,300
Fair value of collateral	**193,262**	**171,937**	**127,067**	**492,266**

The disclosed fair value of collateral is determined by local certified valuators and represents value realizable by the legal owners of the assets. Management considers the loans covered by collateral on corporate loans as impaired because experience shows that a significant proportion of the collateral on corporate loans cannot be enforced due to administrative and legal difficulties such as such as decrease of collateral value at auctions administered by bailiff office, time necessary for collaterals to be enforced. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans. Despite difficulties in enforcing repossession of collateral, the Bank's management will vigorously pursue the outstanding debts with all possible means at their disposal.

There are no individually impaired due from banks as at December 31, 2022 and 2021.

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

9.1. CREDIT RISK (CONTINUED)

9.1.6. LOANS AND ADVANCES (CONTINUED)

C) LOANS AND ADVANCES IMPAIRED (CONTINUED)

i) Analysis of stage 2 loans reflecting the criteria for inclusion in stage 2

An analysis of stage 2 balances at the reporting date reflecting the reasons for inclusion in stage 2 by class of loans and advances to customers (gross carrying amount and corresponding ECL) is presented below. For the purposes of this analysis, where balances satisfy more than one criterion for determining a significant increase in credit risk, the corresponding gross carrying amount and ECL have been assigned in the order of the categories presented, for example, accounts with PD deterioration may also trigger backstops, but are only reported under "PD movement" The indicators of significant increases in credit risk (SICR) are explained in Note 6.5. ii)

	Corporate lending		SME		Consumer lending		Mortgage		Total	
31-Dec-22	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
Less than 30dpd	852,042	22,419	417,104	40,819	86,826	35,017	341,761	34,065	1,697,733	132,320
- PD movement	36,120	2,275	124,533	24,011	10,221	1,672	74,216	2,849	245,089	30,806
- Forbearance support provided	510,571	16,076	75,985	10,809	-	-	-	-	586,557	26,884
- Other qualitative reasons	305,352	4,068	216,585	6,000	76,605	33,346	267,545	31,216	866,087	74,629
More than 30 dpd	**536,586**	**103,312**	**225,256**	**13,554**	**84,446**	**28,577**	**278,221**	**34,306**	**1,124,509**	**179,750**
Total	**1,388,628**	**125,731**	**642,360**	**54,373**	**171,273**	**63,595**	**619,982**	**68,371**	**2,822,242**	**312,069**

	Corporate lending		SME		Consumer lending		Mortgage		Total	
31-Dec-21	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
Less than 30dpd	1,255,512	108,928	386,299	21,189	86,750	21,206	159,253	14,840	1,887,813	166,163
PD movement	221,916	2,467	127,053	2,944	18,547	2,179	51,781	3,125	419,298	10,716
- Forbearance support provided	387,868	90,168	104,766	10,953	-	-	-	-	492,634	101,121
- Other qualitative reasons	645,728	16,293	154,480	7,292	68,202	19,027	107,472	11,715	975,882	54,327
More than 30 dpd	1,201	8	18,059	360	92,973	27,118	242,785	28,441	355,018	55,928
Total	**1,256,713**	**108,937**	**404,358**	**21,549**	**179,723**	**48,324**	**402,038**	**43,281**	**2,242,832**	**222,091**

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.6. LOANS AND ADVANCES (CONTINUED)

C) LOANS AND ADVANCES IMPAIRED (CONTINUED)
ii) Analysis of Stage 3 Loans

An analysis of stage 3 loans is presented below. The table shows loans less than 90 dpd and loans greater than 90 dpd by portfolio and by stage, thus presenting the loans classified as stage 3 due to ageing and those identified at an earlier stage due to other criteria. Stage 3 exposures are further analyzed to indicate those which are no longer credit impaired but in cure period that precedes a transfer back to stage 2. Analysis of stage 3 loans is presented below as at 31 December 2022 and 31 December 2021.

31-Dec-22	Corporate lending			SME			Consumer lending			Mortgage			Total		
	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage
Less than 90 days	1,095,229	533,683	49%	180,302	68,549	38%	77,463	40,182	52%	179,670	47,423	26%	**1,532,664**	**689,837**	**45%**
More than 90 days	260,057	157,533	61%	205,458	100,911	49%	271,961	202,509	74%	190,241	103,488	54%	**927,717**	**564,441**	**61%**
Total	**1,355,286**	**691,216**	**53%**	**385,759**	**169,460**	**45%**	**349,425**	**242,691**	**67%**	**369,912**	**150,911**	**40%**	**2,460,382**	**1,254,278**	**51%**
-No longer impaired but in cure period	93,555	33,478	36%	1,448	-	0%	39,383	11,391	29%	111,857	19,842	18%	246,243	64,711	26%
-Other	1,261,731	657,738	52%	384,311	169,459	44%	310,041	231,300	75%	258,055	131,069	51%	2,214,138	1,189,566	54%

31-Dec-21	Corporate lending			SME			Consumer lending			Mortgage			Total		
	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage
Less than 90 days	596,203	185,176	31%	131,353	41,871	32%	80,983	34,155	42%	217,254	59,820	28%	**1,025,793**	**321,022**	**31%**
More than 90 days	666,375	489,697	73%	281,243	142,581	51%	234,291	175,870	75%	283,241	140,997	50%	**1,465,150**	**949,145**	**65%**
Total	**1,262,578**	**674,873**	**53%**	**412,596**	**184,452**	**45%**	**315,274**	**210,025**	**67%**	**500,495**	**200,817**	**40%**	**2,490,943**	**1,270,167**	**51%**
-No longer impaired but in cure period	151,102	42,332	28%	43,542	26,770	62%	42,310	12,863	30%	148,844	29,862	20%	385,797	111,828	29%
-Other	1,111,476	632,541	57%	369,054	157,682	43%	272,965	197,162	72%	351,651	170,955	49%	2,105,146	1,158,339	55%

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.6. LOANS AND ADVANCES (CONTINUED)

C) LOANS AND ADVANCES IMPAIRED (CONTINUED)

iii) Sensitivity analysis including consideration for Covid-19, inflation, interest rate and other current economic situation

The assessment and measurement of ECL is complex and considerably input sensitive during times of high uncertainty and volatility, which especially require careful assessment of the scenarios avoiding overly optimistic and pessimistic extremes, but as well requiring exercising of judgement, in relation to the macroeconomic forecasts used for the estimation of the FLI. The latest receives importance under the circumstances of high uncertainty on the expectations of the macroeconomic developments over the coming year, and as a result high volatility of such parameters.

The modeling and development of statistical relationships between the probability of default and the macroeconomic developments has presented significant challenges, as result of the neutralization effects of measures taken by the government in support of retail and business customers, as well as the application of the moratoria. As such, it has required application of expert judgement in deriving conclusions on a possible plausible FLI.

The Bank has recognized and prepared itself for the possible negative effects that the last years' developments may present and considered the challenges faced with the required attention. Since the earthquake of 2019, the pandemic of 2020 and the worldwide effects of the Russia-Ukraine war materialized in high inflation and turbulence in the markets, and anticipation of possible increase of defaults due to interest rate increases as result of the restrictive Central Banks' policies in attempt to fight inflation, the Bank has been constantly stress testing its loans and securities portfolios and intensified contact with clients to estimate the magnitude of the impact of these possible events and ensure adequate measures are taken to minimize negative effects.

Approximate one-third of the business loans portfolio of the Bank was affected by the pandemic and approx. 1/6 of the portfolio has applied for postponement of instalments.

Despite the uncertainties, Tirana Bank increased during the year 2022 its loans portfolio in real terms and decreased its non-performing loans, leading therefore to a steady decrease of its NPLR over the last years from Dec'20:7.2% to Dec'21: 4.9% and further down to Dec'22: 3.8%. As it was foreseen but at a much lower magnitude, the retail category showed an increase of its gross non-performing loans. However, as result of combined effects of immaterial NPLs increase and portfolio expansion, the NPLR of the retail portfolio decreased from Dec'21: 3.8% to Dec'22: 3.2%. With reference to the business loans segment, the decrease of non-performing loans and the expansion of the respective portfolio led to a more material improvement of the NPLR from Dec'21: 5.4% to Dec'22: 4.1%.

With reference specifically to the portfolio of loans treated under moratoria due to the pandemic, this portfolio showed an increase of the balances classified as non-performing for the individuals segment while the business segment continued its good performance and the non-performing portfolio affected by the moratoria shrank due to amortization and recoveries.

The non-performing loans portfolio treated under moratoria decreased during the year by 5% due to the performance of business segment while shows an increase of 22% for the individuals segment. However, non-performing loans resulting from this category of affected customers is only 15% of the non-performing loans of individuals.

While at the beginning of the pandemic the portfolio treated under moratoria was approx. 1/3 of the Bank's loans portfolio, its share has decreased by the end of Dec'22 to 15% of the total loans.

The Bank understands that the proactive management of sensitive customers is the key to the successful management of the possible deterioration of the loans portfolio, so that their negative effects are foreseen, provisioned, and contained within acceptable levels. Identification of the most sensitive customers is a regular process which aims at concluding through restructuring measures to prevent the further deterioration of the customer, and provisions have been raised accordingly in anticipation of future deterioration.

Besides the development within the Covid affected portfolio of loans, the remaining part of the portfolio has shown a good performance and the Bank managed to achieve decrease of its NPLR throughout year 2022.

Considering the latest developments in terms of inflation increase and measures being taken by Central Banks to bring back inflation to the desired levels, mostly affecting the level of the interest rates, the Bank is monitoring very closely the financial situation of its customers to ensure that any foreseen financial issues are addressed on time, with the aim of preventing deterioration of its loans portfolio quality.

Furthermore, the Bank has continuously stressed tested its loans portfolio to identify possible effects of higher inflation and interest rates on the quality of the loans portfolio and its financial standing. However, during 2022 it is not noticed any material deterioration of the loans portfolio specifically linked to the mentioned negative developments. Part of the loans portfolio has been re-priced during the second half of the year at higher base rates, but no deterioration has been materially linked to the increase of the interest rates. Customers financed in foreign currency, mostly Eur, have been supported by the appreciation of Lek vs Eur, which has netted some of the negative effect of the rising interest rates.

Furthermore, after the sharp increase of the Treasury Bills rates, reaching the level of 5.8%, they have continued with the same sharp decreasing trend in the last months of year 2022 and beginning of 2023, therefore further repricing of loans in Lek have showed a less severe increase of instalments in the latest months. The Bank is committed to very carefully and constantly monitor the situation and act accordingly for limitation of possible negative effects.

In selecting the FLIs to be used for year 2023, in absence of viable statistical models, the Bank has exercised expired judgement considered both its baseline and adverse expectations, assigning to the adverse expectations a higher probability of occurrence, due to the uncertainties for the following year related to international developments and their impact on the local economy. These FLIs are further used in the process of creating reserve funds, in anticipation of possible deteriorations beyond what expected in the baseline scenario.

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.6. LOANS AND ADVANCES (CONTINUED)

C) LOANS AND ADVANCES IMPAIRED (CONTINUED)
iii) Sensitivity analysis including consideration for Covid-19, inflation, interest rate and other current economic situation (continued)

The final expected evolution of PDs indicates for a decrease during year 2022 and gradually expected to be picking up during year 2023, as effects of inflation and interest rate changes materialize on customers' payment ability.

PIT quarterly PD	Q1 '2	Q2 '2	Q3 '2	Q4 '2	*Average PiT PD 2022*	*Average PiT PD 2021*	Stressed 2023 PiT avg. PD	Stressed FLI*
Business	2.0%	2,0%	3.8%	3.1%	2.7%	3.4%	3.0%	11.0%
Retail	2.8%	1.6%	1.7%	1.7%	1,9 %	4.0%	2.3%	19.0%

** The stressed FLI is considered as final FLI for year 2023 under one unified scenario*

Overview of modified and forborne loans

The Bank may enter into a forbearance agreement with a borrower who faces or is expected to face financial difficulties in order to ease the contractual obligation for a period of time. A case-by-case approach is applied for all customers considering client specific facts and circumstances. Typical repayment options offered include distribution over residual tenor, a one-off payment or a tenor extension. Forbearances depend on the economic situation of the client and should a forbearance take place, the need for an impairment charge is assessed and if necessary, the loan is recorded as impaired.

The Bank uses the EBA definition of forbearances and non-performing loans.

A forborne exposure may be considered as performing from the date when forbearance measures were extended if either of the following conditions is met:

a. this extension has not led the exposure to be classified as non-performing (therefore no risk for non-repayment is evidenced);
b. the exposure was not under non-performing status at the date the forbearance measures were extended.
c. 1 year from being non-performing has passed and the loan is not in delay > 30 days.

Unless there is evidence to the contrary, forborne exposures meeting any of the following criteria should be classified as non-performing in any case:

d. Non-performing loans at the moment of the restructuring or loans which would be classified as NP in the absence of above measures.

(All amounts are in thousands Albanian Lek unless otherwise stated)

e. New loans serving to repayment of non-performing exposures (timely close to the forbearance measures).
f. Modifications of contract's clauses providing for debt write off.
Modifications of contract's clauses providing for repayment through realization of collateral or transfer to the Bank.

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.1. CREDIT RISK (CONTINUED)
9.1.6. LOANS AND ADVANCES (CONTINUED)

C) LOANS AND ADVANCES IMPAIRED (CONTINUED)
iii) Sensitivity analysis including consideration for Covid-19, inflation, interest rate and other current economic situation (continued)

Forborne assets at amortized cost

In '000 Lek	Exposure		ECL	
	2022	2021	2022	2021
Stage 1	-	-	-	-
Stage 2	245,089	418,331	30,806	10,716
Stage 3	1,115,667	1,382,760	546,599	647,357
Total forborne loans	**1,360,756**	**1,801,091**	**577,405**	**658,073**

Development of forborne financial assets at amortized cost

In '000 Lek	31 December 2022	31 December 2021
Balance at beginning of period	1,801,091	1,426,675
Classified forborne during the year	65,666	591,844
Transferred to non-forborne during the year (including repayments)	(338,331)	(144,631)
Other movements including exchange rate	(167,670)	(72,797)
Balance at end of period	**1,360,756**	**1,801,091**

9.2 MARKET RISK

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Market Risk issues are followed up in regular basis by "Asset & Liabilities Management Committee" (ALCO).

(All amounts are in thousands Albanian Lek unless otherwise stated)

9.2.1. FOREIGN EXCHANGE RISK

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions.

Concentrations of currency risk – on and off-balance sheet financial instruments is presented below:

At December 31, 2022	EUR	USD	LEK	Other	Total
Assets					
Cash and balances with Central Bank	10,836,565	784,614	2,865,863	73,453	**14,560,495**
Due from banks	1,192,388	2,514,569	-	662,530	**4,369,487**
Loans and advances to customers	27,642,325	891,586	24,166,061	10,089	**52,710,061**
Financial assets at FVOCI	8,929,993	-	15,627,274	-	**24,557,267**
Financial assets at AC	10,156,904	-	4,943,251		**15,100,155**
Other assets	-	-	376,337	-	**376,337**
Total financial assets	**58,758,175**	**4,190,769**	**47,978,786**	**746,072**	**111,673,802**
Liabilities					
Due to banks	25,527	1,071	3,882,877	12,194	**3,921,667**
Due to customers	51,941,777	4,228,542	40,758,074	733,558	**97,661,951**
Subordinated debt	1,650,635	-	-	-	**1,650,635**
Lease liabilities	343,661	3,936	15,687		**363,284**
Total financial liabilities and equity	**53,961,600**	**4,233,548**	**44,656,637**	**745,752**	**103,597,537**
Net on-balance sheet currency position	**4,796,575**	**(42,779)**	**3,322,149**	**320**	**8,076,265**
Off-balance sheet items	**5,595,363**	**1,137,724**	**-**	**-**	**6,733,087**

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.2. MARKET RISK (CONTINUED)
9.2.1. FOREIGN EXCHANGE RISK (CONTINUED)

At December 31, 2021	EUR	USD	LEK	Other	Total
Assets					
Cash and balances with Central Bank	4,935,602	476,804	3,348,786	47,327	**8,808,519**
Due from banks	2,044,485	624,218	-	731,325	**3,400,028**
Loans and advances to customers	24,975,918	1,227,980	18,592,792	12,025	**44,808,715**
Financial assets at FVOCI	11,474,779	-	19,332,347	-	**30,807,125**
Financial assets at AC	3,526,775	-	2,060,816	-	**5,587,591**
Other assets	-	-	349,208	-	**349,208**
Total financial assets	**46,957,558**	**2,329,002**	**43,683,949**	**790,677**	**93,761,186**
Liabilities and equity					
Due to banks	17,501	-	860,546	12,851	**890,898**
Due to customers	38,987,543	2,356,873	40,304,863	761,238	**82,410,517**
Subordinated debt	607,176	-	-	-	**607,176**
Lease liabilities	445,673	15,935	20,673	-	**482,280**
Total financial liabilities and equity	**40,057,893**	**2,372,807**	**41,186,081**	**774,089**	**84,390,871**
Net on-balance sheet currency position	**6,899,666**	**(43,805)**	**2,497,859**	**16,589**	**9,370,309**
Off-balance sheet items	**4,603,475**	**693,534**	**2,653,979**	**-**	**7,950,988**

The significant open position in Euro arises due to the different treatment of equity by the regulatory accounting standards of the Central Bank, which accounts for capital contributed in a foreign currency as a monetary item.
Sensitivity analysis of currency risk
The Bank is mainly exposed to EUR and US Dollar (USD). The following table details the Bank's sensitivity to the respective increase and decrease in the value of LEK against the foreign currencies. The percentage used is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a respective change in foreign currency rates. The Bank has applied a 10% increase or decrease to the currency exchange rates. A positive number below indicates an increase in profit and other equity where the LEK strengthens with respective percentages against the relevant currency.

		31-Dec-22		31-Dec-21	
	Increase/(Decrease) in basis points	**Sensitivity of profit or loss**	**Sensitivity of equity**	**Sensitivity of profit or loss**	**Sensitivity of equity**
EURO	+/(-) 100	479,658	(479,658)	689,967	(689,967)
USD	+/(-) 100	(4,278)	4,278	(4,381)	4,381
Other	+/(-) 100	32	(32)	1,659	(1,659)

9.2.2. INTEREST RATE RISK

The Bank's financial income and expenses are subject to the risk of fluctuations to the extent that income-earning assets and income-bearing liabilities mature or re-price at different times or in differing amounts. The Bank attempts to mitigate this risk by monitoring the re-pricing dates of its assets and liabilities. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within re-pricing periods and among currencies.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes.

In decreasing interest rate environments, margins earned will narrow as liabilities interest rates will decrease with a lower percentage compared to assets interest rates. However, the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

The Bank attempts to mitigate this interest rate risk by monitoring the reprising dates of its assets and liabilities and setting product reprising terms in order to manage gain / loss from changes in market base rates. In addition, the Bank has contractual rights to revise the interest rates on the major part of its loan portfolio on a quarterly basis.

The following table presents the interest rate reprising dates for the Bank's assets and liabilities. Variable-rate assets and liabilities have been reported according to their next rate change date. Fixed-rate assets and liabilities have been reported according to their scheduled principal repayment dates:

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

9.2. MARKET RISK (CONTINUED)

9.2.2. NTEREST RATE RISK (CONTINUED)

As at December 31, 2022	Less than one month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with the Central Bank	8,185,035	-	-	-	6,375,460	**14,560,495**
Loans and advances to banks	4,369,487	-	-	-	-	**4,369,487**
Loans and advances to customers, net	4,106,322	7,157,162	39,268,791	2,177,787	-	**52,710,061**
Financial assets at FVOCI	1,503,974	3,351,576	3,411,978	16,289,739	-	**24,557,267**
Financial assets at AC	3,207,651	1,015,738	3,307,154	7,569,612	-	**15,100,155**
Other assets	-	-	-	-	376,337	**376,337**
Total financial assets	**21,372,468**	**11,524,476**	**45,987,923**	**26,037,138**	**6,751,797**	**111,673,802**
Liabilities						
Due to banks	3,921,667	-	-	-	-	**3,921,667**
Due to customers	45,542,494	9,511,771	23,112,223	19,495,463	-	**97,661,951**
Subordinated debt	-	-	-	1,650,635	-	**1,650,635**
Lease liabilities	-	-	132,151	231,133	-	**363,284**
Total financial liabilities	**49,464,161**	**9,511,771**	**23,244,374**	**21,377,231**	**-**	**103,597,538**
Interest sensitivity gap	**(28,091,693)**	**2,012,704**	**22,743,549**	**4,659,907**	**6,751,797**	**8,076,264**

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.2. MARKET RISK (CONTINUED)
9.2.2. NTEREST RATE RISK (CONTINUED)

The following table presents re-pricing dates for the Bank's assets and liabilities as at December 31, 2021.

As at December 31, 2021	Less than one month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with the Central Bank	6,937,382	-	-	-	1,871,137	8,808,519
Loans and advances to banks	3,400,028	-	-	-	-	3,400,028
Loans and advances to customers, net	4,155,469	7,443,012	32,494,606	715,628	-	44,808,715
Financial assets at FVOCI	904,093	3,634,645	5,324,692	20,943,687	-	30,807,118
Financial assets at AC	-	-	-	5,587,591		5,587,591
Other assets	-	-	-	-	349,208	349,208
Total financial assets	**15,396,973**	**11,077,657**	**37,819,298**	**27,246,906**	**2,220,346**	**93,761,180**
Liabilities						
Due to banks	890,898	-	-	-	-	890,898
Due to customers	43,367,072	5,359,835	19,301,649	14,381,960	-	82,410,517
Subordinated debt	-	-	-	607,176	-	607,176
Lease liabilities	-	-	162,436	319,844	-	482,280
Total financial liabilities	**44,257,970**	**5,359,835**	**19,464,085**	**15,308,980**	**-**	**84,390,870**
Interest sensitivity gap	**(28,860,997)**	**5,717,822**	**18,355,213**	**11,937,926**	**2,220,346**	**9,370,309**

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.2. MARKET RISK (CONTINUED)
9.2.2. NTEREST RATE RISK (CONTINUED)

Due to specifics of Albanian market, a large amount of customer deposits has a maturity of less than one month. However, the potential negative effect of adverse evolution in interest rates is significantly reduced due to low interest rates set by the Bank on customer demand deposits.

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At December 31, 2022, if interest rates had been 100 basis points higher/lower with all other variables were held constant, the Bank's pre-tax profit for the twelve-month period ended December 31, 2022 would respectively increase/decrease by approximately Lek 17,008 thousand (2021: Lek 70,294 thousand). Interest rate sensitivity analysis by currency is presented below.

	EUR	USD	Other currencies	LEK	Total
At December 31, 2022					
Total interest-bearing financial assets	53,622,976	3,938,194	672,619	47,064,501	105,298,290
Total interest-bearing financial liabilities	53,961,600	4,233,548	745,752	44,656,638	103,597,538
Interest sensitivity gap	(338,625)	(295,354)	(73,133)	2,407,863	1,700,752
Sensitivity if interest rates increase by 100 bp	**(3,386)**	**(2,954)**	**(731)**	**24,079**	**17,008**
Sensitivity if interest rates decrease by 100 bp	**3,386**	**2,954**	**731**	**(24,079)**	**(17,008)**

	EUR	USD	Other currencies	LEK	Total
At December 31, 2021					
Total interest-bearing financial assets	46,280,600	2,157,233	743,350	42,239,110	91,420,293
Total interest-bearing financial liabilities	40,057,893	2,372,807	774,089	41,186,081	84,390,871
Interest sensitivity gap	6,222,707	(215,574)	(30,740)	1,053,029	7,029,423
Sensitivity if interest rates increase by 100 bp	**62,227**	**(2,156)**	**(307)**	**10,530**	**70,294**
Sensitivity if interest rates decrease by 100 bp	**(62,227)**	**2,156**	**307**	**(10,530)**	**(70,294)**

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

9.3. LIQUIDITY RISK

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates (funding risk) and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate period to meet the liability obligations (market liquidity risk).

Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, and share capital. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility using liabilities with a range of maturity. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank strategy, while regularly performing liquidity risk stress testing presented to the Board of Directors.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy. The levels of these indicators are communicated on a daily basis to the persons in charge of the Bank's departments, and the comments, as well as the respective estimates, are included in the reporting package for the members of the Assets and Liabilities Management Committee ("ALCO").

ALCO has the responsibility to define the strategy for the development of assets and liabilities, depending on the qualitative and quantitative data of the organization and developments in the market; Ensure a high level of competition and effective organization; Maintain risks at defined limits; Manage assets and liabilities by applying price policies to products and services at the same time.

For liquidity purposes, the Bank classifies demand and saving deposits as due on demand and maturing within one month. As a result, the remaining maturity liquidity gap of up to twelve months is increased. However, the bank performs various stress tests to confirm the ability to cover with liquidity any possible severe situation of deposits withdrawal. Furthermore, it has high level of liquid assets and a very diversified funding base with very low concentration which further lowers the liquidity risk.

The Bank is maintaining a portfolio of highly marketable financial assets that can easily be liquidated as protection against any unforeseen interruption to cash flow. The management of the Bank is monitoring liquidity ratios against internal and regulatory requirements on a daily basis. As a result, Management believes that the Bank can respond properly to possible cash outflows over short term.

9.3.1. LIQUIDITY RISK MANAGEMENT PROCESS

The management of liquidity risk is a key objective of the Bank and evolves a broad set of activities spanning from the close monitoring of its liquidity position to the management of its funding sources and the uses of funds, in a way that does not compromise the ability of the Bank to meet its obligations.

The Bank has adopted best practices and regulatory/supervisory guidelines in depicting the Bank's liquidity position and the potential effects of adverse changes arising from the maturity (and non-renewal) of its funding sources as well as potential reduction in the value of its liquid assets. It exercises close monitoring of the cost of liquidity and it has ensured compliance with the regulatory liquidity risk framework while maintaining and regularly reviewing methodologies, policies, procedures and systems so as to effectively manage liquidity risk.

The bank has maintained under careful monitoring its liquidity levels ensuring they remain above the regulatory minimums and internal limits. Frequent stress tests are applied varying from sensitivity analysis to cash flow scenario analysis. The Bank has in place a contingency funding plan, well defined recovery plans and regularly updated internal regulatory framework covering the liquidity risk management.

The table below analyses financial assets and liabilities into relevant time periods based on the remaining period at reporting date to the contractual maturity date. Assets and liabilities in foreign currency are converted into LEK using FX rates as at the year end. The assumptions made are that scheduled payments to the bank are honored in full and on time and in addition, all contractual payments are discharged in full – e.g. that depositors will withdraw their money rather than roll it over on maturity. Those assets and liabilities lacking actual maturities (e.g. open accounts, demand deposits, or savings accounts) are assigned to the time band less than one month.

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.3. LIQUIDITY RISK
9.3.1. LIQUIDITY RISK MANAGEMENT PROCESS (CONTINUED)

As at December 31, 2022	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 Years	Total
Assets liquidity						
Cash and balances with the Central Bank	14,560,495	-	-	-	-	**14,560,495**
Due from banks	4,369,487	-	-	-	-	**4,369,487**
Loans and advances to customers, net	2,197,401	3,891,612	19,604,078	12,846,243	14,170,728	**52,710,061**
Financial assets at FVOCI	1,503,974	3,351,576	3,411,978	10,472,810	5,816,929	**24,557,267**
Financial assets at AC	3,207,651	1,015,738	3,307,154	2,104,198	5,465,414	**15,100,155**
Other assets	376,337	-	-	-	-	**376,337**
Total financial assets	**26,215,344**	**8,258,926**	**26,323,210**	**25,423,251**	**25,453,071**	**111,673,802**
Liabilities liquidity						
Due to banks	3,921,667	-	-	-	-	**3,921,667**
Due to customers	45,528,426	9,476,358	22,937,657	19,414,354	305,156	**97,661,951**
Subordinated debt	-	-	-	-	1,650,635	**1,650,635**
Other Liabilities	1,019,695	-	132,151	231,133	-	**1,382,979**
Loan commitments	2,134,309	-	4,768,516	-	1,831,093	**8,733,919**
Letters of Guarantees	111,132	650,318	1,313,849	-	-	**2,075,300**
Letters of Credit	768,880	-	-	-	-	**768,880**
Total financial liabilities	**53,484,110**	**10,126,676**	**29,152,174**	**19,645,487**	**3,786,884**	**116,195,332**
Net liquidity gap	**(27,268,766)**	**(1,867,750)**	**(2,828,964)**	**5,777,764**	**21,666,186**	**(4,521,531)**

All Bank's customer current accounts are included in liabilities maturing less than one month. Current accounts do represent balances that have a history and a deviation in amounts which is measured by the Bank and is far less than the shown negative gap on tenors less than one month. Any issue arising from liquidity mismatch is managed through inter-bank activity (borrowing, lending) within the pre-approved credit lines. Based on regulatory liquidity ratios it is presumed that at least 80% of customer deposits will be rolled over.

(All amounts are in thousands Albanian Lek unless otherwise stated)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.3. LIQUIDITY RISK
9.3.1. LIQUIDITY RISK MANAGEMENT PROCESS (CONTINUED)

The following table shows the Bank's assets and liabilities by remaining contractual maturity at December 31, 2021:

As at December 31, 2021	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 Years	Total
Assets liquidity						
Cash and balances with the Central Bank	8,808,519	-	-	-	-	8,808,519
Due from banks	3,400,028	-	-	-	-	3,400,028
Loans and advances to customers, net	3,068,988	3,132,583	11,480,876	9,594,461	17,531,808	44,808,716
Financial assets at FVOCI	904,093	3,634,645	5,324,692	7,391,935	13,551,752	30,807,118
Financial assets at AC	-	-	-	847,922	4,739,670	5,587,591
Other assets	349,208	-	-	-	-	349,208
Total financial assets	**16,530,837**	**6,767,228**	**16,805,568**	**17,834,318**	**35,823,229**	**93,761,181**
Liabilities liquidity						
Due to banks	890,898	-	-	-	-	890,898
Due to customers	43,367,072	5,359,835	19,301,649	14,070,718	311,243	82,410,517
Subordinated debt	-	-	-	-	607,176	607,176
Other Liabilities	1,592,823		162,436	319,844	-	2,075,103
Loan commitments	73,275	26,411	4,846,060	1,424,008	295,101	6,664,855
Letters of Guarantees	1,169,806	-	-	-	-	1,169,806
Letters of Credit	116,413	-	-	-	-	116,413
Total financial liabilities	**47,210,287**	**5,386,246**	**24,310,145**	**15,814,570**	**1,213,520**	**93,934,768**
Net liquidity gap	**(30,679,449)**	**1,380,983**	**(7,504,578)**	**2,019,748**	**34,609,709**	**(173,587)**

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

9.3. LIQUIDITY RISK

9.3.1. LIQUIDITY RISK MANAGEMENT PROCESS (CONTINUED)

Letters of credit and guarantees given to customers commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.
Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses.

9.4. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

9.4.1 VALUATION PRINCIPLES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.
In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as explained in Note 6.4.

9.4.2 VALUATION GOVERNANCE

The Bank's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives (including their valuation methodologies) are subject to approvals by various functions of the Bank including the risk and finance functions. The responsibility of ongoing measurement resides with the business and product line divisions.

Once submitted, fair value estimates are also reviewed and challenged by the Risk and Finance functions. The independent price verification process for financial reporting is ultimately the responsibility of the independent price verification team within Finance which reports to the Chief Financial officer.
The independent price verification (IPV) team validates fair value estimates by:

- Benchmarking prices against observable market prices or other independent sources
- Re-performing model calculations
- Evaluating and validating input parameters

The team also challenges the model calibration on at least a quarterly basis or when significant events in the relevant markets occur.
The IPV team works together with the Finance function's accounting policy team and is responsible for ensuring

(All amounts are in thousands Albanian Lek unless otherwise stated)

that the final reported fair value figures are in compliance with IFRS and will propose adjustments when needed. When relying on third-party sources (e.g., broker quotes, or other micro or macro-economic inputs), the independent price verification team is also responsible for:

- Verifying and challenging the approved list of providers
- Understanding the valuation methodologies and sources of inputs and verifying their suitability for IFRS reporting requirements

Valuation techniques and specific considerations for Level 3 inputs are further explained in note 9.4.4

9. FINANCIAL RISK MANAGEMENT (CONTINUED)
9.4. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES (VAZHDIM)
9.4.3 FINANCIAL INSTRUMENTS CARRIED AT AMORTIZED COST

IFRS 13 defines fair value as 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. Fair values have been based on management assumptions according to the profile of the asset and liability base.

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value.

	Carrying value		Fair value	
	2022	**2021**	**2022**	**2021**
Financial assets				
Cash and balances with the Central Bank	14,560,495	8,808,519	14,560,495	8,808,519
Due from banks	4,369,487	3,400,028	4,369,487	3,400,028
Loans and advances to customers	52,710,061	44,808,715	56,345,907	44,823,380
Financial assets at AC	15,100,155	5,587,591	14,502,645	5,578,927
Financial liabilities				
Due to customers	97,661,951	82,410,517	98,375,989	82,546,680
Due to banks	3,921,667	890,898	3,921,667	890,898
Subordinated debt	1,650,635	607,176	1,650,635	607,176

A) CASH AND BALANCES WITH THE CENTRAL BANK, DUE FROM BANKS

The fair value of cash and balances with the Central Bank is approximately equal to the carrying value, because of their short-term maturity. Loans and advances to banks include inter-bank placements. The fair value of fixed rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest - bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. With respect to deposits to banks, these are short-term deposits, for which the carrying interest rate does not significantly differ from the market interest rate as at 31 December 2022 and 2021. These contracts are generally Level 2 unless adjustments to yield curves or credit spreads are based on significant non-observable inputs, in which case they are classified as Level 3.

B) LOANS AND ADVANCES TO CUSTOMERS

Loans and advances are net of allowances for impairment. For year 2022, the fair value of loans and advances to customers is approximately equal to their carrying value due to fact that the main part of the loan portfolio carries floating interest rates which reflect the changes in the market conditions. The fair value of loans and advances to customers is their expected cash flow discounted at current market rates. Current market rates are interest rates the Bank would charge at the moment (year-end). Loans and advances to customer are classified as Level 3.

C) FINANCIAL ASSETS AT AC

Financial assets at amortized cost include bonds issued by Albanian Government in LEK, and bonds issued by foreign banks and financial institutions in EUR which are bought with the intention to hold till maturity. Quoted prices in active markets were not available for government bonds issued in LEK. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs.

Therefore, whenever the quoted prices exist, the securities are included in the Level 1 of the fair value hierarchy (i.e foreign government bonds and corporate bonds) – use of the quoted price in an active market for that instrument).

With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Bank classifies Albanian government securities as Level 2 financial instruments when no unobservable inputs are used for their valuation, or the unobservable inputs used are not significant to the measurement (as a whole).

D) DUE TO BANKS AND CUSTOMERS

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. At year-end 2022 and 2021, management estimates the due to customer's fair value approximates the carrying value, because during the year 2021 the Bank has issued interest rates for the customer deposits similar to market. Due to banks mainly refers to market borrowing with a maturity of one month from the date of the balances sheet and therefore their fair value is considered to approximate the carrying value.

E) SUBORDINATED DEBT

The fair value of subordinated debt approximates the par value of the debt. Subordinated debt is used a level 3 input in the fair value hierarchy.

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

9.4. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES (VAZHDIM)

9.4.4 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- Level 1: are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3: measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety. Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The Bank has no Level 3 financial instruments measured at fair value.

(All amounts are in thousands Albanian Lek unless otherwise stated)

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

				December 31, 2022
	Carrying amount	Level 1	Level 2	Level 3
FINANCIAL ASSETS				
Cash and balances with the Central Bank	14,560,495	-	8,126,448	6,434,046
Due from Banks	4,369,487	-	-	4,369,487
Loans and advances to customers	52,710,061	-		56,345,907
Investment Securities at FVOCI	24,511,564	7,816,553	16,740,714	-
Financial assets at amortized cost	15,100,155	9,556,943	4,945,701	-
FINANCIAL LIAIBILITIES				
Customer accounts	97,661,951	-	-	98,375,989
Due to banks	3,921,667	-	-	3,921,667
Subordinated Debt	1,650,635	-	-	1,650,635

				December 31, 2021
	Carrying Amount	Level 1	Level 2	Level 3
FINANCIAL ASSETS				
Cash and balances with the Central Bank	8,808,519	-	6,937,382	1,871,137
Due from Banks	3,400,028	-	-	3,400,028
Loans and advances to customers	44,808,715	-	-	44,823,380
Investment Securities at FVOCI	30,807,125	10,136,731	20,670,393	-
Financial assets at amortized cost	5,587,591	3,519,101	2,059,826	-
FINANCIAL LIAIBILITIES				
Customer accounts	82,410,517	-	-	82,546,680
Due to banks	890,898	-	-	890,898
Subordinated Debt	607,176	-	-	607,176

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

9.5. CAPITAL MANAGEMENT

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- to comply with the capital requirements set by the Bank of Albania.
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by Bank of Albania, for supervisory purposes. The required information is filed with Bank of Albania on a quarterly basis.

The Bank has established internal procedures in compliance with the regulation on "Capital Adequacy Ratio", for the assessment and monitoring of capital requirement and capital adequacy.

Capital management and planning, ensures the Bank's sustainability under normal and stressed conditions of the economic and financial environment, taking into account the risks that the Bank is exposed to. Capital targets are set to ensure sufficient stability to protect depositors, as well as to support on-going business, by keeping a comfort buffer over regulatory requirements. Capital management is also an integral part of the Internal Capital Adequacy Assessment Process which aims to assess capital requirements in alignment with the Bank's risk profile and strategy.

Bank of Albania requires the banks to: (a) hold the minimum level of the regulatory capital of 1 billion LEK and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the Bank of Albania required minimum of 12% (2021: 12%). Bank of Albania has requested specifically that Tirana Bank maintains a minimum capital adequacy ratio of 15%, until February 2022, and a minimum ratio of 13.5% after that date.

Regulatory capital is the Bank's capital, calculated pursuant to the requirements of the Bank of Albania regulation, to cover credit risk, market risk and operational risk. The Bank's regulatory capital is divided into two tiers. The Bank calculates the regulatory capital as the sum of Tier 1 capital and Tier 2 capital, considering the deductions pursuant to the requirements prescribed in the Bank of Albania regulations.

The Banks calculates risk-weighted exposures as the sum of the following elements:

a. Items of exposures and possible exposures weighted for the credit, or counterparty risk;

b. Capital requirements for market risks; and

c. Capital requirement for operational risk.

(All amounts are in thousands Albanian Lek unless otherwise stated)

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended December 31, 2022 and 2021. The Bank's capital adequacy is managed by its Risk Department. During these two years, the Bank complied with all of the externally imposed capital requirements.

	2022	2021
Common Equity Tier 1 capital	9,976,348	9,199,789
Tier 2 capital instruments	851,621	469,512
Regulatory capital	**10,827,969**	**9,669,302**
Risk-weighted assets	**63,863,156**	**55,448,754**
CAR ratio	**16.95%**	**17.44%**

The current year profit is included as an element of Common Equity Tier 1 after the audited financial statements are certified and reported to the regulator and after any intermediate (partial) dividend paid during the year, taxes and other obligations on the profit have been deducted. After the inclusion of the current year profit as per Bank of Albania methodology financial statements, management estimates the capital adequacy ratio to become 18.24% as at 31 December 2022 (2021: 18.12%).

10. INTEREST AND SIMILAR INCOME

	Year ended December 31, 2022	Year ended December 31, 2021
Income from loans and advances to customers	2,685,216	1,979,124
Income from financial assets	1,348,441	1,185,731
Income on accounts with banks	57,719	11,228
Interest income on leasing	8,605	-
Total interest and similar income	**4,099,981**	**3,176,083**

11. INTEREST EXPENSE

	Year ended December 31, 2022	Year ended December 31, 2021
Interest expense on due to customers	351,995	221,090
Interest expense on due to banks	58,705	48,476
Interest expense on subordinated debt	31,864	13,476
Interest expense on lease liabilities	381	303
Total Interest and similar expense	**442,945**	**283,345**

(All amounts are in thousands Albanian Lek unless otherwise stated)

12. NET FEES AND COMMISSION INCOME

	Year ended December 31, 2022	Year ended December 31, 2021
Fee income earned from services that are provided over a certain period of time		
Account maintenance fee	172,639	166,177
Other Banking Services	147,080	120,457
Commission from ATM and POS	120,778	110,178
Fee income from providing financial services and earned on the execution of a transaction		
Transfer and payments	103,657	95,511
Banking operations	14,043	13,596
Letters of Credit and other	32,688	11,873
Total fees and commission income	**590,885**	**517,792**
ATM and POS	(28,541)	(21,580)
Banking services	(2,393)	(1,628)
Correspondent banks	(5,137)	(4,818)
Total fees and commission expense	**(36,071)**	**(28,026)**
Net fee and commission income	**554,814**	**489,766**

13. EXPECTED CREDIT LOSSES FROM ADVANCES TO BANKS, SECURITIES AND OFF-BALANCE SHEET ITEMS

	Year ended December 31, 2022	Year ended December 31, 2021
Banks	12	(85)
Financial assets at FVOCI	32,932	9,270
Financial assets at amortized cost	62,499	94,440
Off-balance sheet	10,283	(95,559)
Total	**105,726**	**8,066**

(All amounts are in thousands Albanian Lek unless otherwise stated)

14. PERSONNEL EXPENSES

	Year ended December 31, 2022	Year ended December 31, 2021
Wages and salaries	790,045	693,027
Contributions to state pension funds	94,177	89,207
Other staff costs	24,162	11,816
	908,384	**794,050**

15. OTHER OPERATING EXPENSES

	Year ended December 31, 2022	Year ended December 31, 2021
Fees for Deposit Insurance ASD	239,222	224,941
Maintenance and security expenses	232,705	217,408
Card related expenses	152,384	134,764
Advertising and marketing	72,241	48,380
Telecommunication expense	68,621	59,383
Expenses to third parties	51,431	35,004
Consultancy and other similar expenses	49,578	50,556
Bank resolution fund	38,849	33,460
Utility expense	31,750	33,297
Stationaries and consumables	21,893	16,330
Fee and other related expenses	21,718	34,526
Taxes (excluding income tax)	19,491	19,883
Legal expenses	18,415	16,746
Travel Expenses	12,030	8,418
Other insurance expenses	9,377	8,657
Statutory audit expenses	7,635	7,319
Other expenses	61,464	53,171
Total	**1,108,804**	**1,002,243**

(All amounts are in thousands Albanian Lek unless otherwise stated)

16. INCOME TAX EXPENSE

The components of income tax expense for the years ended December 31, 2022 and 2021 are:

	Year ended December 31, 2022	Year ended December 31, 2021
Current tax		
Current tax expense	(240,367)	(215,474)
Deferred tax		
Relating to origination and reversal of temporary differences	(3,553)	3,833
Income tax expense reported in profit or loss	**(243,920)**	**(211,641)**

Reconciliation between the tax expense and the accounting profit multiplied by Albania's domestic tax rate for the years ended December 31, 2022 and 2021 is as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Accounting profit before tax	1,295,161	1,076,670
Theoretical income tax at 15% (2021: 15%)	194,274	161,500
Tax effect of permanent differences:	**46,093**	**53,974**
-Income which is exempt from taxation	(10,336)	(6,505)
-Non-deductible expenses	56,429	60,479
Current-year losses for which no deferred tax asset is recognized	240,367	215,474
Current tax expense	**240,367**	**215,474**
Deferred tax		
Other deferred tax items	(3,553)	3,833
Deferred tax income charged in profit/(loss)	**(3,553)**	**3,833**
Financial assets to FVOCI	371,339	5,125
Deferred tax expense charged in other comprehensive income	**371,339**	**5,125**

(All amounts are in thousands Albanian Lek unless otherwise stated)

16. INCOME TAX EXPENSE (CONTINUED)

The effective income tax rate for 2022 is 18.6% (2021: 20%).

Corporate income tax (receivable)/payable	**2022**	**2021**
Income tax (receivable)/payable (as at 1 January)	**(12,147)**	**415**
Income tax paid (due as at the end of previous period)	-	(415)
Income tax prepaid to Tax Office	(243,661)	(227,621)
Current Income tax	240,367	215,474
Income tax receivable (as at 31 December) (Note 26)	**(15,441)**	**(12,147)**

The deferred tax included in the balance sheet and changes recorded in the income tax expense are as follows:

			2022	
	Deferred tax Assets	**Deferred tax Liabilities**	**Income Statement (Dr)/Cr**	**Financial assets available for sale Reserve (Dr)/Cr**
Financial assets through FVOCI	310,990	-	-	369,713
Other deferred tax items	78,121	-	(3,553)	-
Total	**389,111**	-	**(3,553)**	**376,568**
Deferred tax asset, net	**389,111**			

			2021	
	Deferred tax Assets	**Deferred tax Liabilities**	**Income statement (Dr)/Cr**	**Financial assets available for sale Reserve (Dr)/Cr**
Financial assets through FVOCI	-	(58,723)	-	5,125
Other deferred tax items	81,676	-	3,833	-
Total	**81,676**	**(58,723)**	**3,833**	**5,125**
Deferred tax assets, net	**22,952**			

As at December 31, 2022 and 2021, other deferred tax items, include deferred tax assets/liabilities as a result of temporary differences between the carrying amount and tax base at the balance sheet date of Property, plant and equipment's and loan commissions.

(All amounts are in thousands Albanian Lek unless otherwise stated)

17. OTHER INCOME, NET

	Year ended December 31, 2022	Year ended December 31, 2021
Recoveries from previously written off loans	31,397	166,972
Gain from sale of repossessed collaterals, net	19,170	18,582
Other income	17,188	47,401
Total	**67,755**	**232,955**

18. CASH AND BALANCES WITH THE CENTRAL BANK

	As at December 31, 2022	As at December 31, 2021
Cash on hand		
Notes and coins in LEK	914,285	975,134
Notes and coins in foreign currency	874,648	896,003
	1,788,933	**1,871,137**
Balances with the Central Bank		
Current account		
in LEK	4,645,114	469,697
in foreign currency	-	52
	4,645,114	**469,749**
Compulsory reserves		
in LEK	1,885,434	1,902,380
in foreign currency	6,233,457	4,567,119
	8,118,891	**6,469,499**
Accrued interest	7,635	(1,842)
Expected credit losses	(78)	(24)
Total balances with Central Bank	**12,771,562**	**6,937,382**
Total cash and balances with Central Bank	**14,560,495**	**8,808,519**

Included in balances with the Central Bank is the statutory reserve for liquidity purposes, which represents a minimum reserve deposit, required by the Central Bank of Albania. Statutory reserves were calculated as follows:

The reserve ratio in LEK is:

- 7.5% for the liabilities included in the reserve base and with a maturity term up to 12 months.
- 5.0% for the liabilities included in the reserve base and with an initial maturity term of over 12 months to 2 years.

(All amounts are in thousands Albanian Lek unless otherwise stated)

The reserve ratio in foreign currency is:

- 12.5% for the liabilities included in the reserve base, when the ratio of "liabilities in the relevant currency / the total of liabilities" of the Bank is up to 50 (fifty) per cent".
- 20% for the liabilities included in the reserve base, when the ratio of "liabilities in the relevant currency / the total of liabilities" of the Bank is higher than 50 (fifty) per cent".

The Bank must hold its minimum reserves in the reserve accounts at the Bank of Albania. During the maintenance period, the Bank may use only the minimum reserve in LEK, provided that the average of the reserve balance on the last day of the maintenance period does not fall below the required reserve level. The level of reserves used on daily basis by the Bank is expressed as a percentage and it is decided by the Bank of Albania's Supervisory Council. Starting from February 24th,2018, the ratio is 70 per cent of the minimum required reserves.
Cash and balances with Central Bank, excluding cash on hand, is included in the analysis of the maximum exposure to credit risk (Note 9.1.5).
Interest on statutory reserve in the Central Bank is calculated as follows:

2022			
Currency	**Minimum**	**Maximum**	**Calculating method**
LEK	2.75%	2.75%	100% of base lending rate
USD	-	-	n.a
EUR	2.00%	2.00%	ECB interest rate on the deposit
2021			
Currency	**Minimum**	**Maximum**	**Calculating method**
LEK	0.50%	0.50%	100% of base lending rate
USD	-	-	n.a
EUR	-0.50%	-0.50%	ECB interest rate on the deposit

19. DUE FROM BANKS

	As at December 31, 2022	As at December 31, 2021
Current accounts		
Nostro and demand deposits with banks	1,341,401	2,254,915
Total current accounts	**1,341,401**	**2,254,915**
Placements		
Placements – non-resident	3,027,441	1,145,210
Accrued Interest	692	(1)
Total placements	**3,028,133**	**1,145,209**
Impairment on loans and advances to banks	**(47)**	**(96)**
Total loans and advances to banks	**4,369,487**	**3,400,028**

(All amounts are in thousands Albanian Lek unless otherwise stated)

The interest rates for nostros and demand deposits are floating. Nostro and demand deposits are detailed in the following table.

	S&P LT/ST	Year ended December 31, 2022	*S&P LT/ST*	Year ended December 31, 2021
Nostro and demand deposits with banks				
Raiffeisen Bank International AG	A-	139,559	A-	3,604
Deutche Bank AG	A-	1,065,749	A-	1,419,104
Deutsche Bank Trust Bank Americas	A-	99,623	A-	623,690
Piraeus Bank SA	B-	36,470	B-	208,517
Total		**1,341,401**		**2,254,915**

December 31, 2022	S&P LT/ST	Currency	Original Currency	In Lek '000
BANCO BILBAO VIZCAYA ARGENTARIA	A	USD	8,000,000	856,400
SANPAOLO DI TOR	BBB	GBP	4,800,000	618,816
SANPAOLO DI TOR	BBB	USD	14,500,000	1,552,225
Accrued Interest				692
Total				**3,028,133**

December 31, 2021	S&P LT/ST	Currency	Original Currency	In Lek '000
SANPAOLO DI TORINO	BBB	GBP	4,600,000	662,170
ALFA BANK GREECE	B-	EUR	4,000,000	483,040
Accrued Interest				(1)
Total				**1,145,209**

The table below shows the changes in the loss allowance of Due from Banks and the reasons for those changes during year 2022:

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at January 1, 2022	**96**	-	-	-	**96**
Movements with profit or loss impact:		-	-	-	
Transfer between Stages	-	-	-	-	-
New financial assets originated or purchased	46	-	-	-	**46**
Changes in PDs/LGDs/EADs	(90)	-	-	-	**(90)**
Changes to model assumptions and methodologies/modification/write offs/FX, other	-	-	-	-	-
Total net profit or loss charge during the period	**(44)**	-	-	-	**(44)**
Other movements with no profit or loss impact	(5)	-	-	-	**(5)**
Financial assets derecognized during the period	-	-	-	-	-
Loss allowance as at December 31, 2022	**47**	-	-	-	**47**

(All amounts are in thousands Albanian Lek unless otherwise stated)

19. DUE FROM BANKS (CONTINUED)

The table below shows the changes in the loss allowance for Due from Banks and the reasons for those changes during year 2022:

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at January 1, 2021	**197**	**-**	**-**	**-**	**197**
Movements with profit or loss impact:		**-**	**-**	**-**	
Transfer between Stages	-	-	-	-	-
New financial assets originated or purchased	91	-	-	-	**91**
Changes in PDs/LGDs/EADs	(188)	-	-	-	**(188)**
Changes to model assumptions and methodologies/modification/write offs/FX, other	-	-	-	-	-
Total net profit or loss charge during the period	**(97)**	**-**	**-**	**-**	**(97)**
Other movements with no profit or loss impact	**4**	**-**	**-**	**-**	**4**
Financial assets derecognized during the period	-	-	-	-	-
Loss allowance as at December 31, 2021	**96**	**-**	**-**	**-**	**96**

Changes in the gross carrying amount of Due from Banks during 2022 that have contributed to changes in the loss allowances are presented in the below table:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at January 1, 2022	**3,400,124**	-	-	-	**3,400,124**
Transfer between Stages	-	-	-	-	-
Financial assets derecognised during the period other than write- offs	-	-	-	-	-
New financial assets originated or purchased	1,153,038	-	-	-	**1,153,038**
Modification of contractual cash flows of financial assets/changes in accruals/write offs FX and other movements	(183,627)		-		**(183,627)**
Gross carrying amount as at December 31, 2022	**4,369,534**	**-**	**-**	**-**	**4,369,534**

Changes in the gross carrying amount of Due from Banks during the year 2021 that have contributed to changes in the loss allowances are presented in the below table:

(All amounts are in thousands Albanian Lek unless otherwise stated)

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as of January 1, 2021	**5,817,375**	**-**	**-**	**-**	**5,817,375**
Transfer between Stages	-	-	-	-	-
Financial assets derecognised during the period other than write- offs	-	-	-	-	-
New financial assets originated or purchased	1,145,209	-	-	-	**1,145,29**
Modification of contractual cash flows of financial assets/changes in accruals/write offs	-	-	-	-	-
FX and other movements	(3,562,460)	-	-	-	**(3,562,460)**
Gross carrying amount as at December 31, 2021	**3,400,124**	**-**	**-**	**-**	**3,400,124**

20. LOANS AND ADVANCES TO CUSTOMERS, NET

	As at December 31, 2022	As at December 31, 2021
Corporate lending	29,945,832	25,696,792
SME lending	6,522,396	5,705,743
Total Corporate and SME lending	**36,468,228**	**31,402,535**
Consumer lending	3,273,259	3,345,182
Mortgage	13,844,118	11,484,232
Financial Lease	520,247	-
Overdrafts	395,008	397,151
Credit cards	229,369	186,459
Loan commissions deferred through EIR	(195,249)	(121,319)
Accrued interest	161,374	123,105
Gross loans and advances	**54,696,354**	**46,817,345**
Less: Allowance for impairment losses	(1,986,293)	(2,008,630)
Total	**52,710,061**	**44,808,715**
Current	20,970,926	17,682,447
Non-current	31,739,136	27,126,269

(All amounts are in thousands Albanian Lek unless otherwise stated)

Financial lease is the new product that the Bank has introduced during 2022. A detailed description of accounting treatment is disclosed in the Note 9. Financial lease portfolio as at 31 December 2022 is as follows:

	31-Dec-22
Less than 1 year	-
Between 1 and 2 years	40,818
Between 2 and 3 years	-
Between 3 and 4 years	37,249
Between 4 and 5 years	208,989
More than 5 years	233,191
Accrued interest	1,020
Gross	**520,247**
Provisions	(3,315)
Net financial lease	**517,952**

The table below shows the industry analysis of gross loans (without taking into consideration the "Loan commissions deferred" and "Accrued interest") granted to corporate and SMEs clients.

	2022	**2021**
Manufacturing	6,138,125	6,106,747
Electricity	3,321,362	2,813,377
Trade	8,890,652	6,882,921
Construction	8,387,087	5,818,898
Financial intermediation	3,910,182	2,453,874
Other industries	5,821,000	7,326,718
Total gross loans	**36,468,408**	**31,402,535**

The interest rates for Loans and advances to customers are floating and are presented as follows:

Currency	**2022**	**2021**
LEK	12 months TRIBOR + (0.5% - 10.5%)	12 months TRIBOR + (0.5% - 10.5%)
USD	12 months LIBOR + (3% - 4%)	12 months LIBOR + (1% - 7%)
EUR	12 months EURIBOR+ (0.0% - 12%)	12 months EURIBOR+ (0.5% - 12%)

(All amounts are in thousands Albanian Lek unless otherwise stated)

20. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

The movement in allowances (impairment) for losses on loans and advances to customers is as follows:

	2022	2021
ECL allowances as at 1 January	2,008,629	2,054,024
Charge for the year, net of recoveries	123,962	84,037
Write off	(90,182)	(105,355)
Exchange rate effect	(56,116)	(24,077)
ECL allowance as at 31 December	**1,986,293**	**2,008,629**
ECL charge for the year	123,962	84,037
Recoveries from previously written off loans (Note 17)	(31,397)	(166,972)
Total net profit or loss charge during the period	**92,565**	**(82,935)**
Individual impairments	796,413	683,870
Collective impairments	1,189,880	1,324,759
	1,986,293	**2,008,629**

In accordance with IFRS 9 below are presented the changes in the loss allowance for loans and advances to customers and the reasons for those changes during year 2022 and 2021 as per loan category. In the summary table below is presented an explanation of how changes in the gross carrying amount of loans and advances to customers during the period contributed to changes in the loss allowance during the period ended December 31, 2022 and 2021.

(All amounts are in thousands Albanian Lek unless otherwise stated)

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at January 1, 2022	**521,932**	**216,530**	**1,270,167**	**-**	**2,008,629**
Movements with profit or loss impact					**-**
Transfers:	**(70,213)**	**59,832**	**10,381**	-	**-**
Transfers from Stage 1 to Stage 2	(126,000)	126,000	-	-	**-**
Transfers from Stage 1 to Stage 3	(5,545)	-	5,545	-	**-**
Transfers from Stage 2 to Stage 1	58,811	(58,811)	-	-	**-**
Transfers from Stage 2 to Stage 3	-	(50,614)	50,614	-	**-**
Transfers from Stage 3 to Stage 1	2,521	-	(2,521)	-	**-**
Transfers from Stage 3 to Stage 2	-	43,257	(43,257)	-	**-**
New financial assets originated or purchased	154,270	35,255	82,437	-	271,963
Changes in PDs/LGDs/EADs	70,295	(115,886)	(43,625)	-	(89,216)
Write-offs	-	-	(90,182)	-	(90,182)
Total net profit or loss charge during the period	**154,352**	**33,776**	**(95,563)**	**-**	**92,565**
Other movements with no profit or loss impact	(240,847)	46,272	79,674	-	(114,901)
Derecognized during the period	**-**	**-**	**-**	**-**	**-**
Loss allowance as at December 31, 2022	**435,437**	**296,578**	**1,254,278**	**-**	**1,986,293**

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at January 1, 2021	**463,721**	**307,921**	**1,282,381**	**-**	**2,054,024**
Movements with profit or loss impact					
Transfers:	**154,176**	**(162,073)**	**7,897**	**-**	**-**
Transfers from Stage 1 to Stage 2	(13,745)	13,745	-	-	**-**
Transfers from Stage 1 to Stage 3	(1,366)	-	1,366	-	**-**
Transfers from Stage 2 to Stage 1	165,927	(165,927)	-	-	**-**
Transfers from Stage 2 to Stage 3	-	(32,495)	32,495	-	**-**
Transfers from Stage 3 to Stage 1	3,360	-	(3,360)	-	**-**
Transfers from Stage 3 to Stage 2	-	22,604	(22,604)	-	**-**
New financial assets originated or purchased	100,213	10,699	141,021	-	**251,932**
Changes in PDs/LGDs/EADs	(34,511)	(26,525)	(67,071)	-	**(128,106)**
Write-offs	-	-	(206,761)		**(206,761)**
Total net profit or loss charge during the period	**219,879**	**(177,899)**	**(124,914)**	**-**	**(82,934)**
Other movements with no profit or loss impact	(161,668)	86,508	112,700	-	**37,540**
Derecognized during the period	**-**	**-**	**-**	**-**	**-**
Loss allowance as at December 31, 2021	**521,932**	**216,530**	**1,270,167**		**2,008,629**

(All amounts are in thousands Albanian Lek unless otherwise stated)

20. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

There are no POCI loans and derecognized loans during the period 2022 and 2021.
Changes in the gross carrying amount of loans and advances to customers during the period which contributed to changes in the loss allowance is presented in below table:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2022	**42,217,972**	**2,108,430**	**2,490,943**	**46,817,344**
Transfers:	**(949,680)**	**722,828**	**226,852**	**-**
Transfer from Stage 1 to Stage 2	(1,760,844)	1,760,844	-	-
Transfer from Stage 1 to Stage 3	(201,499)	-	201,499	-
Transfer from Stage 2 to Stage 1	1,004,346	(1,004,346)	-	-
Transfer from Stage 2 to Stage 3	-	(183,442)	183,442	-
Transfer from Stage 3 to Stage 1	8,317	-	(8,317)	-
Transfer from Stage 3 to Stage 2	-	149,772	(149,772)	-
New assets originated or purchased	15,041,928	495,186	202,228	**15,739,343**
Increase/(Decrease) due to new disbursement/loan payments	(5,572,955)	(277,789)	(499,873)	**(6,350,617)**
Write-offs	-	-	(90,182)	**(90,182)**
FX and other movements	(1,267,839)	(72,571)	(79,123)	**(1,419,534)**
Gross carrying amount as at December 31, 2022	**49,469,425**	**2,976,085**	**2,250,845**	**54,696,355**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2021	**34,279,195**	**2,622,432**	**3,143,529**	**40,045,156**
Transfers:	**(69,487)**	**(100,194)**	**169,681**	**-**
Transfer from Stage 1 to Stage 2	(1,280,121)	1,280,121	-	-
Transfer from Stage 1 to Stage 3	(62,061)	-	62,061	-
Transfer from Stage 2 to Stage 1	1,264,542	(1,264,542)	-	-
Transfer from Stage 2 to Stage 3	-	(195,575)	195,575	-
Transfer from Stage 3 to Stage 1	8,154	-	(8,154)	-
Transfer from Stage 3 to Stage 2	-	79,801	(79,801)	-
New assets originated or purchased	12,505,609	153,764	232,831	**12,892,204**
Increase/(Decrease) due to new disbursement/loan payments	(4,123,482)	(526,469)	(907,638)	**(5,557,589)**
Write-offs	-	-	(105,355)	**(105,355)**
FX and other movements	(373,864)	(41,102)	(42,105)	**(457,071)**
Gross carrying amount as at December 31, 2021	**42,217,972**	**2,108,430**	**2,490,943**	**46,817,344**

(All amounts are in thousands Albanian Lek unless otherwise stated)

Table of changes in the loss allowance for loans to companies and the reasons for those changes:

Companies

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at January 1, 2022	**365,123**	**129,979**	**859,325**	**1,354,427**
Movements with profit or loss impact				-
Transfers:	**(90,739)**	**77,754**	**12,985**	-
Transfers from Stage 1 to Stage 2	(116,776)	116,776	-	-
Transfers from Stage 1 to Stage 3	(3,576)	-	3,576	-
Transfers from Stage 2 to Stage 1	29,613	(29,613)	-	-
Transfers from Stage 2 to Stage 3	-	(35,593)	35,593	-
Transfers from Stage 3 to Stage 1	-	-	-	-
Transfers from Stage 3 to Stage 2	-	26,185	(26,185)	-
New assets originated or purchased	124,656	16,208	71,717	**212,581**
Changes in PDs/LGDs/EADs	49,170	(77,713)	(60,260)	**(88,803)**
Write-offs		-	(1,980)	**(1,980)**
Total net profit or loss charge during the period	**83,086**	**16,249**	**22,462**	**121,797**
Other movements with no profit or loss impact	(109,743)	32,883	(21,111)	(97,971)
Loss allowance as at December 31, 2022	**338,466**	**179,111**	**860,676**	**1,378,253**

20. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

Companies (continued)

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at January 1, 2021	**373,069**	**153,740**	**1,012,225**	**1,539,034**
Movements with profit or loss impact				
Transfers:	**93,377**	**(96,566)**	**3,189**	-
Transfers from Stage 1 to Stage 2	(11,629)	11,629	-	-
Transfers from Stage 1 to Stage 3	(4)	-	4	-
Transfers from Stage 2 to Stage 1	104,250	(104,250)	-	-
Transfers from Stage 2 to Stage 3	-	(11,001)	11,001	-
Transfers from Stage 2 to Stage 3	760	-	(760)	-
Transfers from Stage 3 to Stage 2	-	7,056	(7,056)	-
New assets originated or purchased	45,511	666	33,557	**79,734**
Changes in PDs/LGDs/EADs	(118,811)	64,225	(68,881)	**(123,468)**
Write-offs	-	-	(193,460)	**(193,460)**
Total net profit or loss charge during the period	**20,077**	**(31,675)**	**(225,595)**	**(237,194)**
Other movements with no profit or loss impact	(28,022)	7,913	72,696	**52,587**
Loss allowance as at December 31, 2021	**365,123**	**129,979**	**859,325**	**1,354,427**

(All amounts are in thousands Albanian Lek unless otherwise stated)

Changes in the gross carrying amount of loans and advances to companies during the period which contributed to changes in the loss allowance is presented in below table:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2022	**28,164,263**	**1,548,065**	**1,675,174**	**31,387,502**
Transfers:	**(666,995)**	**478,022**	**188,973**	**-**
Transfer from Stage 1 to Stage 2	(1,371,468)	1,371,468	-	-
Transfer from Stage 1 to Stage 3	(129,452)	-	129,452	-
Transfer from Stage 2 to Stage 1	833,926	(833,926)	-	-
Transfer from Stage 2 to Stage 3	-	(135,331)	135,331	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	75,811	(75,811)	-
New assets originated or purchased	10,132,444	420,403	186,287	**10,739,133**
Increase/(Decrease) due to new disbursement/loan payments	(3,598,079)	(174,512)	(378,119)	**(4,150,710)**
Write-offs	-	-	(68,015)	**(68,015)**
FX and other movements	(897,954)	(267,686)	136,746	**(1,028,894)**
Gross carrying amount as at December 31, 2022	**33,133,679**	**2,004,291**	**1,741,045**	**36,879,016**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2021	**23,261,395**	**1,473,354**	**2,433,856**	**27,168,605**
Transfers:	(268,792)	243,059	25,733	**-**
Transfer from Stage 1 to Stage 2	(1,087,827)	1,087,827	-	-
Transfer from Stage 1 to Stage 3	(9,746)	-	9,746	-
Transfer from Stage 2 to Stage 1	826,190	(826,190)	-	-
Transfer from Stage 2 to Stage 3	-	(42,043)	42,043	-
Transfer from Stage 3 to Stage 1	2,590	-	(2,590)	-
Transfer from Stage 3 to Stage 2	-	23,466	(23,466)	-
New assets originated or purchased	7,872,343	126,894	85,892	**8,085,129**
Increase/(Decrease) due to new disbursement/loan payments	(2,435,162)	(268,892)	(757,119)	**(3,461,173)**
Write-offs	-	-	(81,154)	**(81,154)**
FX and other movements	(265,522)	(26,349)	(32,035)	**(323,906)**
Gross carrying amount as at December 31, 2021	**28,164,263**	**1,548,065**	**1,675,174**	**31,387,502**

(All amounts are in thousands Albanian Lek unless otherwise stated)

20. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

Table of changes in the loss allowance for consumer loans and the reasons for those changes:

Consumer

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at January 1, 2022	**74,901**	**39,806**	**195,332**	**310,039**
Movements with profit or loss impact				
Transfers:	**12,725**	**(18,018)**	**5,293**	**-**
Transfers from Stage 1 to Stage 2	(1,602)	1,602	-	-
Transfers from Stage 1 to Stage 3	(1,827)	-	1,827	-
Transfers from Stage 2 to Stage 1	14,802	(14,802)	-	-
Transfers from Stage 2 to Stage 3	-	(12,044)	12,044	-
Transfers from Stage 3 to Stage 1	1,352	-	(1,352)	-
Transfers from Stage 3 to Stage 2	-	7,225	(7,225)	-
New financial assets originated or purchased	24,368	3,776	6,080	**34,224**
Changes in PDs/LGDs/EADs	41,455	(13,059)	(16,913)	**11,484**
Write-offs	-	-	(2,786)	**(2,786)**
Total net profit or loss charge during the period	**78,548**	**(27,301)**	**(8,327)**	**42,921**
Other movements with no profit or loss impact	**(76,126)**	**25,235**	**42,585**	**(8,306)**
Loss allowance as at December 31, 2022	**77,324**	**37,740**	**229,590**	**344,655**

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at January 1, 2021	**56,540**	**69,032**	**102,048**	**227,621**
Movements with profit or loss impact				
Transfers:	**22,092**	**(24,404)**	**2,312**	**-**
Transfers from Stage 1 to Stage 2	(1,614)	1,614	-	-
Transfers from Stage 1 to Stage 3	(1,227)	-	1,227	-
Transfers from Stage 2 to Stage 1	23,072	(23,072)	-	-
Transfers from Stage 2 to Stage 3	-	(7,529)	7,529	-
Transfers from Stage 3 to Stage 1	1,860	-	(1,860)	-
Transfers from Stage 3 to Stage 2	-	4,584	(4,584)	-
New financial assets originated or purchased	28,809	7,482	79,392	**115,683**
Changes in PDs/LGDs/EADs	43,733	(50,962)	(23,437)	**(30,665)**
Write-offs	-	-	(5,371)	**(5,371)**
Total net profit or loss charge during the period	**94,635**	**(67,884)**	**52,896**	**79,647**
Other movements with no profit or loss impact	(76,274)	38,657	40,393	**2,777**
Loss allowance as at December 31, 2021	**74,901**	**39,806**	**195,337**	**310,045**

(All amounts are in thousands Albanian Lek unless otherwise stated)

Changes in the gross carrying amount of consumer loans during the period which contributed to changes in the loss allowance is presented in below table:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2022	**3,311,361**	**158,100**	**297,187**	**3,766,649**
Transfers:	**(63,022)**	**(5,392)**	**68,414**	-
Transfer from Stage 1 to Stage 2	(70,142)	70,142	-	-
Transfer from Stage 1 to Stage 3	(53,175)	-	53,175	-
Transfer from Stage 2 to Stage 1	55,827	(55,827)	-	-
Transfer from Stage 2 to Stage 3	-	(30,519)	30,519	-
Transfer from Stage 3 to Stage 1	4,468	-	(4,468)	-
Transfer from Stage 3 to Stage 2	-	10,811	(10,811)	-
New originated or purchased	1,028,743	7,521	7,400	**1,043,664**
Increase/(Decrease) due to new disbursement/loan payments	(1,016,474)	(39,587)	(26,180)	**(1,082,242)**
Write-offs	-	-	(9,772)	**(9,772)**
FX and other movements	(32,441)	(990)	(4,169)	**(37,601)**
Gross carrying amount as at December 31,2022	**3,228,167**	**119,652**	**332,880**	**3,680,699**

20. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

Table of changes in the loss allowance for consumer loans and the reasons for those changes:

Consumer (continued)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2021	**2,811,780**	**283,374**	**182,036**	**3,277,190**
Transfers:	**(44,319)**	**(16,150)**	**60,469**	-
Transfer from Stage 1 to Stage 2	(84,270)	84,270	-	-
Transfer from Stage 1 to Stage 3	(40,564)	-	40,564	-
Transfer from Stage 2 to Stage 3	76,618	(76,618)	-	-
Transfer from Stage 3 to Stage 2	-	(31,654)	31,654	-
Transfer from Stage 3 to Stage 1	3,897	-	(3,897)	-
Transfer from Stage 2 to Stage 1	-	7,852	(7,852)	-
New originated or purchased	1,373,682	16,103	92,123	**1,481,908**
Increase/(Decrease) due to new disbursement/loan payments	(820,395)	(122,926)	(35,466)	**(978,787)**
Write-offs			(1,423)	**(1,423)**
FX and other movements	(9,387)	(2,301)	(544)	**(12,232)**
Gross carrying amount as at December 31, 2021	**3,311,361**	**158,100**	**297,195**	**3,766,656**

(All amounts are in thousands Albanian Lek unless otherwise stated)

Table of changes in the loss allowance for mortgage loans and the reasons for those changes:

Mortgage

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at January 1, 2022	**77,180**	**43,279**	**200,817**	**321,276**
Movements with profit or loss impact				
Transfers:	**5,883**	**1,694**	**(7,577)**	**-**
Transfers from Stage 1 to Stage 2	(7,511)	7,511	-	-
Transfers from Stage 1 to Stage 3	(55)	-	55	-
Transfers from Stage 2 to Stage 1	12,288	(12,288)	-	-
Transfers from Stage 2 to Stage 3	-	(2,728)	2,728	-
Transfers from Stage 3 to Stage 1	1,161	-	(1,161)	-
Transfers from Stage 3 to Stage 2	-	9,199	(9,199)	-
New originated or purchased	4,681	15,077	4,289	**24,047**
Changes in PDs/LGDs/EADs	(29,044)	(22,846)	(39,669)	**(91,559)**
Write-offs	-	-	(13,175)	**(13,175)**
Total net profit or loss charge during the period	**(18,480)**	**(6,076)**	**(56,132)**	**(80,687)**
Other movements with no profit or loss impact	(42,759)	31,167	6,226	**(5,366)**
Loss allowance as at December 31, 2022	**15,941**	**68,371**	**150,911**	**235,223**

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at January 1, 2021	**27,457**	**77,276**	**147,262**	**251,995**
Movements with profit or loss impact				
Transfers:	**34,234**	**(37,953)**	**3,719**	**-**
Transfers from Stage 1 to Stage 2	(338)	338	-	-
Transfers from Stage 1 to Stage 3	(22)	-	22	-
Transfers from Stage 2 to Stage 1	34,336	(34,336)	-	-
Transfers from Stage 2 to Stage 3	-	(13,268)	13,268	-
Transfers from Stage 3 to Stage 1	257	-	(257)	-
Transfers from Stage 3 to Stage 2	-	9,314	(9,314)	-
New originated or purchased	24,958	2,291	28,007	**55,256**
Changes in PDs/LGDs/EADs	40,372	(33,892)	33,298	**39,778**
Write-offs	-	-	(7,930)	**(7,930)**
Total net profit or loss charge during the period	**99,563**	**(69,553)**	**57,094**	**87,104**
Other movements with no profit or loss impact	(49,841)	35,557	(3,539)	**(17,823)**
Loss allowance as at December 31, 2021	**77,180**	**43,279**	**200,817**	**321,276**

(All amounts are in thousands Albanian Lek unless otherwise stated)

20. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

Mortgage (continued)

Changes in the gross carrying amount of mortgage loans during the period which contributed to changes in the loss allowance is presented in below table:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2022	**10,582,092**	**394,816**	**500,495**	**11,477,403**
Transfers:	**(201,878)**	**234,883**	**(33,005)**	**-**
Transfer from Stage 1 to Stage 2	(299,452)	299,452	-	-
Transfer from Stage 1 to Stage 3	(15,932)	-	15,932	-
Transfer from Stage 2 to Stage 1	109,759	(109,759)	-	-
Transfer from Stage 2 to Stage 3	-	(17,236)	17,236	-
Transfer from Stage 3 to Stage 1	3,748	-	(3,748)	-
Transfer from Stage 3 to Stage 2	-	62,426	(62,426)	-
New originated or purchased	3,853,020	66,877	7,958	3,927,854
Increase/(Decrease) due to new disbursement/loan payments	(993,153)	(63,163)	(95,734)	(1,152,050)
Write-offs	-	-	(7,645)	(7,645)
FX and other movements	(319,958)	(13,432)	(2,156)	(335,546)
Gross carrying amount as at December 31, 2022	**12,920,123**	**619,982**	**369,912**	**13,910,017**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2021	**8,063,602**	**853,920**	**503,373**	**9,420,894**
Transfers:	**242,811**	**(324,020)**	**81,209**	**-**
Transfer from Stage 1 to Stage 2	(104,791)	104,791	-	-
Transfer from Stage 1 to Stage 3	(9,095)	-	9,095	-
Transfer from Stage 2 to Stage 1	355,346	(355,346)	-	-
Transfer from Stage 2 to Stage 3	-	(121,051)	121,051	-
Transfer from Stage 3 to Stage 1	1,352	-	(1,352)	-
Transfer from Stage 3 to Stage 2	-	47,586	(47,586)	-
New originated or purchased	3,227,210	10,294	54,647	**3,292,151**
Increase/(Decrease) due to new disbursement/loan payments	(852,576)	(132,925)	(106,430)	**(1,091,931)**
Write-offs	-	-	(22,778)	**(22,778)**
FX and other movements	(98,955)	(12,452)	(9,526)	**(120,934)**
Gross carrying amount as at December 31, 2021	**10,582,092**	**394,816**	**500,495**	**11,477,403**

(All amounts are in thousands Albanian Lek unless otherwise stated)

Table of changes in the loss allowance for Visa Card and the reasons for those changes:

Visa Card

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at January 1, 2022	**4,728**	**3,466**	**14,687**	**22,882**
Movements with P&L impact	-	-	-	-
Transfers:	**1,917**	**(1,598)**	**(319)**	-
Transfers from Stage 1 to Stage 2	(112)	112	-	-
Transfers from Stage 1 to Stage 3	(87)	-	87	-
Transfers from Stage 2 to Stage 1	2,108	(2,108)	-	-
Transfers from Stage 2 to Stage 3	-	(249)	249	-
Transfers from Stage 3 to Stage 1	8	-	(8)	-
Transfers from Stage 3 to Stage 2	-	647	(647)	-
New originated or purchased	566	194	351	**1,111**
Changes in PDs/LGDs/EADs	10,294	(2,269)	(1,324)	**6,701**
Write-offs	-	-	670	**670**
Total net P&L charge during the period	**12,777**	**(3,673)**	**(622)**	**8,483**
Other movements with no P&L impact	(13,799)	11,562	(965)	**(3,201)**
Loss allowance as at December 31, 2022	**3,707**	**11,356**	**13,101**	**28,163**

20. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

Visa Card (continued)

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at January 1, 2021	**6,655**	**7,873**	**20,846**	**35,374**
Movements with P&L impact	-	-	-	-
Transfers:	**4,474**	**(3,152)**	**(1,322)**	-
Transfers from Stage 1 to Stage 2	(164)	164	-	-
Transfers from Stage 1 to Stage 3	(114)	-	114	-
Transfers from Stage 2 to Stage 1	4,269	(4,269)	-	-
Transfers from Stage 2 to Stage 3	-	(697)	697	-
Transfers from Stage 3 to Stage 1	483	-	(483)	-
Transfers from Stage 3 to Stage 2	-	1,651	(1,651)	-
New originated or purchased	934	260	65	**1,259**
Changes in PDs/LGDs/EADs	196	(5,896)	(8,051)	**(13,751)**
Write-offs	-	-	-	-
Total net P&L charge during the period	**5,604**	**(8,788)**	**(9,309)**	**(12,492)**
Other movements with no P&L impact	(7,531)	4,381	3,150	-
Loss allowance as at December 31, 2021	**4,728**	**3,466**	**14,688**	**22,882**

(All amounts are in thousands Albanian Lek unless otherwise stated)

Changes in the gross carrying amount of Visa Card during the period which contributed to changes in the loss allowance is presented in below table:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2022	**160,255**	**7,448**	**18,080**	**185,784**
Transfers:	**(17,786)**	**15,315**	**2,470**	**-**
Transfer from Stage 1 to Stage 2	(19,780)	19,780	-	**-**
Transfer from Stage 1 to Stage 3	(2,940)	-	2,940	-
Transfer from Stage 2 to Stage 3	4,834	(4,834)	-	-
Transfer from Stage 3 to Stage 2	-	(355)	355	-
Transfer from Stage 3 to Stage 1	101	-	(101)	-
Transfer from Stage 3 to Stage 2	-	724	(724)	**-**
New originated or purchased	27,721	386	584	**28,691**
Increase/(Decrease) due to new disbursement/loan payments	20,205	(527)	(1,419)	**18,260**
Write-offs	-	-	(3,171)	(3,171)
FX and other movements	(1,169)	-	-	(1,169)
Gross carrying amount as at December 31, 2022	**189,227**	**22,623**	**16,544**	**228,395**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2021	**142,417**	**11,785**	**24,264**	**178,466**
Transfers:	**814**	**(3,083)**	**2,270**	**-**
Transfer from Stage 1 to Stage 2	(3,234)	3,234	-	**-**
Transfer from Stage 1 to Stage 3	(2,656)	-	2,656	**-**
Transfer from Stage 2 to Stage 3	6,388	(6,388)	-	**-**
Transfer from Stage 3 to Stage 2	-	(826)	826	**-**
Transfer from Stage 3 to Stage 1	315	-	(315)	**-**
Transfer from Stage 3 to Stage 2		897	(897)	**-**
New originated or purchased	32,374	473	169	**33,016**
Increase/(Decrease) due to new disbursement/loan payments	(15,349)	(1,726)	(8,623)	**(25,698)**
Write-offs	-	-	-	**-**
FX and other movements	-	-	-	**-**
Gross carrying amount as at December 31, 2021	**160,255**	**7,448**	**18,080**	**185,784**

(All amounts are in thousands Albanian Lek unless otherwise stated)

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at December 31, 2022	As at December 31, 2021
Bonds and Eurobonds	19,189,430	24,375,982
Albanian Government treasury bills	5,367,837	6,431,143
	24,557,267	**30,807,125**

As at 31 December 2022, the Bank has invested in Eurobonds issuance with government of Albania of Lek 7,199,116 thousand with fixed coupon rate at 3.5% with original maturity of 2 years. The Bank holds bonds with government of Albania amounting Lek 11,372,876 thousand with fixed coupon rate ranging from 2.07% to 9.25%(2021: 1.96% to 9.25%) and corporate bonds with Alpha Bank -Greece amounting Lek 617,437 thousand with fixed coupon rate ranging from 4.25% - 5.5%..
Corporate bond with Banco BPM SPA is matured on 8 March 2022.
Movements are detailed as below:

Bonds and Eurobonds	As at December 31, 2022	As at December 31, 2021
As at January 1,	24,375,981	**18,011,112**
Purchase	2,120,900	18,002,901
Matured	(4,487,937)	(11,417,846)
Loss from change in fair value, net	(2,107,930)	(20,596)
Other (foreign exchange)	(711,584)	(199,589)
As at December 31,	**19,189,430**	**24,375,982**

As at 31 December 2022 and 2021 government treasury bills consists in Tbills issued by the Government of Albania with yields 1.52% to 6.05% (2021: 1.45 to 2.12%). Movements detailed as below:

Government treasury bills	As at December 31, 2022	As at December 31, 2021
As at January 1,	6,431,143	**7,061,777**
Purchase	5,378,874	6,549,649
Matured during the year	(6,431,143)	(7,176,661)
Loss from change in fair value, net	(11,037)	(3,622)
As at December 31,	**5,367,837**	**6,431,143**

During 2021, the treasury bills with government of Greece are matured and the Bank has not invested in FVOCI. Treasury bills with coupon rate at -0.16% and with contractual maturity of 12 months have been matured during 2021.

(All amounts are in thousands Albanian Lek unless otherwise stated)

Table of changes in the loss allowance for financial assets at fair value through other comprehensive income and the reasons for those changes:

Financial Assets FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2022	**13,251**	**-**	**-**	**13,251**
Movements with profit or loss impact				
New originated or purchased	3,918			3,918
Changes in PDs/LGDs/EADs	29,015			29,015
Total net P&L charge during the period	**32,932**	**-**	**-**	**32,932**
Other movements with no P&L impact	(480)	-	-	(480)
Loss allowance as at December 31, 2022	**45,703**	**-**	**-**	**45,703**

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Financial Assets FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2021	**4,045**	**-**	**-**	**4,045**
Movements with profit or loss impact				
New originated or purchased	4,557	-	-	4,557
Changes in PDs/LGDs/EADs	4,713	-	-	4,713
Total net P&L charge during the period	**9,270**	**-**	**-**	**9,270**
Other movements with no P&L impact	(64)	-	-	(64)
Loss allowance as at December 31, 2021	**13,251**	**-**	**-**	**13,251**

(All amounts are in thousands Albanian Lek unless otherwise stated)

Changes in the gross carrying amount of financial assets at fair value through other comprehensive income during the period which contributed to changes in the loss allowance are presented in below table:

Financial Assets FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2022	**30,807,125**	**-**	**-**	**30,807,125**
Transfers between stages	**-**	**-**	**-**	**-**
New originated or purchased	10,966,693	-	-	10,966,693
FX and other movements	(17,216,551)	-	-	(17,216,551)
Gross carrying amount as at December 31, 2022	**24,557,267**	**-**	**-**	**24,557,267**

Financial Assets FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2021	**26,434,010**	**-**	**-**	**26,434,010**
Transfers between stages	**-**	**-**	**-**	**-**
New originated or purchased	12,242,277	-	-	12,242,277
FX and other movements	(7,869,162)	-	-	(7,869,162)
Gross carrying amount as at December 31, 2021	**30,807,125**	**-**	**-**	**30,807,125**

(All amounts are in thousands Albanian Lek unless otherwise stated)

22. FINANCIAL ASSETS AT AMORTIZED COST

Financial assets at amortized cost are presented in below table:

	31 December 2022	31 December 2021
Financial assets at amortized cost		
Corporate bonds	4,994,324	3,526,775
Albanian Government bonds	4,943,252	2,060,816
Foreign Governments bonds and T-bills	5,162,579	-
Total Financial assets at amortized cost	**15,100,155**	**5,587,591**

Information regarding the ECL allowance for debt instruments measured at amortized cost is presented.in tables below. More information regarding the valuation methodologies can be found in Note 9.4.

(All amounts are in thousands Albanian Lek unless otherwise stated)

22. FINANCIAL ASSETS AT AMORTIZED COST (CONTINUED)

The table below sets out details on debt securities at amortized cost as at 31 December 2022 and 31 December 2021:

Issuer	**Alpha Bank AE Greece**	**BANCO SABADELL**	**Banca de Espagnia**	**National Bank Greece SA**	**Piraeus Group Finance**
Nominal Value	799,610	228,460	228,460	1,142,300	1,313,645
Accrued Interest	29,980	1,654	11,323	43,118	66,321
Remaining Premium/(discount)	(81,946)	(464)	815	83,008	45,482
Allowance for losses	(37,720)	(567)	(1)	(63,420)	(71,272)
	709,924	**229,083**	**240,597**	**1,205,006**	**1,354,176**
Maturity	10Y	6Y	10Y	10Y	10Y
Remaining maturity(maturity)	86m	2m	1m	79m	78m
Coupon	4.25	0.88	5.4	8.25	9.75
Issuer Rating	B-	BBB-	A-1	B+	B-
Letter Rating	CCC	B+	A-	CCC	CCC

					31 December 2022
Bank of Greece	**North Macedonia Republic**	**Spare Bank OEST**	**Unicredito Italy**	**Albanian Government**	**TOTAL**
3,769,590	1,142,300	342,690	1,142,300	4,976,740	15,086,095
(35,982)	27,990	2,415	10,891	55,664	213,374
9,767	8,891	(900)	(513)	(86,703)	(22,563)
(350)	(223)	(210)	(538)	(2,450)	(176,751)
3,743,025	**1,178,958**	**343,995**	**1,152,140**	**4,943,251**	**15,100,155**
3m	7Y	5Y	5Y	2 - 10Y	
3m	7m	2m	1m	59m	
T-bills	5.63	0.88	1	4.81	
B-	BB-	AAA-	BBB	B+	
CCC	BB-	AAA-	BBB-	B+	

					31 December 2021
Issuer	**Piraeus Group Finance**	**National Bank Greece SA**	**Alpha Bank AE Greece**	**Government of Albania**	**Total**
Nominal Value	1,388,740	1,207,600	845,320	2,006,500	5,448,160
Accrued Interest	70,112	45,582	31,694	33,935	181,323
Remaining Premium/(discount)	55,473	101,112	(98,754)	21,024	78,855
Allowance for losses	(55,808)	(59,100)	(5,196)	(643)	(120,747)
	1,458,517	**1,295,194**	**773,064**	**2,060,816**	**5,587,591**
Maturity	10 Years	10 Years	10 Years	2-7 Years	
Remaining maturity(months)	91 m	92 m	99 m	14-116 m	
Coupon	9.75%	8.25%	4.25%	2.65-5.38%	
Issuer Rating	B+	B-	B-	B+	
Letter Rating	B+	CCC	CCC	B+	

(All amounts are in thousands Albanian Lek unless otherwise stated)

22. FINANCIAL ASSETS AT AMORTIZED COST (CONTINUED)

Table of changes in the loss allowance for financial assets at amortized cost and the reasons for those changes are presented in below table:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2022	**120,747**	**-**	**-**	**120,747**
Movements with profit or loss impact				
New financial assets originated or purchased	3,655	-	-	**3,655**
Changes in PDs/LGDs/EADs	58,843	-	-	**58,843**
Total net P&L charge during the period	62,499	**-**	**-**	**62,499**
Other movements with no P&L impact	(6,495)	-	-	(6,495)
Loss allowance as at December 31, 2022	**176,751**	**-**	**-**	**176,751**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2021	**26,911**	**-**	**-**	**26,911**
Movements with profit or loss impact				
New financial assets originated or purchased	595	-	-	**595**
Changes in PDs/LGDs/EADs	93,845	-	-	**93,845**
Total net P&L charge during the period	94,440	**-**	**-**	**94,440**
Other movements with no P&L impact	(605)	-	-	(605)
Loss allowance as at December 31, 2021	**120,747**	**-**	**-**	**120,747**

(All amounts are in thousands Albanian Lek unless otherwise stated)

Changes in the gross carrying amount of financial assets at AC during the period which contributed to changes in the loss allowance are presented in below table:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2022	**5,708,338**	**-**	**-**	**5,708,338**
New financial assets originated or purchased	6,863,598	-	-	**6,863,598**
Increase/Decrease of Balances for existing Loan	2,865,930	-	-	**2,865,930**
FX and other movements	(160,959)	-	-	**(160,959)**
Gross carrying amount as at December 31, 2022	**15,276,907**	**-**	**-**	**15,276,907**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2021	**3,621,012**	**-**	**-**	**3,621,012**
New financial assets originated or purchased	1,707,271	-	-	**1,707,271**
Increase/Decrease of Balances for existing Loan	458,424	-	-	**458,424**
FX and other movements	(78,369)	-	-	**(78,369)**
Gross carrying amount as at December 31, 2021	**5,708,338**	**-**	**-**	**5,708,338**

(All amounts are in thousands Albanian Lek unless otherwise stated)

23. REPOSSESSED ASSETS

Repossessed assets represent real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose the assets in the foreseeable future. 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.

Repossessed assets as at 31 December 2022 and 2021 are detailed as below:

	As at December 31, 2022	As at December 31, 2021
Gross value at beginning of year	**2,364,507**	**2,768,307**
Acquisitions through legal process for settlement of loans to customers	66,060	507,673
Disposals	(489,785)	(911,492)
Gross value at the end of the year	**1,940,782**	**2,364,488**
Impairment fund at beginning of year	**(828,088)**	**(824,774)**
Write down to net realizable value	(135,030)	(122,127)
Disposal	179,084	118,813
Impairment fund at the end of the year	**(784,034)**	**(828,088)**
Balance at the end of the year, net of allowance for impairment	**1,156,748**	**1,536,400**

The fair value of the Bank's repossessed assets as at December 31, 2022 and 2021 has been measured on the basis of a valuation carried out on the respective dates by several independent appraisers, outsourced from the Bank. All appraisers are registered and certified in accordance with the Albanian Laws. They have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. All the repossessed assets were classified as Level 2, hence there were no repossessed assets classified as Level 1 or Level 3, nor transfers between levels 1, 2 and 3 during the year.

(All amounts are in thousands Albanian Lek unless otherwise stated)

24. INTANGIBLE ASSETS

	Software and licenses	Work in progress	Total
Cost			
At 1 January 2021	**1,563,283**	159,841	**1,723,124**
Additions	320,546	-	320,546
Disposal	-	(159,841)	(159,841)
At December 31, 2021	**1,883,829**	-	**1,883,829**
Additions	39,457	9,627	49,084
Disposal	(81)	-	(81)
At December 31, 2022	**1,923,205**	**9,627**	**1,932,832**
Amortization			
At 1 January 2021	**(1,379,529)**		**(1,379,529)**
Amortization charge for the year	(102,766)	-	(102,766)
Disposal			
At December 31, 2021	**(1,482,295)**		**(1,482,295)**
Amortization charge for the year	(97,924)	-	(97,924)
Disposal	81	-	81
At December 31, 2022	**(1,580,138)**	**-**	**(1,580,138)**
Carrying amount			
At December 31, 2021	**401,534**	**-**	**401,534**
At December 31, 2022	**343,067**	**9,627**	**352,694**

(All amounts are in thousands Albanian Lek unless otherwise stated)

25. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Land and buildings	Vehicles	Furniture and electronic equipment
Cost			
At 1 January 2021	674,718	**2,181**	1,337,925
Additions	1,039	-	94,471
Disposals	-	-	(13,541)
At December 31, 2021	**675,757**	**2,181**	**1,418,855**
Additions	695	279	33,075
Disposals	(111,258)	-	(15,503)
At December 31, 2022	**565,193**	**2,460**	**1,436,427**
Depreciation			
At 1 January 2021	(434,293)	(2,181)	(1,116,336)
Depreciation charge for the year	(32,003)	-	(96,058)
Disposals	-	-	13,541
At December 31, 2021	**(466,296)**	**(2,181)**	**(1,198,853)**
Depreciation charge for the year	(28,297)	-	(95,137)
Disposals	75,070	-	15,421
At December 31, 2021	**(419,523)**	**(2,181)**	**(1,278,570)**
Carrying amount			
At December 31, 2021	**209,460**	**-**	**220,002**
At December 31, 2022	**145,670**	**280**	**157,857**

Property and equipment's are not pledged as collateral to third parties as at December 31, 2022 and 2021.

(All amounts are in thousands Albanian Lek unless otherwise stated)

Leasehold improvement	Work in progress	Right of use assets	Total
869,066	**7,227**	**482,199**	**3,373,316**
26,390	-	425,442	547,342
(16,125)	(7,227)	(88,889)	(125,782)
879,331	**-**	**815,643**	**3,795,474**
19,251	-	246,354	299,654
(49,665)	-	(287,121)	(463,548)
848,917	**-**	**774,876**	**3,631,581**
(805,080)	**-**	(224,069)	**(2,581,959)**
(39,226)	-	(153,749)	(324,743)
16,125	-	86,014	115,679
(828,181)	**-**	**(291,804)**	**(2,791,023)**
(18,039)	-	(176,071)	(317,544)
49,722	-	92,588	232,800
(796,498)	**-**	**(375,287)**	**(2,875,767)**
51,150	**-**	**523,839**	**1,004,452**
52,419	**-**	**399,588**	**755,814**

(All amounts are in thousands Albanian Lek unless otherwise stated)

25. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

Set out below are the carrying amounts of lease liabilities (included under ‘Other liabilities’ in Note 30) and the movements during the period:

	2022	2021
As at 1 January	**482,278**	**326,021**
Additions	246,354	425,442
Disposal	(155,892)	(88,889)
Accretion of interest	381	303
Payments	(189,326)	(175,658)
Revaluation effect	(20,511)	(4,939)
As at 31 December 2021	**363,284**	**482,280**

As at December 31, 2022 the Bank had total cash outflows for leases of Lek 189,326 thousand (2021: Lek 175,658 thousand).

26. OTHER ASSETS

	As at December 31, 2022	As at December 31, 2021
Other financial assets		
Other receivables from customers	376,136	348,857
Other debtors, net	201	351
Total other financial assets	**376,337**	**349,208**
Prepaid expenses	120,510	152,152
Income tax receivable (Note 16)	15,441	12,147
Inventory	12,938	16,398
Advance payments	1,514	759
Other assets	223,234	169,590
Total other assets	**749,974**	**700,254**

(All amounts are in thousands Albanian Lek unless otherwise stated)

27. DUE TO BANKS

	As at December 31, 2022	As at December 31, 2021
Current accounts		
Residents	12,306	12,306
Non residents	30,715	129,474
	43,021	141,780
Borrowings		
Residents	3,877,593	749,101
	3,877,593	749,101
Accrued interest	1,053	17
	3,921,667	**890,898**

28. DUE TO CUSTOMERS

	As at December 31, 2022	As at December 31, 2021
Corporate customers		
Current accounts	13,633,597	12,084,567
Term deposits	11,801,039	4,119,429
Other deposits	2,905,481	2,514,100
	28,340,117	18,718,096
Retail customers		
Current / Savings accounts	27,117,498	27,098,281
Term deposits	41,807,913	35,860,806
Other deposits	169,691	599,830
	69,095,102	63,558,917
Accrued interest	226,732	133,504
Total	**97,661,951**	**82,410,517**

(All amounts are in thousands Albanian Lek unless otherwise stated)

28. DUE TO CUSTOMERS (CONTINUED)

The below interest rates are applied on Customer Deposits for years 2022 and 2021:

Saving accounts:	2022		2021	
Currency	**Minimum**	**Maximum**	**Minimum**	**Maximum**
LEK	0.00%	0.30%	0.00%	0.10%
USD/EUR	0.00%	0.25%	0.00%	0.10%

Time Deposits :	2022		2021	
Currency	**Minimum**	**Maximum**	**Minimum**	**Maximum**
LEK	0.20%	5.00%	0.10%	3.60%
USD/EUR	0.10%	4.00%	0.00%	1.80%

29. SUBORDINATED DEBT

	As at December 31, 2022	As at December 31, 2021
Subordinated debt	1,644,912	603,800
Accrued expenses	5,723	3,376
Total	**1,650,635**	**607,176**

Upon approval from Albanian Financial Supervisory Authority ("AMF") on 26 March 2021, Tirana Bank has issued a bond by private offering in the form of subordinated debt. During 2022, the bank has issued subordinated two other bonds amounting in total 9.5 million EUR. The underlying bonds has a maturity of 7-years with a fixed interest rate ranging from 3.30% to 3.8% per annum, payable semi-annually. Bank of Albania has approved the inclusion of subordinated debt as part of Regulatory Capital -Tier 2, while the last trench issued in December 2022 of 4.4 million Eur will be included in Tier 2 on January 2023.

(All amounts are in thousands Albanian Lek unless otherwise stated)

30. OTHER LIABILITIES

	As at December 31, 2022	As at December 31, 2021
Other liabilities	842,742	1,448,992
Lease liability (Note 25)	363,284	482,280
Accrued expenses	141,283	105,651
Deferred income	58,649	38,180
Other taxes payable	13,750	17,393
Social insurance payable	13,142	13,699
Total	**1,432,850**	**2,106,195**

31. PROVISIONS

	As at December 31, 2022	As at December 31, 2021
Operational risk provisions	201,997	186,672
Provision for off balance sheet items	56,235	46,630
Total	**258,232**	**233,302**

Movement in provision for operational risk is detailed below:

	As at December 31, 2022	As at December 31, 2021
At 1 January	186,672	100,965
Charge of the year	15,325	85,707
At 31 December	**201,997**	**186,672**

Operational risk provisions relate mainly to litigations and other risks as considered by the Bank. Provisions for off balance sheet items include the impact of IFRS 9 application in the off-balance sheet items.

(All amounts are in thousands Albanian Lek unless otherwise stated)

32. PAID-IN CAPITAL AND SHARE PREMIUM

	As at December 31, 2022	As at December 31, 2021
Paid in Capital-authorized, issued and fully paid	5,917,986	5,917,986
Share premium	1,735,494	1,735,494
Legal and Other Reserves	1,469,956	1,426,705
Revaluation reserve in financial assets at FVOCI	(1,762,274)	341,979
Total	**7,361,162**	**9,422,164**

The general reserves were created based on the decision of the Supervisory Council of the Bank of Albania No. 69, dated 18 December 2014, which states that reserves are created by appropriating 20% of the Bank's net profit for the year, as reported for financial reporting management purposes.

Additionally, a legal reserve created, as 5% of the statutory profit is required by Law No. 9901, dated 14 April 2008, "On entrepreneurs and commercial companies", until the level of 10% of the basic capital was reached. As at 31 December 2022, the Bank has increased the legal reserve by LEK 43,251 thousand (2021: LEK 32,413 thousand).

As at December 31, 2022 and 2021 Tirana Bank SHA ownership structure is presented below:

Shareholder	No. of shares	% of shares
Balfin shpk	501,975	100%
Total	**501,975**	**100%**

33. ADDITIONAL CASH FLOW INFORMATION

For the purpose of Cash Flow Statement, cash and cash equivalent comprises as follows:

	Notes	As at December 31, 2022	As at December 31, 2021
Cash on hand	**18**	1,788,932	1,871,137
Current accounts with Central Bank	**18**	4,645,114	469,749
Nostro and sight accounts with banks	**19**	1,341,401	2,254,915
Deposits with maturities with less than 3 months	**19**	3,028,133	1,145,209
		10,803,580	**5,741,010**

(All amounts are in thousands Albanian Lek unless otherwise stated)

Changes in subordinated debt arising from financing activities are as following:

	2022	2021
Opening Balance	**607,176**	-
Cash flow items	**-**	
Issuances	**1,037,736**	603,800
Repayments	-	-
Non-cash items	**5,723**	**3,376**
Movement in accrued interest	5,723	3,376
Ending Balance (Note 29)	**1,650,635**	**607,176**

34. RELATED PARTIES

In the course of conducting its banking business, the Bank entered into various business transactions with related parties. Balfin shpk is the sole shareholder of Tirana Bank.

Assets and liabilities

Parent, Group companies and individuals	**As at December 31, 2022**	**As at December 31, 2021**
Loans and advances	641,102	887,390
Other payable	(3,556,390)	(3,718)
Savings Accounts	(11,720,467)	(2,096,545)
Time Deposits	(252,123)	(2,238,335)
Subordinated debt	(5,488)	(67,985)
Total	**(14,893,366)**	**(3,519,193)**

Assets and liabilities

	As at December 31, 2022	**As at December 31, 2021**
Bank's Management		
Loans and advances	221,659	182,894
Deposits	(37,770)	(45,326)
Subordinated debt	(11,488)	(12,140)
Total	**172,401**	**125,428**

(All amounts are in thousands Albanian Lek unless otherwise stated)

Income and expenses

Parent, Group companies and individuals	Year ended December 31, 2022	Year ended December 31, 2021
Interest income	19,812	16,135
Interest expense	(51,600)	(4,415)
Commission income	11,340	10,704
Other administrative expenses	(84,353)	(83,758)
Total	**(104,801)**	**(61,334)**

Management's compensation and benefits	Year ended December 31, 2022	Year ended December 31, 2021
Short-term benefits		
Salaries	57,685	54,071
Bonuses	16,709	15,206
Total	**74,394**	**69,277**

Off Balance Sheet Balfin Group's Companies	As at December 31, 2022	As at December 31, 2021
Commitments given	(355,910)	(164,681)
Total	**(355,910)**	**(164,681)**

35. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The following table provides a reconciliation of classes of financial assets with the measurement categories as of December 31, 2022 and 2021:

As at December 31, 2022	AC	FVOCI	FVTPL	Total
Cash and balances with Central Bank	14,560,495	-	-	14,560,495
Loans and advances to banks	4,369,487	-	-	4,369,487
Loans and advances to customers	52,710,061	-	-	52,710,061
Financial assets at FVOCI	-	24,511,564	-	24,511,564
Financial assets at amortized cost	15,100,155	-	-	15,100,155
Total financial assets				**111,251,762**
Other financial assets				375,830
Total Financial Assets				**111,627,592**

(All amounts are in thousands Albanian Lek unless otherwise stated)

As at December 31, 2021	AC	FVOCI	FVTPL	Total
Cash and balances with Central Bank	8,808,519	-	-	8,808,519
Due from Banks	3,400,028	-	-	3,400,028
Loans and advances to customers	44,808,715	-	-	44,808,715
Financial assets at FVOCI	-	30,807,125	-	30,807,125
Financial assets at AC	5,587,591	-	-	5,587,591
Total financial assets				**93,411,979**
Other financial assets	-	-	-	349,208
Total Financial Assets				**93,761,188**

As of December 31, 2022, and December 31, 2021 all of the Bank's financial liabilities were carried at amortised cost.

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities presented according to when they are expected to be recovered or settled.

			As at 31 December 2022
ASSETS	**Within 12 months**	**After 12 months**	**Total**
Cash and balances with the Central Bank	14,560,495	-	14,560,495
Loans and advances to banks	4,369,487	-	4,369,487
Loans and advances to customers, net	20,970,926	31,739,135	52,710,061
Financial assets at fair value through other comprehensive income	8,267,528	16,289,739	24,557,267
Financial Assets at amortized cost	7,530,543	7,569,612	15,100,155
Repossessed assets, net	-	1,156,748	1,156,748
Other Assets	749,974	-	749,974
Intangible assets	-	352,694	352,694
Property and equipment	-	755,814	755,814
Deferred tax assets	-	389,111	389,111
TOTAL ASSETS	**56,448,953**	**58,252,853**	**114,701,806**
LIABILITIES AND EQUITY			
Due to banks	3,921,667	-	3,921,667
Due to customers	23,466,053	74,195,898	97,661,951
Subordinated debt	28,398	1,622,237	1,650,635
Other liabilities	1,201,717	231,133	1,432,850
Provisions	258,232	-	258,232
TOTAL LIABILITIES	**28,876,067**	**76,049,268**	**104,925,335**
Net	**27,572,886**	**(17,796,415)**	**9,776,471**

(All amounts are in thousands Albanian Lek unless otherwise stated)

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

ASSETS	Within 12 months	After 12 months	Total
Cash and balances with the Central Bank	8,808,519	-	8,808,519
Loans and advances to banks	3,400,028	-	3,400,028
Loans and advances to customers, net	17,682,447	27,126,269	44,808,716
Financial assets at fair value through other comprehensive income	9,863,431	20,943,694	30,807,125
Financial Assets at amortized cost	-	5,587,591	5,587,591
Other Assets	700,254	-	700,254
Repossessed assets, net	-	1,536,400	1,536,400
Intangible assets	-	401,534	401,534
Property and equipment	-	1,004,451	1,004,451
Deferred tax assets	-	22,952	22,952
TOTAL ASSETS	**40,454,679**	**56,622,891**	**97,077,570**
LIABILITIES AND EQUITY			
Due to banks	890,898	-	890,898
Due to customers	21,112,629	61,287,888	82,410,517
Subordinated debt	-	607,176	607,176
Other liabilities	1,786,350	319,845	2,106,195
Provisions	233,300	-	233,300
TOTAL LIABILITIES	**24,033,177**	**62,214,909**	**86,248,086**
Net	**16,421,502**	**(5,592,018)**	**10,829,484**

37. COMMITMENTS AND CONTINGENCIES

The Bank grants letter of credits and guarantees to its customers, which would require the Bank to make paymants if the clients default in settling their liabilities toward third parties. Credit commitments comprise contractual commitments to grant loans and advances up to the set limit within certain time frames and repayment terms. These are recorded as loans and advances to customers when the Bank disburses the committed funds to the customers.

Contingencies and commitments as at December 31, 2022 and 2021 are composed of the following:

	As at December 31, 2022	As at December 31, 2021
Granted		
Loan commitments	8,733,919	6,664,855
Letters of Guarantees	2,075,300	1,169,806
Letters of Credit	768,880	116,413

(All amounts are in thousands Albanian Lek unless otherwise stated)

37. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Table of changes in the loss allowance for commitments and contingencies and the reasons for those changes:

	Stage 1	Stage 2	Stage 3	POCI	
Off balance sheet	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased or originated credit-impaired**	**Total**
Loss allowance as at January 1, 2022	**41,065**	**5,562**	**5**		**46,631**
Movements with P&L impact					
Transfer from Stage 1 to Stage 2	(549,141)	549,141	-	-	-
Transfer from Stage 1 to Stage 3	(94)	-	94	-	-
Transfer from Stage 2 to Stage 1	2,418	(2,418)	-	-	-
Transfer from Stage 2 to Stage 3	-	(195)	195	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	1	(1)	-	-
New assets originated/purchased	22,903	1,225	-		**24,128**
Changes in PDs/LGDs/EADs	(10,660)	(4,617)	1,431	-	**(13,846)**
Total net P&L charge during the period	**(534,574)**	**543,136**	**1,721**	**-**	**10,283**
Other movements with no P&L impact	(14,344)	15,385	(1,720)	-	(678)
Loss allowance as at December 31, 2022	**(507,854)**	**564,083**	**6**	**-**	**56,235**

	Stage 1	Stage 2	Stage 3	POCI	
Off balance sheet	**12-month ECL**	**Lifetim e ECL**	**Lifetim e ECL**	**Purchased or originated credit-impaired**	**Total**
Loss allowance as at January 1, 2021	**115,301**	**27,798**	**-**	**-**	**143,099**
Movements with P&L impact					
Transfer from Stage 1 to Stage 2	(960)	960	-	-	-
Transfer from Stage 1 to Stage 3	(204)	-	204	-	-
Transfer from Stage 2 to Stage 1	14,790	(14,790)	-	-	-
Transfer from Stage 2 to Stage 3	-	(339)	339	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New assets originated/purchased	24,337	857	-	-	25,194
Changes in PDs/LGDs/EADs	(95,559)	(25,938)	745	-	(120,753)
Total net P&L charge during the period	**(57,597)**	**(39,251)**	**1,289**	**-**	**(95,559)**
Other movements with no P&L impact	(16,640)	17,015	(1,284)	-	(909)
Loss allowance as at December 31, 2021	**41,065**	**5,562**	**4**	**-**	**46,631**

(All amounts are in thousands Albanian Lek unless otherwise stated)

37. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Changes in the gross carrying amount of commitment and contingencies during the period which contributed to changes in the loss allowance are presented below:

Off balance sheets	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2022	**7,765,192**	**128,022**	**16,057**	**7,909,271**
Transfers:	**66,495**	**(71,892)**	**5,397**	-
Transfer from Stage 1 to Stage 2	(24,175)	24,175	-	
Transfer from Stage 1 to Stage 3	(7,548)	-	7,548	-
Transfer from Stage 2 to Stage 3	98,103	(98,103)	-	-
Transfer from Stage 3 to Stage 2	-	(824)	824	-
Transfer from Stage 3 to Stage 1	116	-	(116)	
Transfer from Stage 2 to Stage 1	-	2,860	(2,860)	-
New financial guarantees originated or purchased	3,942,562	21,378	382	**3,964,322**
Increase/Decrease of Balances for existing Loan	(4,102,588)	(15,897)	(2,869)	**(4,121,354)**
FX and other movements	(231,298)	(5,917)	(12)	**(237,226)**
Gross carrying amount as at December 31, 2022	**7,440,363**	**55,694**	**18,956**	**7,515,012**

Off balance sheets	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2021	**5,675,266**	**165,527**	**179**	**5,840,973**
Transfers:	(7,356)	8,902	(1,546)	-
Transfer from Stage 1 to Stage 2	(46,506)	46,506	-	
Transfer from Stage 1 to Stage 3	(2,578)	-	2,578	-
Transfer from Stage 2 to Stage 3	40,495	(40,495)	-	-
Transfer from Stage 3 to Stage 2	-	(549)	549	-
Transfer from Stage 3 to Stage 1	1,234	-	(1,234)	
Transfer from Stage 2 to Stage 1	-	3,439	(3,439)	-
New financial guarantees originated or purchased	4,267,105	2,034	572	**4,269,710**
Increase/Decrease of Balances for existing Loan	(2,113,525)	(45,973)	16,853	**(2,142,646)**
FX and other movements	(56,299)	(2,467)	-	**(58,766)**
Gross carrying amount as at December 31, 2021	**7,765,192**	**128,022**	**16,057**	**7,909,271**

Litigation

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. Litigation provisions arise out of current or potential claims or pursuits alleging non-compliance with contractual or other legal or regulatory responsibilities, which have resulted or may arise in claims from customers, counterparties or other parties in civil litigations.

The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

(All amounts are in thousands Albanian Lek unless otherwise stated)

37. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Lease commitments

The Bank leases office premises in Tirana, Durrës, Korçë, Vlorë, Lezhë, Elbasan, Gjirokastër, Shkodër, Lushnjë, Pogradec, Berat, Sarandë, Fier etc. In general, these leases are cancellable with three months' notice. Lease commitments are classified as follows:

	As at December 31, 2022	As at December 31, 2021
Up to 1 year	130,662	150,447
From 1 to 5 years	388,401	393,602
More than 5 year	437,278	1,169
Total	**956,341**	**545,218**

38. EVENTS AFTER THE REPORTING DATE

There are no other material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statements.

TIRANA BANK

HERE FOR YOU