

BANKA AMERIKANE E INVESTIMEVE SHA

**Separate Financial Statements as at and for the year ended
31 December 2021
(with independent auditor's report thereon)**

CONTENTS

STATEMENT OF FINANCIAL POSITION	1
SEPARATE STATEMENT OF CHANGES IN EQUITY	3
SEPARATE STATEMENT OF CASH FLOWS	4
1. REPORTING ENTITY	5
2. BASIS OF PREPARATION	5
3. NEW STANDARDS AND INTERPRETATION ISSUED NOT YET EFFECTIVE	7
4. SIGNIFICANT ACCOUNTING POLICIES	9
5. RISK MANAGEMENT	25
6. USE OF ESTIMATES AND JUDGEMENTS	48
7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES	51
8. ANALYSES OF ASSETS, LIABILITIES AND EQUITY ACCORDING TO REMAINING MATURITY	53
9. CASH AND CASH EQUIVALENTS	54
10. LOANS AND ADVANCES TO BANKS	54
11. INVESTMENTS SECURITIES	55
12. LOANS AND ADVANCES TO CUSTOMERS	59
13. FINANCIAL LEASING	64
14. PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS	66
15. INTANGIBLE ASSETS	67
16. INVENTORY AND OTHER ASSETS	67
17. ASSETS HELD FOR SALE	67
18. INVESTMENT IN ASSOCIATES AND SUBSIDIARIES	68
19. DUE TO BANKS	68
20. DUE TO CUSTOMERS	69
21. DEFERRED TAX ASSETS AND LIABILITIES	70
22. OTHER PROVISIONS	70
23. OTHER LIABILITIES	70
24. SHARE CAPITAL	71
25. RESERVES	71
26. NET INTEREST INCOME	72
27. NET FEE AND COMMISSION INCOME	72
28. OTHER OPERATING INCOME, NET	73
29. PERSONNEL EXPENSES	73
30. OTHER ADMINISTRATION EXPENSES	73
31. INCOME TAX EXPENSES	73
32. COMMITMENTS AND CONTINGENCIES	74
33. LITIGATION AND CLAIMS	75
34. LEASE COMMITMENTS AND OPERATING LEASE EXPENSE	75
35. RELATED PARTIES TRANSACTIONS	75
36. RELATED PARTIES TRANSACTIONS (CONTINUED)	76
37. SUBSEQUENT EVENTS	78

Independent Auditor's Report

To the Shareholders of American Bank of Investments sh.a.,

Opinion

We have audited the separate financial statements of American Bank of Investments sh.a., (hereafter referred as the “Bank”) which comprise the separate statement of financial position as at 31 December 2021 the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate 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 31 December 2021, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 Separate Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the separate 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 separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Tirana, Albania

July 21, 2022

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BANKA AMERIKANE E INVESTIMEVE SHA

STATEMENT OF FINANCIAL POSITION

as at 31 December 2021

(All amounts are expressed in thousand Albanian Lek, unless otherwise stated)

	Notes	31 December 2021 ALL '000	31 December 2020 ALL '000
Assets			
Cash and cash equivalents	9	7,125,591	11,098,410
Loans and advances to banks	10	6,289,427	6,218,239
Financial investments – FVOCI	11	22,174,175	18,242,385
Financial investments at amortised cost	11	21,188,670	16,904,174
Loans and advances to customers	12	35,499,560	29,278,082
Financial leasing	13	316,746	52,166
Property, equipment and right-of-use assets	14	1,369,527	1,480,359
Intangible assets	15	138,481	146,223
Deferred tax assets	21	25,429	23,491
Inventory and other assets	16,17	4,217,507	3,500,700
Investments in Associates and Subsidiaries	18	120,500	120,500
Total Assets		98,465,613	87,064,729
Liabilities			
Due to banks	19	13,747,165	7,201,255
Due to customers	20	72,246,941	68,199,118
Other liabilities	23	1,481,788	741,807
Lease liability		392,072	435,421
Other provisions	22	64,808	65,834
Deferred tax liabilities	21	17,125	108,881
Total Liabilities		87,949,899	76,752,316
Equity			
Share capital	24	3,450,935	3,450,935
Legal and other reserves	25	4,657,806	4,430,569
Fair value reserve	25	166,387	681,398
Retained Earnings		837,274	685,431
Gain of the year		1,403,312	1,064,080
Total Equity		10,515,714	10,312,413
Total Liabilities and Equity		98,465,613	87,064,729

The notes on pages 5 to 81 are an integral part of these separate financial statements.

BANKA AMERIKANE E INVESTIMEVE SHA

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

(All amounts are expressed in thousand Albanian Lek, unless otherwise stated)

	Notes	Year ended 31 December 2021 ALL'000	Year ended 31 December 2020 ALL'000
Interest income		3,693,534	3,071,992
Interest expense		501,498	571,400
Net interest income	27	3,192,036	2,500,592
Fee and commission income		321,149	337,461
Fee and commission expense		56,470	71,857
Net fee and commission income	28	264,679	265,604
Net foreign exchange gains/(losses)		(50,777)	28,817
Other operating (loss) income, net	29	105,320	317,645
Net operating income		(156,097)	346,462
Net impairment gain on loans and advances	15,16	189,092	(167,270)
Net impairment on other financial assets		(35,416)	(17,764)
Personnel expenses	30	(812,187)	(785,913)
Depreciation and amortization	14,15	(284,189)	(284,998)
Other administration expenses	31	(647,478)	(615,091)
Net provisions for risk and expenses	23	28,341	24,867
Total expenses		(1,618,519)	(1,846,369)
Net profit before taxes		1,682,099	1,266,289
Income tax expense	32	278,787	202,209
Profit for the year		1,403,312	1,064,080
Other comprehensive income			
<i>Items that will be reclassified to profit or loss</i>			
Change in fair value of financial instruments – FVOCI, net of tax		515,012	387,933
Other comprehensive income for the year		(515,012)	(387,933)
Total comprehensive income for the year			

The notes on pages 5 to 83 are an integral part of these separate financial statements.

These separate financial statements are approved on April 13, 2022 from the executives of Banka Amerikane e Investimeve sh.a. and are signed on it's behalf by:

Andi Bailta
Chief Executive Officer



Armand M. Shalizi
Chief Financial Officer

BANKA AMERIKANE E INVESTIMEVE SHA

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

(All amounts are expressed in thousand Albanian Lek, unless otherwise stated)

	Share capital	Legal and other reserves	Fair value reserve	Retained earnings	Total
	ALL '000	ALL '000	ALL '000	ALL '000	ALL '000
Balance at 1 January 2020	3,450,935	4,292,980	1,069,332	823,020	9,636,267
Profit for the year	-	-	-	1,064,080	1,064,080
Change in FV of securities	-	-	387,934	-	387,934
Total comprehensive income	-	-	387,934	1,064,080	676,146
Transaction with owners, recorded directly in equity	-	137,589	-	137,589	-
Increase of legal reserves	-	137,589	-	137,589	-
Total contributions by and distribution to owners	-	137,589	-	137,589	-
Balance at 31 December 2020	3,450,935	4,430,569	681,388	1,749,511	10,312,413
Profit for the year	-	-	515,011	1,403,312	1,403,312
Change in FV of securities	-	-	(515,011)	-	515,011
Total comprehensive income	-	-	(515,011)	1,403,312	888,301
Transaction with owners, recorded directly in equity	-	-	-	(685,000)	(685,000)
Dividend distribution	-	227,237	-	227,237	-
Increase of legal reserves	-	-	-	(912,237)	(685,000)
Total contributions by and distribution to owners	-	-	-	2,240,596	10,515,714
Balance at 31 December 2021	3,450,935	4,657,806	166,387	2,240,596	10,515,714

The notes on pages 5 to 81 are an integral part of these separate financial statements.

BANKA AMERIKANE E INVESTIMEVE SHA

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

(All amounts are expressed in thousand Albanian Lek, unless otherwise stated)

	Notes	Year ended 31 December 2021 ALL'000	Year ended 31 December 2020 ALL'000
Profit before tax		1,682,099	1,266,289
Adjustments for:			
Depreciation and amortization	14,15	284,189	284,998
Net impairment gain on loans and advances to customers	12	(189,092)	167,270
Net impairment on other financial assets and other assets	11	102,619	-
Net impairment loss on other operational provisions	22	28,341	(24,667)
Net interest income	26	(3,192,036)	(2,500,592)
Unrealised foreign exchange differences		50,777	(28,817)
Changes in			
Loans and advances to banks	10	(63,530)	133,866
Compulsory reserve	10	(103,466)	(380,821)
Loans and advances to customers	12	(7,414,969)	(5,124,097)
Financial Leasing	13	(264,580)	(9,867)
Due to banks	19	6,546,942	5,926,127
Due to customers	20	4,386,584	2,660,905
Inventory and other assets	16,17	423,025	785,979
Other liabilities and provisions	22,23	497,271	(727,068)
Interest received		4,034,542	3,071,992
Interest paid		(999,379)	(460,693)
Income Tax paid		202,500	136,972
Net cash from operating activities		5,806,837	5,177,756
Cash flows from investing activities			
Investments in Associates and subsidiaries	18	-	(20,000)
Acquisition of property and equipment	14	(112,996)	(128,957)
Acquisition of intangible assets	15	(52,508)	(46,261)
Net acquisitions: FVOCI Investments	11	(4,444,656)	2,268,094
Net acquisitions of amortised cost Investments	11	4,284,496	5,954,255
Net cash used in Investing activities		(8,894,656)	3,881,379
Cash flows from financing activities			
Dividend distribution		685,000	-
Net cash from financing activities		685 000	-
Net decrease in cash and cash equivalents		(3,972,819)	1,296,377
Cash and cash equivalents as at 1 January	9	11,098,410	9,802,033
Cash and cash equivalents as at 31 December	9	7,125,591	11,098,410

The notes on pages 5 to 81 are an integral part of these separate financial statements.

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

1. REPORTING ENTITY

Banka Amerikane e Investimeve sh.a. ('the Bank'), is a wholly owned subsidiary of Tranzit Sh.p.k, an Albanian non-banking financial institution focused on providing flexible financing options to companies and individuals.

The Bank was initially established as a subsidiary of the Commercial Bank of Greece (subsequently named Emporiki Bank of Greece S.A.) in October 1998. In October 1999, the Bank, being initially named Intercommercial Bank – Albania Sh.a., was authorized to operate in all fields of banking activity. During 2001, the Bank changed its name to the Commercial Bank of Greece (Albania) Sh.a. On 1 March 2004, the Bank's name was changed to Emporiki Bank Albania Sh.a.

In June 2012, the Emporiki Bank of Greece S.A. sold 100% of its participation in its 100% subsidiary Emporiki Bank Albania Sh.a., to IUB Holding, a French Société Anonyme par actions simplifiée, being a 100 per cent direct subsidiary of Crédit Agricole S.A. On 3rd of September 2012 the Bank's name was changed to Credit Agricole Bank Albania Sh.a. In October 2015, IUB Holding sold 100% of the shares of its subsidiary, Credit Agricole Bank Albania Sh.a, to Tranzit Sh.p.k. The Regulatory approvals, including the change of name to Banka Amerikane e Investimeve sh.a., were finalized with the effective legal date of 12th of October 2015.

On 2nd of February 2018, the Bank, signed the agreement of purchasing 100% shares of Banka NBG Albania. The acquisition was finalized on 3rd of July 2018 after the pre-approval of Bank of Albania on 6th of June 2018. Following the Bank's shareholder's decision, on 6th of September 2018, the Bank of Albania pre-approved the legal merger of both entities American Bank of Investments Sh.a and Banka NBG Albania sh.a., defining the American Bank of Investments Sh.a as the surviving entity. The legal merger was finalized on 1st of October 2018.

The Bank operates in accordance with the Law No. 9662 "On Banks in the Republic of Albania", dated 18 December 2006. The Bank is licensed to perform credit and deposit activities, payment services in Albania and abroad as well as other banking activities in accordance with Albanian laws.

At 31 December 2021, the registered share capital was ALL 3,450,935 (2020: ALL 3,450,935) thousand, composed by 84,769 shares with a nominal value of Euro 295,59 (equivalent in ALL 40,709.87).

The Bank's registered office is in Tirana, Rruga e Kavajes Building #27, H1, 8th floor. The Bank operates in Albania only, with a network of 21 branches as of 31 December 2021 (2020: 21 branches).

The Bank owns 100% of the registered capital of the company "ABI Invest sh.a." and "ABI Broker sh.a." which operate respectively in the investment and insurance market, registered with the National Registration Center on 22.12.2020 and 10.01.2019.

The Bank had 349 employees as of 31 December 2021 (2020: 365), out of which 213 are employees of the Head Office.

2. BASIS OF PREPARATION**(a) Statement of compliance**

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The financial statements for and for the year ended 31 December 2020 are approved by the Bank's Management on April 13, 2022. The Company has applied the exemption for the preparation of consolidated financial statements, since the Company "Tranzit sh.p.k." prepares consolidated statements for the whole group. See note 4 b).

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)**(b) Going concern**

The Bank's financial statements are prepared on a going concern basis, which assumes that the Bank will continue its activity for a period of at least 12 months from the date of financial reporting. The Bank conducts stress tests under hypothetical scenarios that aim to determine the needed liquidity and capital to withstand deteriorating market scenarios in order to further assess the need to implement recovery plans or take precautionary liquidity management measures.

Following the announcement of the pandemic on March 12, 2020 by the World Health Organization due to the virus of COVID19 and measures taken by the Council of Ministers for the Preservation of Public Health in Albania, the Bank has continued to monitor closely any effect caused directly or indirectly by the pandemic situation, including internal operations, anti-COVID protocols, monitoring of clients financed through the GS1 and GS2 programme, in accordance to the agreement signed with the Ministry of Finance, on June 29, 2020, as per VKM No. 277 on 06.04.2020 and No. 387 on 13.05.2020 on the provision of loans under sovereign guarantee at a total value of 650 million ALL.

Aiming to test the possible impacts of macroeconomic indicators on financial position, performance and regulatory compatibility, the Bank regularly conducts stress tests for budgets, capital sufficiency rate, open currency positions, etc. These "stress tests" have been based on the suggested models by the Bank of Albania as well as internal models established in accordance with the undertaken risk profiles and the concentration of loan portfolios, deposits and investments.

According to the stress tests, the Bank continue to report a minimum capital sufficiency rate of 12.83% under the effect of deteriorating market scenarios as a result of increased credit risk and market risk, while the factual rate reached 18.27% in December 2021, without considering the net profit of the reporting year. In each scenario, the Bank envisions liquidity coverage through financial instruments, interbank borrowings, within a short-term period of 3 months from the date of implementation of the deteriorating scenario.

During 2021, the Bank has also reported an increase in its business activity, such as higher security investments (+23%), loans (+22%) and customer deposits (+6%) compared to the 2020 closing and has also exceeded the budgeted figures.

According to the above factors, Bank's Management has carried out an assessment on the Bank's ability to track its activity according to the going concern basis and has concluded that the Bank has sufficient resources to continue operating for a period of at least 12 months from the date of financial reporting. Also, based on these assessments, the Management is not aware of any material uncertainty that may cast doubt on Bank's ability to continue its activity.

(c) Basis of measurement

The separate financial statements are prepared on the historical cost basis except for debt instruments at fair value through OCI which are measured at fair value, assets held for sale which are measured at FV less costs to sell and inventory which is measured at the lower of cost and net realizable value.

(d) Functional and presentation currency

The separate financial statements are presented in Albanian Lek ("ALL"), which is the Bank's functional and presentation currency. Except as indicated otherwise, financial information presented in ALL has been rounded to the nearest thousand.

BANKA AMERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

3. NEW STANDARDS AND INTERPRETATION ISSUED NOT YET EFFECTIVE

a) Standards, amendments and interpretations of existing standards that are not yet effective and / or have not been previously approved by the Bank

At the date of authorization of these financial statements, some new but not necessarily effective Standards, Standards and Amendments to existing Standards, and Interpretations have been published by the IASB. Standards and changes that are not yet effective and were not initially approved by the Company include:

- IFRS 17 Insurance Contracts - Effective for annual reporting periods beginning on or after 1 January 2023
- Definition of a business (Amendments to IFRS 3) - effective for annual reporting periods beginning on or after 1 January 2021
- Definition of materiality (Amendments to IAS 1 and IAS 8) - effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.
- Conceptual Framework for Financial Reporting - effective for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

These standards or changes to existing standards have not previously been approved by the Company. Management provides that all relevant pronouncements will be approved for the first period beginning on or after the effective date of publication. New standards, amendments and interpretations that have not been adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2019, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Bank's financial statements.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The amendment is effective from 1 January 2019. The Bank does not expect a significant impact from this amendment.

The Conceptual Framework for Financial Reporting

The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The IASB issued the Conceptual Framework in March 2019. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The Bank will adopt the following standards when they become effect but does not expects to have an impact over its financial statements because these are not applicable to the Bank.

Notes to the separate financial statements for the year ended 31 December 2021*(All amounts are in thousand Albanian Lek, unless otherwise stated)***3. NEW STANDARDS AND INTERPRETATION ISSUED NOT YET EFFECTIVE (CONTINUED)**

- a) **Standards, amendments and interpretations of existing standards that are not yet effective and / or have not been previously approved by the Bank (continued)**

IFRS 17 Insurance contracts, effective on or after 1 January 2023.

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows). A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (i.e., coverage period). Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.

Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use, effective on or after 1 January 2022

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment must be applied retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

AIP IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities, effective on or after 1 January 2022

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current, effective on or after 1 January 2022*Right to defer settlement*

If an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

3. NEW STANDARDS AND INTERPRETATION ISSUED NOT YET EFFECTIVE (CONTINUED)

- a) **Standards, amendments and Interpretations of existing standards that are not yet effective and / or have not been previously approved by the Bank (continued)**

Management expectations

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the

classification. This applies even if settlement has occurred when the financial statements are authorised for issuance.

Meaning of the term 'settlement'

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception. In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or noncurrent. Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'.

Amendments to IFRS 3: Definition of a Business, effective on or after 1 January 2020.

Amendments to IFRS 3: Reference to the Conceptual Framework, effective on or after 1 January 2022.

Amendments to IAS 37: Onerous Contracts - Costs of Fulfilling a Contract, effective on or after 1 January 2022.

AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter, effective on or after 1 January 2022.

AIP IAS 41 Agriculture - Taxation in fair value measurements, effective on or after 1 January 2022.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

4. SIGNIFICANT ACCOUNTING POLICIES

As presented in Note 4.h), the Bank does not reclassify its financial assets subsequent to its initial recognition, apart from the exceptional circumstances mentioned in the Standard. During 2019 the Bank identified that a part of its financial instruments at FVOCI obtained from the merger with NBG, retained their previous classification as FVOCI instead of being classified under the policy of the Bank. In the current year, the Bank revised the classification of this portfolio as Amortized Cost in accordance with the Business Model of the Bank for all variable rates securities. The reclassification did not impact the measurement of the assets as the fair value at the date of original acquisition through the merger did not differ from the amortized cost and there is no impact in profit or loss. See note 11 for more details.

a) Business combinations

The company applies the acquisition method in accounting for business combinations. The amount transferred by the Company to acquire control of a subsidiary is calculated as the total fair value at the acquisition date of the transferred assets, liabilities and equity interests issued by the Company, which includes the fair value of each asset or liability arising from a contingency adjustment of consideration. Purchase costs are incurred when they occur. Acquired assets and liabilities are measured at their fair value at the acquisition date.

BANKA AMERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Subsidiaries and consolidation

Subsidiaries are entities controlled by the Bank. The Bank prepares separate financial statements in accordance with IFRS. Interests in subsidiaries are accounted for at cost in the separate financial statements. The Bank does not prepare consolidated financial statements, because its Parent, Tranzit sh.p.k prepares consolidated financial statements in accordance with IFRS. Information on interest in other entities is presented in Note 18.

c) Investment in associates

The investment in an associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Bank's investment in its associate is accounted for at cost. The investment is accounted for using the equity method in the consolidated financial statements of the parent of the Bank, i.e., Tranzit sh.p.k.

Upon loss of significant influence over the associate, the Bank measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

d) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised costs in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are generally recognised in profit or loss.

The official exchange rates for main currencies used in the conversion of foreign currency balances for 2021 and 2020 are as follows (against ALL):

	31 December 2021	31 December 2020
1 USD	106.54	100.84
1 EUR	120.76	123.70
1 GBP	143.95	137.93

While the average annual rates for the year ended 31 December 2021 and 2020 converted into ALL are as follows:

	Year 2021	Year 2020
1 USD	103.54	108.53
1 EUR	122.44	123.77
1 GBP	142.44	139.26

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Interest

Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the separate statement of financial position with an increase or reduction in interest income.

The adjustment is subsequently amortized through Income from banking operations in the separate statement of comprehensive income.

Interest and similar income

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets (as set out in Note 4.j), the Bank calculates interest income by calculating the credit-adjusted

EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

f) Fees and commission – Revenue from banking services to customers

The bank earns fee and commission income from a diverse range of services it offers to its customers. Fees and commission income and expenses that are part of the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate. Service fees and commissions for which the Bank assumes a performance obligation to customers are recognized as bank revenue and are calculated in accordance with IFRS 15 Contract Income. The Terms and Conditions of Service of the Bank (contracts) usually do not involve multiple performance obligations, included under one consideration, hence there is no significant judgment on the transaction price distribution. Terms and conditions (contracts) do not typically include multiple performance obligations bundled under one consideration, consequently there is no significant judgement in allocation of transaction price.

In addition, banking services offered by the bank have a duration of no more than one year or are renewed on annual basis (for example account maintenance). Consequently, the Bank has used the practical expedient of the standard and needs not to present information about the aggregate amount of the price related to the unsatisfied portion of performance obligations.

Satisfaction of performance obligations is performed either at a point in time whereby commission revenue is recognised when the service has been executed and transferred to the customer, or over time where by the Bank performs the service over an agreed period and the customer consumes it as the service is being performed, and revenue is recognised over the said period.

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Fees and commission – Revenue from banking services to customers (continued)

Fee income can be divided into the following three categories:

- *Fee income earned from services that are provided over a 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.

- *Fee income from providing financial services and earned on the execution of a transaction (point in time)*

Commission income recognised at a point in time typically relate to transaction. They include fees from payment and transfer orders of the customers, and other banking services offered. Loan services fees that are not part of the effective interest rate including insurance commissions are also recognised when the service is performed and transferred to the customer. These fees or components of fees that are linked to a certain performance and are recognised as the related services are performed.

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.

g) Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantially enacted at the reporting date.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments – initial recognition

I. Date of recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. 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.

II. 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. Financial instruments are initially measured at fair value, except in the case of financial assets and financial liabilities recorded at FVLP, 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.

III. Day 1 profit or loss

When the fair value of the instruments 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 recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

IV. 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
- FVOCI

I) Financial assets and financial liabilities

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, or the fair value designation is applied. See accounting policies 4.g.

Due from Banks, Loans and advances to customers, Financial investments at amortised cost

The Bank only measures Due from Banks, Loans and advances to customers, and other financial investments at amortised cost if both of the following conditions are met:

- The financial assets are held within a business model with the objective to collect contractual cash flows
- The contractual terms of financial asset give rise to cash flows that are only payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial assets and financial liabilities

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. The business model assessment is based on reasonably expected scenarios not taking into account "stress case" scenarios. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial asset going forward.

The SPPI test

A second step of its classification process the Bank assesses the contractual of financial asset to identify whether they meet SPPI test. "Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of premium/discounts). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Bank applies judgement and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risk volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVLP.

Debt Instruments at FVOCI

The Bank only measures and other financial investments at FVOCI if both of the following conditions are met when both conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments 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 Debt instruments is explained in note 4.j. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity Instruments other than subsidiaries and associates at FVOCI

Upon initial recognition, the Bank may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial assets and financial liabilities (continued)

The Bank does not have any such Instruments as at 31 December 2021 and 31 December 2020.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the separate financial statements as off-balance sheets and are presented in its Commitments and Contingencies at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL provision as set out in Note 4.j.

The premium received is recognised in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Financial guarantee contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 12.

k) Reclassification of financial assets and liabilities

As presented in Note 4.h), the Bank does not reclassify its financial assets subsequent to its initial recognition, apart from the exceptional circumstances mentioned in the Standard. During 2020 the Bank identified that a part of its financial instruments at FVOCI obtained from the merger with NBG, retained their previous classification as FVOCI instead of being classified under the policy of the Bank. In the current year, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the Bank revised the classification of this portfolio as Amortized Cost in accordance with the Business Model of the Bank for all variable rates securities.

The reclassification did not impact the measurement of the assets as the fair value at the date of original acquisition through the merger did not differ from the amortized cost and there is no impact in profit or loss.

l) Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Derecognition of financial assets and liabilities (continued)

For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

Derecognition other than for substantial modification

Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset
- It retains the rights to the cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Derecognition of financial assets and liabilities (Continued)

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

m) Impairment of financial assets

Overview of the ECL principles

The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVLP, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial instruments". Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to rise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case the allowance is based on the 12 months' expected credit loss (12mECL). The Banks policies for determining if there has been significant increase in credit risk are set out in the note 12.

The 12mECL is the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within 12 months from the reporting date.

Both LTECL and 12mECL are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans in Stage 1, Stage 2, Stage 3 and POCI, as described below:

- **Stage 1:** When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- **Stage 3:** Loans considered credit impaired. The bank records an allowance for the LTECL.
- **POCI:** Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on credit adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. Credit impaired assets acquired in a business combination are not treated as POCI.

BANKA AMERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Impairment of financial assets (continued)

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

The bank measures ECL on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECLs calculations are outlined below and the key elements are, as follows:

- **PD-** The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio.
- **EAD-** The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.
- **LGD-** The *Loss Given Default* is the estimate of a loss arising in the case where a default occurs at a given time. It is based on the difference between contractual cash flows due and those that the lender would expect to receive.

When estimating the ECLs, the Bank considers three scenarios (a baseline, best and worst scenario). Each of these is associated with different PDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

- **Stage 1:** The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- **Stage 3:** For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans with Individual Impairment calculation. As a principle, the provision amount of loan that are impaired on individual basis is calculated as the difference between the actual outstanding of the loan with a) liquid collateral amount and with b) sum of the present value of all different cash flows discounted with the actual interest rate of the loan
- **POCI assets** are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit-adjusted EIR..

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Impairment of financial assets (continued)

Loan commitments, letters of credit and financial guarantee:

The credit conversion factor is used to convert the amount of a credit line (the unused part) and other off-balance sheet amounts to an EAD amount. It is a modelled assumption, which represents a proportion of any undrawn exposure that is expected to be drawn prior to default event occurring. For each type of product, the CCF factor for the Bank is applied as below:

- Letter of Guarantee & Letter of Credit with residual maturity \leq 1 year = 20%
- Letter of Guarantee & Letter of Credit with residual maturity $>$ 1 year = 50%
- Unused part of Term Loans = 0%
- Unused part of Overdrafts = 20%
- Unused part of Credit Cards = 20%

Debt instruments measured at fair value through OCI

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

Forward looking information

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Central Bank base rates
- Inflation rates.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the separate financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

n) Credit enhancements: collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a frequent basis [different periods for different types: For example, for R/Estate collaterals the frequency is yearly (business premises) or every 3 years (residential premises)]. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Credit enhancements: collateral valuation and financial guarantees (continued)

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as internal/external R/E evaluators.

If a loan, as part of its contractual terms, is guaranteed by a third party the Bank estimates the corresponding ECLs based on the combined credit risk of the guarantor and the guaranteed party, by reflecting the guarantee in the measurement of the loss given default (LGD). The Bank considers the financial guarantee integral to the contractual terms of the guaranteed loan, when the guarantee was entered into at the same time, or within a short time, after the loan is advanced.

Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL.

o) Collateral repossessed

The Bank's policy for repossessed collaterals is to determine whether an 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 to assets held for sale 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.

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

p) Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

q) Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Management Unit.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined based on pre-defined criteria. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected the probation period is successfully completed or written off.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank considers whether the assets should be classified as Stage 3.

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Forborne and modified loans (continued)

Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All its facilities have to be considered performing
- The probation period of one years has passed from the date the forborne contract was considered performing
- The customer does not have any contracts that are more than 30 days past due.

r) Fair Value of financial instruments

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 11

s) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, unrestricted cash deposited with Bank of Albania and short-term highly liquid investments with 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.

t) 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 is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's 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 agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments FVOCI pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**u) Leasing****(i) Bank as a lessee**

The Bank makes the use of leasing arrangements principally for the provision of the office space, and IT equipment and motor vehicles (although the Group currently has no motor vehicles).

The rental contracts for offices are typically negotiated for terms of 1 and 5 years. The Bank does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis and contain a wide variety of different terms and conditions such as purchase options and escalation clauses. The Bank assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all the economic benefits of an identified asset for a period of time in exchange for consideration.

Some lease contracts contain both lease and non-lease components. These non-lease components are usually associated with facilities management services at offices and servicing and repair contracts in respect of motor vehicles. The Bank has elected to not separate its leases for offices into lease and non-lease components and instead accounts for these contracts as a single lease component. For its other leases, the lease components are split into their lease and non-lease components based on their relative stand-alone prices.

Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in its consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Bank's incremental borrowing rate because as the lease contracts are negotiated with third parties it is not possible to determine the interest rate that is implicit in the lease. The incremental borrowing rate is the estimated rate that the Bank would have to pay to borrow the same amount over a similar term, and with similar security to obtain an asset of equivalent value. This rate is adjusted should the lessee entity have a different risk profile to that of the Bank.

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

Subsequent to initial measurement, the liability will be reduced by lease payments that are allocated between repayments of principal and finance costs. The finance cost is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

The lease liability is reassessed when there is a change in the lease payments. Changes in lease payments arising from a change in the lease term or a change in the assessment of an option to purchase a leased asset. The revised lease payments are discounted using the Bank's incremental borrowing rate at the date of reassessment when the rate implicit in the lease cannot be readily determined. The amount of the remeasurement of the lease liability is reflected as an adjustment to the carrying amount of the right-of-use asset. The exception being when the carrying amount of the right-of-use asset has been reduced to zero then any excess is recognized in profit or loss.

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Leasing (continued)

(i) Bank as a lessee (continued)

Payments under leases can also change when there is either a change in the amounts expected to be paid under residual value guarantees or when future payments change through an index or a rate used to determine those payments, including changes in market rental rates following a market rent review. The lease liability is remeasured only when the adjustment to lease payments takes effect and the revised contractual payments for the remainder of the lease term are discounted using an unchanged discount rate. Except for where the change in lease payments results from a change in floating interest rates, in which case the discount rate is amended to reflect the change in interest rates.

To respond to business needs particularly in the demand for office space, the Bank will enter into negotiations with landlords to either increase or decrease available office space or to renegotiate amounts payable under the respective leases. In some instances, the Bank is able to increase office capacity by taking additional floors available and therefore agrees with the landlord to pay an amount that is commensurate with the stand-alone pricing adjusted to reflect the particular contract terms. In these situations, the contractual agreement is treated as a new lease and accounted for accordingly.

In other instances, the Bank is able to negotiate a change to a lease such as reducing the amount of office space taken, reducing the lease term or by reducing the total amount payable under the lease. Both of which were not part of the original terms and conditions of the lease. In these situations, the

Bank does not account for the changes as though there is a new lease. Instead, the revised contractual payments are discounted using a revised discount rate at the date that the lease is effectively modified. For the reasons explained above, the discount rate used is the Bank's incremental borrowing rate determined at the modification date, as the rate implicit in the lease is not readily determinable.

The remeasurement of the lease liability is dealt with by a reduction in the carrying amount of the right-of-use asset to reflect the full or partial termination of the lease for lease modifications that reduce the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is recognized in profit or loss. The right-of-use asset is adjusted for all other lease modifications.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. These leases relate to items of office equipment such as desks, chairs, and certain IT equipment. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

(ii) The Bank as a lessor

As a lessor the Bank classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

v) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized with other income in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably

BANKA AMERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Property and equipment (continued)

(iii) Depreciation

Depreciation is recognized in profit or loss using the straight-line method over the estimated useful life of each part of an item of property and equipment. Land and artwork are not depreciated. The estimated useful life for the current and comparative periods are as follows:

	In years
• Building	40
• Office furniture	5
• Motor vehicles	5
• Leasehold improvements	9-12
• Computer and IT equipment	4-5

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

Right-of-use assets are presented together with property and equipment in the statement of financial position. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

w) 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 life for the current and comparative periods are as follows:

	In years
• IT software and applications	4-10

x) 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.

y) Provisions

A provision is recognized if the Bank has a present legal or constructive obligation that can be estimated reliably as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

z) Employee benefits

The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan. The Bank's contributions to the benefit pension plan are charged to profit or loss as incurred.

5. RISK MANAGEMENT

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

- a. credit risk
- b. liquidity risk
- c. market risks
- d. capital management

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability (ALCO), Credit and Sensitive Affairs and Provisioning committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

(a) Credit risk

In the normal course of its business, the Bank is exposed to credit risk on its loans and advances to customers and financial institutions, investment securities and other off-balance-sheet items. Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers, debt securities, on funds with other financial institutions and other off-balance sheet items. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank manages its exposure to credit risk on a regular basis by closely monitoring credit limits, its loan portfolio and concentration of exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. The Credit Risk Unit, reports to the Chief Executive Officer and, is responsible for oversight of the Bank's credit risk. The management of credit risk is accomplished through:

Formulating credit risk policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Management of credit risk (continued)

Establishing and monitoring of the delegation levels and escalating process regarding the credit approvals. Board of Directors delegates its power of approval authority to the Credit Committees of the Bank currently for an amount up to the equivalent of EUR 3,000,000 on increases of existing facilities or granting of new facilities; and up to the equivalent of EUR 5,000,000 on renewal or restructuring of current facilities. However, for financing of specific sectors of economy as well as certain counterparty types, which are considered riskier such as gambling, financial institutions, political parties, foundations, etc., the approval authority remains with the Board of Directors regardless of the amount of financing.

Reviewing and assessing credit risk. Bank Management and Credit Risk Assessment Sector of the Bank assess all credit exposures limits, prior to the final approval by the competent authority. Renewals and reviews of facilities are subject to the same process.

Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

Developing and maintaining the Bank's risk classifications in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk classification is used in determining where impairment may be required against specific credit exposures.

The current risk grading framework consists of five categories: a) standard, b) watch, c) sub-standard, d) doubtful and e) lost. The loans classified into the first two categories are considered as performing. The loans falling under the 3 last categories are considered as Non-performing. Apart from the criteria of the days in delay, the Bank uses also the following qualitative criteria for defining the risk categorization of the loans:

- Ability to pay
- Financial condition
- Management liability
- Collateral and guarantors
- Loan structure

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. The loans with renegotiated terms are considered individually impaired in the first year from the implementation of the restructuring.

Credit related commitments risk

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements. As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Definition of default and cure (continued)

Such events include:

- 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 is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on a set of criteria, at the time of the cure.

The Bank's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance, which is explained in Note 4.q.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL (Stage 1) or LTECL (Stage 2), the Bank assesses whether there has been a significant increase in credit risk.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 11 are a significant increase in credit risk as opposed to a default. Moreover, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 11), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk or not.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 12.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Probability at default

The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognized and is still in the portfolio.

For the purpose of a collective evaluation of impairment (Stage 1 and Stage 2), loans are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of a credit risk evaluation or grading process that considers asset type, customer type, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of

Notes to the separate financial statements for the year ended 31 December 2021*(All amounts are in thousand Albanian Lek, unless otherwise stated)***5. RISK MANAGEMENT (CONTINUED)****(a) Credit risk (continued)****Definition of default and cure (Continued)**

such loans by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The methodology consists of:

- a) Creation of pools for facilities with similar credit characteristics (e.g., products)
- b) Calculation of a 12-month PD per each stage
- c) Calculation and estimation of Lifetime PD for each segment with the incorporation of Macro adjustment.

Loss given default

The LGD calculation has the following components:

- a) Probability of Cure (Cure Rates)
- b) Loss Rate given no Cure

Cure events are exposures that exit default status (expresses the likelihood of exit from Stage 3 status). Thus, exposures that transit from status NPE or FNPE to PE or FPE in 12 months following the observation period are identified as having returned to performing status and a cure event has occurred. Exposures are considered to have stopped being non-performing when all the following conditions are met:

- a) the debtor does not have any amount past-due by more than 90 days.
- b) One year has passed since the forbearance measures were extended
- c) the situation of the debtor has improved to the extent that full repayment, according to the original or when applicable the modified conditions, is likely to be made;

The Loss Rate involves estimating recovery rates per segment by observing historical cumulative recoveries as a percentage (%) of outstanding exposure. Regarding recoveries, the historical cash payments from default exposures are considered.

Analysis of risk concentration

The Bank monitors concentration of credit risk by sector. An analysis of credit risk at the reporting date is shown below:

Concentration by sector	Net Loans and advances to customers	
	31 December 2021	31 December 2020
Services	42,530	68,884
Wholesale	2,953,419	3,954,367
Construction	4,264,185	1,777,307
Manufacturing	2,664,726	2,322,224
Real Estate	1,674,002	1,181,436
Hotels and restaurants	7,057,790	3,358,806
Electricity, gas and water supply	2,950,116	2,611,464
Retail Trade	1,742,161	1,114,141
Other	1,753,735	1,828,262
Businesses	25,102,664	18,216,891
Mortgage	9,894,399	10,576,810
Consumer	502,497	484,381
Individuals	10,396,896	11,061,191
Carrying amount	35,499,560	29,278,082

BANKA AMERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Analysis of risk concentration (continued)

Concentration by sector	Loans and advances to banks and cash equivalents	
	31 December 2021	31 December 2020
Bank	7,710,086	7,837,155
Carrying amount	7,710,086	7,837,155

Concentration by sector	Financial Investments	
	31 December 2021	31 December 2020
Sovereign Bonds	39,545,179	35,146,559
Carrying amount	39,545,179	35,146,559

The credit quality of the maximum credit exposure of debt securities based on Moody's ratings, where applicable, is as follows:

Sovereign	Financial Investments debt securities	
	31 December 2021	31 December 2020
Rated B1	39,545,179	35,146,559
	39,545,179	35,146,559

Concentration of Credit Risk

The following concentrations of credit risk arise in the Bank's credit-risk portfolio.

	31 December 2021	As % total on balance	31 December 2020	As % total on balance
Republic of Albania securities	39,545,179	43%	35,146,559	44%
Balances with Bank of Albania	10,342,078	11%	14,080,755	18%
Total direct Albanian Sovereign risk	49,887,257	55%	49,227,314	61%
Largest bank	943,338	1%	657,946	1%
Largest customer	2,443,473	3%	1,246,969	2%
Total largest bank and customer	3,386,811	4%	1,904,915	2%
Total on-balance-sheet risk	53,274,068	58%	51,132,229	64%

The counterparty for the largest bank exposure as at 31 December 2021 is a foreign bank being Raiffeisen Bank AG (2020: Raiffeisen Bank AG). The counterparty for the largest customer exposure as at 31 December 2021 is OSHEE SHA (2020: OSHEE SHA).

Maximum exposure to credit risk

	Net Maximum Exposure	
	31 December 2021	31 December 2020
Cash and cash equivalents (excluding cash on hand)	5,579,850	9,582,272
Loans and advances to banks	6,289,427	6,218,239
Financial assets FVOCI	22,174,175	18,242,385
Financial assets amortised cost	21,188,670	16,904,174
Loans and advances to customers	35,499,560	29,278,082
Financial Leasing	316,746	52,166
Sundry debtors	152,852	11,385
Total on-balance-sheet risk	91,201,280	80,288,703
Undrawn credit commitments	3,172,843	1,588,958
Guarantees in favour of customers	959,857	465,014
SPOT Transactions	125,544	37,135
Total credit related commitments	4,258,244	2,091,107
Total Credit Risk Exposure	95,459,524	82,379,810

BANKA AMERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Maximum exposure to credit risk (continued)

Where financial assets are recorded at fair value, the amounts shown represent the current credit risk exposure, but not the maximum risk exposure that could arise in the future as a result of changes in values. The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the Bank to similar credit risks, which are mitigated by the same control processes and policies. Every month, the Bank assesses the credit related commitments for impairment. Amounts subject to individual impairment assessment are non-cancellable commitments granted to non-performing customers or customers with restructured credit facilities.

BANKA AMERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit Quality by class of financial assets

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed. Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 11.

	Sta e 1	Sta e 2	Sta e 3	POCI	As at 31 December 2021 Total	As at 31 December 2020 Total
Cash and Central Bank						
Low- fair risk	11,887,819	-	-	-	11,887,819	15,596,893
Less: allowance	-	-	-	-	-	-
Carrying amount	11,887,819	-	-	-	11,887,819	15,596,893
Due from banks						
Low- fair risk	1,527,199	-	-	-	1,527,199	1,719,756
Less: allowance	-	-	-	-	-	-
Carrying amount	1,527,199	-	-	-	1,527,199	1,719,756
Investment securities						
Low- fair risk	43,466,734	-	-	-	43,466,734	35,226,177
Monitoring	-	-	-	-	-	-
Less: allowance	103,889	-	-	-	103,889	76,618
Carrying amount	43,362,845	-	-	-	43,362,845	35,146,559
Loans and advances						
Low- fair risk	32,506,510	531,862	442,014	-	33,480,406	25,473,459
Monitoring	83,284	419,332	19,536	-	522,152	912,551
Substandard	38,107	305,917	482,941	-	826,965	1,215,981
Doubtful	20,498	110,208	366,568	-	497,274	1,594,479
Lost	156,409	35,480	2,061,030	-	2,257,188	2,732,101
Less: allowance	568,988	76,308	1,434,862	-	2,080,156	2,650,489
Carrying amount	32,235,820	1,326,513	1,937,227	-	35,499,560	29,278,082

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts are in thousand Albanian Lek, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit Quality by class of financial assets (continued)

31 December 2020	31 December 2020					Total
	Not past due or less than 30 da \$	31 to 60 da \$	61 to 90 da \$	91 to 180 da \$	more than 180 da \$	
Loans and advances to customers:						
Commercial lending	16,571,427	383,209	293,422	146,578	2,574,147	19,968,783
Mortgage lending	7,960,571	467,187	269,013	291,769	1,609,374	10,597,914
Consumer lending	1,130,496	30,608	36,576	32,660	131,531	1,361,871
Financial Leasing	52,694	-	-	-	-	52,694
Total gross	25,715,188	881,004	599,011	471,007	4,315,052	31,981,262
Total ECL	677,498	39,309	235,578	110,352	1,588,277	2,651,014
Net	25,037,690	841,695	363,433	360,655	2,726,775	29,330,248

Impaired loans and securities

Impaired loans are the ones for which the Bank determines that it is probable that it will be unable to collect all principal and interest due, according to the contractual terms of the agreement(s). The Bank classifies loans and advances to customers in performing and non-performing categories as described above and performs impairment tests for all loans that show objective evidence for impairment, estimating their discounted future cash flows and comparing them with the respective carrying amount of the loans. Loans that do not show objective evidence for individual impairment are assessed collectively for impairment. Collective impairment is also assessed for customers tested individually, but with no resulting need for individual impairment.

BANKA KANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit Quality by class of financial assets (continued)

The table below shows loans and net advances to customers classified into two main groups, impaired individually and in group.

	Net loan exposure and advances to customers	
	31 December 2021	31 December 2020
Individually impaired		
Gross balance	3,376,357	5,147,944
Deduction for impairment losses	1,434,862	2,114,247
Book value	1,941,495	3,033,697
Depreciated in groups		
Gross balance	34,059,504	28,660,427
Deduction for impairment losses	501,439	416,042
Book value	33,558,065	28 244 385
Total carrying amount of Loans and advances to customers	35,499,560	29,278,082

Specific movements for individual and group depreciation are presented in detail in note 11.

The table below shows net financial rents categorized into two main groups: individually depreciated and group.

	Net exposure for finance lease	
	31 December 2021	31 December 2020
Individually impaired		
Gross balance	-	-
Deduction for impairment losses	-	-
Book value	-	-
Depreciated in groups		
Gross balance	319,945	52,694
Deduction for impairment losses	3,199	528
Book value	316,746	52,166
Total carrying amount of Loans and advances to customers	316 746	52,166

Movements for impairment of finance lease are detailed in note 13.

The following is an analysis of gross and net balances (deductible for impairment losses) for individually impaired loans according to risk classification:

	Loans and advances to individual		Impaired customers	
	31 December 2021		31 December 2020	
	Gross	Net	Gross	Net
31 December				
Low risk - fair	442,014	430,475	100,140	72,552
In pursuit	19,536	16,181	148,751	117,068
Non-standard	482,941	291,160	768,945	531,521
Suspicious	366,568	262,658	1,531,811	749,308
Lost	2,065,299	951,070	2,598,297	1,563,248
Total	3,376,358	1,941,544	5,147,944	3,033,697

BANKA AMERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Write-off policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when Bank Sensitive Affairs and Provisioning Committee determines that the loan/securities are uncollectible and with the approval of the Board of Directors. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write off decisions generally are based on a product specific past due status as well as on legal actions followed related to the enforcement procedure.

The Bank holds collateral against loans and advances to customers. The Bank implements its internal guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The Bank holds collateral mainly in the form of:

- Real Estate mortgages over residential as well as business properties;
- Pledge over business assets in operation such as machineries and equipment, inventory, and accounts receivable;
- Cash collateral and certain securities (i.e., Treasury Bills), etc.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated on an annual basis.

The estimated cash flows derived from the collateral, including guarantees securing the exposures, are usually the main source of future cash flows from non-performing loans. Some of the valuation parameters used for the calculation are:

- *Realizable value of collaterals*, which is estimated by reducing the appraised market value of the collateral with a discount factor. This takes into account the characteristics of similar groups of collaterals. It presumes an average recoverable value of specific collateral, based on the Bank's experience.
- *Timing of the expected cash flow*, which represent the expected recovery time (in years) of a specific type of collateral.

Collateral, generally, is not held over loans and advances to financial institutions, except when securities are held as part of reverse repurchase and securities borrowing activity.

For the purposes of the calculation of individual impairment for Loans and advances to Customers, the Banks considers as collaterals Real Estate properties, cash collateral and Bank Guarantees.

There is no collateral for loans and advances to banks, except in reverse repurchase case. For large part of loan portfolio, the fair value of collateral exceeds the amounts of loans, however the Bank normally discounts the fair value of the collateral with 49% (2020: 49%) to account for the practical and administrative process of a foreclosure. In such a manner, the bank is protected against the potential default of the client.

BANKA AMERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit impaired loans and advances

The breakdown of the carrying amount of the individually impaired loans and advances (and including off-balance sheet exposures) by class, along with the fair value of the collateral held by the Bank as security, are as follows:

	31 December 2021		31 December 2020	
	Credit impaired loans	Collateral Amount with haircut	Credit impaired loans	Collateral Amount with haircut
Corporate + SME	679,137	786,528	1,968,517	1,182,233
SBE	1,280,520	1,929,007	1,089,510	1,108,615
Individual Secured	1,312,775	1,983,633	1,987,966	2,871,435
Individual Unsecured	103,898	-	101,951	-
Financial Leasing	-	-	-	-
Guarantee	-	-	-	-
Total gross	3,376,356	4,699,168	5,147,944	5,162,283
Total ECL	1,434,862	-	2,114,247	-
Net	1,941,494	-	3,033,697	-

When the Bank holds repossessed assets in its ownership, their conversion into cash is the first aim of the Bank, through marketing the properties for sale. Proceeds are used to reduce or liquidate the carrying amount of the loans. If there is no satisfactory offer collected, the Bank's practice is to keep the asset for sale until receiving the best offer. Depending on operational needs and the suitability of the asset to fulfil those needs, management may decide to make use of the property; in such cases a reclassification into property and equipment of the Bank is performed. The respective amounts of repossessed properties are disclosed in note 17.

The collateral structure of loans in different stages is presented below:

31 December 2021	Sta e 1	Sta e 2	Sta e 3	POCI	Total
Property with haircut	31,547,594	2,210,620	4,679,473	-	38,437,687
Pledge	-	-	-	-	-
Cash	2,043,515	26,410	19,695	-	2,089,620
Total	33,591,109	2,237,030	4,699,168	-	40,527,307
31 December 2020	Sta e 1	Sta e 2	Sta e 3	POCI	Total
Property with haircut	26,472,546	3,218,450	5,128,227	-	34,819,223
Pledge	-	-	-	-	-
Cash	1,424,595	26,118	34,056	-	1,484,769
Total	27,897,141	3,244,568	5,162,283	-	36,303,992

Loans and advances renegotiated

Restructuring activities include extended payment agreements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with other similar accounts. The total restructured portfolio during 2021 is LEK 238 million (2020: LEK 32 billion).

Set out below is the carrying amount of restructured loans and advances to customers, net of impairment allowances, during the whole life of products, by product:

	Sta e1	Sta e2	Sta e 3	POCI	31 Dec 2021	31 Dec 2020
Commercial	171,454	166,085	1,057,952	-	1,395,491	2,386,579
Mortgage	162,070	299,083	197,166	-	658,319	976,440
Consumer	6,944	5,820	8,357	-	21,122	24,297
Total	340,468	470,988	1,263,475	-	2,074,931	3,387,316

BANKA AMERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

In the current economic circumstances, the Bank has been encouraged, recommended and required by government and regulators to offer new loans to customers under 2- types of government Sovereign Loan.

The key features of each support program include (but not limited to) the following:

1- Payment of salaries eligible within the Covid-19 program

- The loans are supported 100% by government guarantees in a total of ALL 300.000.000;
- The funds have been disbursed only to support salaries up to three consecutive months (calculated based on the February payroll list);
- The applicable interest rate is calculated as the yield of 12M treasuries adjusted for a 0.5% premium, up to 2.85%;
- The lenders have to be officially classified as affected customers/industries/sectors from the pandemic;
- These loans are to be disbursed at an administration fee of 0% and apply a grace period of 3 months; and
- The loans disbursed only in ALL, have a maturity up to 2 years.

2- Sovereign Loan within Covid-19 program, for business development ("Working Capital")

- The loans are supported 60% by government guarantees in a total of ALL 400.000.000;
- The loans will facilitate the lender address working capital and investment needs and provide support to commercial operations. Under no circumstance, should the funds be used to finance illegal activities or refinance other loan facilities.
- The applicable interest rate is calculated as the yield of 12M treasuries adjusted for a 3.00% premium, up to 5.00%;
- The lenders have to be officially classified as affected and temporary closed industries/sectors from the pandemic;
- These loans are to be disbursed at an administration fee of 0% and apply a grace period up to 6 months; and
- The loans disbursed only in ALL, have a maturity up to 5 years.

The following tables present the number of customer accounts and associated loan values of customers under government supported programs as of 31 December 2021 and 31 December 2020.

	31 December 2021		
	Corporate & MBE	SBE	Total
Number of approved accounts	30	31	61
Loan value of customers under the scheme	899,987	680,054	1,580,041
% of portfolio	5.77%	6.07%	5.90%
	31 December 2020		
	Corporate & MBE	SBE	Total
Number of approved accounts	12	13	25
Loan value of customers under the scheme	473,656	46,677	520,333
% of portfolio	3.22%	0.76%	1.58%

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

The following table present the gross carrying amount and corresponding ECL by stage for loans and advances to customers subject to payment reliefs provided under government supported programs as of 31 December 2021 and 31 December 2020.

31 December 2021				
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	1,552,593	25,347	2,102	1,580,041
% of portfolio	6.51%	5.21%	0.09%	5.90%
ECL	19,747	3,635	2,268	25,649
% of total ECL	7.80%	19.65%	0.16%	1.52%

31 December 2020				
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	516,708	3,626	-	520,333
% of portfolio	2.10%	0.17%	0.00%	1.58%
ECL	5,355	248	-	5,603
% of total ECL	1.72%	0.24%	0.00%	0.16%

Repayment risk

The Bank's activities may cause risk at the time of repayment of transactions and trades. Repayment risk is the risk of loss due to a company's failure to meet its obligations to provide cash, valuables or other assets as agreed in the contract. Repayment risk with financial institutions and other government counterparties is included within a system of limits for all transactions with these counterparties and is subject to daily monitoring, defined and regulated according to the regulation of the Central Bank of Albania "On risk management of large exposures of Bank".

(b) Liquidity Risk

Liquidity risk is defined as the possibility that an institution is unable to meet its payment obligations due to its incapacity to liquidate assets or obtain adequate funding from the market (funding liquidity risk), or due to the difficulty of easily unwinding positions in financial assets without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank's liquidity management process includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio liquid and marketable assets;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(b) Liquidity Risk (continued)

Management of liquidity risk (continued)

The responsibility for the management of daily liquidity position remains with the Treasury Sector Monitoring. Daily reports and information exchanged through various functions of the Bank cover the projected estimated cash flows for the next day, week, and month, which are considered as key liquidity management periods. The starting point for those projections is the analysis of the contractual maturity of the financial liabilities and the expected collection date for the financial assets. The Management of short- and medium-term liquidity is a responsibility of ALCO. ALCO analyses on a monthly basis the liquidity position of the Bank and proposes the actions deemed as necessary.

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to short term liabilities, and the cumulative gaps up to 3- months. For this purpose, the highly liquid assets are considered as including cash and cash equivalents and FVOCI securities portfolio. The Liquidity ratios defined by the Bank are in compliance with Bank requirements imposed by the Regulation "On Liquidity Risk Management".

The Bank calculates on a daily to monthly basis the following ratios: liquid assets to short-term liabilities, loans to deposits, and liquid assets to deposits. Liquid assets are considered as including cash and cash equivalents, Albanian government treasury bills and any short-term deposits with banks maturing within 7 days.

Details of the liquid assets to short-term liabilities ratio during the reporting period were as follows:

	31 December 2021	31 December 2020
Average for the period	67.89%	77.88%
Minimum for the period	64.31%	74.47%
Maximum for the period	75.63%	85.89%

BANKA AMERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

The table enclosed shows the liquidity situation of the Bank as currently monitored by the Bank's management, as at 31 December 2020. It considers the undiscounted cash flows in/out of the Bank for on and off-balance sheet financial assets and liabilities, according to remaining maturity and not reflecting any earlier repayment or retention history assumptions. Where no contractual remaining maturity is applicable for the financial instruments, the Bank has used judgment in estimating the time when these financial assets and liabilities will be matured.

31 December 2021	u to 1 month	1-3 months	3-12 months	1-5 ears	over 5 ears	Total
ASSETS						
Cash and cash equivalent	7,125,591	-	-	-	-	7,125,591
Minimum reserve requirement	1,786,795	318,852	1,425,832	2,653,408	-	6,182,887
Advances to Banks	106,540	-	-	-	-	106,540
Investment securities	1,485,495	3,742,126	6,585,823	26,510,461	5,038,940	43,362,845
Loans and advances to customers (gross performing loans)	800,532	961,277	7,681,318	16,368,090	9,688,343	35,489,560
Financial leasing	6,049	11,534	94,801	160,999	43,363	316,746
Other Financial Assets	35,525	123,601	503,083	3,555,298	-	4,217,507
TOTAL	11,348,527	5,155,390	16,280,857	49,248,256	14,770,646	96,811,676
LIABILITIES						
Current accounts with Banks	6,060,587	944,838	4,251,772	10,848,972	3,884,592	25,990,761
Current/Saving accounts with customers	13,047,236	699,929	-	-	-	13,747,165
Deposits from Banks	3,485,839	5,471,269	22,601,343	14,235,414	462,315	46,256,180
Deposits from customers – Time deposits	-	-	-	-	-	-
Subordinated Debt	214,688	323,022	880,309	51,408	12,361	1,481,788
Other Financial Liabilities	22,808,350	7,439,058	27,733,424	25,135,794	4,359,268	87,475,894
TOTAL	11,461,823	2,283,668	11,442,567	24,112,462	10,411,378	9,335,782
TOTAL GAP ON-BALANCE SHEET	Off Balance Sheet Inflow	Off Balance Sheet outflow	TOTAL GAP OFF-BALANCE SHEET			
	16,465	242,675	2,723,366	146,645	43,692	3,172,843
	16,465	242,675	2,723,366	146,645	43,692	3,139,913
TOTAL GAP 31 December 2021	11,445,538	2,526,343	14,165,933	23,965,817	10,367,686	6,195,869
CUMULATED GAP 31 December 2021	11,445,538	13,971,701	28,137,634	4,171,817	6,195,869	-

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, and debt securities issued by sovereigns, which can be readily sold to meet liquidity requirements. The Bank's expected cash flows on some financial liabilities vary significantly from the contractual cash flows as current accounts with customers are expected to remain stable and not be withdrawn.

BANKA AMERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2020	u to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
ASSETS						
Cash and cash equivalent	11,098,410	-	-	-	-	11,098,410
Minimum reserve requirement	1,791,268	318,381	1,432,716	2,575,034	-	6,117,399
Advances to Banks	100,840	-	-	-	-	100,840
Investment securities	330,159	2,046,709	2,840,191	21,330,680	8,598,820	35,146,559
Loans and advances to customers (gross performing loans)	575,506	1,145,089	6,624,093	13,128,383	7,805,001	29,278,082
Financial leasing	1,377	2,762	13,763	34,264	-	52,166
Other Financial Assets	10,109	3738	437,839	3,046,678	-	3,488,364
TOTAL	13,907,669	3,516,679	11,348,602	40,115,049	16,403,821	85,291,820
LIABILITIES						
Current accounts with Banks	5,508,529	860,575	3,872,587	10,229,511	3,643,237	24,114,439
Current/Saving accounts with customers	5,866,063	1,335,202	-	-	-	7,201,265
Deposits from Banks	3,379,312	6,158,650	22,386,402	11,674,862	485,453	44,084,679
Deposits from customers – Time deposits	-	-	-	-	-	-
Subordinated Debt	-	-	-	-	-	-
Other Financial Liabilities	145,212	144,414	417,111	28762	6307	741,806
TOTAL	14,899,106	8,498,841	26,676,100	21,933,136	4,134,997	76,142,179
TOTAL GAP ON-BALANCE SHEET	991,47	4,982,162	15,327,498	18,181,914	12,268,824	9,149,641
Off Balance Sheet inflow	-	-	-	-	-	-
Off Balance Sheet outflow	87,280	257,841	1,039,669	161,683	42,686	1,588,959
TOTAL GAP OFF-BALANCE SHEET	87,280	257,841	1,039,669	161,683	42,686	1,588,959
TOTAL GAP 31 December 2020	1,078,717	5,239,803	16,367,167	18,020,231	12,226,138	7,560,682
CUMULATED GAP 31 December 2020	1,078,717	6,318,520	22,685,687	4,665,456	7,560,682	-

Notes to the separate financial statements for the year ended 31 December 2021*(All amounts in ALL thousand, unless otherwise stated)***5. RISK MANAGEMENT (CONTINUED)****(b) Liquidity risk (continued)**

The information provided relates to cash flows deriving from financial off-balance-sheet liabilities, therefore it considerably differs from the face of the statement of financial position. The analysis does not include non-financial liabilities and equity and comprises cash flows of contractual interest.

The table below shows the Bank's financial contingent liabilities and financial commitments.

	1 Month	1-3 Months	3-12 Months	1-5 Years	>5 Years	Total
31 December 2021						
Commitments	16,465	242,675	2,723,366	146,645	43,692	3,172,843
Guarantees	910	396,907	93,115	453,813	15,112	959,857
SPOT Transactions	125,544	-	-	-	-	125,544
31 December 2020						
Commitments	87,279	257,641	1,039,669	161,683	42,686	1,588,958
Guarantees	89,578	64,227	199,062	112,147	-	465,014
SPOT Transactions	37,135	-	-	-	-	37,135

The Bank expects only a small part of the commitments to be demanded within one month and guarantees to be closed at maturity date. Refer also to note 32 Commitment and contingencies.

Reconciliation between contingent liabilities and commitments maturity table and note 32 Commitment and contingencies is as follows:

	31 December 2021	31 December 2020
Commitments	3,172,843	1,588,958
Un-drawn credit facilities	3,172,843	1,588,958
Guarantees		
Letters of credit	-	-
Guarantees in favour of customers	959,857	465,014
SPOT transactions	125,544	37,135

Undiscounted cash flows based on remaining outstanding balance for financial liabilities as at 31 December 2021 and 31 December 2020 is as follows:

	Carrying amount	Gross nominal outflow	1 Month	1-3 Months	3-12 Months	>1 Years
31 December 2021						
Due to banks	13,747,165	13,747,165	13,047,236	699,929	-	-
Due to customers	72,246,941	72,846,244	9,645,115	6,469,477	27,075,322	29,656,330
Subordinated liabilities	-	-	-	-	-	-
31 December 2020						
Due to banks	7,201,255	7,201,255	5,868,053	1,335,202	-	-
Due to customers	68,199,118	68,786,635	8,982,885	7,080,563	26,485,847	26,237,340
Subordinated liabilities	-	-	-	-	-	-

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(c) 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) which 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.

Management of market risks

The Bank holds its securities portfolio in accordance with IFRS 9 as either at Amortised Cost or at Fair Value through OCI.

Exposure to Foreign Exchange rate risk

Foreign exchange rate risk is defined as the possibility that foreign exchange rate fluctuations produce significant changes, both positive and negative, in the Bank's statement of financial position. The key sources of exchange rate risk consist of:

- Foreign currency loans and deposits held by corporate and retail customers;
- Investment securities;
- Trading of foreign banknotes;
- Collection and/or payment of interest, commissions, administrative costs, etc. in foreign currencies.

The Board of Directors sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily by the Operational Risk and Permanent Controls Specialist.

Exchange rates sensitivity analyses include standard scenarios of a 200-basis point (bps) parallel fall or rise in exchange rates of the main currencies EUR (2021: ALL 64,406 thousand; 2020: ALL 88,680 thousand) and USD (2021: ALL (23,076) thousands; 2020: ALL 204 thousands) in both profit or loss and equity. The analysis below includes only monetary assets and liabilities denominated in ALL and foreign currencies. The table below summarizes the Bank's exposure to foreign currency exchange rate risk as at year end date. The Bank's exposure to foreign currency exchange rate risk as at 31 December 2021 and 31 December 2020 is as follows:

31 December 2021	ALL	EUR	USD	Other	Total
Assets					
Cash and cash equivalents	183,179	5,387,413	1,492,778	62,221.00	7,125,591
Loans and advances to banks	1,730,234	4,179,258	379,935	-	6,289,427
FVOCI Securities	16,866,668	2,764,385	2,512,760	30,362	22,174,175
Amortised cost Securities	18,275,648	2,913,022	-	-	21,188,670
Loans and advances to customers	10,311,539	25,159,281	28,740	-	35,499,560
Financial Leasing	-	316,746	-	-	316,746
Other financial assets	6,767	10,009	790	220	17,786
Total	47,374,035	40,730,114	4,415,003	92,803	92,611,955
Liabilities					
Due to banks	13,747,165	-	-	-	13,747,165
Due to customers	33,115,700	36,003,486	3,066,224	61,531	72,248,941
Subordinated Debt	-	-	-	-	-
Lease liability	392,072	-	-	-	392,072
Other financial liabilities	515,771	837,776	119,517	8,724	1,481,788
Total	47,770,708	36,841,262	3,185,741	70,255	87,867,966
Net Position	396,673	3,888,852	1,229,262	22,548	4,743,989

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to Foreign Exchange rate risk (continued)

31 December 2020	ALL	EUR	USD	Other	Total
Assets					
Cash and cash equivalents	2,268,762	6,831,212	1,935,270	63,166	11,098,410
Loans and advances to banks	1,563,804	4,268,519	385,919	-	6,218,239
FVOCI Securities	16,585,509	1,656,876	-	-	18,242,385
Amortised cost Securities	14,409,725	2,494,449	-	-	16,904,174
Loans and advances to customers	6,179,053	23,077,958	21,071	-	29,278,082
Financial Leasing	-	52,166	-	-	52,166
Other financial assets	4,828	8,323	836	104	14,089
Total	41,011,679	38,389,503	2,343,093	63,270	81,807,545
Liabilities					
Due to banks	7,201,255	-	-	-	7,201,255
Due to customers	33,406,099	32,378,966	2,349,271	64,782	68,199,118
Subordinated Debt	-	-	-	-	-
Lease liability	435,421	-	-	-	435,421
Other financial liabilities	210,839	525,693	4,085	1,190	741,807
Total	41,253,614	32,904,659	2,353,356	65,972	76,577,601
Net Position	241,935	5,484,844	10,264	2,702	5,229,944

Exposure to Interest Rate risk

The principal Interest Rate risk to which the Bank's portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of the change in market interest rates. This risk arises primarily from securities portfolio, retail and corporate banking. Interest rate risk is managed principally through periodic monitoring of interest rate spreads between Bank's assets and liabilities and also preparing related scenario analysis on interest rates for decision making purposes.

Standard scenarios that are considered on a monthly basis include a 200-basis point (bps) parallel fall or rise in all interest rates up to one year and 200 basis points (bps) parallel fall or rise over one year. The following sensitivity analyses shows the impact in profit or loss of the Bank. There is no impact on any equity balances, apart from the direct impact from profit or loss.

	31 December 2021			
	Up to 1 Year Scenarios		over 1 Year Scenarios	
	200 bps Increase	200 bps decrease	200 bps Increase	200 bps decrease
Estimated Profit(loss) effect	(281,757)	281,757	737,474	(737,474)

	31 December 2020			
	Up to 1 Year Scenarios		over 1 Year Scenarios	
	200 bps Increase	200 bps decrease	200 bps Increase	200 bps decrease
Estimated Profit(loss) effect	(185,489)	185,489	253,241	(253,241)

BANKA AMERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to Foreign Exchange rate risk (continued)

The tables below summarize the Bank's exposure to interest rate risks. Included in the tables are the Bank's monetary assets and liabilities with both fixed and non-fixed interest rates.

31 December 2021	U	to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Not interest bearing	Total
Assets								
Cash and cash equivalents	1,420,659	-	-	-	-	-	5,704,932	7,125,591
Loans and advances to banks	6,016,032	-	-	-	-	-	273,395	6,289,427
Investment securities	1,485,495	3,742,125	4,197,010	2,388,814	28,253,904	-	3,295,497	43,362,845
Loans and advances to customers	821,504	992,755	2,887,745	4,941,705	25,855,851	-	-	35,499,560
Financial Leasing	6,049	11,534	17,324	77,477	204,362	-	-	316,746
Other Financial assets	17,786	-	-	-	-	-	-	17,786
Total	9,767,525	4,746,414	7,102,079	7,407,996	54,314,117	-	9,273,824	92,011,955
Liabilities								
Due to banks	13,062,386	-	684,779	-	-	-	-	13,747,165
Due to customers	9,571,227	8,413,950	7,057,065	19,786,348	29,418,351	-	-	72,246,941
Subordinated debt	-	-	-	-	-	-	-	-
Lease Liability	7,619	14,870	19,375	36,895	313,313	-	-	392,072
Other Financial liabilities	249,943	-	-	-	-	-	1,231,845	1,481,788
Total	22,891,175	7,113,599	7,076,440	19,823,243	29,731,664	-	1,231,845	87,867,966
Interest sensitivity gap at 31 December 2021	(13,123,650)	(2,367,185)	25,639	(12,415,247)	24,582,453	-	8,041,979	4,743,989

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to Foreign Exchange rate risk (continued)

31 December 2020	U to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Not interest bearing	Total
Assets							
Cash and cash equivalents	1,618,916	-	-	-	-	9,479,494	11,098,410
Loans and advances to banks	5,933,164	-	-	-	-	285,075	6,218,239
Investment securities	330,159	2,046,709	522,658	2,317,534	28,929,499	-	35,146,599
Loans and advances to customers	2,849,225	8,850,299	4,798,026	7,929,482	4,851,050	-	29,278,082
Financial Leasing	1,377	2,762	11,672	2,091	34,264	-	52,166
Other Financial assets	14,089	-	-	-	-	-	14,089
Total	10,746,930	10,899,770	5,332,356	10,249,107	34,814,813	9,764,569	81,807,545
Liabilities							
Due to banks	5,886,053	1,335,202	-	-	-	-	7,201,255
Due to customers	8,909,804	7,017,315	7,674,638	18,575,757	26,021,604	-	68,199,118
Subordinated debt	-	-	-	-	-	-	-
Lease Liability	7,187	14,456	20,783	41,153	351,842	-	435,421
Other Financial liabilities	263,591	-	-	-	-	478,216	741,807
Total	15,046,635	8,366,973	7,695,421	18,616,910	26,373,446	478,216	76,577,601
Interest sensitivity gap at 31 December 2020	4,299,705	2,532,797	2,363,065	8,367,803	8,441,367	9,286,353	5,229,944

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

5. RISK MANAGEMENT (CONTINUED)

d) Capital Management

The Bank's lead regulator, Bank of Albania, sets and monitors capital requirements for the Bank. The Bank's policy is to maintain the capital base within limits, capitalizing all activity earnings so as to sustain future development of the business recognizing the impact of the level of capital on shareholders' return. The Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Pursuant to current Capital Requirements, the Bank of Albania requires the Bank to maintain a certain level of total capital of level I and II above the total risk-weighted assets and off-balance sheet items, above the minimum level of 12% and to maintain the ratio of tier 1 capital above the minimum level of 9% During 2021 and 2020, the Bank has had a sufficiency rate, which on December 31, 2021, is 18,27% (2020: 20.98%). Currently the Bank does not have tier two capital elements. Despite the increase in the value of risk weighted assets, as a result of increased activity and increasing demand for capital indicators, the Bank's RMK has been satisfactory above the minimum regulatory level of determined during 2021.

The policy pursued by the Bank is to maintain a strong core capital in order to maintain the confidence of investors, creditors and the market as well as to support future business developments.

6. USE OF ESTIMATES AND JUDGEMENTS

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

(i) Impairment losses on financial assets

The measurement of impairment losses 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 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.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

6. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

(ii) Going concern assessment

The Bank's management has made an assessment of its ability to continue as a going concern, including the impact of COVID-19 pandemic, and is satisfied that it has the resources to continue in business for the foreseeable future. Management has not identified any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern and therefore the preparation of the financial statements under the going concern basis remains appropriate.

(iii) Net realizable value of inventory

The Bank has established a policy with respect to the fair values of repossessed assets which are being measured at the lower of cost and net realizable value. The net realizable value measurement includes the use of external, independent property appraisers, having appropriate recognized statutory professional qualifications, which is subsequently reviewed from the Bank Management for significant unobservable inputs and any required write down adjustments.

(iv) Valuation of financial instruments

The Bank's accounting policy on fair value measurement is discussed in accounting policy 4.p. The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and based on a current yield curve appropriate for the remaining term to maturity.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value and uses only observable market data and require little management judgments and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

6. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

(iv) Valuation of financial instruments (continued)

As at 31 December 2021 and 2020 all financial instruments are measured at amortized cost, except FVOCI assets which have been measured at fair value and the respective fair values have been disclosed in note 11

As at 31 December 2021 and 2020 all financial instruments are measured at amortized cost, except FVOCI assets which have been measured at fair value and the respective fair values have been disclosed in note 11

(v) Impairment of available-for-sale investments

The Bank reviews its debt securities classified as available-for-sale investments and/or FVOCI at each reporting period to assess whether there is any indication of impairment. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(vi) Litigation and operational 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 defence 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 are independently approved from the Bank CEO. Management believes that existing or potential future litigation are remote, however due to causes beyond legal background and framework further risks might be triggered.

(vii) Determination of control over investees

Management applies its judgement to determine whether the Bank controls investees. In assessing whether the Bank controls the investees, the Bank performs the power analysis and takes into consideration purpose and design of the investee, the evidence of practical ability to direct the relevant activities of the investees etc. As a result, the Bank concluded that it does not control and therefore should not consolidate its special purpose vehicles and entities with receivables in default, as the Bank does not have power over the relevant activities of those entities.

(viii) 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.

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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 4.m.

The table sets out the carrying amounts and fair values of the Bank's financial instruments:

	Car in Amount			Fair Value			
	Loans and receivables	Investment securities	Other financial liabilities	Level 1	Level 2	Level 3	Total
31 December 2021							
Loans and advances to customers	35,499,561	-	-	-	-	36,753,311	36,753,311
Financial Leasing	316,747	-	-	-	-	255,509	255,509
Financial investments at AC	-	21,188,670	-	-	21,188,670	-	21,188,670
Financial investments at FVOCI	-	22,174,175	-	-	22,174,175	-	22,174,175
Total	35,816,308	43,362,845	-	-	43,362,845	37,008,820	81,294,314
Due to customers	-	-	72,246,941	-	-	71,923,806	71,923,806
Total	-	-	72,246,941	-	-	71,923,806	71,923,806
31 December 2020							
Loans and advances to customers	29,278,083	-	-	-	-	30,310,463	30,310,463
Financial Leasing	52,167	-	-	-	-	41,028	41,028
Financial investments at AC	-	16,904,174	-	-	17,400,867	-	17,400,867
Financial investments at FVOCI	-	18,242,385	-	-	18,242,385	-	18,242,385
Total	29,330,250	35,146,559	-	-	35,643,252	30,351,491	65,904,743
Due to customers	-	-	68,189,118	-	-	67,855,424	67,855,424
Total	-	-	68,189,118	-	-	67,855,424	67,855,424

Loans and advances to/from credit institutions include inter-bank placements and items in the course of collection/settlement. As loans, advances and overnight deposits are short term and at floating rates, their fair value is considered to be approximated to their carrying amount. In estimating the fair value of the loan portfolio, the bank takes into account comparable factors in the market like interest rates. There have not been any transfers of financial assets and liabilities between categories of fair value hierarchy of Level 2 and Level 3.

Notes to the separate financial statements for the year ended 31 December 2021

*(All amounts in ALL thousand, unless otherwise stated)***7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)****Valuation techniques:***Investment securities at FVOCI*

Investment securities are financial instruments issued by the Albanian government and includes both government bonds (long-term) and treasury bills (short-term) with fixed or floating rate interest payments. These instruments are generally liquid but are not listed in a market, hence direct quotations are not available. As a result, the Bank uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate future cash flows and a market price at which the security could sell at the date of reporting. In these instances, the Bank classifies those securities as Level 2. The Bank does not have Level 3 government securities where valuation inputs would be unobservable.

Due to customers

The fair values of the Bank's deposits to customers are determined by using the discounted cash flow method using discount rates that reflect the market's average borrowing rate for similar types of instruments as at the end of the reporting period. The Bank presents these instruments as Level 2.

Subordinated Debt

The fair value of the Bank's subordinated debt is determined by using the discounted cash flow method using a discount rate that reflects the instrument's borrowing rate, as there is no market for similar instruments in Albania to compare it to. The Bank presents this instrument as Level 3.

Loans and advances to customers and Financial Leasing

For loans and financial leases measured at amortised cost, a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, market average rates of interest for similar types of instruments, prepayment rates and assumptions regarding market liquidity, where relevant. Due to the nature of the Bank's information systems, and diverse nature of the loan portfolio, the fair value estimates include significant uncertainty. The Bank classifies these assets as Level 2.

Sensitivity of fair value measurements to changes in unobservable market data

The table below describes the effect of changing the significant unobservable inputs to reasonable possible alternatives. All changes except for debt instruments classified as "Financial Investments at FVOCI) would be reflected in the Income statement. Sensitivity data are calculated using a number of techniques, including analysing price dispersion of different price sources, adjusting model inputs to reasonable changes within the fair value methodology.

The ranges are not comparable or symmetrical as the model inputs are usually not in the middle of the favourable/unfavourable range.

The table below shows data in relation to Level 3 inputs that are already aggregated on the underlying product levels without assuming any potential diversification effect but including potential off-sets from economic or accounting hedge relationships in place. The Bank is of the opinion that, whilst there may be some diversification benefits, incorporating these would not be significant to the analysis.

Sensitivity analyses	Level 3	Valuation technique	Inputs	Sensitivity	Impact
Loans and advances to customers & Financial Leasing	37,008,820	FMS	Market rates	+200bp/	(2,080,733)Y
				-200bp	1,866,363
Due to customers	71,923,806	FMS	Market rates	+100bp/	(440,797)Y
				-100bp	453,458

BANKA AMERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

8. ANALYSES OF ASSETS, LIABILITIES AND EQUITY ACCORDING TO REMAINING MATURITY

The table below sets out the discounted assets and liabilities of the bank as per their maturity:

Assets	31 December 2021		31 December 2020		Total
	< 12 months	> 12 months	< 12 months	> 12 months	
Cash and cash equivalents	7,125,591	-	11,098,410	-	11,098,410
Loans and advances to banks	3,636,019	2,653,408	3,643,204	2,575,035	6,218,239
Securities	11,813,444	31,549,401	5,217,058	29,929,501	35,146,559
Loans and advances to customers	9,443,127	26,056,433	8,344,688	20,933,394	29,278,082
Financial leasing	112,384	204,362	17,902	34,284	52,166
Property and equipment and right-of-use assets	-	1,369,527	-	1,480,359	1,480,359
Intangible assets	-	138,481	-	146,223	146,223
Deferred tax assets	25,429	-	23,491	-	23,491
Inventory and other assets	662,209	3,552,962	451,687	3,046,677	3,498,365
Assets held for sale	2,336	-	2,336	-	2,336
Affiliates	-	120,500	-	120,500	120,500
Total	32,820,539	65,645,074	28,798,776	58,265,953	87,064,729
Liabilities					
Due to banks	13,747,165	-	7,201,255	-	7,201,255
Due to customers	42,815,648	29,431,293	42,166,054	26,033,064	68,199,118
Provisions	-	64,808	-	65,834	65,834
Other liabilities	1,418,018	63,770	706,737	35,070	741,807
Lease liability	-	392,072	-	435,421	435,421
Deferred tax liability	17,125	-	108,881	-	108,881
Subordinated liabilities	-	-	-	-	-
Total Liabilities	57,997,956	29,951,943	50,182,927	26,569,389	76,752,316
Net exposure	25,177,417	35,693,131	21,384,151	31,696,564	10,312,413

Notes to the separate financial statements for the year ended 31 December 2021*(All amounts in ALL thousand, unless otherwise stated)***9. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents (unrestricted) as at 31 December 2021 and 31 December 2020 can be detailed as follows:

	31 December 2021	31 December 2020
Cash on hand	1,545,741	1,516,138
Unrestricted balances with Bank of Albania	4,159,191	7,963,356
Current Accounts with correspondent banks	1,420,659	1,618,916
Total	7,125,591	11,098,410

Cash and cash equivalents consist of unconditional accounts denominated in the four major currencies Lek, Euro, USD and GBP, with balances in Euro accounting for approximately 46% of the balance as at 31 December 2021, followed by balances in Lek and USD. Current accounts are placed in correspondent banks rated from BBB to A+.

10. LOANS AND ADVANCES TO BANKS

Loans and advances to banks as at 31 December 2021 and 31 December 2020 are composed as follows:

	31 December 2021	31 December 2020
Deposits with correspondent banks	106,540	100,840
Compulsory reserve with Bank of Albania	6,182,887	6,117,399
Total	6,289,427	6,218,239

In accordance with Bank of Albania requirements, the Bank should maintain a minimum of the due to customers balances, as a compulsory reserve with the Bank of Albania. ALL obligatory reserve may be used by the bank up to 70% of its value conditionally that the monthly average balance of ALL obligatory reserve is not lower than the required balance. The amount required to be deposited is calculated as percentage over the USD 1,000,000 customer balances. According to the regulation the rate of required reserve is related to the currency and the tenor of customer accounts (2017: 10% of customer deposits at 24 months contractual maturity). Effective from 24 July 2018, rates of obligatory reserve changed as below:

- 7.5% for customer deposits in LEK with contractual maturity up to 12 months
- 5.0% for customer deposits in LEK with contractual maturity over 12 months up to 24 months
- 12.5% for customer deposits in foreign currency, when the ratio "Deposits in foreign currency/Total deposits" is up to 50%
- 20% for customer deposits in foreign currency, when the ratio "Deposits in foreign currency/Total deposits" is higher than 50%

The obligatory reserve rate denominated in ALL is 100% of repurchase agreements rate. Meanwhile, this ALL balance had an interest rate as at 31 December 2021 of 1.00% a year (31 December 2020: 1.00% a year). The obligatory reserve rate denominated in EUR is indexed at ECBDF rate of (0.5)% a year (31 December 2020: (0.5)% a year).

The loans and advances to Banks are placed with Banks located in the following countries, and bear on original maturity shorter than 3 months:

	31 December 2021	31 December 2020
Albania	6,182,887	6,117,399
France	106,540	100,840
Total	6,289,427	6,218,239

Loans and advances to banks amounting to USD 1,000,000 is a pledge account with the status blocked for the year 2021 and 2020 at CA CIB in Paris, used for forex transactions.

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

11. INVESTMENTS SECURITIES

Investments securities can be detailed as follows:

	31 December 2021	31 December 2020
I) Debt Instruments at FVOCI		
Albanian Government Treasury Bills	2,144,421	619,155
Albanian Government Bonds	14,466,999	15,966,353
Albanian Government Euro Bond	1,745,089	1,656,877
Corporate Bonds	522,169	-
Shares	3,295,497	-
Total Debt Instruments at FVOCI	22,174,175	18,242,385

	31 December 2021	31 December 2020
II) Debt Instruments at amortized cost		
Albanian Government Bonds	21,293,786	16,983,793
Allowance for impairment losses	105,116	79,619
Total Debt Instruments at amortized cost	21,188,670	16,904,174
Total Investment Securities	43,362,845	35,146,559

I) Debt Instruments at FVOCI

FVOCI securities consist on treasury bills, government bonds Corporate Bonds and Shares classified as follows:

I.i) Treasury bills

Treasury bills issued by Albanian Government and by original maturity are presented as follows:

31 December 2021						
Maturity	Average Interest Rate	Nominal Value	Premium / Discount	Accrued Interest	Revaluation Difference	Carrying Value
3 Months	1.00%	700,000	(1,741)	555	188	699,002
6 Months	1.30%	600,000	(3,894)	2,863	438	599,407
12 Months	1.65%	849,850	16,069	10,697	1,534	846,012
		2,149,850	21,704	14,115	2,160	2,144,421

31 December 2020						
Maturity	Average Interest Rate	Nominal Value	Premium / Discount	Accrued Interest	Revaluation Difference	Carrying Value
3 Months	0.77%	109,740	(210)	99	36	109,665
12 Months	2.06%	510,420	11,272	8,334	2,008	509,490
		620,160	11,482	8,433	2,044	619,155

I.ii) Bonds

Bonds issued by Albanian Government and by original maturity for 2021 are presented as follows:

31 December 2021						
Maturity	Average Interest Rate	Nominal Value	Premium / Discount	Accrued Interest	Revaluation Difference	Carrying Value
24 months	2.50%	1,185,000	(538)	8,510	6,348	1,199,320
36 months	2.65%	2,341,000	(4)	21,036	14,982	2,377,014
60 months	4.24%	6,752,900	23,245	114,170	206,200	7,096,515
84 months	6.79%	1,683,000	(1,704)	9,825	73,234	1,764,355
120 months	2.73%	1,482,000	14,256	39,026	174,641	1,709,923
180 months	3.50%	316,700	-	2,638	534	319,872
Euro Bond - 24 months	5.87%	1,207,600	-	5,457	5,624	1,218,681
Euro Bond - 60 months	1.96%	48,304	(286)	922	2,027	50,967
Euro Bond - 120 months	3.50%	483,040	9,811	1,806	406	475,441
		15,489,544	25,158	203,390	483,996	16,212,088

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

11. INVESTMENTS SECURITIES (CONTINUED)

i) Debt Instruments at FVOCI continued

i.ii) Bonds (continued)

The bonds issued by the Albanian Government together with their maturities for 2020 are as follows:

Maturity	Average Interest Rate	Nominal Value	31 December 2020				Carrying Value
			Premium / Discount	Accrued Interest	Revaluation Difference		
24 months	0.92%	1,593,500	(3,434)	13,261	10,281	1,613,608	
36 months	2.64%	1,731,900	(2,525)	14,981	9,012	1,753,368	
60 months	4.46%	7,020,900	28,834	127,700	179,116	7,356,550	
84 months	6.79%	1,612,600	(1,944)	8,596	93,985	1,713,237	
120 months	4.14%	2,951,700	14,773	62,286	500,831	3,529,590	
Euro Bond - 60 months	0.92%	1,608,100	2 604	12,652	38,729	1,656,877	
		16,518,700	33,100	239,476	831 954	17 623 230	

i.iii) Corporate Bonds

The corporate bonds together with their maturities are as follows:

Maturity	Average Interest Rate	Nominal Value	31 December 2021				Carrying Value
			Premium / Discount	Accrued Interest	Revaluation Difference		
Euro Bond - 60 months	9.75%	483,040	36,997	6,452	(4,320)	522,169	
		483,040	36,997	6,452	(4,320)	522,169	

i.iv) Shares

During 2021 the Bank has increased its foreign investments portfolio through investing in shares. Such investments are made in accordance with the Bank's Investment Policy and Limits, reviewed on yearly basis. For 2021 the stocks portfolio limit was EUR 30 million, with a minimum Company/Security rating of B as per S&P (or equivalent of other Globally Recognized rating Agencies). A full credit risk assessment supports these investments in accordance with internal/external policies and limits.

The Investments in Shares by Industry are as follows:

	31 December 2021	31 December 2020
Investments in Shares by Industry		
Travel and Leisure	1,254,812	
Food and Beverages	120,531	
Oil and Gas	1,396,570	-
Financial Services	266,493	-
Other	257,091	-
Total investments in shares by industry	3,295,497	

The Investments in Shares by currency are as follows:

CCY	Amount
USD	-
EUR	-
HKD	-
Total	-

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

11. INVESTMENTS SECURITIES (CONTINUED)

i) Debt Instruments at FVOCI continued

The tables below show the movement of gross balance and ECL of FVOCI securities:

<i>FVOCI – Gross Carrying Amount</i>	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	20,878,792	-	-	20,878,792
New assets originated or purchased	4,746,885	-	-	4,746,885
Assets de-recognised or repaid	(7,273,441)	-	-	(7,273,441)
Foreign exchange adjustments	4,043	-	-	4,043
Gross carrying amount – 31 December 2020	18,242,385	-	-	18,242,385
New assets originated or purchased at merger date	-	-	-	-
New assets originated or purchased	9,811,696	-	-	9,811,696
Assets de-recognised or repaid	5,599,011	-	-	5,599,011
Gross carrying amount – 31 December 2021	22,255,070	-	-	22,255,070

<i>FVOCI - ECL</i>	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	81,007	-	-	81,007
New assets originated or purchased	19,016	-	-	19,016
Assets de-recognised or repaid	30,075	-	-	30,075
Foreign exchange adjustments	(38,841)	-	-	(38,841)
ECL – 31 December 2020	91,257	-	-	91,257
New assets originated or purchased at merger date	-	-	-	-
New assets originated or purchased	21,713	-	-	21,713
Assets de-recognised or repaid	32,075	-	-	32,075
Total	80,895	-	-	80,895

ii. Debt Instruments at amortized cost

The table below sets out the financial assets classified as listed or un-listed at 31 December 2021 and 31 December 2020:

	31 December 2021	31 December 2020
Unlisted	1,747,194	-
Listed	19,441,476	16,904,174
	21,188,670	16,904,174

The table below sets out the financial assets classified as amortised cost at 31 December 2021:

31 December 2021							
Maturity	Average Interest Rate	Nominal Value	Accrued Interest	Remaining Premium	Revaluation Difference	IFRS 9 Allowance	Carrying Value
24 Months	2.54%	1,850,000	(556)	12,650	-	(4,106)	1,857,988
36 Months	2.74%	2,150,000	(304)	20,126	-	(10,158)	2,159,664
60 Months	4.59%	2,500,000	(23,733)	28,891	-	(11,573)	2,493,585
84 Months	4.61%	2,070,600	5,849	23,382	(3,452)	(9,832)	2,086,547
120 Months	5.22%	6,972,000	377,288	138,187	7,251	(33,481)	7,461,245
180 Months	5.96%	500,000	-	4,165	-	(2,361)	501,804
Euro Bond - 24 months	1.96%	1,207,600	-	5,457	-	(13,484)	1,199,573
Euro Bond - 60 months	3.63%	1,207,600	(7,162)	23,044	-	(13,599)	1,209,883
Euro Bond - 120 months	3.63%	483,040	8,363	1,806	-	5,296	471,187
		18,940,840	343,019	257,708	3,799	103,890	19,441,476

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

11. INVESTMENTS SECURITIES (CONTINUED)

ii. Debt instruments at amortized cost continued

The table below sets out the financial assets classified as amortised cost at 31 December 2020:

31 December 2020							
Maturity	Average Interest Rate	Nominal Value	Accrued Interest	Remaining Premium	Revaluation Difference	IFRS 9 Allowance	Carrying Value
24 Months	2.60%	1,950,000	13,766	(3,086)	-	(6,780)	1,953,900
36 Months	2.80%	1,700,000	16,630	(31)	-	(6,025)	1,710,574
60 Months	4.15%	3,519,300	47,270	(30,104)	76	(11,719)	3,524,823
84 Months	4.53%	2,120,600	23,482	10,273	(5,693)	(8,342)	2,140,320
120 Months	4.13%	4,972,000	103,444	41,263	10,154	(19,812)	5,107,049
Euro Bond - 24 months	1.96%	1,237,000	5,590	-	-	(13,420)	1,229,169
Euro Bond - 60 months	2.96%	1,237,000	23,540	8,681	-	13,520	1,238,339
		16,735,900	233,722	9,634	4,537	79,619	16,904,174

The tables below show the movement of gross balance and ECL of amortised cost securities:

AC – Gross Ca In Amount	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	10,991,522	-	-	10,991,522
New assets originated or purchased	(9,069)	-	-	(9,069)
Assets de-recognised or repaid	7,679,839	-	-	7,679,839
Transferred to stage 1	1,678,499	-	-	1,678,499
Gross carrying amount – 31 December 2020	16,983,793	-	-	16,983,793
New assets originated or purchased	6,094,667	-	-	6,094,667
Assets de-recognised or repaid	1,790,210	-	-	1,790,210
Gross carrying amount – 31 December 2021	21,288,250	-	-	21,288,250

AC - ECL	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020 under IFRS 9	41,603	-	-	41,603
New assets originated or purchased	(5,783)	-	-	(5,783)
Assets de-recognised or repaid	46,294	-	-	46,294
Transferred to stage 1	2,495	-	-	2,495
ECL – 31 December 2020	79,619	-	-	79,619
New assets originated or purchased	23,407	-	-	23,407
Assets de-recognised or repaid	3,446	-	-	3,446
ECL – 31 December 2021	99,580	-	-	99,580

BANKA AMERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

12. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 December 2021 and 31 December 2020 can be detailed as follows:

	31 December 2021	31 December 2020
Loans	32,092,046	26,650,927
Overdrafts	5,660,002	5,392,283
Deferred disbursement fees	167,028	114,640
Gross amount	37,585,020	31,928,570
Allowance for impairment	2,085,460	2,650,488
Total net amount	35,499,560	29,278,082

Loan by type of customer and product wise are presented as follows:

Loan portfolio	Gross car	In amount	As at December 31,2021	
			ECL amount	Car In amount
Individual Secured		10,488,851	594,451	9,894,400
Individual Unsecured		727,200	224,894	502,306
Retail lending		11,216,051	819,345	10,396,706
Corporate & SME		15,167,703	592,389	14,575,314
SBE		11,201,210	673,726	10,527,540
Lending to businesses		26,368,913	1,266,115	25,102,854
Total		37,584,964	2,085,460	35,499,560

Loan portfolio	Gross car	In amount	As at December 31,2020	
			ECL amount	Car In amount
Individual Secured		11,268,330	691,521	10,576,809
Individual Unsecured		691,456	208,455	483,001
Retail lending		11,959,786	899,976	11,059,810
Corporate & SME		13,829,489	1,188,080	12,641,409
SBE		6,139,295	562,432	5,576,863
Lending to businesses		19,968,784	1,750,512	18,218,272
Total		31,928,570	2,650,488	29,278,082

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

12. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

I. Individual secured loans

The tables below show an analysis of changes in gross carrying amount and the corresponding ECL allowances for *individual secured loans* is as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2020	8,654,934	1,237,926	1,457,000	-	11,349,860
New assets originated or purchased	1,418,804	15,306	-	-	1,434,110
To existing customers	1,670	-	-	-	1,670
New and closed during the year	14,274	-	-	-	14,274
Assets de-recognised or repaid	(745,822)	(92,841)	(31,163)	-	(869,826)
Amortization / Increase of debt	(724,687)	(74,117)	(55,345)	-	(854,149)
From other segments	39,636	27,474	34,815	-	101,925
To other segments	(51,363)	-	3,159	-	(48,204)
Transfers to Stage 1	298,440	(294,592)	(3,848)	-	-
Transfers to Stage 2	(876,487)	943,137	(66,650)	-	-
Transfers to Stage 3	(253,242)	(384,038)	637,280	-	-
Amounts written off	-	-	(5,980)	-	(5,980)
Foreign exchange adjustments	109,517	16,435	18,698	-	144,650
Gross carrying amount – 31 December 2020	7,885,674	1,394,690	1,987,966	-	11,268,330
New assets originated or purchased	1,746,170	936	-	-	1,747,106
Assets de-recognised or repaid	(741,795)	(118,695)	(190,620)	-	(1,051,110)
Amortization / Increase of debt	(744,145)	(144,306)	(206,466)	-	(1,094,917)
From other segments	51,961	-	-	-	51,961
To other segments	(29,883)	(9,544)	(122,922)	-	(162,349)
Transfers to Stage 1	717,170	(717,170)	-	-	-
Transfers to Stage 2	(375,078)	669,358	(294,280)	-	-
Transfers to Stage 3	(20,137)	(148,898)	169,035	-	-
Amounts written off	-	-	(46,605)	-	(46,605)
Foreign exchange adjustments	(162,710)	27,348	(33,507)	-	(223,565)
Gross carrying amount – 31 December 2021	8,327,227	899,023	1,262,601	-	10,488,851

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2020 under IFRS 9	63,346	63,176	338,816	-	465,338
New assets originated or purchased	25,913	1,226	-	-	27,139
Assets de-recognised or repaid	(3,611)	(737)	(3,364)	-	(7,712)
From other segments	762	785	11,746	-	13,293
To other segments	(266)	-	3,201	-	2,935
Transfers to Stage 1	5,431	(5,357)	(74)	-	-
Transfers to Stage 2	(50,346)	53,589	(3,243)	-	-
Transfers to Stage 3	(50,684)	(77,417)	128,101	-	-
Net re-measurement of ECL	153,997	45,261	(13,957)	-	185,301
Amounts written off	-	-	(1,187)	-	(1,187)
Foreign exchange adjustments	867	934	4,613	-	6,414
ECL – 31 December 2020	145,409	81,460	464,652	0	691,521
New assets originated or purchased	30,953	9	-	-	30,962
Assets de-recognised or repaid	(12,229)	(6,160)	(34,909)	-	(53,298)
Net re-measurement of ECL	3,262	(10,273)	16,749	-	9,738
From other segments	1,073	-	-	-	1,073
To other segments	(569)	(118)	(46,245)	-	(46,932)
Transfers to Stage 1	13,349	(13,349)	-	-	-
Transfers to Stage 2	(20,880)	44,123	(23,243)	-	-
Transfers to Stage 3	(4,218)	(41,171)	45,389	-	-
Amounts written off	-	-	(25,253)	-	(25,253)
Foreign exchange adjustments	3,057	1,505	8,798	-	13,360
ECL – 31 December 2021	153,093	53,016	388,342	-	594,451

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

12. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

II. Individual unsecured loans

The tables below show an analysis of changes in gross carrying amount and the corresponding ECL allowances for *Individual Unsecured loans* is as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2020	582,703	37,537	93,338	-	713,576
New assets originated or purchased	152,191	368	-	-	152,559
To existing customers	606	60	-	-	666
New and closed during the year	11,037	-	-	-	11,037
Assets de-recognised or repaid	(81,609)	(6,160)	(5,550)	-	(93,319)
Amortization / Increase of debt	(102,619)	(7,013)	(3,926)	-	(113,558)
From other segments	46,408	-	(2,402)	-	44,006
To other segments	(11,482)	-	(1,734)	-	(13,216)
Transfers to Stage 1	3,963	(3,963)	-	-	-
Transfers to Stage 2	(23,314)	25,318	(2,004)	-	-
Transfers to Stage 3	(21,965)	(14,851)	36,816	-	-
Amounts written off	-	-	(12,880)	-	(12,880)
Foreign exchange adjustments	2,276	14	295	-	2,585
Gross carrying amount – 31 December 2020	558,195	31,310	101,951	-	691,456
New assets originated or purchased	235,912	258	1,385	-	237,555
Assets de-recognised or repaid	(108,734)	(6,985)	(9,978)	-	(125,697)
Amortization / Increase of debt	(67,197)	(6,125)	(10,912)	-	(84,234)
From other segments	14,410	-	104,630	-	119,040
To other segments	(75,588)	-	-	-	(75,588)
Transfers to Stage 1	6,583	(6,583)	-	-	-
Transfers to Stage 2	(3,228)	8,686	(5,458)	-	-
Transfers to Stage 3	(1,772)	(2,771)	4,543	-	-
Amounts written off	-	-	(31,171)	-	(31,171)
Foreign exchange adjustments	3,967	118	76	-	4,161
Gross carrying amount – 31 December 2021	554,614	17,672	154,914	-	727,200
	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2020 under IFRS 9	49,740	9,230	103,749	-	162,719
New assets originated or purchased	33,739	262	-	-	34,001
Assets de-recognised or repaid	(1,964)	(1,590)	(6,810)	-	(10,364)
From other segments	1,317	-	(2,310)	-	(993)
To other segments	(137)	-	(1,939)	-	(2,076)
Transfers to Stage 1	93	(93)	-	-	-
Transfers to Stage 2	(6,447)	6,820	(373)	-	-
Transfers to Stage 3	(25,251)	(16,866)	42,117	-	-
Net re-measurement of ECL	35,258	10,660	(7,170)	-	38,748
Amounts written off	-	-	(13,900)	-	(13,900)
Foreign exchange adjustments	67	12	375	-	320
ECL – 31 December 2020	86,281	8,435	113,739	-	208,455
New assets originated or purchased	7,096	45	1,531	-	8,672
Assets de-recognised or repaid	(13,091)	(1,677)	(11,874)	-	(26,642)
Net re-measurement of ECL	3	(846)	(22,160)	-	(23,003)
From other segments	676	-	93,956	-	94,632
To other segments	(2,219)	-	-	-	(2,219)
Transfers to Stage 1	148	(148)	-	-	-
Transfers to Stage 2	(785)	2,156	(1,371)	-	-
Transfers to Stage 3	(2,131)	(3,117)	5,248	-	-
Amounts written off	-	-	(33,394)	-	(33,394)
Foreign exchange adjustments	259	58	1,290	-	1,607
ECL – 31 December 2021	75,719	4,790	144,385	-	224,894

BANKA AMERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

12. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

III. Corporate & SME loans

The tables below show an analysis of changes in gross carrying amount and the corresponding ECL allowances for *Corporate & SME loans* is as follows:

	Sta e 1	Sta e 2	Sta e 3	POCI	Total
Gross carrying amount as at 1 January 2020	7,430,784	37,069	1,749,014	-	9,216,867
New assets originated or purchased	4,052,271	-	-	-	4,052,271
Existing customers	548,301	-	-	-	548,301
New and closed during the year	247,400	-	-	-	247,400
Assets de-recognised or repaid	(603,452)	(37,069)	(277,101)	-	(917,622)
Amortization / Increase of debt	(721,068)	-	(359,262)	-	(1,080,330)
From other segments	1,431,952	106,980	913,727	-	2,452,659
To other segments	(700,941)	-	(47,535)	-	(748,476)
Transfers to Stage 2	(321,007)	321,007	-	-	-
Transfers to Stage 3	(3,000)	-	3,000	-	-
Amounts written off	-	-	(24,439)	-	(24,439)
Foreign exchange adjustments	71,748	-	11,112	-	82,858
Gross carrying amount – 31 December 2020	11,432,988	427,987	1,968,516	-	13,829,489
New assets originated or purchased	7,242,731	-	-	-	7,242,731
Assets de-recognised or repaid	(2,863,309)	(44,830)	(126,851)	-	(3,034,990)
Amortization / Increase of debt	(1,442,243)	(18,555)	(381,440)	-	(1,842,238)
From other segments	522,900	-	-	-	522,900
To other segments	(271,264)	(60,466)	(197,956)	-	(529,686)
Transfers to Stage 1	256,312	(256,312)	-	-	-
Transfers to Stage 2	(96,713)	96,713	-	-	-
Transfers to Stage 3	(218,665)	-	218,665	-	-
Amounts written off	-	-	(781,945)	-	(781,945)
Foreign exchange adjustments	212,167	6,564	19,827	-	238,558
Gross carrying amount – 31 December 2021	14,350,568	137,973	679,162	-	15,167,703
	Sta e 1	Sta e 2	Sta e 3	POCI	Total
ECL allowance as at 1 January 2020	110,978	3	838,439	-	949,418
New assets originated or purchased	26,424	-	-	-	26,424
Assets de-recognised or repaid	(15,069)	(3)	(165,771)	-	(180,843)
Net re-measurement of ECL	(45,196)	-	(98,671)	-	(143,867)
From other segments	1,853	1,904	566,573	-	570,130
To other segments	(10,291)	-	(29,003)	-	(39,294)
Transfers to Stage 2	(5,036)	5,036	-	-	-
Transfers to Stage 3	(299)	-	299	-	-
Amounts written off	-	-	(228)	-	(228)
Foreign exchange adjustments	1,022	4	5,322	-	6,340
ECL – 31 December 2020	64,184	6,936	1,116,960	-	1,188,080
New assets originated or purchased	52,529	-	-	-	52,529
Assets de-recognised or repaid	(2,177)	(552)	(88,650)	-	(91,379)
Net re-measurement of ECL	156,121	(4,339)	(29,538)	-	122,244
From other segments	393	-	-	-	393
To other segments	(195)	(1,422)	(74,999)	-	(76,616)
Transfers to Stage 1	122	(122)	-	-	-
Transfers to Stage 2	(2,742)	2,742	-	-	-
Transfers to Stage 3	(180,900)	-	180,900	-	-
Amounts written off	-	-	(586,796)	-	(586,796)
Foreign exchange adjustments	590	74	15,402	-	16,066
ECL – 31 December 2021	106,745	3,169	482,475	-	592,389

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

12. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

IV. SBE loans

The tables below show an analysis of changes in gross carrying amount and the corresponding ECL allowances for *SBE loans* is as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2020	3,653,797	453,446	1,820,571	-	5,927,814
New assets originated or purchased	2,684,303	3,627	25,999	-	2,713,929
To Existing customers	141,947	2,978	-	-	144,925
New and closed during the year	25,737	-	-	-	25,737
Assets de-recognised or repaid	(352,748)	(1,271)	(154,812)	-	(508,831)
Amortization / Increase of debt	(201,782)	11,069	(31,599)	-	(222,312)
From other segments	592,613	37,175	49,970	-	679,758
To other segments	(1,685,056)	(118,663)	(814,452)	-	(2,618,171)
Transfers to Stage 1	213,370	(213,370)	-	-	-
Transfers to Stage 2	(242,487)	245,743	(3,256)	-	-
Transfers to Stage 3	(89,179)	(134,142)	223,321	-	-
Amounts written off	-	-	(36,464)	-	(36,464)
Foreign exchange adjustments	19,610	3,065	10,235	-	32,910
Gross carrying amount – 31 December 2020	4,760,125	289,657	1,089,513	-	6,139,295
New assets originated or purchased	6,744,333	39,519	-	-	6,783,852
Assets de-recognised or repaid	(996,302)	(44,020)	(48,805)	-	(1,089,127)
Amortization / Increase of debt	(239,766)	(31,388)	(69,737)	-	(340,891)
From other segments	297,016	19,908	147,814	-	464,738
To other segments	(544,180)	(58,763)	-	-	(602,943)
Transfers to Stage 1	270,578	(147,147)	(123,431)	-	-
Transfers to Stage 2	(179,820)	286,331	(106,511)	-	-
Transfers to Stage 3	(429,783)	(1,833)	431,616	-	-
Amounts written off	-	-	(23,447)	-	(23,447)
Foreign exchange adjustments	109,663	4,112	16,492	-	130,267
Gross carrying amount – 31 December 2021	9,572,538	348,152	1,280,520	-	11,201,210

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2020 under IFRS 9	52,619	14,281	808,979	-	875,879
New assets originated or purchased	83,469	248	14,875	-	98,592
Assets de-recognised or repaid	(4,712)	(3)	(39,209)	-	(43,924)
From other segments	12,129	372	30,671	-	43,172
To other segments	(22,465)	(12,534)	(547,006)	-	(582,005)
Transfers to Stage 1	1,892	(1,892)	-	-	-
Transfers to Stage 2	(6,028)	6,067	(39)	-	-
Transfers to Stage 3	(17,907)	-	116,361	-	98,454
Net re-measurement of ECL	37,196	-	33,569	-	70,765
Amounts written off	-	-	(10,779)	-	(10,779)
Foreign exchange adjustments	613	192	11,472	-	12,277
ECL – 31 December 2020	136,806	6,731	418,894	-	562,431
New assets originated or purchased	144,456	7,559	-	-	152,015
Assets de-recognised or repaid	(24,916)	(542)	(19,146)	-	(44,604)
From other segments	12,822	1,438	(33,640)	-	(19,380)
To other segments	8,815	72	50,424	-	59,311
Transfers to Stage 1	(16,926)	(1,904)	(3,048)	-	(21,878)
Transfers to Stage 2	7,591	(4,543)	(2,699)	-	349
Transfers to Stage 3	(5,105)	7,804	28,175	-	30,874
Net re-measurement of ECL	(27,083)	(1,091)	-	-	(28,174)
Amounts written off	-	-	(11,699)	-	(11,699)
Foreign exchange adjustments	3,080	194	2,245	-	5,519
ECL – 31 December 2021	233,380	15,330	425,016	-	673,726

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

12. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

V. LG/LC

The tables below show an analysis of changes in gross carrying amount and the corresponding ECL allowances for **LG/LC** is as follows:

	Sta e 1	Sta e 2	Sta e 3	POCI	Total
Gross carrying amount as at 1 January 2020	803,164	-	-	-	803,164
New assets originated or purchased	177,856	-	-	-	177,856
Assets de-recognised or repaid	(522,244)	-	-	-	(522,244)
Net re-measurement of ECL	7,363	-	-	-	7,363
Foreign exchange adjustments	1,125	-	-	-	1,125
Gross carrying amount – 31 December 2020	465,014	-	-	-	465,014
New assets originated or purchased	655,518	-	-	-	655,518
Assets de-recognised or repaid	(156,046)	-	-	-	(156,046)
Foreign exchange adjustments	4,629	-	-	-	4,629
Gross carrying amount – 31 December 2021	959,857	-	-	-	959,857

	Sta e 1	Sta e 2	Sta e 3	POCI	Total
ECL allowance as at 1 January 2020 under IFRS 9	2,300	-	-	-	2,300
New assets originated or purchased	178	-	-	-	178
Assets de-recognised or repaid	(1,021)	-	-	-	(1,021)
Transfers to Stage 1	-	-	-	-	-
Net re-measurement of ECL	(36)	-	-	-	(36)
Foreign exchange adjustments	40	-	-	-	40
ECL – 31 December 2020	1,381	-	-	-	1,381
New assets originated or purchased	809	-	-	-	809
Assets de-recognised or repaid	(170)	-	-	-	(170)
Net re-measurement of ECL	2,483	-	-	-	2,483
Foreign exchange adjustments	3,122	-	-	-	3,122
ECL – 31 December 2021	1,381	-	-	-	1,381

13. FINANCIAL LEASING

The Bank has issued financial leases to its customers, amounting ALL 316,650 thousand (31 December 2020: ALL 52,166 thousand). These leases have an average life of between one to 5 years, with no renewal option included in the contracts.

Financial leases to customers as at 31 December 2021 and 31 December 2020 can be detailed as follows:

	31 December 2021	31 December 2020
Gross investment in finance leases, receivable		
- Not later than 1 year	113,422	16,891
- Later than 1 year and not later than 5 years	206,426	35,803
Less: Unearned finance income	-	-
Net investment in finance leases	319,848	52,694
Loss allowances for impairment	3,102	(528)
Total	316,746	52,166

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

13. FINANCIAL LEASING (CONTINUED)

Finance Lease Receivables – Movement in gross book value

	31 December 2021					31 December 2020
	State 1	State 2	State 3	POCI	Total	Total
Gross carrying amount as at 1 January	52,694	-	-	-	52,694	56,399
New assets originated or purchased	288,972	-	-	-	288,972	-
Assets de-recognised or repaid	(16,906)	-	-	-	(16,906)	(13,114)
Foreign exchange adjustments	4,912	-	-	-	4,912	579
Gross carrying amount – 31 December	319,848	-	-	-	319,848	42,706
New assets originated or purchased	2,890	-	-	-	2,890	-
Assets de-recognised or repaid	167	-	-	-	167	(16,703)
Depreciation/ Debt Increase	-	-	-	-	-	7,382
Foreign exchange adjustments	45	-	-	-	45	667
Total	316,746	-	-	-	316,746	52,694

Finance Lease Receivables – Movement in ECL

	State 1	State 2	State 3	POCI	Total
ECL allowance as at 01.01.2020 under IFRS 9	427	-	-	-	427
Assets de-recognised or repaid	92	-	-	-	92
Foreign exchange adjustments	9	-	-	-	8
ECL – 31 December 2020	528	-	-	-	528
Assets de-recognised or repaid	2,748	-	-	-	2,748
Foreign exchange adjustments	174	-	-	-	174
ECL – 31 December 2021	3,102	-	-	-	3,102

BANKA AMERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021 (All amounts in ALL thousand, unless otherwise stated)

14. PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Property and Equipment as at 31 December 2021 and 31 December 2020 is as follows:

Cost	Buildings	Computers and IT equipment	Office equipment	Vehicles	Leasehold improvements	Tangible assets in process	Right-of-use assets	Total
Balance at 1 January 2020	835,543	544,343	141,987	13,264	467,846	215,606	570,826	2,789,415
Effect from adoption of IFRS 16								
Additions	104,923	52,901	49,038	2,582	107,922	-	28,438	345,804
Disposal	-	(149,846)	(2,428)	-	(9,456)	-	-	(161,730)
Transfers	-	-	-	-	-	215,606	-	215,606
Balance at 31 December 2020	940,466	447,398	188,587	15,846	566,312	-	599,264	2,757,883
Effect from adoption of IFRS 16								
Additions	1,432	47,755	5,574	5,687	-	-	52,199	112,998
Disposal	-	-	1,119	-	-	-	-	1,121
Balance at 31 December 2021	941,898	495,153	193,055	21,543	566,651	-	651,463	2,868,760
Accumulated depreciation								
Balance at 1 January 2020	219,439	435,026	125,735	8,280	335,514	-	87,352	1,211,356
Charge for the year	(20,889)	(57,530)	(14,140)	(1,027)	(38,215)	-	(93,857)	(226,658)
Disposals	-	149,747	2,421	-	8,322	-	-	160,490
Balance at 31 December 2020	240,328	342,809	137,454	9,317	366,407	-	181,209	1,277,624
Charge for the year	(21,436)	(57,616)	(13,503)	(2,051)	(37,491)	-	(91,853)	(223,939)
Disposals	-	-	1,230	-	-	-	-	1,230
Balance at 31 December 2021	261,763	400,425	149,727	11,368	403,888	-	273,062	1,500,232
Net book value								
At 31 December 2020	700,138	104,589	51,143	6,529	199,905	-	418,055	1,480,359
At 31 December 2021	680,134	94,728	43,325	10,175	162,763	-	376,401	1,368,527

As at 31 December 2021 and 2020, the Bank has no property, plant and equipment set as collateral.

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

15. INTANGIBLE ASSETS

	Software and licenses	Advances	Total
Cost			
Balance at 1 January 2020	679,925	3,792	
Additions	24,978	21,283	
Balance at 31 December 2020	704,903	25,075	
Additions	25,149	27,359	
Transfers	12,640	12,640	
Balance at 31 December 2021	742,692	39,794	
Accumulated amortization			
Balance at 1 January 2020	525,415		
Charge for the year	(58,340)		
Disposals	-	-	-
Balance at 31 December 2020	583,755		
Charge for the year	(60,250)		
Disposals	-	-	-
Balance at 31 December 2021	644,005		
Net carrying value			
At 31 December 2020	121,148	25,075	146,223
At 31 December 2021	98,687	39,794	138,481

16. INVENTORY AND OTHER ASSETS

Inventory and other assets as at 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Reposessed Collaterals	3,925,933	3,467,648
Payments in transit and other assets	152,852	11,385
Sundry debtors	71,158	5,242
Prepaid Expenses	17,786	14,089
Other	47,442	-
Total	4,215,171	3,498,364

Inventory represents reposessed assets ("the inventory") acquired in the process of collection of defaulted loans. The movement of "reposessed assets" during the reporting period is presented as follows:

	2020	Additions	Disposals	2021
At beginning of the period	3,930,303	1,242,450	(747,234)	4,425,519
Reclassification in fixed asset	(156,770)	-	-	(156,770)
Impairment of inventory	(344,005)	(102,619)	65,971	(380,653)
Effect of movements in foreign exchange	38,120	-	283	37,837
At end of the period	3,467,648	1,139,831	681,546	3,925,933

17. ASSETS HELD FOR SALE

Assets held for sale represent reposessed collaterals (as presented in note 16) whose selling process is expected to be realized within 12 months from the reporting date.

	31 December 2021	31 December 2020
Assets Held For Sale	2,053	2,336
Total	2,053	2,336

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

17. ASETS HELD FOR SALE (CONTINUED)

The movement of "assets held for sale" during the reporting period is presented as follows:

	2021	2020
At beginning of the period	2,336	2,361
Inventory write-down	283	25
At end of the period	2,053	2,336

18. INVESTMENT IN ASSOCIATES AND SUBSIDIARIES

The Bank has investments in participation in ALSE (established on May 4, 2017) and ALREG (established on May 4, 2017), with a percentage of participation of 45.59% and 47.5% respectively.

During 2019, the Bank increased the share capital of the Albanian Stock Exchange ALSE sh.a. with a value of 17,500 thousand ALL and the Register of Albanian Titles (Albanian Register of Titles, ALREG sh.a), with a value of 16,625 thousand ALL.

The Bank's shareholders during 2018 have established the ABI Broker sh.a in a value of 3,500 thousand ALL. The purpose is to establish an insurance company so that the Bank can also assist its clients and others in the insurance market. This transaction was registered at the NBC on December 27, 2019.

The shareholders of the Bank agreed on the establishment of ABI Invest sh.a in a value of 25,000 thousand ALL. The purpose was to start the activity of a fund management company through which the Bank will generate profits from investments in securities. This company was registered at the NBC on December 24, 2019.

The Bank's investment in these associates and subsidiaries is accounted for at cost and as at 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Investment in associates:		
- ALSE	38,750	38,750
- ALREG	33,250	33,250
Investment in subsidiaries:		
- ABI Broker	3,500	3,500
- ABI Invest	45,000	45,000
Total	120,500	120,500

19. DUE TO BANKS

Due to banks as at 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Correspondent banks		
Current accounts		-
Resident	-	-
Deposits		
Resident		
Repurchase Agreements		
Total		

The details of repurchase agreement as at 31 December 2021 and 31 December 2020 have been as follows:

	31 December 2021			
Maturity	Interest Rate	Nominal value	Accrued Interest	Book value
06/01/2022	0.50%	11,036,805	302	11,037,107
24/02/2022	0.50%	91,533	48	91,581
24/03/2022	0.53%	593,129	69	593,198
Total		11,721,467	419	11,721,886

BANKA AMERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

19. DUE TO BANKS (CONTINUED)

Maturit	31 December 2020			
	Interest Rate	Nominal value	Accrued Interest	Book value
25/01/2021	0.52%	1,583,324	1,511	1,584,835
24/03/2021	0.53%	1,335,047	155	1,335,202
07/01/2021	0.50%	4,171,154	57	4,171,212
Total		7,089,525	1,723	7,091,249

As at 31 December 2021, Albanian Government investment securities of ALL 11,721,886 thousand (2020: ALL 7,091,249 thousand) have been pledged as collateral for Repurchase Agreements (see note 16). These transactions are conducted under terms that are usual to the customary to standard lending. Securities borrowing and lending activities as well as requirements determined by Bank of Albania.

20. DUE TO CUSTOMERS

Due to customers as at 31 December 2021 and 31 December 2020 are composed as follows.

	31 December 2021			31 December 2020		
	Local Currenc	Foreign Currenc	Total	Local Currenc	Foreign Currenc	Total
Current accounts						
Retail	3,303,997	4,261,699	7,565,696	3,107,330	3,362,032	6,469,362
Corporate	1,611,127	1,767,115	3,378,242	1,674,962	1,790,989	3,465,951
	4,915,124	6,028,814	10,943,938	4,782,292	5,153,021	9,935,313
Saving accounts						
Retail	5,039,765	10,007,058	15,046,823	4,788,978	9,390,150	14,179,128
Corporate	-	-	-	-	-	-
	5,039,764	10,007,059	15,046,823	4,788,978	9,390,150	14,179,128
Deposits						
Retail	22,105,088	21,607,172	43,712,260	22,767,968	19,145,385	41,913,353
Corporate	1,055,724	1,488,196	2,543,920	1,066,862	1,104,462	2,171,324
	23,160,812	23,095,368	46,256,180	23,834,830	20,249,847	44,084,677
Total	33,115,700	39,131,241	72,246,941	33,406,100	34,793,018	68,199,118

Balances due to customers by maturity and currency type are as follows:

	31 December 2021			31 December 2020		
	Local Currenc	Foreign Currenc	Total	Local Currenc	Foreign Currenc	Total
Current Accounts	4,915,124	6,028,814	10,943,938	4,782,292	5,153,021	9,935,313
Saving Accounts	5,039,764	10,007,059	15,046,823	4,788,978	9,390,150	14,179,128
Deposits						
1 month	278,534	421,291	699,825	54,802	490,406	545,208
3 months	231,515	868,455	1,097,970	468,203	899,664	1,367,867
6 months	618,569	1,115,090	1,733,679	694,167	1,479,291	2,173,458
9 months	33,782	5,347	39,129	31,182	6,646	37,828
12 months	8,476,659	13,004,915	21,481,574	7,637,782	13,815,706	21,453,488
18 months	682,229	-	682,229	2,406,753	-	2,406,753
24 months	3,327,582	2,241,095	5,568,677	2,282,259	1,688,315	3,970,574
36 months	6,743,366	5,130,871	11,874,237	7,341,042	1,436,583	8,777,625
60 months	1,513,533	299,281	1,812,814	1,752,382	421,956	2,174,338
84 months	946,022	3,032	949,054	874,211	3,093	877,304
120 months	309,000	7,992	316,992	292,048	8,186	300,234
	23,160,811	23,095,369	46,256,180	23,834,831	20,249,846	44,084,677
Total	33,115,699	39,131,242	72,246,941	33,406,101	34,793,017	68,199,118

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

21. DEFERRED TAX ASSETS AND LIABILITIES

Recognized deferred tax assets and liabilities and movements in deferred income tax/income during the year are as follows:

	2021	2020	Deferred Tax Expense	
			Year ended 31/12/2021	Year ended 31/12/2020
Equipment and Intangible assets	25,429	23,491	1,938	858
- of which coming from the merger with ex-NBG	-	-	-	-
Deferred tax assets	25 429	23 491	1 938	858
Investment securities at FVOCI	(17,125)	(108,891)	91,756	63,327
- of which coming from the merger with ex-NBG	-	-	-	-
Deferred tax liabilities	17 125	108 891	91 756	63 327
Total deferred tax expense recognized in profit or loss	-	-	1 938	858
Total deferred tax expense recognized in OCI	-	-	91 756	63 327

22. OTHER PROVISIONS

Movements in provisions during the year are as follows:

	Litigations	Off-Balance sheet provisions	Other	Total
Balance at 1 January 2020	83 958	-	4 847	88 805
Expenses during the year	(116)	-	-	(116)
Provisions	-	-	161	161
Provisions reversed	(24,699)	-	(13)	(24,712)
Effect of movements in foreign exchange	1,696	-	-	1,696
Balance at 31 December 2020	60 839	-	4 995	65,834
Expenses during the year	-	-	(28)	(28)
Provisions made during the year	-	-	16,988	16,988
Provision reversed during the year	-	-	(19,425)	(19,425)
Effect of movements in foreign exchange	588	-	851	1,439
Balance at 31 December 2021	61,427	-	3,381	64,808

Other includes provision for losses on dormant accounts and current accounts with a debit balance.

23. OTHER LIABILITIES

Other liabilities as at 31 December 2021 and 31 December 2020 are composed as follows:

	31 December 2021	31 December 2020
Payments in transit	249,943	263,591
Suppliers Payable	49,942	27,804
Sundry creditors and other payables	892,513	408,687
Social security system payable	16,327	6,172
Income tax payable	248,025	4,148
Other	25,038	31,405
	1,481,788	741,807

BANKA AMERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

24. SHARE CAPITAL

The Bank's authorized, issued and fully paid capital as at 31 December 2021 comprises a 100% shareholding by Tranzit Sh.p.k. The registered share capital at 31 December 2021 and 31 December 2020 is as follows:

At 31 December 2021	Currenc	No of shares	Par Value	In original currenc	In ALL '000
	ALL				
	EUR	84,769	295.59	25,057,179	3 450 935
		84 769			3 450 935
At 31 December 2020	Currenc	No of shares	Par Value	In original currenc	In ALL '000
	ALL				
	EUR	84,769	295.59	25,057,179	3,450,935
		84,769			3,450,935

The shares as at 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Number of authorized, fully paid shares at 01 January	84,769	84,769
Number of shares issued during year		
Number of authorized and fully paid shares at 31 December	84,769	84,769

During the year 2021, the ownership of Mr. Andi Ballta to the sole shareholder of the Bank, Tranzit SHPK, was transferred to MOSCOPOLE Inc, following the approval by the Bank of Albania received on December 31st, 2020, and December 28th, 2021, respectively for the transfer of 30% and 50% ownership, resulting in a full transfer as of 2021 year end.

25. RESERVES

LEGAL AND OTHER RESERVE

The Bank should establish a regulatory reserve of 1.25% to 2% of total risk-weighted assets, by appropriating one fifth of the net profit and before payment of dividends, until the balance on this measure reaches at least 1.25% of total risk-weighted assets and a legal reserve of 5% of the Bank's net income after deduction of accumulated losses from previous years, until the balance of this reserve reaches 10% of the Bank's share capital but these reserves are not distributable to the shareholders. The amount of legal reserves as at 31 December 2021 is ALL 775,790 thousand (2020: ALL 548,554 thousand). Under this item is reflected also the reserve from merger with ex-NBG. The movement in legal and other reserve are as follows:

	31 December 2021	31 December 2020
Balance at 1 January	4,430,569	4,292,981
Additional legal reserve for the year	227,237	137,588
Balance at 31 December	4,657,806	4,430,569

FAIR VALUE RESERVES

The fair value reserve comprises the cumulative net change in the fair value of FVOCI financial assets, until the assets are derecognised or impaired. The changes during the financial year ended 31 December 2021 amounted to an decrease of ALL 166,386 thousand (2020: ALL 681,398 thousand). Calculations for Other Reserve in 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Revaluation Reserves of FVOCI portfolio	222,303	833,999
Deferred Tax Liabilities (15%)	(17,125)	(108,881)
Revaluation Reserves of FVOCI portfolio ex-NBG	(108,134)	(108,134)
IFRS 9 reserve for the prior years	59,880	79,705
IFRS 9 reserve for the year 2020	9,463	(19,825)
Remaining Revaluation Reserve of AC portfolio	-	4,534
Total securities Fair Value Capital Reserve	166,387	681,398

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

25. RESERVES (CONTINUED)

Movements in Fair Value Reserve in 31 December 2021 and 31 December 2020 are as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Other reserve at the beginning of the year	681,398	1,069,332
Impact of adopting IFRS	-	-
Total changes in Securities portfolio reserves	(515,011)	(387,934)
Changes in Other reserves Recognized in profit	(4,534)	(9,244)
Changes in Other reserves Recognized in other comprehensive income	510,477	378,690
Other reserve at the end of the year	166,367	681 398

26. NET INTEREST INCOME

Interest Income calculated using EIR was earned on the following asset and liabilities:

	Year ended 31 December 2021	Year ended 31 December 2020
Interest Income		
Loans and advances to customers	1,798,341	1,509,485
Loans and advances to banks	(30,744)	(3,729)
Financial investments at amortised cost	1,171,279	951,426
Financial investments at FVOCI	754,658	614,810
Total Interest Income	3,693,534	3,071,992
Interest expenses		
Demand and time deposits	386,541	453,636
Deposits from banks	93,090	91,304
Current accounts of customers	4,177	5,843
Interest expenses ROU assets	17 690	20,617
Total interest expenses	501 498	571 400
Net Interest Income	3,192,036	2 500 592

27. NET FEE AND COMMISSION INCOME

	Year ended 31 December 2021	Year ended 31 December 2020
Fee Income earned from services that are provided over time:	33,242	93,435
Current accounts	(10,615)	55,312
Cards	43,857	38,123
Fee income from providing financial services at a point in time:	287,907	244,026
Collection and payment services	75,424	62,440
Guarantees given	11,739	6,963
Internet banking	3,343	275
Arrangement fees and others	197,401	174 348
Fee and commission income	321 149	337,461
ATMs and cards	22,901	42,308
Other banking services	3,505	4,271
Collection and payment services	28,000	20,404
Guarantees received	2,064	4 874
Fee and commission expenses	56,470	71,857
Net fee and commission income	264 679	265,604

Fee and commissions do not include fees received for loans and advances to customers (transaction costs), which are adjusted on initial recognition for the carrying value of these financial assets as per effective interest rate method.

BANKA A ERIKANE E INVESTI SHA**Notes to the separate financial statements for the year ended 31 December 2021***(All amounts in ALL thousand, unless otherwise stated)***28. OTHER OPERATING INCOME, NET**

	Year ended 31 December 2021	Year ended 31 December 2020
(Loss)/Gain on sale of fixed assets	(38,647)	33,263
Operational gains	68,673	284,382
Total	105 320	317,645

29. PERSONNEL EXPENSES

	Year ended 31 December 2021	Year ended 31 December 2020
Salaries and bonus	709,207	701,521
Social Insurance	78,898	66,723
Training & similar	24,082	17,669
Total	812,187	785,913

30. OTHER ADMINISTRATION EXPENSES

	Year ended 31 December 2021	Year ended 31 December 2020
Deposit Insurance Premium	208,307	203,143
Advertising & publications	82,388	79,425
Premises and equipment maintenance & repair	65,565	60,332
Rent Expenses	55,992	54,475
IT licence fees, HW and software maintenances	44,969	43,178
Consulting, legal and professional fees	29,173	28,037
Telephone and electricity	22,568	21,663
Repossessed Collaterals insurance & maintenance	20,323	18,875
Cards	18,785	28,988
Representation expenses	13,964	2,913
Reuters	13,410	1,254
Stationery	10,669	9,400
Insurances	9,437	9,836
Cleaning services	9,119	13,393
Transport and security services	8,925	7,686
Travel & business trips	6,509	5,531
Local taxes	6,253	6,528
Data communication & Internet	1,376	1,577
Other	19,746	18,857
	647,478	615,091

31. INCOME TAX EXPENSES

The components of income tax expense for the year ended 31 December 2021 and 2020 are:

	Year ended 31 December 2021	Year ended 31 December 2020
Current year	(280,725)	(202,645)
Adjustment for prior years	-	422
Current tax expense	(280,725)	(203,087)
Origination and reversal of temporary differences	1,938	858
Deferred tax expenses	1,938	858
Income tax expense	278 787	202,209

BANKA A TËRIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

31. INCOME TAX EXPENSES (CONTINUED)

Reconciliation of the income tax expense with the accounting profit(loss) for the year ended 31 December 2021 and 2020 is presented as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Accounting profit before tax	1,682,099	1,266,289
Non-deductible expenses	366,673	208,887
Recognition of loans written-off deferred from prior years, net	177,273	124,210
Tax Profit before recognition of losses carried forward	1,871,499	1,350,966
Recognition of losses carried forward		
Taxable base	1,871,499	1,350,966
Income tax expense at 15% (2020:15%)	280,725	202,645

Non-deductible adjustments are detailed as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Non-deductible exp. IFRS16	109,544	14,552
Depreciation	37,807	30,530
Write back of inventory	36,647	24,664
Non-deductible provision exp. IFRS9 (securities)	35,416	38,016
Financial leasing	32,004	-
Losses on unrecoverable loans and overdrafts	28,036	1,270
Personnel Costs	21,828	9,735
Marketing and sponsorship	15,397	1,082
Reversal/(charge) of sundry operational losses	15,310	72,525
Income tax paid on dividend abroad	2,292	-
Penalties	137	62
Other	32,255	16,405
Total	366,673	208,887
At 15%	55,001	31,333

Deductible temporary differences relate to loan and advances to customers written off considered as tax deductible only upon fulfilment of the respective criteria set forth in the tax legislation and exhaustion of any recovery efforts. Following also external tax advice and tax ruling, the management believes that the income tax provision calculation is appropriate despite the uncertainty of the Albanian tax environment and existing legislation in force and believes that any future tax audit will not have a significant effect on the Bank's financial position, results of operations, or cash flows.

32. COMMITMENTS AND CONTINGENCIES

Letters of credit and guarantees as at 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Contingent Assets	4,258,244	2,091,107
Letters of credit & guarantees in favour of customers	959,857	465,014
Commitments in favour of customers	3,172,843	1,588,958
SPOT transactions	125,544	37,135
Contingent liabilities	88,236,221	75,471,325
Guarantees pledged from credit customers	971,626	623,605
Collateral received from credit customers	87,264,595	74,847,720

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.

BANKA A ERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

33. LITIGATION AND CLAIMS

The Bank is subject to legal proceedings, claims, and litigations arising in the ordinary course of business. The Bank has formal controls and policies for managing litigations and legal claims. Once professional advice has been obtained and the amount of loss is reasonably estimated, the Bank makes adjustments to account for any adverse effects, which the claims or litigations may have on its financial standing. At year end, the bank had several claims with no probable material adverse effects, accordingly, the Bank has provisioned the amounts referred to in the Note 22 of these separate financial statements.

34. LEASE COMMITMENTS AND OPERATING LEASE EXPENSE

The Bank's operating minimum non-cancellable lease contingencies as lessee as at 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Less than one year	90,023	99,250
Between one and five years	262,104	286,807
More than five years	73,843	118,648
Total	425,971	504 705

The amount of operating lease expenses recognised in profit or loss as rent expense for the year ended 31 December 2021 amounts to ALL 55,992 thousand (2020: ALL 54,475 thousand).

Future minimum finance lease payments (principal and interest) as at 31 December 2021 and as at 31 December 2020 are detailed as follows:

	31 December 2021	31 December 2020
Not later than 1 year	113,422	16,893
Later than 1 year and not later than 5 years	162,625	35,568
Later than 5 years	43,801	-
Total	319,848	52,460

35. RELATED PARTIES TRANSACTIONS

The Company's immediate parent for 2021 and 2020, is Tranzit Sh.p.k, which holds a 100% interest. The Company, therefore, considers that it has a related-party relationship, in accordance with International Accounting Standard 24 Related Party Disclosures ("IAS 24") with the following:

- *Key management personnel and parties related to key management personnel;*
- *Supervisory Board members, Management Board members and other key management personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company, collectively "key management personnel", close family members of key management personnel, and companies and un-incorporated businesses controlled, or jointly controlled by key management personnel and/or their close family members.*

A number of banking transactions are entered into with related parties in the normal course of business. These transactions include loans and advances to customers, deposits and a subordinated debt, along with other transactions carried out on normal commercial terms and at market rates (at arm's length transaction). As at 31 December 2021 and 31 December 2020 the Bank had the following contractual terms and transactions with its shareholders:

	Amount	Average Interest rate	Min - Max Interest Rates	Min-Max Years Maturity
31 December 2021				
Key management personnel and Other related parties				
Loans and advances given	68,047	3.62%	1.64%-15%	2-20
Due to customers (CA and SA)	156,881	0.07%	0%-0.35%	-
Due to customers (Term Deposits)	28,956	0.15%	0.05%-2%	1-3
Tranzit Sh.p.k				
Due to customers (CA and SA)	124,083	-	-	-

BANKA A ERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

36. RELATED PARTIES TRANSACTIONS (CONTINUED)

	Amount	Average Interest rate	Min - Max Interest Rates	Min-Max Years Maturity
31 December 2020				
Key management personnel and Other related parties				
Loans and advances given	50,444	3.50%	1.64%-15%	3-20
Due to customers (CA and SA)	62,865	0.03%	0%-0.35%	-
Due to customers (Term Deposits)	5,464	1.39%	0.2%-2%	1.25-3
Tranzit Sh.p.k				
Due to customers (CA and SA)	256,327	-	-	-

BANKA AMERIKANE E INVESTIMEVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

36. RELATED PARTIES TRANSACTIONS (CONTINUED)

The following transactions have taken place during the year ended 31 December 2021 and 31 December 2020:

	Year ended 31 December 2020		Year ended 31 December 2020		Year ended 31 December 2020			
	Transzit sh. .k Grou	Key Management Personnel and other related parties	ABI Broker sh.a	ABI Invest	Transzit sh.p.k Grou	Key Management Personnel and other related parties	ABI Broker sh.a	ABI Invest sh.a.
Assets at the end of the year	-	68,047	-	-	-	50,444	-	-
Loans and advances given	-	68,047	-	-	-	50,444	-	-
Liabilities at the end of the year	124,063	185,637	34,105	1,534	203,415	68,328	19,157	33,755
Due to banks	-	-	-	-	-	-	-	-
Due to customers	124,063	185,637	34,105	1,534	203,415	68,328	19,157	33,755
Subordinated debt	-	-	-	-	-	-	-	-
Income for the year ending	57	2,732	35	52	87	1,766	24	22
Interest and similar income	-	2,275	-	-	-	1,247	-	-
Fee and commission income	57	458	35	52	87	519	24	22
Expenses for the year ending	26,980	65	-	-	25,057	128	-	-
Interest and similar expenses	-	65	-	-	-	128	-	-
Fee and commission expenses	-	-	-	-	-	-	-	-
Technical assistance	26,980	-	-	-	25,057	-	-	-
Short term management benefits	-	-	-	-	-	-	-	-
Key management's compensation	-	96,198	-	-	-	88,757	-	-
Salaries	-	71,396	-	-	-	70,528	-	-
Bonuses	-	18,679	-	-	-	11,946	-	-
Other	-	6,123	-	-	-	6,283	-	-
Dividend Distributed	685,000	-	10,000	-	-	-	-	-
Dividend Collected	-	-	-	-	-	-	10,000	-

There are no related party transactions as at and for the year ended 31 December 2021 for both Bursa Shqiptare e Titujve ALSE and Regjistri Shqiptar i Titujve ALREG.

BANKA AMERIKANE E INVESTI EVE SHA

Notes to the separate financial statements for the year ended 31 December 2021

(All amounts in ALL thousand, unless otherwise stated)

37. SUBSEQUENT EVENTS

a) Dividend distribution from year 2020 net profits

Pursuant to the Regulation no. 69, dt. 18.12.2014 "On the Regulatory Capital of the Bank" Article 38, 39 and 42 and the Decision no. 6, dated February 2nd, 2022 "On the Suspension of the Distribution of Profits by Banks", the Bank received on March 31st, 2022, the approval from the Bank of Albania for the distribution of dividends from 2020 net profits amounting to ALL 835 million, approved through the Shareholder's resolution nr. 121, dated July 30th, 2021. The dividend was fully distributed to its sole Shareholder Tranzit SHPK, on the same date.

b) Issuance of subordinated bonds

Pursuant to the approval decision no. 5 and 6 dated January 31st, 2022, of the Financial Supervision Authority, the Bank issued on March 8th, 2022, long term unsecured bonds, denominated in EUR and ALL with fixed interest rates, convertible into ordinary shares and with the call option before maturity. The issuance was made as follows:

- 879 bonds with a nominal value of 10,000 EUR, interest rate 3% per annum, paid every six-months, with a maturity of 7 years, for a total issuance value of 8.79 million Euros;
- 500 bonds with a nominal value of ALL 1 million, with an interest rate of 4.5% per annum, paid every six-months, with a maturity of 7 years, for a total issuance value of Lek 500 million.

The purchase of the bonds was completed on the same date by the investors through the dedicated bank account of the Bank and the full amount was then transferred to the Custodian, Credins Bank SHA on the same date.

Consequently, on the same date, the Bank has recognized in its accounting books a financial liability under the description "Subordinated debt" per each currency, equal to the values mentioned above.

Following the requirements of the regulation " On the Regulatory Capital" no. 69 dated 18.12.2014, the Bank has received on April 4th, 2022, the approval from the Bank of Albania for the recognition of the subordinated debt as a Tier 2 component of the Regulatory Capital.

The management of the Bank is not aware of any other event after the reporting date that would require either adjustments or additional disclosures in these Financial Statements.