CREDINS bank

# ANNUAL REPORT 2018

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# MESSAGE FROM CEO

**MALTIN KORKUTI**
CEO

CREDINS BANK SUCCESSFULLY ACCOMPLISHED THE STRATEGIC GOALS

During 2018, the main financial indicators of Credins Bank marked quite a satisfactory performance. Credins Bank successfully accomplished the strategic goals provided for in the 3-year development plan of the bank, therefore consolidating its position in the market as the second largest bank in terms of lending and the third largest bank in terms of deposits. The loan portfolio increased gradually, supporting both existing and new clients who filed successful investment plans, yet in full compliance with the risk parameters for all sectors where the bank intends to extend its priorities. Our efforts were and are still focused on modernizing the technology infrastructure and introducing innovations to meet and anticipate the ever-growing and innovative demands of our clients. Optimisation of the branch structure through the successful finalisation of the staff training project on increasing sales force effectiveness (SFE), provided very positive results in branches in terms of sales, an active interaction with clients and satisfactory service, which ranked Credins Banks as the number one bank for meeting their financial needs.

**The domestic and global economic situation and the impact on Credins Bank.**

Despite the ongoing challenges of 2018, related to the overall global economic situation, ever-changing regulatory demands, significant fluctuations in the currency exchange rates, banking system consolidation processes, Credins Bank successfully managed to maintain a positive position of liquidity, non-performing loans, income growth, and a satisfactory consolidation of customer relationships. Credins Bank made major investments in transforming and simplifying the digital platform of Credins online to be closer to its clients with new functionalities and by facilitating their use regardless of their location.

**Performance across the main departments**

2018 marked a significant increase in the bank's deposit portfolio, an indicator of Bank-Client reliability. The loan portfolio marked continuous growth in line with the bank's strategy to place the proper balance between the retail and corporate segment. Credins Bank highly focused in supporting the Agribusiness sector, by offering farmers financial support and expertise. Significant growth was also observed in the total volume of domestic and foreign payments, and the number of new cards issued and their significantly growing use, therefore reducing the cash economy, although it remains a challenge for the Albanian economy. As of January 1, 2018, the Bank applied the new IFRS9 standard for the business model, assessment and classification of risk assets.

In July 2018, Credins Bank was amongst the fewest banks selected for the World Bank project on the 5-year benchmark bond bid and was fully engaged in developing the securities trade in the secondary market, by supporting clients with investment alternatives. During this period, Credins Bank, as one of the five market developers, has provided its utmost contribution in the growth of trading volume in the secondary market, aiming at increasing the investor base.
The corporate culture established within our Institution reflects the highest estimation that Credins Bank dedicates to its most important asset, the human capital. Credins Bank is highly focused on continuous investments in training and professional growth of the new staff, marking a milestone in their career growth as a driver to the best professional service to its clients. Our ambitions are reflected in an unremitting process of employing talented young people throughout 2018, in compliance with the gender equality standards at management level.

Credins Bank continues to give high priority to the contribution in social responsibility through various donations and sponsorships aimed at helping the overall development of the society, infrastructure, art, culture, education, etc. Through its ongoing initiatives, Credins Bank continues to be ranked as one of the main supporters of the social development.

We will continue to prioritize the Strategic Development Plan 2019-2021, which sets out the strategic goals that shall guide the bank's future activity. This strategy highlights our ambitions to develop and move forwards in line with the best international standards. The identified main priorities are as follows:

**I.** Technological developments through continuous transformation of IT systems and infrastructure to bring innovative products in line with the new client behaviours. The "Mobile" branch shall be considered an innovation in the Albanian market, offering its mobile service in every corner of the country in 2019, supporting agro business clients and providing banking services in the most remote areas where the bank coverage is relatively low.

**II.** Strategic Development of Partnerships with International Partners to provide facilities to small and medium enterprises by contributing to the society's overall development, such as the COSME project, which is expected to be completed in 2019.

**III.** Human Capital Development and Management as the main energy to achieve any positive result.
IV. The expansion of the bank in Kosovo is one of the objectives and challenges of Credins Bank, a project which is in its advanced stages and is expected to be concluded in 2019.

The set priorities that contribute to the successful accomplishment of short and medium term initiatives are crucial to the key role that Credins Bank plays in the sustainable development of the society, meeting client and staff requirements for an ever-growing welfare, as well as of our shareholders, who have trustfully supported us in our successful journey.

# BOARD OF DIRECTORS

SAJMIR SALLAKU
CHAIRMAN

JONAS HASSELROT
MEMBER

CLIVE MOODY
DEPUTY CHAIRMAN

RAIMONDA DUKA
MEMBER

MONIKA MILO
MEMBER

ELTON TORO
MEMBER

MALTIN KORKUTI
MEMBER

**ALL**

INVESTMENTS MADE BY CREDINS DURING 2018 FOR GOAL 4, QUALITY EDUCATION

# RISK DIVISION



**CREDINS BANK PAYS SPECIAL ATTENTION TO THE RISK MANAGEMENT PROCESS, NOT ONLY AS A REGULATORY ASPECT AND REQUIREMENT, BUT ALSO AS A GENERAL SPIRIT LEADING THE EVERYDAY BANKING ACTIVITY.**

As regards risk management, the bank has dedicated structures in place, which monitor risk during the everyday banking activity. The main structure for risk management is the Risk Management Division, which is responsible for the identification, measurement, monitoring, prevention and reporting of the activity related to the management of credit risk, market risk, liquidity risk, operational risk and legal risk. During 2018, all Risk structures together with Risk Committee, Audit Committee, ALCO and the Board of Directors, have ensured a prudent management, in accordance with the regulatory framework and the applicable legislation and the AML legislation. The Bank has a risk appetite policy in place, which is in line with the regulatory needs, as regards the assessment and control of several key risks, such as credit risk, credit concentration, government risk, exchange rate risk, etc. This document sets certain limits and the bank's tolerance against risk exposures for its investments and activities.

2018 was a year featured by interest rate fluctuations, where the domestic currency marked a declining trajectory and foreign currencies, particularly in EUR, marked the lowest historical levels. Such fluctuations posed a challenge to investment management and mitigation of risk exposures, aiming to maintain an adequate level of investment performance and interest income. The Risk Division, in collaboration with the Treasury Department, managed to achieve a balance between risk exposure limits and maximizing the return on their investments. Meanwhile, 2018 was also a test for the creation and development of the secondary market for government securities, through daily issuance and quotations of reference securities prices, where Credins Bank is one of the market developers. This served to strengthen the engagement and capacities of the risk unit in monitoring and measuring interest rate risk exposures and forecasts for the future securities yield performance.

Risk Division is focused on identifying and monitoring low-risk investments, accompanied with risk protection measures through derivatives, an innovation in the domestic market and as a means of investment diversification in the last few years.

Based on the continuous monitoring of risks, the Bank has observed all the objectives and limits for market risks, especially as regards the liquidity risk, by timely meeting the bank's needs for liquidity in any currency. Despite all the developments and challenges faced in the interbank and securities markets during the year, the Risk Division, in cooperation with the Treasury Department, has applied a prudent approach to liquidity management, maintaining a good performance in a challenging environment in terms of interest rates, which have been continuously declining.

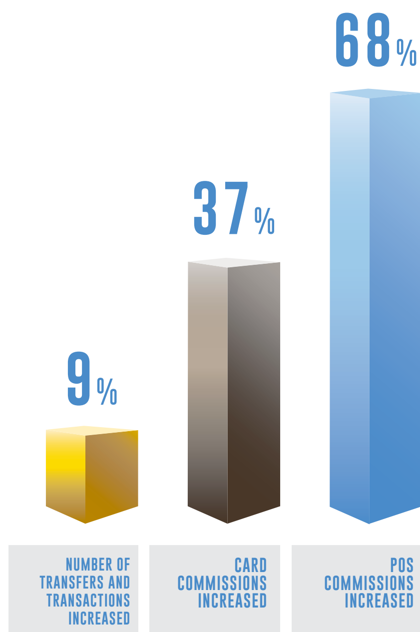
The Bank, in full compliance with the regulations and international standards, has adopted Basel 3 most recent revisions in terms of liquidity and interest rate risk measurement and monitoring.

The focus of risk management during the year has been in assessing, measuring and diversifying the capital requirement based on specific classes of asset and their exposure to risk. At the same time, the bank has conducted an internal capital adequacy assessment through a detailed process, including a number of specific risks not included in the regulatory framework for capital adequacy ratio, such as credit risk concentration, country risk, residual market risk, reputation and strategic risk, accompanied with stress-test scenarios for each of the major risks. Therefore, the Bank will have the opportunity to widely estimate the risk exposure not only for available assets, but for all its daily activities and operations. Based on these estimates, the Bank will manage to provide potential additional capital requirement to cover exposure to all risks and to make forecasts and better budget estimates for its own capital resources and funds.

As of January 1, 2018, the Bank has applied the new IFRS9 standard for its business model, assessment and classification of risk assets through several stages, the calculation of credit losses according to the duration of classified exposures for the second stage at risk. The Risk Division has carried out initial estimates of the impact of the transition towards the new standard for the calculation of provisions value, upon its entry into force at the beginning of the year and at the same time for the ongoing calculation throughout 2018. During 2018, Credins Bank aimed to balance the funds absorption in different currencies and their investment by providing loans in these currencies. In the meantime, the bank considers mitigation of the exposure to the indirect credit risk as a crucial element, as a result of the exchange rate, also by recommending that clients receive their loans in the same currency as their incomes, or otherwise by converting the existing loans denominated in EUR to the local currency. Credins Bank is not so much exposed to this kind of risk as compared to the published data for credits and deposits of the entire local banking system. Under these conditions, all the measures undertaken beyond the banking system, in the country's economic system, are considered crucial, with informality being the main issue and encouraging the use of local currency in most of the transactions within the country. The general indexing spirit of almost all the retail trade goods in the European currency, especially those coming directly from import, towards indexing only in the local currency, will provide an important contribution in the high demand for EUR existing in the Albanian market. At the same time, the measures undertaken to inform customers in Banks on the risks of exposure to the exchange rate fluctuations, will raise the awareness and provide guidance to a safer investments. This measure has been undertaken by Credins as part of the policy on informing and being transparent to the public, by stipulating in detail in our agreements with the clients, and in a sensitive and direct manner, during the everyday dialogue and consulting sessions that the bank offers for all its clients.

# BUSINESS DEVELOPMENT DIVISION

THE NET INCREASE OF DEPOSITS ONLY IS 182% OF THE BUDGET, WHEREAS ALONG WITH THE BONDS THE INCREASE REACHED TO 200% OF THE EXPECTED RESULT.




## BRANCHES SALES MANAGEMENT DEPARTMENT

2018 marked the second successful year on the improvement of the sales process in branches, following the implementation of the important project on “Sales Force Effectiveness”. Promotion, support, control and assessment, are the key elements of the sales process at every branch of the bank. The branch’s productivity, measured as the number of products sold by the sales staff in the branch, has also increased by 17% during 2018, similarly to the previous year. The products at the focus of the Bank are deposits and bonds issued by the Bank, which together have exceeded the budget projections. The net increase of deposits only is 182% of the budget, whereas along with the bonds the increase reached to 200% of the expected result. The loans portfolio generated by the branch network continued to grow in the retail segment, especially in retail consumer loans and investment loans in the Microcredit segment. In the framework of the “100 villages” government project, the bank also focused on the Agro credit product by entering into several agreements with non-profit organisations that support the development of Agribusiness, as well as by introducing a novelty in the market through the “Mobile Branch”, which is meant to assist farmers even in the most remote areas of Albania. During 2018, the target for the increase of leasing portfolio was achieved by 125%, disbursements increased by about 20% compared to a year ago, accompanied by a 6% market share increase.
This year commissions increased by about 7% compared to last year, an increase confirmed in all areas where the bank operates. These revenues are generated by commissions applied to POS, Card, Transfers and Increase of Cash Transactions.

During 2019, the strategic priorities for the branch network are focused on maintaining the competitive advantage of a high quality service offered to clients, the ongoing process of automating the manual operations in the Branches - in cooperation with the Operations Division, a process which last year marked a significant improvement; as well as improving further our cross-selling of products and the services offered by our partner companies, such as the Pension Fund and Credins Invest. An important strategic mid-term objective is to convert the sales positions in the branches into the position of the Client Manager, further trained to sell and process all the products of the Bank to the customers, by providing better quality and productivity.

## PROJECTS DEPARTMENT

During 2018, the Projects Department’s activity was focused on supporting strategic initiatives undertaken by the Bank.

- The project Credins Bank Kosovo is one of the key initiatives of the Bank for 2018. Extending our activity in the Albanian-speaking regions, is one of the business objectives of Credins Bank. The first project undertaken is the establishment of Credins Bank Kosovo. During this year, work has been carried out mainly for completing the legal framework and approvals at the Bank’s internal forums. The project is now in an advanced stage. Application was filed with the Central Bank of Kosovo for being provided with a licence to exercise the activity.

- Another important initiative is the mapping processes at institutional level. This project aims to analyse and visualize the processes, defining the roles and responsibilities, the control levels and interaction between such levels in order to simplify and improve the efficiency of the processes in the bank. During 2018, the first phase of evaluation has been completed and during 2019 the mapping process, which is the second and most critical phase, is expected to be implemented.

- The depositary is a project already at an advanced stage, for which a lot of work has been done during 2018. All the necessary documentation has been prepared and it is expected that the Financial Supervisory Authority will soon issue the permit for the exercise of the activity.

- COSME Project. Another major initiative undertaken by the bank during 2018, which is expected to be finalized during 2019 with the signing of the agreement between Credins Bank and the European Investment Fund for the Guarantee Fund amounting to 7.5 million EUR in support of providing loans to micro, small and medium enterprises segment. This agreement is considered of significant importance to the institution as far as reputation and operational level is concerned.

- The Bank’s program on modernization and technological improvements continued as well throughout 2018, in support of the strategic goal to generate more business through digital banking. During 2018, substantial investments have been made in support of business transformation and strengthening of IT infrastructure, digitalization, technological development of systems and ongoing infrastructure development. The Credins Online platform has passed through significant transformations in enhancing and improving functionality, as well as simplifying the customers use.

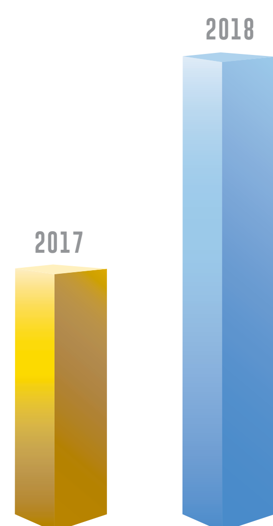
€ 7.5

MILLION EUR IN SUPPORT OF PROVIDING LOANS TO MICRO, SMALL AND MEDIUM ENTERPRISES SEGMENT

# OPERATIONAL DIVISION

## OPERATIONAL DEPARTMENT

The Operational Division, as the central structure supporting the correct and timely processing of all the outgoing bank payments within and outside Albania, continued to accomplish its role with professionalism and efficiency throughout 2018, thus contributing to the continuous increase of the payment transaction volumes and Trade Finance instruments.
An important step has been made in the automation of the incoming transfers processing through the Straight Through Processing (STP), speeding up the transaction processing time and improving efficiency.




**50%** INCREASED IN PAYMENTS THROUGH E-BANKING

In November 2018, Credins Bank adopted the standardized payment message (MT103 and MT202) for the unique end-to-end transaction reference UETR, as required by the SWIFT. This is the unique reference issued for the transaction from the creation to the final payment process, regardless of the references of each bank through which payment processing is made and paves the way for tracking payments over their processing chain.

Throughout 2018, Credins Bank has processed real-time through the AIPS and AECH systems, a considerable number of outgoing transfers in national currency, with an increase of 10% in value and 24% in the number of transactions, compared to 2017, while incoming transfers in national currency increased by 4% in value and 19% in the number of transactions.
Transfers in foreign currency increased significantly. Outgoing foreign currency transfers increased by approximately 10% in value and 23% in number of transactions, while incoming foreign currency transfers increased by 35% in value and 57% in the number of transactions compared to 2017. As a result of such volumes, commissions from domestic and cross-border transfers increased by 19% compared to 2017.
Another important development is the upgrading of the e-banking service, offering a new 'design' and a more user-friendly approach. Payment of utilities, taxes, customs and IPRO liabilities is now faster and easier to all users, supported at any time by the staff in the branches, always eager to offer their assistance any time needed.
There has been an increase in payments carried out through e-banking, with about 50% more transactions compared to 2017.
The Bank has continued to offer trade Finance instruments such as Letters of Credit, cross-border Guarantees and Documentary Collections (Incasso) through a professional, fair and quality service.
Satisfactory indicators were marked as regards the payment of utilities, with increased volumes by about 22% in value and 28% in number of transactions, which is higher than 2017.

Taxes and Customs payments also increased by about 18% in value, 57% in the number of transactions, including also increased collected commissions. Credins Bank is one of the leading banks in the country in terms of salary processing services for companies and state institutions, marking a significant growing trend throughout 2018. Moreover, an ever-increasing trend is observed in the pensions processing through the Bank, in accordance with the concluded agreement between the Bank and SII.

## TREASURY DEPARTMENT

The Treasury Department at Credins Bank has succeeded to effectively manage the Bank's liquidity by minimizing the negative impact on the risks posed in the financial markets during 2018. The organization and implementation of a professional action plan on investments has provided sound support to the Bank's main activity and sustainability in the domestic banking market. Years of experience and the professional training of employees at the Treasury Department are obviously reflected in the positive results achieved during 2018 and in the education of staff and clients of the Bank. High foreign exchange volumes for 2018 have significantly expanded the co-operation with non-resident banks, resulting in increased confidence and lower trading costs. The Treasury Department has put the Bank in a leading position in the domestic financial market by providing customers with the opportunity of currency exchange trading over 24 hours and the exchange of secondary currencies. BREXIT developments are significant to GBP trading in 2018. Moreover, one of the objectives of the Treasury Department is and remains the possibility of exchanges or payments in Chinese currency CNY for companies that carry out transactions with China.
Cash management in the Bank's branches has been one of the major projects of the Treasury Department during 2018, meeting customer's demand for cash in a timely and cost-efficient manner, increasing thus the cooperation and trust.

The Bank participated in the implementation of the World Bank pilot project for the 5-year bond auction, meeting successfully the requirements and educating the staff and customers about securities investment. Credins Bank is committed to the development of securities trading in the secondary market, by expanding its customer base, supporting customers in their investments at lower cost and offering transparent and quality services. 2018 was a successful year for the issuance of Credins Bank bonds, where demand exceeded supply. Customers consider this product as a very good investment option.

In addition to the custody of the Government of Albania securities, 2018 marked an increase in the volumes under custody for the bonds issued by the joint stock companies, providing its support and long experience for the successful performance of these emissions.

The Treasury Department has successfully accomplished its objectives for 2018, resulting in increased profits and reduced product costs, providing sustainability and increased cooperation with resident and non-resident banks, nevertheless, it is yet searching for methods and most effective liquidity management solutions. Effective liquidity management, flexibility, low cost, speed of action, 24-hour trading of currency and transparency, are the main objectives of the Treasury Department, which contributed to the growth of profit, not only for Credins Bank but also for the its customers. The challenge for the Treasury Department remains the follow up of financial markets performance by a qualified staff and providing better investment opportunities to customers.
One of the objectives of the Treasury Department is to provide alternative investment in financial markets for Bank customers, especially during this period when interests from deposit have remained at low levels.

THE TREASURY DEPARTMENT HAS PUT THE BANK IN A LEADING POSITION IN THE DOMESTIC FINANCIAL MARKET BY PROVIDING CUSTOMERS WITH THE OPPORTUNITY OF CURRENCY EXCHANGE TRADING OVER 24 HOURS AND THE EXCHANGE OF SECONDARY CURRENCIES.

## CARD DEPARTMENT

Credins Bank is amongst the first banks to promote, support and encourage developments in electronic payments. Being aware of the role and importance of inclusion, our goal has always been on the continuous expansion of the portfolio of card products and services. Nowadays, Credins Bank covers the needs and demans of retail and corporate (private and public) clients with Visa and MasterCard debit and credit products, in domestic and foreign currency. Credins Bank provides a solution to the needs of all categories of clients.

Prepaid Visa Cards marked an absolute novelty and immediate success in the Albanian banking market. That is why Visa has developed a "case study" on prepaid Credins Cards, which will be published as a success story in the "best practices" section on its website.

The prepaid MasterCard in Euro, even though launched several years later (September 2016), was equally successful and embraced with the same enthusiasm from our clients. The quantitative and qualitative growth indicators on this product attest the right approach of the bank toward this segment. Prepaid cards have provided an opportunity to the underbanked to get involved in the banking payment system, thus increasing, inter alia, the bank's contribution to financial education and improvement of financial inclusion indicators.

In 2017, the number of prepaid MC in Euro was 7580, whereas in 2018 this number reached 13,000 cards, with a volume of 405 million ALL respectively, and a significant increase of 1037 million ALL in 2018.

Aiming to get closer to our clients by introducing the latest contemporary solutions and alternatives, in 2018 Credins Bank was involved, inter alia, in the following projects:

- Successfully completed the project on the increase of on-line purchases security with Credins Cards, through the authentication of on-line transactions with a one-time password (OTP); making online purchases with Credins cards even safer.
- Cooperation with Visa for the implementation of the project on the sponsorship of ABI Bank for transactions with Visa cards has been completed and the same project is in progress with ICB bank.
- The "Visa PIN change on ATMs" project is completed and is currently under testing phase, through which customers are provided with the possibility to change PIN in the ATM network (currently provided for MC).
- Visa contactless project (currently offered in all MC products) has initiated and is in process

The Bank has expanded its activity with Visa Business Cards for Public Institutions. In 2018, the number of key institutions benefiting from the advantages of this product has increased, due to the design and adoption to this particular client category. By adopting an original solution to the specific nature of these institutions, an ever-increasing number of such institutions consider Credins a reliable partner that provides professional solutions tailored to their demands.

Even throughout 2018, our focus has been on implementing and improving the new technologies, improving the security elements in issuing and accepting cards, implementing trust schemes etc. Credins Bank is the first and only bank in the banking system that offers MasterCard World products, which are contactless, simple, comfortable and safe to use; with added value to the client who also enjoys additional benefits such as life insurance coverage while travelling, assistance, emergency card replacement service, loyalty scheme, etc.

Our challenge remains the high quality of products and services; a wide portfolio and alternatives for all businesses and retail clients - being customers of the bank or underbanked clients; high security in the use of our products and services; providing the latest contemporary customer-focused solutions.



## IT DEPARTMENT

The strategy of the Bank to be at the forefront of the latest market trends in technology, has led the business units to develop and deliver innovative new products. Credins Bank holds a key position in the field of innovation and has undertaken important steps in line with its digitalization strategy. Credins developed a new Credins Online platform with the latest technology to serve client in retail, small and medium businesses and corporate segments, enabling them to perform online banking transactions. This platform significantly increased customer comfort and ease in using the e-banking channel. Credins Online provides many functions ranging from checking detailed transaction history to monthly bill payments, various fees, credit cards and transfers to third parties within the bank, at a national or international level in real time. The e-banking service is supported by 24/7 assistance and is protected by the latest security technology.

During 2018, the IT department continued to support the Bank's ever-increasing operations, ensuring normal operation of all the systems. 2018 marks the year of considerable changes in the development of digital banking, such as: **Credins Online platform** with new functionalities and now with new easy-to-use design, **DataWarehouse and Business Intelligence**, which enables the generation of automatic reports consistent with the needs identified by the Business Development Division, **JeniuX** for automating the printing of contracts for services and products, which means a faster service to our customers and much improvements in infrastructure and daily operational performance.
The IT Department continued to be one of the main supporting pillars fulfilling the necessary and effective requirements to the completion of projects undertaken during this year; to generate and to ensure the necessary database, that help everyday decision-making in all the departments.

**CREDINS ONLINE DURING 2018**

**81,836**
USERS

**83,374**
TRANSACTIONS CARRIED OUT THROUGH CREDINS ONLINE

**ALL**

INVESTMENTS MADE BY CREDINS DURING 2018 FOR GOAL 4, QUALITY EDUCATION

# HUMAN RESOURCES

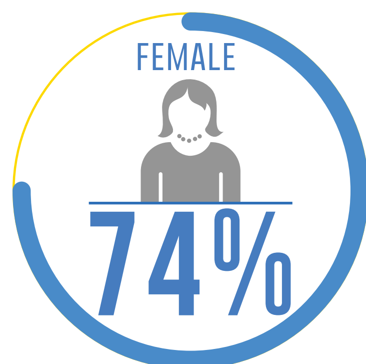
BY PROMOTING RESPECT, DIVERSITY, HONESTY AND INDIVIDUAL PERFORMANCE AT THE WORKPLACE, WE STRIVE TO ACHIEVE THE BEST RESULTS FOR OUR CUSTOMERS, PROUD OF THE ACHIEVEMENTS OF CREDINS BANK OVER THE YEARS.
OUR FOCUS IS HIGHLY CONCENTRATED ON THE IMPORTANCE OF CREATING A CULTURE BASED ON HUMAN VALUES TO LEAD US IN DESIGNING AND FULFILLING THE LONG-TERM STRATEGY OF CREDINS BANK.

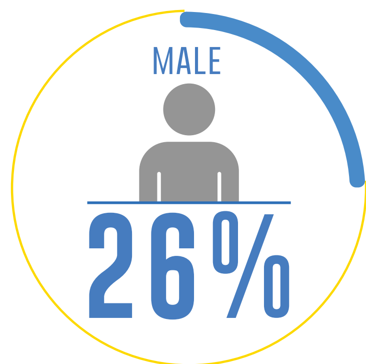
## STAFF DIVISION AS PER DIFFERENT GENERATIONS

**59%** OF THE STAFF
GENERATION Y, 22-35 YEARS OLD

**29%** OF THE STAFF
GENERATION X, 36-50 YEARS OLD

**12%** OF THE STAFF
BABY BOOMERS, OVER 51 YEARS OLD




### STAFF DIVERSITY

In the framework of the implementation of the Human Resources Strategy, 2018 has also marked an increase in the diversity of human capital within the Bank, with the aim of embracing the differences in behaviour, values, functional specializations and working styles, which is clearly noticed in the following data on generations and the male-female ratio. In Credins Bank, we work together as a family.

### RECRUITMENT

During 2018, we have continued to develop our ambition in becoming the most attractive and inclusive employer, making our employees feel motivated to give their best efforts at work. Promotion and career advancement of our employees constitute an integral part of the Human Resources Strategy. In 2018 only, 117 employees were promoted to new positions.
Credins Bank has actively participated in the Employment and Study Fairs organized by the most important institutions in the country, such as Employment Offices, Tirana Municipality, and several higher education institutions with the aim of attracting and recruiting students, mainly students of excellence.
753 job interviews were conducted during 2018, and 142 of them were hired, students and experienced Banking staff. Among them 15 were interns recruited based on the annual agreement of Credins Bank with the Ministry of Social Welfare and the Municipality of Tirana.

### TRAINING AND DEVELOPMENT: AN ESSENTIAL CONTRIBUTOR TO CREDINS BANK SUCCESS.

Investing in the development, training and appreciation of human capital, as the most important asset of the Bank, was the focus of the Bank's management policies for 2018.
Over the years, Credins Bank has carried out continuous trainings with the aim of building of team of banking professionals and experts, for a successful management of the Bank. Therefore, during 2018 Credins Bank made major investments by involving employees in various trainings and projects, mostly focused on capacity-building and qualifications.

Our training programs focused on the development of our employee's skills at staff level and managerial level. All our employees are given the opportunity to attend training courses organised within the bank with internal experts, as well as other trainings with international trainers.

Credins Bank places high importance on staff development by periodically providing new updates on the national and international banking market. In 2018 only, 15 bank employees were trained abroad, and 96 employees were trained by well-known training institutions in Albania.

## DURING 2018, A TOTAL OF 42,206 TRAINING HOURS WERE CONDUCTED, OF WHICH

**12,526** TRAINING HOURS FOR THE EXISTING STAFF

**22,720** TRAINING HOURS FOR THE NEW EMPLOYEES

**6,960** TRAINING HOURS FOR THE PROMOTED STAFF

**ALL**

INVESTMENTS MADE BY CREDINS DURING 2018 FOR GOAL 4,
QUALITY EDUCATION

# SOCIAL RESPONSIBILITY AT CREDINS BANK 2018

**Activities undertaken and supported by Credins Bank within the scope of Social Responsibility in accordance with the 17 goals of Sustainable Development.**

## GOAL 2 ZERO HUNGER

End hunger, achieve food security, improved nutrition and promote sustainable agriculture!

Credins Bank pays special attention to contributing to the elimination of hunger in any form. During 2018, the Bank has collaborated with various organizations and projects that help eliminate poverty among vulnerable groups and children without parental care. Credins Bank is an institution that always promotes good lifestyle and has a key role in making aware the population of a healthy well-being and livelihood.

- Based on this goal, throughout 2018, Credins continued to cover the expenses for 3 children in the SOS village, encouraging further strengthening of "SOS Albanian Children' Villages", to give more opportunities to children in Albania and to invest in a happy home.

## GOAL 4 QUALITY EDUCATION

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Credins Bank believes that education, art, culture and broader information are one of the most valuable contributions to community benefit and continuous development. Increasing and involving the number of young people and adults with technical and professional skills for employment, decent work and entrepreneurship is essential in building a stronger and more stable society and community. Within the framework of social responsibility policies, this contribution is reflected through the financial support of various activities such as:

- Within the framework of Global Money Week 2018, Credins Bank supported the Albanian Association of Banks (AAB) in the activities and organization performed.

- Credins attended a meeting with students at the University of Durres. The aim of this meeting was education, empowerment and financial awareness for university students. Credins was represented in this activity by Ms. Elena Barxhani, Manager of Durrësi Branch.

- Credins Bank, in terms of the Albanian heritage over the years, supported the publication of the "Gimjani - Albanian Stamps" Catalog. This catalog is considered as a missing value in the legacy of the Albanian philately. On the eve of the 105th anniversary of the first Albanian stamp, the author Muharem Gimjani presents the catalog of stamps issued by the Albanian Post during 1913 - 2017.

- Credins Bank supported the Albanian Association of Banks in organizing the European Monetary Quiz, a European-wide competition, which was organized for the first time in 2018 in order to improve the financial culture of children between the age of 13-15 years.

- In the framework of financial education and childcare, in September, Credins Bank chose to be close to the children who start the new school year. Under the slogan "I Know how to Save", the bank has designed a guide for parents and children of 9-year elementary schools. In the form of a journey from the first to the ninth grade, Credins encourages and advises the pupils towards the culture of saving and financial awareness.

- In the framework of the Bank's policy for youth support in the area of innovation, Credins supported the youth team that represented Albania at the Robotics Olympics in Mexico

- Credins Bank, in the framework of social responsibility and continuous development policies, further promoted youth entrepreneurship by supporting Tirana Business University in this initiative: "Tomorrow's Entrepreneurs" and "Tomorrow's Lawyers ", which is now a TBU tradition in fostering new ideas, the spirit of competition and the highlighting business ideas that contribute to the development of the country.

- Access to education helps to create a bright future for all young people around the world. On the International Savings Day, Credins Bank decided to be close to the pupils of 9-year elementary schools "Kushtrimi i Lirise" and "Shkolla e kuqe". In co-operation with Credins branches, the bank donated 1500 notebooks, which included a financial guide for parents and children of the 9-year elementary cycle, called "I Know how to save". Market studies confirm that involving younger children in the savings culture and financial awareness brings positive results to their financial behavior as adults.

- Senior executives at Credins have been committed by giving their personal contribution to the financial education of children. Monika Milo, Deputy Chief Executive Officer of Credins Bank, hosted a group of second grade pupils from the World Academy of Tirana for a conversation on discovering the first knowledge about the bank, savings, credit, and banking system.

## GOAL 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Credins Bank has invested and developed policies to support project financing in improving infrastructure and living conditions. During 2018, the bank gave a contribution to public and non-public institutions, investing in the development of a quality infrastructure, by making these institutions reliable, sustainable and efficient in resource use and greater use of technologies. This support has promoted in parallel the promotion of human well-being.

- The Bank supported the Health Specialty Center No.3 covering the restoration costs of the facilities of this polyclinic.

- Credins Bank, in the framework of continuous care for the well-being, progress and development of the environment in which it carries out its activity, donated office equipment in order to improve the physical conditions of the following institutions: General Directorate of Prisons, a special health institution for inmates, Police Department of Mallakastra, Shkodra Regional Educational Directorate, Shkodra Regional Hospital, General Directorate of Road Transport Services, Kamez Education Office, Mallakaster Immovable Property Registration Office and Administrative Unit No.2, Tirana.

- Credins Bank donated electronic equipment to the Prefecture of Tirana. In the framework of Social Responsibility, Credins, contributes to the improvement of working conditions and services to citizens.

- In the framework of the environment and community care, Credins Bank donated 45 plum trees to Kamza Municipality, by expanding of the green area and providing the most pleasant environment for the inhabitants of this area.

- Credins Bank has invested and developed policies on supporting project financing to improve infrastructure and living conditions. The Bank supported the Health Center at Katundi I Ri, Shkozet, by donating chairs for the internal premises of this polyclinic. It has also supported the University Trauma Hospital, Shkodra Regional Hospital, the Health Specialty Center No. 1 and the Health Center No. 4, by restoring and donating equipment to improve the internal conditions and internal premises of these.

- In terms of social responsibility policies and indicators of the environment and the community care in which it operates, Credins has begun to use electric cars in the capital city by making a step closer

to innovation and digitalization thanks to the intelligent systems with which they operate but above all reducing the negative impact on the environment.

- Credins Bank has restored and donated equipment to improve the internal conditions and internal premises of the following institutions: University Student Residence No.2 sh.a, "Isa Boletini" School, Institution for Execution of Penal Decisions Fushë Krujë, Health Regional Directorate Dibër and Health Center No.1.".

- Credins Bank donated office equipment to improve the physical conditions of the following institutions: Agency for Agricultural and Rural Development, Mallakastra Water Supply and Sewerage Company, Student Treatment, Holiday House Ministry of Interior, Health Center No. 8 as well as Student Multiport Club.

DURING 2018 CREDINS BANK HAS SUPPORTED

MORE THAN **40** STATE INSTITUTIONS

## GOAL 10 REDUCED INAQUALITIES

- Credins Bank, in the framework of empowering the figure of woman, covered the expenses of the activity held in Tirana Women's Prison, and it also donated aesthetic equipment for all female inmates.

- Credins Bank was pleased to cooperate again this year with Down syndrome Albania and SOS Albanian Children's Villages. In the framework of Social Responsibility and community care, we have purchased postcards from this foundation to congratulate our customers for the end of year holidays, by raising the awareness towards the demands and requirements of children in need.

## GOAL 11 SUSTAINABLE CITIES AND COMMUNITIES

Make cities and human settlements inclusive, safe, resilient and sustainable!

Credins Bank is an important player in building an active community and cities with sustainable development, investing in cultural and promotional arts activities throughout the country. By funding these initiatives, the bank aims to strengthen and promote efforts to protect and guarantee the cultural and natural heritage of the world. Another aspect of this contribution during 2018 was the provision of access to safe, inclusive and green public spaces. Making cities and the community sustainable requires support for those countries that are less developed. In this context, the bank has financially and technically assisted in the construction of sustainable and resilient buildings and institutions.

- On the International Environment Day, Credins Bank introduced Ryan by a brief video introduction. A small entrepreneur who, through his initiative, both educates us financially and makes up aware of environmental protection.

- On June 1st, Credins Bank chose to be part of the "International Children's Day", with the pupils of "Adem Myrta" school in the village Shperdhet, Mamurras. Accompanied by their teacher, Mrs. Angjelina Gjonikaj, and their trainers Agustin Luli and Xhulian Gjonikaj, they donated to the pediatric oncology hospital in Tirana their works realised in the workshop "Children, Art and Recycling".

- Credins Supported the Association "Come to the theatre" covering the costs of staging "Comedy That Goes to Hell" show, supporting therefore, art and artists in Albania.

- Credins supported the Orafilm - Marubi sh.pk association covering the costs of the project "The International Film Festival of Human Rights in Albania – 13th Edition", contributing to making cities and human settlements inclusive, safe, resilient and sustainable.

## GOAL 17 PARTNERSHIPS FOR THE GOALS

Strengthen the means of implementation and revitalize the global partnership for sustainable development.

- Credins Bank supported the Albanian Order of Pharmacists (AOP) in organizing the Fifth Pharmaceutical Conference. Under the slogan "Together for Pharmaceuticals" the conference aimed at providing further broad information and discussion on pharmaceutical developments in Albania.

- Being a partner institution with businesses and local institutions, in May, Credins Bank attended the activity "Presentation of Enterprise Models, Networking and Partnership with Business" organized by Partners Albania. Credins Bank continues to play an important role in supporting various projects that promote local development.

- In cooperation with the Municipality of Tirana, on the occasion of children's day, on June 1st, Credins Bank organized and supported sports activities for all children of the city of Tirana near the artificial lake park.

- About 170 students from Albania, the region and beyond participated in the 8th edition of the International Conference of Business Faculty at "Aleksandër Moisiu" University, which subject was on "Economic Policies and European Integration". They shared their ideas and findings regarding the economy.

- As a partner institution of many important events in various areas, Credins Bank supported this activity of high importance for the academic world.

- As a partner institution with local businesses and institutions, Credins Bank, during July, sponsored the activity for the Drenova prisoner staff. Credins Bank continues to play an important role in supporting various projects that promote local development.

DURING 2018 CREDINS BANK HAS INVESTED IN GOAL 4: QUALITY EDUCATION OVER

**5,440,000** ALL

THE FINANCIAL SUPPORT OF CREDINS BANK DURING 2018 WAS IN THE AMOUNT OF

**29,373,400** ALL

## CULTURE, ART AND SPORT

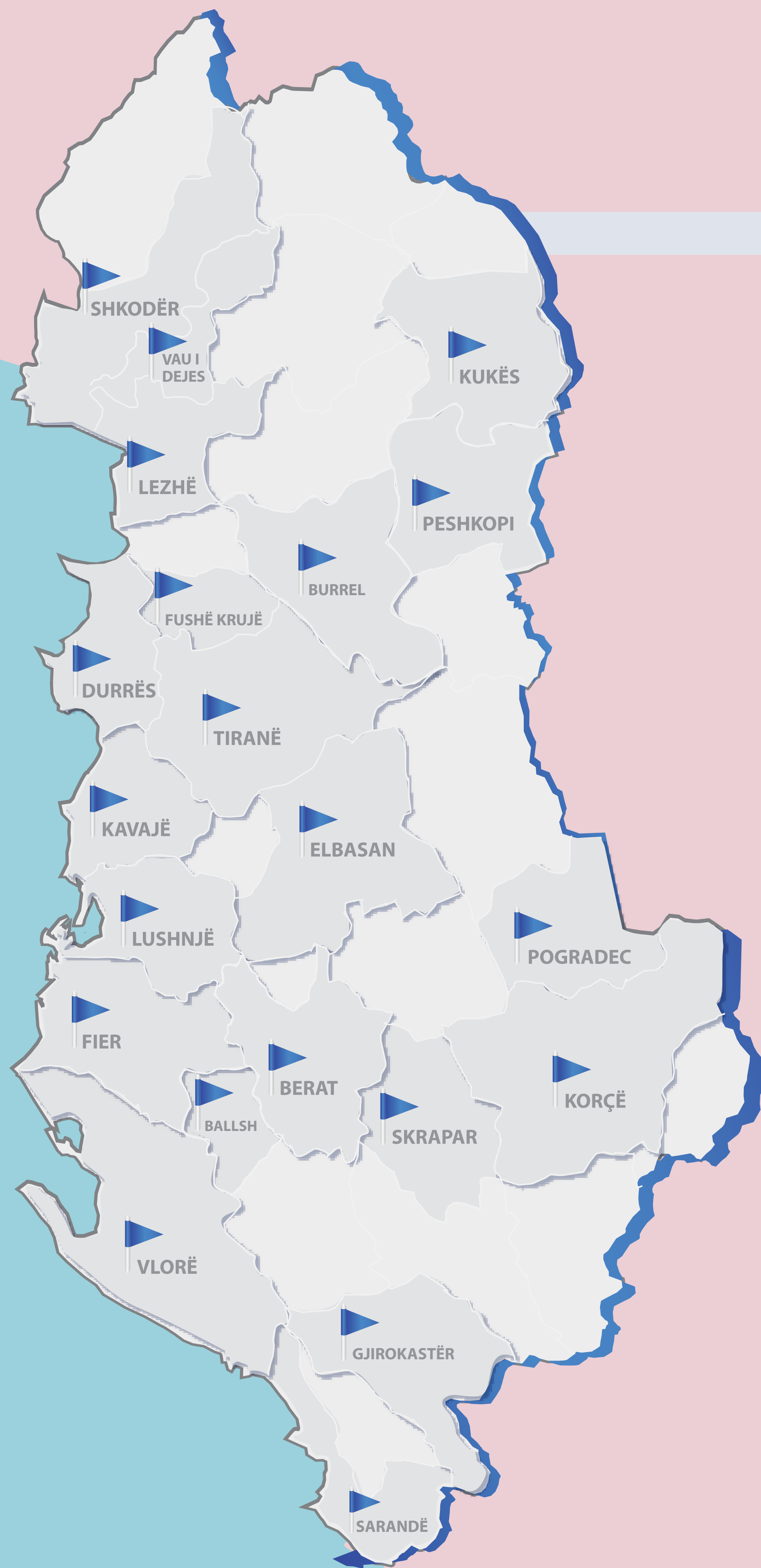
- Albanian athletics hosted the international athletics tour, which was held on the field of the national stadium 'Elbasan Arena'. 140 athletes from Armenia, Italy, San Marino, Montenegro, Macedonia, Kosovo and Albania competed on May 23 in 8 different disciplines. In the framework of Social Responsibility, Credins Bank supports this activity accredited in the 2018 sport calendar of the European Athletic Association.

- On April 14, 2018, Credins Bank supported the Jubilee Concert "Nostalgia" held at the Concert Hall of the Orthodox Cathedral. In addition, Credins, sponsored the project "Be DiFFeREnt" from ARKU Foundation. The project was presented in the form of a choreographic performance with 1 act and 7 scenes. A production by Rovena Dilo, with the choreography of Eltion Merja and Direction of Endri Roshi. The bank supports and promotes art and artists in Albania.

- Credins Bank is an important player in building an active community and sustainable development cities, investing in cultural, sports and promotional arts activities throughout the country. Credins sponsored the Snooker Albanian Federation for the organization of 2018 Snooker Championship.

- Credins Bank is an important player in building an active community and sustainable development cities, investing in cultural, sports and promotional arts activities throughout the country. Credins sponsored Albanian Aeronautics for organizing "Korca Open Air".

# BRANCH NETWORK




**59** BRANCHES

**69** ATM

# INDEPENDENT AUDITOR'S REPORT

**BANKA CREDINS SHA**

**Consolidated Financial Statements for the year ended on 31 December 2018**

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# Independent Auditor's Report

To the Shareholders and Board of Directors of Banka Credins Sh.a

### *Opinion*

We have audited the consolidated financial statements of Banka Credins Sh.a (hereafter referred as the "Bank") which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, 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 consolidated 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 consolidated financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 Consolidated Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Grant Thornton sh.p.k.

Tirana, Albania
18 June 2019

## Consolidated statement of profit or loss
**for the year ended 31 December 2018[1]**

| | Notes | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| | | ALL '000 | ALL '000 |
| Interest income | 3 | 8,935,503 | 8,747,753 |
| Interest expense | 3 | (2,090,784) | (1,854,250) |
| **Net interest income** | 3 | **6,844,719** | **6,893,503** |
| | | | |
| Fee and commission income | 4 | 941,562 | 843,150 |
| Fee and commission expense | 4 | (112,667) | (117,443) |
| **Net fee and commission income** | 4 | **828,895** | **725,707** |
| | | | |
| Other expenses | 5 | (500,449) | (582,541) |
| Other income | 5 | 4,146,679 | 403,281 |
| (Loss)/profit from foreign exchange transactions | | (139,711) | 77,815 |
| **Net other income/(expense)** | | **3,506,519** | **(101,445)** |
| | | | |
| Net impairment loss on financial assets | 6 | (5,208,830) | (2,307,234) |
| Losses from unrecoverable loans | 16,17 | (1,180,714) | (317,647) |
| Depreciation of property and equipment | 19 | (293,710) | (269,895) |
| Amortization of intangible assets | 20 | (29,577) | (37,436) |
| Personnel expenses | 7 | (1,336,849) | (1,202,104) |
| Administrative expenses | 8 | (2,435,012) | (2,040,621) |
| | | **(10,484,692)** | **(6,174,937)** |
| | | | |
| Share of loss of associates | 14 | (11,909) | (5,300) |
| | | | |
| **Profit before taxes** | | **683,532** | **1,337,528** |
| Income tax expense | 9 | (327,671) | (340,392) |
| Deferred tax income | 9 | 29,173 | 74,604 |
| **Profit for the year** | | **385,034** | **1,071,740** |

[1] The notes 1 to 36 in pages 5 to 68 are an integral part of these consolidated financial statements

## Consolidated statement of other comprehensive income

**for the year ended 31 December 2018[2]**

| | Notes | Year ended 31 December 2018 Lek '000 | Year ended 31 December 2017 Lek '000 |
|---|---|---|---|
| Profit for the year | | **385,034** | **1,071,740** |
| **Other comprehensive income** | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Investment securities at fair value through other comprehensive income: | | | |
| Net change in fair value during the year | 14 | 852,598 | - |
| Income tax effect | | (127,890) | - |
| **Net gains/(losses) on debt instruments at fair value through other comprehensive income** | | **724,708** | - |
| Revaluation of available for sale financial assets | 14 | - | 45,110 |
| Income tax effect | | - | (7,955) |
| **Net gains/(loss) on available-for-sale financial assets** | | - | **37,155** |
| ***Net other comprehensive income to be reclassified to profit or loss in subsequent periods:*** | | **724,708** | **37,155** |
| **Other comprehensive income for the year, net of income tax** | | **724,708** | **37,155** |
| **Total comprehensive income for the year, net of tax** | | **1,109,742** | **1,108,895** |
| **Attributable to:** | | | |
| Equity holders of the parent | | 1,108,703 | 1,110,938 |
| Non-controlling interests | | 1,039 | (2,043) |
| | | **1,109,742** | **1,108,895** |

The consolidated financial statements have been approved by the Board of Directors of Group on March 21, 2019 and signed on its behalf:

**Mr. Maltin Korkuti**
*Executive Director*

**Mrs.Valentina Prodani**
*Head of Accounting and Finance Department*

[2]The notes 1 to 36 in the pages 5 -68 are integral part of these consolidated financial statement





## Consolidated statement of financial position

**as at 31 December 2018[1]**

| | Notes | 31 December 2018 ALL '000 | 31 December 2017 ALL '000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 10 | 33,222,241 | 30,964,607 |
| Restricted balances with Central Bank | 11 | 12,214,431 | 11,352,440 |
| Due from banks | 12 | 242,300 | 194,606 |
| Financial assets measured at FVTPL (held for trading) | 13 | 1,085,425 | 450,720 |
| Investment securities | 14 | 43,796,570 | 29,322,957 |
| Investment in associates | 15 | 27,999 | 15,950 |
| Goodwill | 15 | 43,371 | 43,371 |
| Leasing | 16 | 1,115,835 | 1,065,777 |
| Loans and advances to customers | 17 | 93,124,102 | 97,283,218 |
| Current tax asset | | 19,080 | - |
| Repossessed properties | 18 | 5,106,821 | 4,764,175 |
| Property and equipment | 19 | 3,076,280 | 2,721,640 |
| Intangible assets | 20 | 107,426 | 106,138 |
| Other assets | 21 | 483,067 | 1,153,446 |
| Deferred tax assets | 22 | 44,092 | 142,808 |
| **Total assets** | | **193,709,040** | **179,581,853** |
| **Liabilities** | | | |
| Due to banks and other financial institutions | 23 | 4,068,161 | 6,099,386 |
| Due to customers | 24 | 167,253,446 | 151,053,971 |
| Borrowing | 25 | 175,923 | 186,747 |
| Current tax liabilities | | - | 209,590 |
| Subordinated debt | 26 | 6,183,124 | 6,257,946 |
| Other liabilities | 27 | 455,188 | 576,957 |
| Provisions | 28 | 58,844 | 6,875 |
| **Total liabilities** | | **178,194,686** | **164,391,472** |
| **Equity** | | | |
| Share capital | 29 | 8,505,811 | 8,083,240 |
| Share premium | 30 | 3,143,693 | 3,112,906 |
| General reserve | 31 | 1,905,710 | 1,646,347 |
| Revaluation reserve of investment securities | 14 | 769,783 | 45,075 |
| Retained earnings | | 1,178,900 | 2,293,334 |
| **Total equity attributable to equity holders of the parent** | | **15,503,897** | **15,180,902** |
| Non-controlling interest ("NCI") | | 10,457 | 9,479 |
| **Total equity** | | **15,514,354** | **15,190,381** |
| **Total liabilities and equity** | | **193,709,040** | **179,581,853** |

[1]The notes 1 to 36 in pages 5 to 68 are an integral part of these consolidated financial statements

## Consolidated statement of changes in equity
**for the year ended 31 December 2018[1]**

| | Share capital | Share premiums | General reserve | Revaluation reserve | Retained earnings | Total | NCI | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Lek '000 | Lek '000 | Lek '000 | Lek '000 | Lek '000 | Lek '000 | Lek '000 | Lek '000 |
| **Balance at 1 January 2017** | **7,307,701** | **2,892,166** | **1,446,025** | **7,920** | **1,798,314** | **13,452,126** | **9,579** | **13,461,705** |
| Profit of the year | - | - | - | - | 1,073,240 | 1,073,240 | (1,500) | 1,071,740 |
| Other comprehensive income | - | - | - | 37,155 | - | 37,155 | (520) | 36,635 |
| **Total comprehensive income** | **-** | **-** | **-** | **37,155** | **1,073,240** | **1,110,395** | **(2,020)** | **1,108,375** |
| Appropriation of retained earnings (note 28) | 377,898 | - | 200,322 | - | (578,220) | - | - | - |
| Increase of paid-up capital | 397,641 | 220,740 | - | - | - | 618,381 | - | 618,381 |
| Non-controlling interests arising on a business combination | - | - | - | - | - | - | 1,920 | 1,920 |
| **Balance at 31 December 2017** | **8,083,240** | **3,112,906** | **1,646,347** | **45,075** | **2,293,334** | **15,180,902** | **9,479** | **15,190,381** |
| Impact of adopting IFRS 9 Note 2.5 | | | | | (463,145) | (463,145) | | (463,145) |
| **Restated opening balance under IFRS 9** | | | | **45,075** | **1,830,189** | **14,717,757** | **9,479** | **14,727,236** |
| Profit of the year | - | - | - | - | 383,995 | 383,995 | 1,039 | 385,034 |
| Other comprehensive income | - | - | - | 724,708 | - | 724,708 | - | 724,708 |
| **Total comprehensive income** | **-** | **-** | **-** | **724,708** | **383,995** | **1,108,703** | **1,039** | **1,109,742** |
| Appropriation of retained earnings (note 28) | 389,044 | - | 259,363 | - | (648,407) | - | - | - |
| Increase of paid-up capital | 33,527 | 30,787 | - | - | - | 64,314 | - | 64,314 |
| Payment of dividend | | | | | (389,044) | (389,044) | | (389,044) |
| Non-controlling interests arising on a business combination | - | - | - | - | 2,167 | 2,167 | (61) | 2,106 |
| **Balance at 31 December 2018** | **8,505,811** | **3,112,906** | **1,905,710** | **769,783** | **1,178,900** | **15,503,897** | **10,457** | **15,514,354** |

[1]The notes 1 to 36 in pages 5 to 68 are an integral part of these consolidated financial statements

## Consolidated statement of cash flows

### for the year ended 31 December 2018[1]

| | Notes | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| | | ALL '000 | ALL '000 |
| **Cash flows from operating activities** | | | |
| **Profit before income tax** | | **683,532** | **1,337,528** |
| *Adjustments for:* | | | |
| Depreciation and amortization | 19,20 | 323,287 | 307,318 |
| Disposed fixed assets | 19 | 93,219 | 162,298 |
| Net impairment loss on financial assets | 6 | 5,208,830 | 2,307,234 |
| Other losses from unrecoverable loans | 16,17 | (1,180,714) | (317,647) |
| Share of loss from associates | | 11,909 | 5,300 |
| Impairment on repossessed properties | 18 | 194,488 | 497,357 |
| Net interest income | 3 | (6,844,719) | (6,893,503) |
| Foreign exchange effect to increase subordinated debt | | (205,387) | - |
| **Cash flows (used in) operating activities before changes in working capital** | | **(1,715,555)** | **(2,594,115)** |
| Change in loans and advances to banks | 12 | (20,426) | 1,337,947 |
| Change in loans and advances to customers | 17 | (1,532,498) | (5,682,474) |
| Change in leasing | 16 | (50,058) | (120,002) |
| Change in restricted balances with Central bank | 11 | (888,029) | 168,211 |
| Change in repossessed properties | 18 | (537,135) | (1,653,350) |
| Change in other assets | 21 | 669,258 | 191,220 |
| Change in due to banks and financial institutions | 23 | (2,099,060) | 3,608,221 |
| Change in due to customers | 24 | 15,813,036 | 7,276,170 |
| Change in other liabilities | 27,28 | (283,045) | 470,055 |
| Interest received | | 10,596,792 | 8,569,061 |
| Interest paid | | (1,720,897) | (1,827,053) |
| Income tax paid | | (412,294) | (130,802) |
| **Net cash from operating activities** | | **17,820,089** | **9,613,089** |
| | | | |
| **Cash flows used in investing activities** | | | |
| Purchase of investment securities | 13,14 | (28,345,383) | (20,514,205) |
| Sales of investment securities | 13,14 | 5,793,969 | 3,741,810 |
| Investment securities matured | 13,14 | 8,314,212 | 8,396,879 |
| Investment in subsidiaries and associates | 15 | (20,633) | (21,250) |
| Purchase of property and equipment | 19 | (743,015) | (677,058) |
| Purchase of intangible assets | 20 | (30,866) | (32,285) |
| **Net cash used in investing activities** | | **(15,031,716)** | **(9,106,109)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issued subordinated liabilities | 26 | 548,091 | 1,936,920 |
| Repayments of subordinated debt | 26 | (413,540) | (1,125,180) |
| Repayments of financing | 25 | 49,184 | (13,101) |
| Issue of share capital | | (714,474) | 618,381 |
| **Net cash from financing activities** | | **(530,739)** | **1,417,020** |
| | | | |
| **Net increase, in cash and cash equivalents** | | **2,257,634** | **1,924,000** |
| Cash and cash equivalents at 1 January | | 30,964,607 | 29,040,607 |
| **Cash and cash equivalents at 31 December** | | **33,222,241** | **30,964,607** |

[1]The notes 1 to 36 in pages 5 to 68 are an integral part of these consolidated financial statements





## 1 General information

Banka Credins sh.a. (hereinafter "the Group") is an Albanian financial institution which was incorporated on 31 January 2003 under the Albanian Commercial Law and was licensed by the Bank of Albania on 31 March 2003 to operate as a bank in all fields of banking activity in Albania in accordance with the law No. 8365, "On banks in the Republic of Albania", dated July 1998. The Group is also subject to law No. 8269, dated December 1997, "On the Bank of Albania" (Bank of Albania hereinafter referred to as "Central Bank").

As at 31 December 2018, the Group was operating through a head office located in Tirana, 50 branches located in Tirana, Durres, Fier, Lezha, Elbasan, Vlora, Shkodra, Korca, Shijak, Shkozet, Kavaja, Lushnja, Fushe Kruje, Kukes, Burrel, Ballsh, Berat, and Peshkopi and 8 agencies in Tirana, Shkoder and Durres. (31 December 2017: 50 branches and 8 agencies).

The Group's Shareholders acquired 76% of the shares of "CREDINS INVEST sh.a. - Shoqeri administruese e Fondeve te Pensionit dhe Sipermarrjeve te Investimeve Kolektive" (former "Shoqeria Administruese e Fondit te Pensionit "SiCRED" sh.a.") from "SICRED sh.a." through a share purchase agreement signed on 22 December 2014 for an amount of ALL 60,206 thousand. The approval for the change in the shareholding structure and change in control of "Shoqeria Administruese e Fondit te Pensionit "Credins Invest" sh.a. has been given from the Financial Supervisory Authority on 28 April 2015. This has been registered with the National Registration Center on 10 June 2015, which is the date when the change in control becomes effective. During the years additional new capital is injected from the Group. During the years the Group has injected further new capital in "Credins Invest". During 2018 no additional capital is injected by the Group (2017: ALL 6,080 thousand).

The Group's Shareholders have agreed that the Group would acquire 95% of the shares of "Regjistri Shqiptar i Titujve ALREG" sh.a." for an amount of ALL 3,325 thousand. This has been registered with the National Registration Center on 16 March 2016. During 2018 the Group's shareholding of ALREG sh.a on 20 April 2018 amounts to 47.5%. Additional capital is injected during 2018 amounting to ALL 14,875 thousand.

The Group's Shareholders have agreed that the Group would acquire 42.5% of the shares of "Bursa Shqiptare e Titujve ALSE" sh.a." for an amount of ALL 21,250 thousand. This has been registered with the National Registration Center on 28 July 2017.

As at 31 December 2018 the Group had 883 employees (31 December 2017: 872 employees). The address of Group main registered office and principal place of business is Str. Vaso Pasha, Nr. 8, Tirana, Albania.

## 2 Accounting Policies

### 2.1 Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis, except for FVOCI security investments which have been measured at fair value and repossessed properties which are measured at the lower of cost or net realizable value.

The Consolidated Financial Statements are presented in ALL, which is the Group's functional currency and all values are rounded to the nearest thousand (ALL '000), except when otherwise indicated.

#### 2.1.1 Statement of Compliance

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

#### 2.1.2 Presentation of Consolidated Financial Statements

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non–current) is presented in note 32.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group. Certain reclassification have been made to prior year in order to comply with current year presentation.

#### 2.1.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2018. Control is achieved when the Parent is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Parent controls an investee if, and only if, the Parent has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

**2. Accounting Policies (continued)**

**2.1 Basis of preparation (continued)**

**2.1.3 Basis of consolidation (continued)**

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Parent has less than a majority of the voting or similar rights of an investee, the Parent considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

• The contractual arrangement(s) with the other vote holders of the investee
• Rights arising from other contractual arrangements
• The Group's voting rights and potential voting rights

The Parent re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent obtains control over the subsidiary and ceases when the Parent loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent gains control until the date the Parent ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Parent loses control over a subsidiary, it de-recognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

**2.1.3.1 Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquire. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquire. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Parent re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

**2.2 Significant accounting judgments, estimates and assumptions**

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in these Consolidated Financial Statements. The most significant uses of judgment and estimates are as follows:

**2.2.1 Going concern**

The Group performs regularly, stress test exercises, to test the possible impact of macroeconomic indicators in Group's key financial position, performance and regulatory compliance. These stress tests are mainly focused on the impact that some outlined macro and microeconomic scenarios might have on the loan portfolio, being the Group's main source of income, financial position including market risk. Official forecast models of the Central Group and Group's internal risk valuation are used in these exercises. Dynamic tests are performed to evaluate the effect that a similar increase/decrease in customer's shock would have on each of the balance sheet, liability and profit and loss line items, for a specific period of time.





**2. Accounting Policies (continued)**

**2.2 Significant accounting judgments, estimates and assumptions (continued)**

**2.2.1 Going concern (continued)**

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Consolidated Financial Statements continue to be prepared on the going concern basis. For additional disclosures on capital management refer to note 36.6.

**2.2.2 Impairment losses on financial assets (Policy applicable after 1 January 2018)**

The Group considers exposure as non-performing/impaired when one or more of following events that have a detrimental impact on the estimated future cash flows have occurred:

► Days past due of an account greater than 120 days (in case of Corporate and Medium business loans 150),
► Loan is characterized by bad rating (loans that have rating equal to 7 or economic rating equal to 10)
► Loan is in curing period (3 months' probation period)
► Loan is subject to contagion (either by a group of connected clients or by a client level contagion in case of Corporate, Micro and SE loans)

The mentioned default (impairment) definition is applied on the account (loan) level for retail clients, while for corporate clients default is applied on the client level. That is, if any account of a corporate client is in default then all accounts of this client will be considered to be defaulted too.

Loans that are not individually tested for impairment are assessed collectively. In the collective impairment are included also the micro loans and individual consumers.

The collective impairment is calculated according to stage 2 and stage 1.

Stage 2: For collectively assessed accounts in Stage 2 impairment allowance is equal to lifetime ECL. Lifetime ECL is defined as all possible default loss events over the expected life of a financial instrument (i.e., risk of a default occurring on the financial instrument during its expected life).

Stage 1: For collectively assessed accounts in Stage 1, 12 month Expected Credit Loss (ECL) is calculated. 12-month ECLs is a loss that is expected to materialize in the following 12 months – therefore 12 months probability is multiplied by current EAD and corresponding LGD. In the case remaining maturity is shorter than 12 months, instead of 12 months PD, the remaining lifetime PD is considered.

The measurement of impairment losses both under IFRS 9 and IAS 39 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 Group'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 Group's internal credit grading model, which assigns PDs to the individual grades
• The Group'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 Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

**2. Accounting Policies (continued)**

**2.2 Significant accounting judgments, estimates and assumptions (continued)**

**2.2.3 Impairment losses on financial assets (Policy applicable before 1 January 2018)**

The Group reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group.

The individually impaired loans are those for which exists an objective evidence of impairment such as:

- Loans more than 45 days in overdue;
- Restructured loans (excluding those restructured in standard and special mention category);
- Business loans with rating grade B- or under;
- Mortgage loans with individual credit score 7 or without score;
- Loans that have common collateral with individually impaired loans;
- Borrower's activity bankruptcy.

In the calculation of individual loan impairment are considered the following factors: Amount of loan according to IFRS; execution process time; interest rate; collaterals that guarantee the loan; costs of collateral execution.

Loans that are not individually tested for impairment and loans that are individually tested for impairment and resulted with no impairment, are assessed collectively for impairment. In the collective impairment are included also the micro loans and individual consumers, which are provisioned by transition matrix.

The collective impairment is calculated based on the probability of default for each economic sector. The probability of default is updated biannually. For each industry branch the expected loss coefficient is calculated as the sum of lost exposure and the written off loans, divided by the historical approved amount for each industry branch.

**2.2.4 Impairment of investment securities**

The Group reviews its debt securities classified as FVOCI investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The treatment of financial instruments (government bonds and exposures with/to banks) is different from the general approach with respect to determining parameters. While the LGD is simply set to 45% (according to the CRR regulation), PD is inferred from the specific country of entity S&P rating.

As there was no significant deterioration in credit risk for the outstanding financial instruments in the portfolio, only the cumulative PDs up to 12th month is calculated.

**2.3 Changes in accounting policies and disclosures**

**2.3.1 New and amended standards and interpretations**

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. The nature and the impact of each new standard or amendment is described below:

- ***IFRS 9 Financial Instruments***

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable with the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in Note 2.5.

***Changes to classification and measurement***

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial asset (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortized cost) have been replaced by:

✓ Debt instruments at amortized cost





**2. Accounting Policies (continued)**

**2.3 Changes in accounting policies and disclosures (continued)**

**2.3.1 New and amended standards and interpretations (continued)**

- ***IFRS 9 Financial Instruments (continued)***

***Changes to classification and measurement (continued)***

✓ Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
✓ Equity instruments at FVOCI, with no recycling of gains or losses in profit or loss on de-recognition
✓ Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms, as explained in Note 2.4.4.1.1. and 2.4.4.1.2. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed. The Group's accounting policies for embedded derivatives are set out in Note 2.4.4.2.

The Group's classification of its financial assets and liabilities is explained in Notes 2.4.2 and 2.4.4. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 2.5.

***Changes to the impairment calculation***

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.
Details of the Group's impairment method are disclosed in Note 2.4.6. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 2.5.

- ***IFRS 7R***

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include:

• Transition disclosures, as shown in Note 2.5.
• Detailed qualitative and quantitative information about the ECL calculations, such as the assumptions and inputs used are set in the respective notes.

The Group has not restated comparatives for financial instruments covered by IFRS 9 and IAS 39. The comparative information for 2017 is under IAS 39 and is not comparable with the information presented for 2018 under IFRS 9. Differences arising from the adoption of IFRS 9 were recognized directly in Retained earnings on 1 January 2018 and are disclosed in Note 2.5. The Group concluded on the following assessments based on the facts and circumstances that existed at the date of initial application as at 1 January 2018:

• The business models under which the Group held and managed its financial assets
• Whether to continue or revoke previous designations of financial assets and financial liabilities that it measured at FVTPL
• For financial liabilities that it continued to designate as FVPL, whether presenting the impact of changes its own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss
• Whether to elect to classify certain equity instruments not held for trading as FVOCI

Reconciliations from opening to closing ECL allowances are presented in Notes 10.1, 11.1, 12.1 and 14.1, 16.1 and 17.1.

**2. Accounting Policies (continued)**

**2.3 Changes in accounting policies and disclosures (continued)**

**2.3.1 New and amended standards and interpretations (continued)**

- ***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 Leases (or IFRS 16 Leases, once applied). Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licenses of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage. The Group is not affected from this standard.

- ***Presentation of net interest income***

With effect from 1 January 2018, paragraph 82(a) of IAS 1 requires interest revenue calculated using the effective interest rate (EIR) method to be presented separately on the face of the income statement. This implies that interest revenue calculated using the EIR method is to be differentiated and presented separately from interest revenue calculated using other methods.

The Group considers its net interest margin to be a key performance indicator; the measure includes both interest calculated using the effective interest method and interest recognized on a contractual basis on its financial assets/liabilities measured at FVPL other than those held for trading.

The Group has therefore concluded that including an additional line item entitled, “Other interest income” in order to show all interest income, is consistent with its internal reporting of the net interest margin and provides relevant and reliable information to its stakeholders. The Group has also elected to present its interest expense in a manner consistent and symmetrical with interest income.

Therefore, it separates interest expense on liabilities measured at amortized cost from other interest expense. This constitutes a change in accounting policy and the 2017 comparatives have been restated accordingly. The Group's accounting policies in respect of interest income/expense and the effective interest method are set out in Notes 2.4.7.1 and 2.4.7.2.

**2.3.2 Standards and interpretations in issue not yet adopted**

- ***IFRS 16 Leases***

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.



Banka Credins sh.a.
Notes to the consolidated financial statements for the year ended 31 December 2018
(Amounts in ALL'000, unless otherwise stated)

**2. Accounting Policies (continued)**

**2.3 Changes in accounting policies and disclosures (continued)**

**2.3.2 Standards and interpretations in issue not yet adopted (continued)**

- ***IFRS 16 Leases (continued)***

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Given that the Group has operating leases as a lessee, it is in the process of assessing the impact of this standard.

- ***IFRIC Interpretation 23 Uncertainty over Income Tax Treatment***

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a changing tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

**2.4 Summary of significant accounting policies**

***2.4.1 Foreign currency transactions***

In preparing the financial statements, transactions in currencies other than the Group's functional currency are recognized at the spot rates of exchange prevailing at the dates of the transactions.

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The applicable rate of exchange (ALL to foreign currency unit) for the principal currencies as at 31 December 2018 and 31 December 2017 were as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| USD | 107.82 | 111.10 |
| EUR | 123.42 | 132.95 |
| GBP | 137.42 | 149.95 |
| CHF | 109.60 | 113.94 |
| CAD | 79.22 | 88.64 |
| XAU | 4,447.64 | 4,633.78 |

***2.4.2 Financial instruments – initial recognition and subsequent measurement***

***2.4.2.1 Date of recognition***

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date on which the Group becomes a party to the contractual provisions of the instrument.

***2.4.2.2 Initial measurement of financial instruments***

The Group initially recognizes 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 recognized on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.2 Financial instruments – initial recognition and subsequent measurement (continued)***

***2.4.2.2 Initial measurement of financial instruments (continued)***

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.4.4.1.1 and 2.4.4.1.2. Financial instruments are initially measured at their fair value (as defined in Note 2.4.3), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below:

**Day 1 profit or loss**

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognizes the difference between the transaction price and 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 de-recognized.

***2.4.2.3 Measurement categories of financial assets and liabilities***

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in Note 2.4.4.1
- FVOCI, as explained in Notes 2.4.4.4 and 2.4.4.5
- FVTPL, as set out Note 2.4.4.6.

The Group classifies and measures its derivative and trading portfolio at FVPL, as explained in Notes 2.4.4.2 and 2.4.4.3. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 2.4.4.6.

Before 1 January 2018, the Group classified its financial assets as loans and receivables (amortized cost), FVPL, available-for-sale or held-to-maturity (amortized cost), as explained in Notes 2.4.4.1, 2.4.4.8 and 2.4.4.9. Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 2.4.4.6.

***2.4.2.4 De-recognition of financial assets***

***2.4.2.4.1 De-recognition due to substantial modification of terms and conditions***

The Group derecognizes 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 recognized as a de-recognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized 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 de-recognize a loan to a customer, amongst others, the Group 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 de-recognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Group 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.

***2.4.2.4.2 De-recognition other than for substantial modification***

***2.4.2.4.2.1 Financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognized when the rights to receive cash flows from the financial asset have expired. The Group also de-recognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition. The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset

Or

- 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





**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.2 Financial instruments – initial recognition and subsequent measurement (continued)***

***2.4.2.4 De-recognition of financial assets (continued)***

***2.4.2.4.2 De-recognition other than for substantial modification (continued)***

***2.4.2.4.2.1 Financial assets (continued)***

Pass-through arrangements are transactions whereby the Group 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 Group 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 Group cannot sell or pledge the original asset other than as security to the eventual recipients
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group 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 de-recognition if either:

- The Group has transferred substantially all the risks and rewards of the asset

Or

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

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

***2.4.2.4.2.2 Financial liabilities***

A financial liability is de-recognized 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 de-recognition 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 recognized in profit or loss.

***2.4.3 Determination of fair value***

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

- Level 1 financial instruments − Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Group has access to at the measurement date. The Group considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- Level 2 financial instruments − Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Group will classify the instruments as Level 3.
- Level 3 financial instruments − Those that include one or more unobservable input that is significant to the measurement as whole.

**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.3 Determination of fair value (continued)***

The Group periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Group's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, the Group applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralized financial instruments. The Group estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts on itself. Details of this are further explained in Note 36.7 (Fair value measurement). The Group evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period

***2.4.4 Financial assets and liabilities***

***2.4.4.1 Due from banks, Loans and advances to customers, financial investments at amortized cost***

Before 1 January 2018, *Due from bank* and *Loans and advances to customers*, included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:
• That the Group intended to sell immediately or in the near term
• That the Group, upon initial recognition, designated as at FVPL or as available for sale
• For which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available for sale.

From 1 January 2018, the Group only measures *Due from banks*, *Loans and advances to customers* and other financial investments at amortized cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

***2.4.4.1.1 Business model assessment***

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

• The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
• How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Group's assessment.
The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group 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 assets going forward.

***2.4.4.1.2. The SPPI test***

As a second step of its classification process the Group assesses the contractual terms of the financial asset to identify whether they meet the 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 amortization of the premium/discount).

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 the SPPI assessment, the Group applies judgement and considers relevant factors such as the 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 risks or 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 FVPL.





**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.4 Financial assets and liabilities (continued)***

***2.4.4.2 Embedded derivatives***

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a consolidated financial instrument.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as consolidated derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognized in the income statement.

From 1 January 2018, with the introduction of IFRS 9, the Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments as outlined in Note 2.4.4.1.1 and 2.4.4.1.2.

***2.4.4.3 Financial assets or financial liabilities held for trading***

The Group classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established. Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

***2.4.4.4 Debt instruments at FVOCI (Policy applicable from 1 January 2018)***

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following 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

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in Note 2.4.2. The ECL calculation for Debt instruments at FVOCI is explained in Note 2.4.6.3 Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On de-recognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

***2.4.4.5 Debt issued and other borrowed funds***

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

The Group has issued financial instruments with equity conversion rights. When establishing the accounting treatment for these non-derivative instruments, the Group first establishes whether the instrument is a compound instrument and classifies such instrument's components separately as financial liabilities, financial assets, or equity instruments in accordance with IAS 32. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercising the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to the equity and liability components, the equity component is assigned as the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. Once the Group has determined the split between equity and liability, it further evaluates whether the liability component has embedded derivatives that must be separately accounted for (as outlined in Note 2.4.4.2). Disclosures for the Group's issued debt are set out in Note 25 and Note 26.

**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.4 Financial assets and liabilities (continued)***

***2.4.4.6 Financial assets and financial liabilities at fair value through profit or loss***

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met.

Such designation is determined on an instrument-by-instrument basis:
• The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis,
Or
• The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy,
Or
• The liabilities (and assets until 1 January 2018 under IAS 39) contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Group's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate.

***2.4.4.7 Financial guarantees, letters of credit and undrawn loan commitments***

The Group issues financial guarantees, letters of credit and loan commitments.
Financial guarantees are initially recognized in the financial statements (within *Provisions*) at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision.

The premium received (if any) is recognized 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 Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these 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 33.

***2.4.4.8 Available for Sale Financial Instruments (Policy applicable before 1 January 2018)***

Available for sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.
Interest income is recognized in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Other fair value changes are recognized directly in other comprehensive income until the investment is sold or impaired and the cumulated gain or loss is recognized in profit or loss.

***2.4.4.9 Held to Maturity Financial Instruments (Policy applicable before 1 January 2018)***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment. If the Group were to sell or reclassify more than an insignificant amount of held–to–maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available–for–sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.





***2.4.5 Reclassification of financial assets and liabilities***

From 1 January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets or liabilities in 2017. If the business model under which the Group holds its financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in the business model that result in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in business model under which the Group holds its financial assets and therefore no reclassifications were made.

***2.4.6 Impairment of financial assets (Policy applicable from 1 January 2018)***

***2.4.6.1 Overview of the ECL principles***

As described in Note 2.5, the adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, 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 arise 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 Group's policies for determining if there has been a significant increase in credit risk are set out in Note 36.2.

The 12mECL is 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.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 36.2.

The Group has established a policy to perform an assessment, at the end of each reporting period, of 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. This is further explained in Note 36.2

Based on the above process, the Group groups its loans into Stage 1, Stage 2,Stage 3 and POCI, as described below:
• Stage 1: When loans are first recognized, the Group recognizes 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 Group records an allowance for the LTECLs. 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 (as outlined in Note 36.2). The bank records an allowance for the LTECLs.
• 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 recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.
For financial assets for which the Group 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) de-recognition of the financial asset.

***2.4.6.2 The calculation of ECLs***

The Group calculates ECLs based on a four 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 ECL 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 de-recognized 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.

**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.6 Impairment of financial assets (Policy applicable from 1 January 2018) (continued)***

***2.4.6.2 The calculation of ECLs (continued)***

◦ LGD - The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan. It is usually expressed as a percentage of the EAD. Expert LGD values are used (based on recommendations from CRR (Capital Requirements Regulation). LGD values for retail portfolio vary from 10% to 75% depending whether secured or not secured with a residential or commercial property. LGD values for all other portfolio such as Corporates, Micro, Sovereigns and investment securities is set at 45%.

When estimating the ECLs, the Group considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs. 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.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group 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.

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 33.

The mechanics of the ECL method are summarized 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 Group 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 four scenarios, as explained above.
• Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs 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 (as defined in Note 36.1), the Group recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
• POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Group only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.

***2.4.6.3 Debt instruments measured at fair value through OCI***

The ECLs 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 amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon de-recognition of the assets.

***2.4.6.4 Purchased or originated credit impaired financial assets (POCI)***

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

***2.4.6.5 Impairment of financial assets (Policy applicable before 1 January 2018)***

Financial assets, other than cash and cash equivalents, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.




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**Notes to the consolidated financial statements for the year ended 31 December 2018**
*(Amounts in ALL'000, unless otherwise stated)*


**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.6 Impairment of financial assets (Policy applicable from 1 January 2018) (continued)***

***2.4.6.5 Impairment of financial assets (Policy applicable before 1 January 2018) (continued)***

Objective evidence that the financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.
In assessing collective impairment the Group uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

***2.4.6.5.1 Financial assets at amortized cost***

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances.

Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

***2.4.6.5.2 Available –for-sale financial investments***

For available–for–sale financial investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

***2.4.6.5.3 Renegotiated loans***

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This 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 effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

***2.4.6.6 Offsetting financial instruments***

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

***2.4.6.7 Financial instruments amortized cost measurement (Policy applicable before 1 January 2018)***

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

***2.4.6.8 Leasing***

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.6 Impairment of financial assets (Policy applicable from 1 January 2018) (continued)***

***2.4.6.8 Leasing (continued)***

***Group as a lessee***
Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable are recognized as an expense in the period in which they are incurred.

***Group as a lessor***
Leases where the Group transfers substantially all the risk and benefits of ownership of the asset are classified as finance leases. In the statement of financial position the Group presents the receivable amount equal to the net investment value. The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

The sales revenue recognized at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest.

***2.4.7 Recognition of income and expenses***

***2.4.7.1 The effective interest rate method***

Under both IFRS 9 and IAS 39, interest income is recorded using the EIR method for all financial assets measured at amortized cost, interest rate derivatives for which hedge accounting is applied and the related amortization/recycling effect of hedge accounting. Similar to interest-bearing financial assets classified as available-for-sale or held to maturity under IAS 39, interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortized cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Group 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, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognized at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

***2.4.7.2 Interest and similar income/expense***

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information. In its Interest income/expense calculated using the effective interest method.
Other interest income/expense includes interest on financial assets/liabilities measured at FVPL, other than those held for trading, using the contractual interest rate. Interest income/expense on all trading financial assets/liabilities is recognized as a part of the fair value change in Net trading income. The Group calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired (and is therefore regarded as 'Stage 3', the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures (and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.





**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.7 Recognition of income and expenses (continued)***

***2.4.7.2 Interest and similar income/expense (continued)***

For purchased or originated credit-impaired (POCI) financial assets the Group calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI financial asset.

The Group also holds investments in financial assets issued in countries with negative interest rates. The Group discloses interest received on these financial assets as interest expense. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

***2.4.8 Fee and commission income and expense***

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.
Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed.
Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

***2.4.9 Net trading income***

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading. This is included in interest income line as Net trading income.

***2.4.10 Net loss on financial assets and liabilities designated at fair value through profit or loss***

Net loss on financial instruments at FVTPL represents non-trading derivatives held for risk management purposes used in economic hedge relationship but not qualifying for hedge accounting relationships, financial assets and financial liabilities designated as at FVTPL and from 1 January 2018, also non-trading assets measured at FVTPL, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

***2.4.11 Cash and cash equivalents***

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

***2.4.12 Investments securities***

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either Debt securities though other comprehensive income or debt securities at fair value through profit or loss (mandatory).

***2.4.13 Property Plant 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.

**(i) Recognition and measurement (continued)**

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as consolidated items (major components) of property and equipment.

**(ii) Subsequent Cost**

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 Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.13 Property Plant and equipment (continued)***

**(iii) Depreciation**

Depreciation is recognized in profit or loss on a declining balance method over the estimated useful life of the assets, except for depreciation of property which is based on the straight line method. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Depreciation methods, useful lives and residual values are reassessed at the reporting date. The depreciation rates for the current and comparative periods are as follows:

| Fixed Assets Category | Depreciation % |
|---|---|
| Buildings | 5% |
| Electronic equipment | 25% |
| Vehicles | 20% |
| Furniture's, fittings and office equipment | 20% |
| Leasehold improvements | 5% |

***2.4.14 Intangible assets***

**(i) Software**

Software acquired by the Group is stated at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is recognized in profit or loss at 25% based on the reducing balance method from the date that it is available for use.

**(ii) Licenses**

Licenses and rights to use that are acquired by Group are stated at cost less accumulated amortization and impairment losses, if any. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss when incurred. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the license, from the date that it is available for use.

***2.4.15 Impairment of non – financial assets***

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized 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 recognized in profit or loss.

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.

***2.4.16 Financial guarantees***

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

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

***2.4.17 Pension benefits***

**(i) Compulsory social security contributions**

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

**(ii) Paid annual leave**

The Group recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange of the employee's service for the period completed.





**2. Accounting Policies (continued)**

**2.4 Summary of significant accounting policies (continued)**

***2.4.17 Pension benefits (continued)***

**(iii) Employee health insurance**

The Group also operates a defined contribution employee health insurance plan. The contribution is payable to an insurance company in proportion to the services rendered to the Group by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

**(iv) Voluntary pension contribution for employees**

The Group has created a Professional Pension Plan for its employees. The Group commits to pay the contributions for each employee that signed the individual "Professional Pension Plan" contract. The annual expense represents the annual charge contributed by the Group, and is recorded under "Personnel Expenses" accounts, affecting the profit and loss of the Group, with no other future liabilities for the Group.

***2.4.18 Provisions for contingent liabilities and commitments***

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

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

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

***2.4.19 Taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

**(i) Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Corporate tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years in accordance with the Albanian tax legislation. Taxable income is calculated by adjusting the statutory profit before taxes for certain income and

**(ii) Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws in Albania that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**(iii) Current and deferred tax for the year**

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

## 2. Accounting Policies (continued)

### 2.4 Summary of significant accounting policies (continued)

#### *2.4.20 Repossessed properties*

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations of the Group are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

The Group holds some repossessed properties that it has acquired through enforcement of collateral over loans and advances. The Group measures these repossessed assets initially at their cost (purchase price). At the end of each reporting period, these assets are measured at the lowest of their cost or net realizable value. Gains and losses arising from changes in the net realizable value of these repossessed properties are included in profit or loss in the period in which they arise. These assets are derecognized upon disposal or when these are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the properties (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

#### *2.4.21 Deposits and subordinated liabilities*

Deposits, debt securities issued and subordinated liabilities are the Group's chief sources of debt funding. When the Group sells a financial asset and simultaneously enters into a "repo" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the Group's Financial Statements.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### *2.4.22 Dividends*

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Group's shareholders.

For the year ending on 31 December 2018, the Group has declared dividends to the amount of ALL 389,044 thousand to be paid to shareholders of the Group from the profit of 2017.

#### *2.4.23 Equity reserves*

The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

'General reserve' reserve which comprises changes made for legal and statutory reserve as determined in the Central Group Law and Commercial Companies Law applicable in Albania.

'Revaluation reserve' which is used to record exchange differences arising from the revaluation of investment securities.

### 2.5 Transition disclosures

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs. The table below reconciles the aggregate opening loan loss provision allowances under IAS 39 or IAS 37 as at 31 December 2017 to the ECL allowances under IFRS 9 as at 01 January 2018.

| | 31 December 2017 | Impact from First Time Adoption | 1 January 2018 |
|---|---|---|---|
| **Impairment allowance for:** | **Under IAS39/IAS37** | **Re-measurement** | **Under IFRS 9** |
| Cash and cash equivalents (L&R per IAS 39 and AC for IFRS 9) | - | 18,983 | 18,983 |
| Restricted balances with Central Bank (L&R per IAS 39 and AC for IFRS 9) | - | 9,461 | 9,461 |
| Due from banks (L&R per IAS 39 and AC for IFRS 9) | - | - | - |
| Available-for-sale debt investment securities per IAS 39/debt financial assets at FVOCI under IFRS 9 | - | 136,812 | 136,812 |
| Leasing (L&R per IAS 39 and AC for IFRS 9) | 77,785 | 37,624 | 115,409 |
| Loans and advances to customers (L&R per IAS 39 and AC for IFRS 9) | 16,049,578 | 229,242 | 16,278,820 |
| Financial Guarantees | - | 25,109 | 25,109 |
| Letters of credit for customers | - | 5,914 | 5,914 |
| **Total** | **16,127,363** | **463,145** | **16,590,508** |





## 2. Accounting Policies (continued)

### 2.5 Transition disclosures (continued)

| | 31-Dec-17 | | Impact from First Time Adoption IFRS 9 | | 1-Jan-18 | |
|---|---|---|---|---|---|---|
| | IAS 39 measurement | | | | IFRS 9 measurement | |
| ***Financial assets*** | **Category** | **Amount** | **Re-classification** | **Re-measurement ECL** | **New carrying Amount** | **Category** |
| Cash and cash equivalents | L&R[1] | 30,964,607 | - | (18,983) | 30,945,624 | AC[2] |
| Restricted balances with Central Bank | L&R | 11,352,440 | - | (9,461) | 11,342,979 | AC |
| Due from banks | L&R | 194,606 | - | - | 194,606 | AC |
| Financial assets held for trading | FVPL | 450,720 | - | - | 450,720 | FVPL (mandatory) |
| Debt instruments at fair value through OCI[3] | | N/A | 29,322,957 | (136,812) | 29,186,145 | FVOCI |
| *From: Investment securities available for sale (AFS)* | | | *29,322,957* | | | |
| Investment securities available for sale (AFS) | | 29,322,957 | (29,322,957) | | N/A | |
| *To: Debt instruments at fair value through OCI* | | | *(29,322,957)* | | | |
| Leasing, net | L&R | 1,065,777 | *n/a* | (37,624) | 1,028,153 | |
| Loans and advances to customers, net | L&R | 97,283,218 | - | (229,242) | 97,053,976 | AC |
| **Total Assets** | | **170,634,325** | **-** | **(432,122)** | **170,202,203** | **-** |
| ***Financial liabilities*** | | | | | | |
| Due to banks and other financial institutions | AC | 6,099,386 | - | - | 6,099,386 | AC |
| Due to customers | AC | 151,053,971 | - | - | 151,053,971 | AC |
| Borrowing | AC | 186,747 | - | - | 186,747 | AC |
| Subordinated debt | AC | 6,257,946 | - | - | 6,257,946 | AC |
| ***Non-financial liabilities*** | | | | | | |
| Other liabilities (Provision for off balance sheet items) | AC | 576,957 | - | (31,023) | 545,934 | AC |
| **Total Liabilities** | **-** | **164,175,007** | **-** | **(31,023)** | **164,143,984** | **-** |
| **Retained Earnings** | **-** | **2,293,334** | **-** | **(463,145)** | **1,830,189** | **-** |

## 3 Net Interest income

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers | 7,538,835 | 7,770,862 |
| Net trading income | 72,056 | - |
| Investment securities | 1,143,002 | 829,307 |
| Cash and cash equivalents | 117,479 | 71,689 |
| Loans and advances to banks | 19,287 | 25,157 |
| Restricted cash with Central Bank | 44,844 | 50,738 |
| *Total interest income* | ***8,935,503*** | ***8,747,753*** |
| **Interest expense** | | |
| Deposits from banks | (119,803) | (106,322) |
| Deposits from customers | (1,512,771) | (1,285,722) |
| Subordinated liabilities | (418,264) | (453,996) |
| Reverse Repo | (39,946) | (8,210) |
| *Total interest expense* | ***(2,090,784)*** | ***(1,854,250)*** |
| **Net interest income** | **6,844,719** | **6,893,503** |

[1] L& R – Loans and receivables
[2] AC – Amortized cost
[3] FVOCI – Fair value through other comprehensive income

**4 Net Fee and commission income and expense**

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Fee and commission income** | | |
| Banking customer fees | 907,209 | 799,366 |
| Fee and commissions from lending services | 34,353 | 43,784 |
| *Total fee and commission income* | ***941,562*** | ***843,150*** |
| **Fee and commission expense** | | |
| Inter bank transaction fees | (46,336) | (38,385) |
| Treasury operations | (38,609) | (42,516) |
| Other | (27,722) | (36,542) |
| *Total fee and commission expense* | ***(112,667)*** | ***(117,443)*** |
| **Net fee and commission income** | **828,895** | **725,707** |

**5 Net other income/(expense)**

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Other income** | | |
| Reversals from written of loans | 4,094,205 | 294,271 |
| Other income | 52,474 | 93,407 |
| *Total other income* | ***4,146,679*** | ***387,678*** |
| **Other expenses** | | |
| Other expenses related to the Banking activity | (500,449) | (566,938) |
| *Total other expenses* | ***(500,449)*** | ***(566,938)*** |
| **Net other income/(expenses)** | **3,646,230** | **(179,260)** |

Other expenses related to banking activity for the year ended as at 31 December 2018 include expenses for impairment on repossessed properties, which for the year ended on 31 December 2018 amounts to ALL 194,488 thousands (31 December 2017: ALL 497,356 thousands) (note 18).

**6 Net impairment loss on financial assets**

| | Notes | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Charges for ECL on cash and cash equivalents | 10 | (1,446) | - |
| Charges for ECL on restricted balances with Central Group | 11 | 728 | - |
| Charges for ECL on loans and advances to banks | 12 | 106 | - |
| Charges for ECL on investment securities | 14 | (6,479) | - |
| Charges for ECL on loans and advances to customer and leasing | 16; 17 | 5,192,967 | - |
| Impairment loss on loans and advances to customer and leasing | 16; 17 | - | 2,307,234 |
| Impairment charges on other financial assets (debtors) | 21 | 2,008 | - |
| Charges for ECL on guaranties and letter of credits | 33 | 20,946 | - |
| | | **5,208,830** | **2,307,234** |

**7 Personnel expenses**

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Salaries | 943,776 | 851,693 |
| Social insurance | 128,316 | 113,764 |
| Bonuses and rewards | 84,473 | 81,915 |
| Life insurance premium | 17,537 | 16,142 |
| Other | 162,747 | 138,590 |
| | **1,336,849** | **1,202,104** |



Banka Credins sh.a.
Notes to the consolidated financial statements for the year ended 31 December 2018
(Amounts in ALL'000, unless otherwise stated)

**8 Administrative expenses**

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Insurance and surveillance | 611,105 | 505,423 |
| Third parties fees | 558,865 | 473,866 |
| Rent | 441,682 | 441,476 |
| Marketing and subscriptions | 346,519 | 213,086 |
| Maintenance | 186,199 | 163,999 |
| Utilities | 107,678 | 55,004 |
| Supplies | 61,216 | 54,880 |
| Other | 54,508 | 58,891 |
| Local and other taxes | 34,011 | 41,552 |
| Transport and travel | 33,229 | 32,444 |
| | **2,435,012** | **2,040,621** |

Insurance and surveillance, third parties fees and maintenance expenses have increased and this is mainly due to increase in the activity of the Group. Marketing expenses have increased due to volatility related to these type of expenses. There have also been increases in the number of Visa Cards and Master Cards issued and as well the increase in the number of transactions processed via ATM & POS

**9 Income tax expense, net**

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Current tax expense | 327,671 | 340,392 |
| Deferred tax income (note 22) | (29,173) | (74,604) |
| **Income tax expense** | **298,498** | **265,788** |

The impairment allowances charged by the Group in accordance with IFRS are considered as tax deductible expenses, provided that they are certified by the external auditors. In accordance with Albanian tax regulations, the applicable income tax rate for 2018 is 15% and 2017 is 15%. The deferred tax benefit is calculated on the value of the repossessed properties (note 22). The reconciliation of effective income tax rate is summarized as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Profit before tax in income statement | 683,532 | 1,337,528 |
| Prima facie tax calculated at 15% | 102,530 | 200,629 |
| Adjustment for unrecognized loss of associate | 1,786 | 795 |
| Income tax for non-taxable subsidiary (profit)/losses | (649) | 1,167 |
| Non tax deductible expenses | 224,004 | 137,801 |
| **Income tax expense** | **327,671** | **340,392** |

Tax returns are filed annually but the profits or losses declared for tax purposes remain provisional until such time as the tax authorities examine the returns and the records of the taxpayer and a final assessment is issued. Albanian tax laws and regulations are subject to interpretations by the tax authorities. Un-deductible expenses comprise losses from unrecoverable loans, losses from decreases in the value of repossessed properties, provisions created, depreciation charge for leasehold improvements that is not recognized as deductible for fiscal purposes, and other expenses not recognized as tax deductible based on current tax legislation. The Group is audited by tax authorities up to year 2015.

**10 Cash and cash equivalents**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Current accounts with banks | 3,427,096 | 2,662,593 |
| *ECL impairment for CA balances with banks* | *(212)* | - |
| Money market placements | 5,530,808 | 6,033,303 |
| *ECL impairment for placements with banks* | *(195)* | - |
| Cash on hand | 4,865,047 | 3,859,274 |
| Unrestricted balances with central bank | 20,553,725 | 19,315,361 |
| *ECL impairment for balances with central bank* | *(17,130)* | - |
| In transit | (1,136,898) | (905,924) |
| | **33,222,241** | **30,964,607** |

### 10 Cash and cash equivalents (continued)

### 10.1 Impairment allowance for cash and cash equivalents

An analysis of changes in the corresponding ECL allowances is provided below:

| | | | 31 December 2018 | | 31 December 2017 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| **Balance 1.1.2018** | **-** | **-** | **-** | **-** | **-** |
| Balance at 1 January IFRS 9 | 18,983 | - | - | 18,983 | - |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - |
| Net re-measurement of loss allowance | - | - | | - | - |
| New financial assets originated or purchased | (1,446) | - | - | (1,446) | - |
| De-recognition of financial assets | - | - | - | - | - |
| Write-offs | - | - | - | - | - |
| Changes in models/risk parameters | - | - | - | - | - |
| Foreign exchange and other movements | - | - | - | - | - |
| Change in PV of the allowance Account | - | - | - | - | - |
| **Balance 31.12.2018** | **17,537** | **-** | **-** | **17,537** | **-** |

Money market placements include placements with resident and non-resident banks, bearing short-term maturity, up to 3 months. Cash in transit represents transactions as agents for payments made by customers in behalf of fiscal authorities, initiated within 31 December 2018 and settled with the current account at the Central Bank within the first days in January 2019. Details on impairment allowance on balances with Central Bank is provided in note 11.1.

### 11 Restricted balances with Central Bank

In accordance with the Central Bank's requirement relating to the deposit reserve, the Group should maintain a minimum of 10% of customer deposits with the Central Bank as a reserve account. Based on Bank of Albania Supervisory Council decision no. 29 dated 16.05.2012 the Group may use the required reserve denominated in ALL, if the average end-of-day balance on its 2018 reserve accounts over the maintenance period is not less than the amount defined for the required reserve. The statutory reserve has a monthly basis maturity and the interest rate applied to the ALL denominated reserve is 70% of the one-week REPO rate (base rate) in Albania, which as at 31 December 2018 was 1.00% (31 December 2017: 1.25%). The reserve denominated in EUR bears an interest that is equal to the deposit rate as announced by the European Central Bank which as at 31 December 2018 was -0.4% (31 December 2017: -0.4%). The reserve denominated in USD does not bear interest. As at 31 December 2018, the balance of the restricted cash is ALL 12,214,431 thousand (31 December 2017: ALL 11,352,440 thousand).





### 11 Restricted balances with Central Group (continued)

### 11.1 Impairment allowance for restricted cash with Central Group

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Restricted balances with Central Group | 12,224,620 | 11,352,440 |
| *ECL impairment* | *(10,189)* | - |
| **Balances with Central Group, net** | **12,214,431** | **11,352,440** |

An analysis of changes in the corresponding ECL allowances is provided below:

| | | | 31 December 2018 | | 31 December 2017 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| **Balance 1.1.2018** | **-** | **-** | **-** | **-** | **-** |
| Balance at 1 January IFRS 9 | 9,461 | - | - | 9,461 | - |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - |
| Net re-measurement of loss allowance | - | - | | - | - |
| New financial assets originated or purchased | 728 | - | - | 728 | - |
| De-recognition of financial assets | - | - | - | - | - |
| Write-offs | - | - | - | - | - |
| Changes in models/risk parameters | - | - | - | - | - |
| Foreign exchange and other movements | - | - | - | - | - |
| Change in PV of the allowance Account | - | - | - | - | - |
| **Balance 31.12.2018** | **10,189** | **-** | **-** | **10,189** | **-** |

### 12 Loans and advances to banks

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Non- Resident banks and financial institutions | **32,425** | **116,537** |
| *In foreign currency* | 32,425 | 116,537 |
| Resident banks and financial institutions | **209,981** | **78,069** |
| *In ALL* | 66,870 | 57,997 |
| *In foreign currency* | 143,111 | 20,072 |
| **Total balances for loans and advances to banks, gross** | **242,406** | **194,606** |
| *ECL impairment* | *(106)* | - |
| **Loans and advances to banks, net** | **242,300** | **194,606** |

**12 Loans and advances to banks (continued)**

**12.1 Impairment allowance for loans and advances to banks**

An analysis of changes in gross carrying amount and the corresponding ECL allowances is provided below:

| | | | 31 December 2018 | | 31 December 2017 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| ***Loans and advances to banks*** | | | | | |
| Low- fair risk | 242,406 | - | - | 242,406 | 194,606 |
| Less: allowance | *(106)* | - | - | *(106)* | - |
| **Carrying amount** | **242,300** | **-** | **-** | **242,300** | **194,606** |

| | | | 31 December 2018 | | 31 December 2017 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| **Balance 1.1.2018** | **-** | **-** | **-** | **-** | **-** |
| Balance at 1 January IFRS 9 | - | - | - | - | - |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - |
| Net re-measurement of loss allowance | - | - | | - | - |
| New financial assets originated or purchased | 106 | - | - | 106 | - |
| De-recognition of financial assets | - | - | - | - | - |
| Write-offs | - | - | - | - | - |
| Changes in models/risk parameters | - | - | - | - | - |
| Foreign exchange and other movements | - | - | - | - | - |
| Change in PV of the allowance Account | - | - | - | - | - |
| **Balance 31.12.2018** | **106** | **-** | **-** | **106** | **-** |

**13 Financial assets measured at FVPL (held for trading)**

Investment securities held for trading as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Treasury Bills | 49,925 | 76,393 |
| Government bonds | 1,035,500 | 289,336 |
| Derivatives – put options | - | 84,991 |
| **Total** | **1,085,425** | **450,720** |

***Treasury bills***

The effective interest rates on treasury bills for the year ended 31 December 2018 has been 2.6%. Details of treasury bills as at 31 December 2018 and 31 December 2017, showing their initial maturity, their book value and respective fair value as at the reporting date, by type are presented as follows:

| | 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | *Nominal value* | *Deferred discount* | *Accrued interest* | *Amortized cost* | *Revaluation difference* | *Fair value* |
| 12 months | 50,000 | (1,264) | 1,087 | 49,823 | 102 | 49,925 |
| | **50,000** | **(1,264)** | **1,087** | **49,823** | **102** | **49,925** |

**13 Financial assets measured at FVPL (continued)**

***Treasury bills (continued)***

| | 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | *Nominal value* | *Deferred discount* | *Accrued interest* | *Amortized cost* | *Revaluation difference* | *Fair value* |
| 12 months | 78,000 | (2,008) | 292 | 76,284 | 109 | 76,393 |
| | **78,000** | **(2,008)** | **292** | **76,284** | **109** | **76,393** |

***Government bonds***

As at 31 December 2018, the Group had a portfolio of 5-years and 10-years government bonds, denominated in the local currency (ALL). Interest is received semi-annually at a respective coupon rate of 5.45% (5-years) and 8.93% (10-years). Details of government bonds as at 31 December 2018 and 31 December 2017, showing their initial maturity, their book value and respective fair value as at the reporting date, by type, are presented as follows:

| | 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Nominal value* | *Premium to be amortized* | *Deferred discount* | *Accrued interest* | *Amortized cost* | *Revaluation difference* | *Fair value* |
| 60 months | 964,427 | 45,740 | - | 21,325 | - | - | 1,031,492 |
| 120 months | 3,497 | 457 | - | 54 | - | - | 4,008 |
| | **967,924** | **46,197** | **-** | **21,379** | **-** | **-** | **1,035,500** |

| | 31 December 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Nominal value* | *Premium to be amortized* | *Deferred discount* | *Accrued interest* | *Amortized cost* | *Revaluation difference* | *Fair value* |
| 60 months | 99,000 | - | - | 794 | - | - | 99,794 |
| 120 months | 183,755 | - | - | 5,787 | - | - | 189,542 |
| | **282,755** | **-** | **-** | **6,581** | **-** | **-** | **289,336** |

***Derivatives – put options***

During 2017 the Group has acquired put options related to two government bonds. The put options have been executed on October 2018 and the balance as of 31 December 2018 is LEK 0. Details of the options for 31 December 2017 are presented as follows:

| | 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | *Nominal value* | *Currency* | *Put Option* | *Coupon rate* | *Issue Date* | *Coupon frequency* |
| 120 months | 2,133,120 | USD | 41,596 | 2.25% | 25-Nov-16 | 6 month |
| 120 months | 2,552,640 | EUR | 43,395 | 0.50% | 15-Aug-17 | 12 month |
| | **4,685,760** | | **84,991** | | | |

**14 Investment securities**

Debt instruments measured at FVOCI as at 31 December 2018 and available for sale financial instruments as at 31 December 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Treasury Bills | 7,801,870 | - |
| Government bonds | 36,125,033 | - |
| **Total investment securities FVPL** | **43,926,903** | **-** |
| *ECL impairment* | *(130,333)* | - |
| **Total, net of impairment** | **43,796,570** | **-** |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Treasury Bills | - | 6,473,516 |
| Government bonds | - | 22,849,441 |
| **Total investment securities available for sale** | | **29,322,957** |

### 14 Investment securities (continued)

***Treasury bills***

The effective interest rates on treasury bills for the year ended 31 December 2018 fluctuated between 1.26% and 3.11% (31 December 2017: 1.58% and 3.11% p.a.). Details of treasury bills as at 31 December 2018 and 31 December 2017, showing their initial maturity, their book value and respective fair value as at the reporting date, by type are presented as follows:

| | 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | *Nominal value* | *Deferred discount* | *Accrued interest* | *Amortized cost* | *Revaluation difference* | *Fair value* |
| 12 months | 7,859,400 | (148,518) | 74,148 | 7,785,030 | 16,840 | 7,801,870 |
| | **7,859,400** | **(148,518)** | **74,148** | **7,785,030** | **16,840** | **7,801,870** |

| | 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | *Nominal value* | *Deferred discount* | *Accrued interest* | *Amortized cost* | *Revaluation difference* | *Fair value* |
| 12 months | 6,543,060 | (140,105) | 67,840 | 6,470,795 | 2,721 | 6,473,516 |
| | **6,543,060** | **(140,105)** | **67,840** | **6,470,795** | **2,721** | **6,473,516** |

***Government bonds***

As at 31 December 2018, the Group had a portfolio of 2-years, 3-years, 5-years, 7-years and 10-years government bonds, denominated in the local currency (ALL). Interest is received semi-annually at a respective coupon rate of 0.75% to 3.35 % (2-years), 2.70% to 5.00 % (3-years), 4.14% to 6.45% (5-years), 4.89% to 10.85% (7-years) and 0.25% to 9.25% (10-years), (31 December 2017: .50% to 3.35 % (2-years), 2.70% to 5.79 % (3-years), 4.23% to 7.70% (5-years), 4.79% to 10.85% (7-years) and 5.16% to 9.25% (10-years)). Details of government bonds as at 31 December 2018 and 31 December 2017, showing their initial maturity, their book value and respective fair value as at the reporting date, by type, are presented as follows:

| | 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Nominal value* | *Premium to be amortized* | *Deferred discount* | *Accrued interest* | *Amortized cost* | *Revaluation difference* | *Fair value* |
| 24 months | 1,266,776 | 54 | (2) | 6,974 | 1,273,802 | 14,352 | 1,288,154 |
| 36 months | 190,600 | 4 | - | 2,979 | 193,583 | 1,353 | 194,936 |
| 60 months | 6,357,050 | 65,500 | - | 45,778 | 6,468,328 | 173,043 | 6,641,371 |
| 64 months | 3,394,050 | - | (3,396) | - | 3,390,654 | (4,058) | 3,386,596 |
| 84 months | 5,461,600 | 111,623 | (1,369) | 58,306 | 5,630,160 | 248,849 | 5,879,009 |
| 120 months | 17,952,952 | 365,037 | (179,876) | 140,350 | 18,278,463 | 456,504 | 18,734,967 |
| | **34,623,028** | **542,218** | **(184,643)** | **254,387** | **35,234,990** | **890,043** | **36,125,033** |

| | 31 December 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Nominal value* | *Premium to be amortized* | *Deferred discount* | *Accrued interest* | *Amortized cost* | *Revaluation difference* | *Fair value* |
| 24 months | 2,347,445 | - | (21) | 5,860 | 2,353,284 | 606 | 2,353,890 |
| 36 months | 693,100 | 269 | - | 12,714 | 706,082 | 8,378 | 714,460 |
| 60 months | 3,610,900 | 24,739 | - | 57,943 | 3,693,582 | 52,776 | 3,746,358 |
| 84 months | 4,343,600 | 171,570 | (762) | 53,907 | 4,568,315 | (36,108) | 4,532,207 |
| 120 months | 11,000,209 | 418,178 | (67,070) | 126,550 | 11,562,859 | 24,657 | 11,502,526 |
| | **21,995,254** | **614,756** | **(67,853)** | **256,974** | **22,884,122** | **50,309** | **22,849,441** |





### 14 Investment securities (continued)

The table below shows the fair value of the Group's debt instruments measured at FVOCI by credit risk, based on the Group's internal credit rating system and year-end stage classification:

| | | | | 31 December 2018 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Internal rating grade** | | | | |
| AAA | 21,039,622 | - | - | 21,039,622 |
| AA+ to AA- | - | - | - | - |
| A+ to A- | - | - | - | - |
| BBB+ to BBB- | - | - | - | - |
| Lower than BBB- | 22,887,281 | - | - | 22,887,281 |
| Unrated | - | - | - | - |
| **Exposure before impairment** | **43,926,903** | **-** | **-** | **43,926,903** |
| Loss allowance | (130,333) | - | - | (130,333) |
| **Carrying amount** | **43,796,570** | **-** | **-** | **43,796,570** |

#### 14.1 Impairment allowance for investment securities

An analysis of changes in the fair value and the corresponding ECLs of investment securities, is as follows:

| | | | | 31 December 2018 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Balance at 1 January** | **29,322,957** | **-** | **-** | **29,322,957** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - |
| Net re-measurement of loss allowance | - | - | - | - |
| New financial assets originated or purchased | 28,853,238 | - | - | 28,853,238 |
| De-recognition of financial assets | (15,154,920) | - | - | (15,154,920) |
| Change in fair value | 905,628 | - | - | 905,628 |
| Write-offs | - | - | - | - |
| Changes in models/risk parameters | - | - | - | - |
| Foreign exchange and other movements | - | - | - | - |
| Change in PV of the allowance Account | - | - | - | - |
| **Balance 31.12.2018** | **43,926,903** | **-** | **-** | **43,926,903** |

| | | | | 31 December 2018 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Balance at 1 January under IFRS 9 (note 2.5)** | **136,812** | **-** | **-** | **136,812** |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - |
| Net re-measurement of loss allowance | - | - | - | - |
| New financial assets originated or purchased | 56,439 | - | - | 56,439 |
| De-recognition of financial assets | (62,918) | - | - | (62,918) |
| Change in fair value | - | - | - | - |
| Write-offs | - | - | - | - |
| Changes in models/risk parameters | - | - | - | - |
| Foreign exchange and other movements | - | - | - | - |
| Change in PV of the allowance Account | - | - | - | - |
| **Balance 31.12.2018** | **130,333** | **-** | **-** | **130,333** |

### 15 Investment in subsidiaries and associates

The Group's Shareholders have agreed that the Group would acquire 76% of the shares of "CREDINS INVEST sh.a. - Shoqeri administruese e Fondeve te Pensionit dhe Sipermarrjeve te Investimeve Kolektive" (former "Shoqeria Administruese e Fondit te Pensionit "SiCRED" sh.a.") from "SICRED sh.a." through a share purchase agreement signed on 22 December 2014 for an amount of ALL 60,206 thousand. The goodwill resulted from this purchase amounted to ALL 43,371 thousand. During the years the Group has injected further new capital in "Credins Invest". During 2018 no additional capital is injected by the Group (2017: ALL 6,080 thousand).

### 15 Investment in subsidiaries and associates (continued)

During 2018 CREDINS INVEST added a profit to the ALL 4,328 thousand and in 2017 a loss of ALL 5,852 thousand respectively to profit before tax from continuing operations of the Group. The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets. There is no impairment of the goodwill for the year ended 31 December 2018 and 31 December 2017.

The Group's Shareholders have agreed that the Group would acquire 95% of the shares of "Regjistri Shqiptar i Titujve ALREG" sh.a." for an amount of ALL 3,325 thousand. This has been registered with the National Registration Center on 16 March 2016. There was no goodwill resulting from this purchase. During 2018 the Group's shareholding of ALREG sh.a on 20 April 2018 amounts to 47.5% as a new shareholder entered in the company. From that date this company is accounted as an associate. Additional capital is injected during 2018 amounting to ALL 14,875 thousand. The activity of ALREG consists in managing a registry of titles, in accordance with licence received from the Financing Supervisory Board of Albania. The share of loss of the associate for the period ended 31 December 2018 of ALL 5,734 thousand (31 December 2017: ALL 1,925 thousand) was added to profit before tax from continuing operations of the Group.

The Group's Shareholders have agreed that the Group would acquire 42.5% of the shares of "Bursa Shqiptare e Titujve ALSE" sh.a." for an amount of ALL 21,250 thousand and accounted as an associate. There was no goodwill resulting from this purchase. This has been registered with the National Registration Center on 28 July 2017. The share of loss in the associate for the period ended 31 December 2018 of ALL 6,175 thousand (31 December 2017: ALL 5,300 thousand) was added to profit before tax from continuing operations of the Group.

The Group during 2018 bought shares in SWIFT SCR for an amount of EUR 46,650 consisting of only 10 shares of their capital.

Investment in associates is analysed as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cost of investment in ALSE | 15,950 | 21,250 |
| Cost of investment in ALREG | 18,200 | - |
| Cost of investment in Swift SCR | 5,758 | - |
| Share of losses in associates | (11,909) | (5,300) |
| **Total** | **27,999** | **15,950** |

### 16 Leasing

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Gross investment in finance leases, receivable** | | |
| - Not later than 1 year | 477,109 | 450,751 |
| - Later than 1 year and not later than 5 years | 748,242 | 705,827 |
| - More than 5 years | 592 | 1,542 |
| | **1,225,943** | **1,158,120** |
| Less: Unearned finance income | (19,400) | (14,781) |
| **Net investment in finance leases** | **1,206,543** | **1,143,339** |
| Less allowances for impairment | (90,708) | (77,562) |
| **Total** | **1,115,835** | **1,065,777** |

Movement in the impairment for losses on lease contracts is detailed as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Balance at the beginning of the year | **77,562** | **70,744** |
| Allowance for loss impairment | 76,071 | 34,783 |
| Recoveries | (25,910) | (26,466) |
| Recoveries from write offs | (36,461) | |
| Effect of foreign currency movements | (554) | (1,499) |
| **Balance at the end of the year** | **90,708** | **77,562** |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Collective impairment | 90,708 | 77,562 |
| | **90,708** | **77,562** |
| Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance | - | - |





### 16 Leasing (continued)

#### 16.1 Impairment allowance for leasing

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

| | | | | | | | | | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Gross carrying amount** | **Stage 1** | | **Stage 2** | | **Stage 3** | | **POCI** | | **Total** | **Total** |
| | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | | |
| Leasing | - | - | 1,158,803 | 14,410 | | 33,330 | - | - | 1,206,543 | 1,143,339 |
| **Total** | **-** | **-** | **1,158,803** | **14,410** | **-** | **33,330** | **-** | **-** | **1,206,543** | **1,143,339** |

| **ECL allowance** | **Stage 1** | | **Stage 2** | | **Stage 3** | | **POCI** | | **Total** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | | |
| Leasing | - | - | 84,548 | - | - | 7,436 | - | - | 91,984 | 77,562 |
| **Total** | **-** | **-** | **84,548** | **-** | **-** | **7,436** | **-** | **-** | **91,984** | **77,562** |
| **Net carrying amount** | **-** | **-** | **1,074,255** | **-** | **-** | **(7,436)** | **-** | **-** | **1,114,559** | **1,065,777** |

# Banka Credins sh.a.

**Notes to the consolidated financial statements for the year ended 31 December 2018**

*(Amounts in ALL'000, unless otherwise stated)*

## 17 Loans and advances to customers

Loans and advances to customers consisted of the following:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Loans and advances to customers at amortized cost | 101,419,906 | 113,254,346 |
| Loan loss allowances for impairment | (8,294,530) | (15,971,128) |
| | **93,125,376** | **97,283,218** |

Loans and advances to customers by classes can be detailed as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Corporate lending | 48,169,586 | 60,100,297 |
| Mortgage lending | 8,205,423 | 7,673,664 |
| Private individuals lending | 6,778,303 | 6,031,457 |
| Other secured lending | 38,266,594 | 39,448,928 |
| ***Total gross*** | ***101,419,906*** | ***113,254,346*** |
| Impairment allowance | (8,294,530) | (15,971,128) |
| | **93,125,376** | **97,283,218** |

Movements in the impairment for loan losses by classes of loans and advances are detailed as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Balance at the beginning of the year** | **15,971,128** | **14,765,408** |
| Allowance for loan loss impairment | 5,702,668 | 7,855,927 |
| Recoveries | (294,270) | (5,351,022) |
| Writte offs | (12,697,598) | (1,298,573) |
| Effect of foreign currency movements | (387,398) | (612) |
| **Balance at the end of the year** | **8,294,530** | **15,971,128** |

For the year ended 31 December 2018, the Group considered unrecoverable loans for an amount of ALL 1,180,714 thousands (31 December 2017: ALL 317,647 thousands).



# Banka Credins Sh.a.

**Notes to the consolidated financial statements for the year ended 31 December 2018**

*(Amounts in ALL'000, unless otherwise stated)*

## 17 Loans and advances to customers (continued)

### 17.1 Impairment allowance for loans and advances to customers

The tables below show an analysis of changes in gross carrying amount and the corresponding ECL allowances for each of the above categories is as follows:

| | | | | | | | | | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Gross carrying amount** | **Stage 1** | | **Stage 2** | | **Stage 3** | | **POCI** | | **Total** | **Total** |
| | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | | |
| **Retail lending** | **11,302,924** | **-** | **56,510** | **128,224** | **980,322** | **923,891** | **-** | **-** | **13,391,871** | **12,261,798** |
| Mortgage | 6,312,968 | - | 52,874 | 50,373 | 630,563 | 670,343 | - | - | 7,717,121 | 7,467,354 |
| Consumer | 1,629,440 | - | 1,921 | 57,354 | 79,775 | 124,979 | - | - | 1,893,469 | 1,752,612 |
| Credit cards | 215,786 | - | 1,057 | 927 | 3,211 | 8,347 | - | - | 229,328 | 191,363 |
| Other (incl. SBL) | 3,144,730 | - | 658 | 19,570 | 266,773 | 120,222 | - | - | 3,551,953 | 2,850,469 |
| **Corporate lending** | **72,383,395** | **-** | **3,624,454** | **2,495,488** | **3,005,463** | **6,519,235** | **-** | **-** | **88,028,035** | **100,992,548** |
| Large | 58,292,661 | - | 2,826,814 | 2,312,739 | 2,484,984 | 5,429,306 | - | - | 71,346,504 | 81,435,851 |
| SME's | 13,551,053 | - | 797,640 | 182,749 | 520,479 | 1,089,929 | - | - | 16,141,850 | 18,925,957 |
| Public sector | 539,681 | - | - | - | - | - | - | - | 539,681 | 630,740 |
| **Total** | **83,686,319** | **-** | **3,680,964** | **2,623,712** | **3,985,785** | **7,443,126** | **-** | **-** | **101,419,906** | **113,254,346** |

| **ECL allowance** | **Stage 1** | | **Stage 2** | | **Stage 3** | | **POCI** | | **Total** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | **Non Past Due** | **Past due** | | |
| **Retail lending** | **197,948** | **-** | **33,421** | **-** | **468,114** | **-** | **-** | **-** | **699,483** | **765,747** |
| Mortgage | 91,551 | - | 4,623 | - | 227,382 | - | - | - | 323,556 | 453,449 |
| Consumer | 37,609 | - | 26,884 | - | 76,958 | - | - | - | 141,451 | 137,960 |
| Credit cards | 6,091 | - | 32 | - | 13,205 | - | - | - | 19,328 | 29,750 |
| Other (incl. SBL) | 62,697 | - | 1,882 | - | 150,569 | - | - | - | 215,148 | 144,588 |
| **Corporate lending** | **4,996,475** | **-** | **529,561** | **-** | **2,069,011** | **-** | **-** | **-** | **7,596,321** | **15,205,381** |
| Large | 4,683,509 | - | 458,764 | - | 1,687,805 | - | - | - | 6,831,352 | 12,872,749 |
| SME's | 312,966 | - | 70,797 | - | 381,206 | - | - | - | 764,969 | 2,332,632 |
| Public sector | - | - | - | - | - | - | - | - | - | - |
| **Total** | **5,194,423** | **-** | **562,982** | **-** | **2,537,125** | **-** | **-** | **-** | **8,294,530** | **15,971,128** |
| | | | | | | | | | | |
| **Net carrying amount** | **78,491,896** | | **3,117,982** | | **1,448,660** | | **-** | | **93,125,376** | **97,283,219** |

## 18 Repossessed properties

The Group management classified those properties possessed as result of foreclosures on loans that were in default. The carrying amount of the repossessed properties is the fair market value existing as at 31 December 2018 and 31 December 2017.

Repossessed assets by type as at 31 December 2018 and 31 December 2017 are presented as following:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Land | 4,386,845 | 4,286,390 |
| Residential building | 298,861 | 246,178 |
| Commercial Building | 419,854 | 227,005 |
| Vehicle | 1,261 | 4,601 |
| **Total** | **5,106,821** | **4,764,174** |

Movements in repossessed assets as at 31 December 2018 and 31 December 2017 are as following:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Opening balance at 1 January** | **4,764,174** | **3,608,181** |
| Additions | 587,941 | 4,601,959 |
| Disposals | (50,807) | (2,948,609) |
| Net loss from a fair value adjustment | (194,488) | (497,357) |
| **Closing balance at 31 December** | **5,106,820** | **4,764,174** |

The repossessed properties are measured at the lower of the auction value and fair value and where deemed necessary reduced for any net realizable cost variation. As at 31 December 2018, repossessed properties include land, buildings, residential apartments and commercial and/or business premises. It is the Group intention to sale the repossessed properties as soon as it is feasible. For the year ended as at 31 December 2018 the Group sold ALL 50,807 thousands from the repossessed properties portfolio, from which the Group recognized ALL 11,803 thousands as loss on sale of repossessed properties.





## 19 Property and equipment

| Cost | Buildings | Electronic and office equipment | Vehicles, Furniture & Fittings | Leasehold improvements | Prepayment | Total |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2016** | **1,471,549** | **1,083,602** | **377,022** | **727,734** | **92,399** | **3,752,306** |
| Acquisitions | - | 193,891 | 73,738 | 105,672 | 303,779 | 677,080 |
| Transfers | - | 120,148 | 25,930 | 15,472 | (161,550) | - |
| Transfers to inventory warehouse | - | (182,945) | (24,442) | (819) | - | (208,206) |
| Disposals | (17,024) | (63,722) | (15,497) | - | (33,686) | (129,929) |
| **Balance at 31 December 2017** | **1,454,525** | **1,150,974** | **436,751** | **848,059** | **200,942** | **4,091,251** |
| Acquisitions | 182,933 | 280,332 | 109,884 | 171,248 | 13,045 | 757,442 |
| Transfers | - | 80,073 | 21,168 | 49,522 | (150,763) | - |
| Transfers to inventory warehouse | - | (73,795) | (13,727) | - | - | (87,522) |
| Disposals | - | (83,498) | (23,069) | (5,540) | - | (112,107) |
| Loss of control in the subsidiary | - | (1,170) | (386) | - | - | (1,556) |
| **Balance at 31 December 2018** | **1,637,458** | **1,352,916** | **530,621** | **1,063,289** | **63,224** | **4,647,508** |
| **Depreciation** | | | | | | |
| **Balance at 31 December 2016** | **(187,023)** | **(685,643)** | **(153,759)** | **(260,825)** | **-** | **(1,287,250)** |
| Depreciation for the period | (73,436) | (89,735) | (48,959) | (57,754) | - | (269,884) |
| Transfers to inventory warehouse | | 154,640 | 19,006 | - | - | 173,646 |
| Disposals | 4,588 | 1,477 | 7,812 | - | - | 13,877 |
| **Balance at 31 December 2017** | **(255,871)** | **(619,261)** | **(175,900)** | **(318,579)** | **-** | **(1,369,611)** |
| Depreciation for the period | (72,726) | (105,174) | (56,419) | (59,391) | - | (293,710) |
| Transfers to inventory warehouse | - | 62,033 | 11,062 | - | - | 73,095 |
| Disposals | - | 4,605 | 14,283 | - | - | 18,888 |
| Loss of control in the subsidiary | - | 97 | 11 | - | - | 108 |
| **Balance at 31 December 2018** | **(328,597)** | **(658,186)** | **(206,475)** | **(377,970)** | **-** | **(1,571,228)** |
| **Net Book Value** | | | | | | |
| **Balance at 31 December 2017** | **1,198,654** | **531,713** | **260,851** | **529,480** | **200,942** | **2,721,640** |
| **Balance at 31 December 2018** | **1,308,861** | **694,730** | **324,146** | **685,319** | **63,224** | **3,076,280** |

### 20 Intangible assets

| Cost | Software | Patents and licenses | Total |
|---|---|---|---|
| **Balance at 31 December 2016** | **306,911** | **72,592** | **379,503** |
| Acquisitions | 20,578 | - | 20,578 |
| **Balance at 31 December 2017** | **327,489** | **72,592** | **400,081** |
| Acquisitions | 30,866 | - | 30,866 |
| **Balance at 31 December 2018** | **358,355** | **72,592** | **430,947** |
| **Depreciation** | | | |
| **Balance at 31 December 2016** | **(215,628)** | **(40,881)** | **(256,509)** |
| Depreciation for the period | (28,880) | (8,554) | (37,434) |
| **Balance at 31 December 2017** | **(244,508)** | **(49,435)** | **(293,943)** |
| Depreciation for the period | (21,368) | (8,209) | (29,577) |
| **Balance at 31 December 2018** | **(265,876)** | **(57,645)** | **(323,521)** |
| **Net Book Value** | | | |
| **Balance at 31 December 2017** | **82,981** | **23,157** | **106,138** |
| **Balance at 31 December 2018** | **92,479** | **14,947** | **107,426** |

### 21 Other assets

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Debtors | 234,111 | 889,972 |
| Inventory warehouse | 30,511 | 19,526 |
| Deferred expenses | - | 54,441 |
| Prepaid expenses | 218,445 | 189,507 |
| | **483,067** | **1,153,446** |

Deferred expenses represents a prepayment from the Group to an external consultancy company during 2013 with a tenor of five years. During 2018, the Group recognized in the statement of comprehensive income (under administrative expenses as third party fees) (note 8) the cost of services received during the year, being ALL 54,227 thousands.

A detailed breakdown of debtors and respective impairment loss allowance is presented below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Debtors, gross | 430,659 | 1,084,512 |
| ECL/Impairment | (196,548) | (194,540) |
| | **234,111** | **889,972** |

| | 31 December 2018 |
|---|---|
| Impairment allowance as at 31 December 2017 | 194,540 |
| Impairment charge for the year (ECL) (note 6) | 2,008 |
| **Total impairment losses as at 31 December 2018** | **196,548** |

### 22 Deferred tax assets

Deferred tax is attributable to the following:

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Repossessed properties | 179,936 | - | 179,936 | 150,763 | - | 150,763 |
| AFS Securities | - | (135,844) | (135,844) | - | (7,955) | (7,955) |
| **Net deferred tax liability** | **179,936** | **(135,844)** | **44,092** | **150,763** | **(7,955)** | **142,808** |

The deferred tax assets have been recorded net of the deferred tax liabilities as the amounts are due to the same tax authority and are expected to be settled on a net basis. The created deferred tax assets/(liability) arises from the revaluation of the investment instruments, whose fluctuations in their fair value are recorded in the revaluation reserve in Equity, going through other comprehensive income and as well from the impairment of the repossessed properties going through profit and loss.



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Notes to the consolidated financial statements for the year ended 31 December 2018
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### 23 Due to banks and other financial institutions

Due to banks and other financial institutions are detailed as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Current accounts – resident | 937,335 | 779,027 |
| Money market deposits – resident | 1,869,100 | 2,796,690 |
| Reverse Repo – resident | 1,201,718 | 2,523,669 |
| Interbank loans – resident | 60,008 | - |
| | **4,068,161** | **6,099,386** |

### 24 Due to customers

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Private individuals | 136,469,026 | 123,636,657 |
| Sovereign governments | 12,318,567 | 11,468,755 |
| Corporate | 17,341,334 | 14,672,490 |
| Other customers | 1,124,519 | 1,276,069 |
| | **167,253,446** | **151,053,971** |

The table below shows due to customers by currency are detailed as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Current accounts | | |
| Local currency | 21,266,974 | 19,004,607 |
| Foreign currency | 12,258,985 | 10,889,163 |
| Saving accounts | | |
| Local currency | 6,522,360 | 6,011,033 |
| Foreign currency | 16,267,455 | 12,517,847 |
| Term deposits | | |
| Local currency | 57,085,537 | 52,384,554 |
| Foreign currency | 50,835,102 | 46,344,032 |
| Other customers accounts | | |
| Local currency | 987,178 | 570,860 |
| Foreign currency | 2,029,855 | 3,331,875 |
| | **167,253,446** | **151,053,971** |

### 25 Borrowing

Borrowing as at 31 December 2018 and 31 December 2017 are composed of the following items:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Ministry of Economic Development, Trade and Entrepeneurship (ex-METE) | 175,923 | 160,081 |
| Other borrowing | - | 26,666 |
| | **175,923** | **186,747** |

**Ministry of Economic Development, Trade and Entrepreneurship (ex-METE)**

During 2009, the Group obtained a borrowing (soft-loan) from the Ministry of Economy, Commerce and Energy, as part of the "Program for development of the Albanian private sector through a credit line for SMEs and relevant technical assistance" of the Italian-Albanian Development Cooperation (PRODAPS), which aims at supporting the development of the Albanian private sector by facilitating the access to credit of local SMEs.

The annual interest rate is fixed at 0.5% p.a. for lending in EURO, and 3.5% p.a. for lending in ALL. Repayment to the Ministry is according to the same repayment terms settled with the final users of the loan contracts (ultimate borrowers). As at 31 December 2018, the outstanding amount of borrowings is ALL 175,923 thousand (31 December 2017: ALL 160,081 thousand), and there are no balances in default related to this borrowing either at 31 December 2018 or at 31 December 2017.

**Other borrowing**

As at 24th December 2015 the Group merged with Credins Leasing Company and all rights and liabilities were transferred to the Group. The amount of a borrowing from an individual from merger, amounts to ALL 26,666 thousand (EUR 200,000) renewable every year. As at 31 December 2018 the outstanding amount of borrowing from individual is ALL 0 thousand (31 December 2017: ALL 26,666 thousand). This balance was closed on 8 February 2018.

### 26 Subordinated debt

On 31 October 2011, the general assembly of shareholders approved the issuance of subordinated instruments in ALL, Euro and USD to private individuals. As of 31 December 2018 and 31 December 2017 the instruments are detailed as follows:

| Currency | Units of Instruments | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| ALL | 2,894 | 2,954,250 | 3,015,816 |
| EUR | 2,165 | 2,720,045 | 2,774,231 |
| USD | 466 | 508,830 | 467,899 |
| | **5,525** | **6,183,124** | **6,257,946** |

| Tranches | Issue date | Maturity date | Units of Instruments | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|
| 2 | 23.03.2012 | 23.03.2018 | - | - | 278,951 |
| 3 | 01.11.2012 | 01.01.2018 | - | - | 134,589 |
| 4 | 02.02.2013 | 02.02.2019 | 150 | 191,257 | 206,025 |
| 5 | 31.05.2013 | 31.05.2019 | 160 | 179,150 | 186,442 |
| 6 | 13.12.2013 | 13.12.2019 | 310 | 341,623 | 354,041 |
| 7 | 03.06.2014 | 03.06.2020 | 368 | 395,407 | 345,398 |
| 8 | 02.09.2014 | 02.09.2020 | 598 | 664,220 | 745,431 |
| 9 | 27.01.2015 | 27.01.2021 | 927 | 1,058,187 | 1,099,031 |
| 10 | 05.01.2016 | 05.01.2022 | 373 | 422,175 | 436,307 |
| 11 | 25.08.2016 | 25.08.2023 | 388 | 479,329 | 513,774 |
| 12 | 07.02.2017 | 07.02.2024 | 482 | 518,081 | 528,057 |
| 13 | 02.06.2017 | 02.06.2024 | 647 | 700,036 | 720,522 |
| 14 | 03.11.2017 | 03.11.2024 | 622 | 685,568 | 709,378 |
| 15 | 08.03.2018 | 08.03.2025 | 500 | 548,091 | - |
| **Total** | | | **5,525** | **6,183,124** | **6,257,946** |

### 27 Other liabilities

Other liabilities are comprised of the following:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Transactions as agents | 313,588 | - |
| Suppliers and accrued payables | 141,600 | 576,957 |
| **Total** | **455,188** | **576,957** |

### 28 Provisions

Provisions as at 31 December 2018 and 31 December 2017 are composed of the following:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Provisions for litigations | 2,275 | 2,275 |
| ECL impairment for off balance sheet items | 51,969 | - |
| Other provisions | 4,600 | 4,600 |
| | **58,844** | **6,875** |

In the table below are presented the movements in provisions occurred during the year ended 31 December 2018 and 31 December 2017.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Balance 1 January | **6,875** | **2,275** |
| ECL charge for off balance sheet items | 51,969 | 4,600 |
| **Balance 31 December** | **58,844** | **6,875** |

Additional provisions created during the year amount to ALL 51,969 thousand and are created in order to comply with IFRS 9 requirements for providing the off balance sheet exposures.



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### 29 Share Capital

The share capital is composed of type A shares and normal shares both with a nominal value of 1 USD for each share. The subscribed share capital contributed by the shareholders of the Group is denominated in USD, EUR and ALL and is reported in the Financial Statements with the historical rates of exchange. As at 31 December 2018 the subscribed share capital amounts to USD 15,802 thousand, EUR 27,737 thousand and ALL 2,931,178 thousand. Shares are ranked as normal and type A and are owned by the following shareholders:

| Share Capital | 31 December 2018 (%) | 31 December 2017 (%) |
|---|---|---|
| Renis Tershana | 23.181% | 24.296% |
| Aleksander Pilo | 15.297% | 16.683% |
| B.F.S.E Holding BV | 16.485% | 14.482% |
| Group Executive Directors | 6.727% | 6.754% |
| Other (less than 5% of shareholding) | 38.309% | 37.785% |
| **Total** | **100.000%** | **100.000%** |

The paid up capital of the Group as of 31 December 2018 is ALL 8,505,811 thousand translated at the historical rate of exchange (31 December 2017: ALL 8,083,240 thousand) with a nominal value of USD 1 each.

On 09 March 2017, the Assembly decided for the issuance of a new capital to the amount of EUR 5 million. As of 31 December 2018 only the amount of capital of EUR 4,573,491 is subscribed and registered in the national business center (NBC). On 13 February 2018 the Assembly decided for the issuance of a new capital to the amount of EUR 6,5 million. As of 31 December 2018 only the amount of capital of EUR 483,886 is subscribed and registered in the national business center (NBC). An amount of EUR 1,811 thousand is subscribed as at the end of the year 2018 but not paid and not registered as at the end of the year to the NRC.

The shares of the Group have a nominal value and are indivisible. Each share gives its owner the right to one vote. The Group holds "ordinary shares" and "class A" shares, where each of these shares has a nominal value of USD 1 per share. The "class A" shares afford to their holder certain rights and privileges, mainly in relation to the transfer of shares, sale of shares, conversion of "class A" shares into ordinary shares, and the right to propose to appoint and remove 2 members of the BOD. The holders of the class "A" shares acting jointly through an appointed representative will have the rights and privileges attached to their class "A" shares with regard to "pre-approval" of certain changes and decisions, and certain "information rights".

All shares held by B.F.S.E Holding BV or S.E.C.O. shall all time be "A" shares. All other shareholders of the Group hold ordinary shares. A reconciliation of share capital at the beginning and end of the year are as follows:

| | Normal shares | | Type A shares | |
|---|---|---|---|---|
| | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
| **As at 1 January** | 61,605,864 | **55,937,806** | 12,218,699 | **11,683,345** |
| Increase in number of shares: | 1,379,172 | 5,668,058 | 2,546,312 | 535,354 |
| **As at 31 December** | **62,985,036** | **61,605,864** | **14,765,011** | **12,218,699** |

As of 16 May 2018, the shareholder's assembly decided on the distribution of the result of 2017 profit, out of which ALL 389,044 thousand allocated for capital increase.

As at 31 December 2018 there is also an amount of LEK 240,703 thousand as capital (share + premium) subscribed but not paid nor registered at NRC as at the end of the year.

### 30 Share Premium

During the year ended 31 December 2018, the Group has issued new shares generating a share premium of ALL 30,787 thousand from emission of new capital, whilst for the year ended 31 December 2017 the Group has issued new shares generating a share premium of ALL 220,740 thousand from emission of new capital.

### 31 General reserve

The Group has created two reserves through appropriations from retained earnings being the general reserve, which represents the risk weighted assets reserve, as required by the Central Bank, and the statutory reserve, as required by the by-laws of the Group. The general reserve is calculated as 1.25% of the risk weighted assets, whereas the statutory reserve is calculated as 5% of annual profit. These reserves are not distributable.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| General reserve | 1,635,761 | 1,428,271 |
| Statutory reserve | 269,949 | 218,076 |
| **Total** | **1,905,710** | **1,646,347** |

### 32 Maturity analysis of assets and liabilities

| 31 December 2018 | < 12 months | > 12 months | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalent | 33,222,241 | - | 33,222,241 |
| Restriced balances with Central Group | 11,583,467 | 630,964 | 12,214,431 |
| Loans and advances to banks | 242,300 | - | 242,300 |
| Investment securities measured at FVPL | 49,925 | 1,035,500 | 1,085,425 |
| Investment securities | 10,100,801 | 33,695,769 | 43,796,570 |
| Investment in subsidiaries and associates | - | 27,999 | 27,999 |
| Goodwill | - | 43,371 | 43,371 |
| Leasing | 53,247 | 1,062,588 | 1,115,835 |
| Loans and advances to customers | 40,451,796 | 52,672,306 | 93,124,102 |
| Current tax assets | 19,080 | - | 19,080 |
| Repossessed properties | - | 5,106,821 | 5,106,821 |
| Property and equipment | - | 3,076,280 | 3,076,280 |
| Intangible assets | - | 107,426 | 107,426 |
| Other assets | 3,362 | 479,705 | 483,067 |
| Deferred tax asset | - | 44,092 | 44,092 |
| **Total** | **95,726,219** | **97,982,821** | **193,709,040** |
| **Liabilities** | | | |
| Due to banks and other financial institutions | 2,919,470 | 1,148,691 | 4,068,161 |
| Due to customers | 86,795,268 | 80,458,178 | 167,253,446 |
| Borrowing | 32,683 | 143,240 | 175,923 |
| Current tax liabilities | - | - | - |
| Subordinated debt | 818,015 | 5,365,109 | 6,183,124 |
| Other liabilities | 455,188 | - | 455,188 |
| Provisions | - | 58,844 | 58,844 |
| **Total** | **91,020,624** | **87,174,062** | **178,194,686** |
| **Net** | **4,705,595** | **10,808,759** | **15,514,354** |





### 32 Maturity analysis of assets and liabilities (continued)

| 31 December 2017 | < 12 months | > 12 months | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalent | 30,964,607 | - | 30,964,607 |
| Restriced balances with Central Group | 11,100,517 | 251,923 | 11,352,440 |
| Loans and advances to banks | 179,519 | 15,087 | 194,606 |
| Investment securities held for trading | 450,720 | - | 450,720 |
| Investment securities AFS | 9,043,529 | 20,279,428 | 29,322,957 |
| Investment in subsidiary | - | 15,950 | 15,950 |
| Goodwill | - | 43,371 | 43,371 |
| Leasing | 50,637 | 1,015,140 | 1,065,777 |
| Loans and advances to customers | 42,706,807 | 54,576,411 | 97,283,218 |
| Repossessed properties | - | 4,764,175 | 4,764,175 |
| Property and equipment | - | 2,721,640 | 2,721,640 |
| Intangible assets | - | 106,138 | 106,138 |
| Other assets | 1,012,250 | 141,196 | 1,153,446 |
| Deferred tax asset | - | 142,808 | 142,808 |
| **Total** | **95,508,586** | **84,073,267** | **179,581,853** |
| **Liabilities** | | | |
| Due to banks and other financial institutions | 5,393,407 | 705,979 | 6,099,386 |
| Due to customers | 119,348,973 | 31,704,998 | 151,053,971 |
| Borrowing | 4,540 | 182,207 | 186,747 |
| Current tax liabilities | 209,590 | - | 209,590 |
| Subordinated debt | 522,903 | 5,735,043 | 6,257,946 |
| Other liabilities | 576,957 | - | 576,957 |
| Provisions | - | 6,875 | 6,875 |
| **Total** | **126,056,370** | **38,335,102** | **164,391,472** |
| **Net** | **(30,547,784)** | **45,738,165** | **15,190,381** |

Expected maturity dates do not differ significantly from the contract dates, except for:

- Retail deposits, which are included within Due to customers, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers, and are renewable at the end of their contractual term, and
- Overdrafts, which are included within "Loans and advances to customers", which are generally short term and with a contractual maturity of up to 12 months, but in practice are renewed and their maturity is extended for another period, usually of up to 12 months.

### 33 Contingent liabilities and commitments

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Commitments and contingencies include guarantees extended to customers and received from credit institutions. The balance is comprised of the following:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Guarantees in favour of customers | 4,645,436 | 5,428,062 |
| Commitments in favour of customers | 3,613,276 | 4,318,087 |
| *ECL impairment* | *(51,969)* | - |
| **Net of impairment** | **8,206,743** | **9,746,149** |
| | | |
| Guarantees pledged from credit customers | 3,516,051 | 4,002,201 |
| Guarantees received from credit customers | 406,679,712 | 413,628,083 |
| Commitments on securities | 459,610 | 602,560 |
| Commitments from financial institutions | 7,756,691 | 4,907,590 |

**33 Contingent liabilities and commitments (continued)**

**Guarantees and letters of credit**

Guarantees received from customers include cash collateral, mortgages, inventory and other assets pledged in favor of the Group from its borrowers. The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans granted. Based on management's estimate, no material losses related to guarantees and letters of credit outstanding at 31 December 2018 will be incurred.

The table below shows an analysis of changes in the corresponding ECL allowances for each of the above categories is as follows:

***Guarantees***

| | | | | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| **Balance 1.1.2018** | - | - | - | - | - |
| Balance at 1 January IFRS 9 | 25,109 | - | - | 25,109 | - |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - |
| Net re-measurement of loss allowance | - | - | | - | - |
| New financial assets originated or purchased | 26,860 | - | - | 26,860 | - |
| De-recognition of financial assets | - | - | - | - | - |
| Write-offs | - | - | - | - | - |
| Changes in models/risk parameters | - | - | - | - | - |
| Foreign exchange and other movements | - | - | - | - | - |
| Change in PV of the allowance Account | - | - | - | - | - |
| **Balance 31.12.2018** | **51,969** | **-** | **-** | **51,969** | **-** |

***Letter of credits***

| | | | | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| **Balance 1.1.2018** | - | - | - | - | - |
| Balance at 1 January IFRS 9 | 5,914 | - | - | 5,914 | - |
| Transfer to Stage 1 (from 2 or 3) | - | - | - | - | - |
| Transfer to Stage 2 (from 1 or 3) | - | - | - | - | - |
| Transfer to Stage 3 (from 1 or 2) | - | - | - | - | - |
| Net re-measurement of loss allowance | - | - | | - | - |
| New financial assets originated or purchased | (5,914) | - | - | (5,914) | - |
| De-recognition of financial assets | - | - | - | - | - |
| Write-offs | - | - | - | - | - |
| Changes in models/risk parameters | - | - | - | - | - |
| Foreign exchange and other movements | - | - | - | - | - |
| Change in PV of the allowance Account | - | - | - | - | - |
| **Balance 31.12.2018** | **-** | **-** | **-** | **-** | **-** |





**33 Contingent liabilities and commitments (continued)**

**Operating Lease commitments – Group as lessee**

The Group leases office premises in Tirana, Durres, Fier, Vlora, Lezha, Elbasan, Shkodra, Korca, Shijak, Kavaja, Kukes, Berat, Ballsh, Mat, Peshkopi and Vora mostly under ten year operating leases, as a lessee. Such future commitments for the years ended 31 December 2018 and 31 December 2017 are detailed as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Not later than 1 year | 431,883 | 463,200 |
| Later than 1 year and not later than 5 years | 1,507,333 | 1,510,655 |
| Later than 5 years | 2,100,907 | 2,430,970 |
| **Total** | **4,040,124** | **4,404,825** |

**Lease commitments – Group as lessor**

The Group has issued financial leases to its customers, amounting ALL 1,115,835 thousand (31 December 2017: ALL 1,065,777 thousand). These leases have an average life of between one to five years, with no renewal option included in the contracts. Future minimum lease payments (principal and interest) as at 31 December 2018 and 31 December 2017 are detailed as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Not later than 1 year | 528,478 | 502,029 |
| Later than 1 year and not later than 5 years | 822,101 | 790,464 |
| Later than 5 years | 554 | 1,583 |
| **Total** | **1,351,133** | **1,294,076** |

**Litigation and claims**

The Group is subject to other legal proceedings, claims, and litigation arising in the ordinary course of business. Management believes that the ultimate costs to resolve these matters will not have a material adverse effect on the Group's financial position, results of operations, or cash flows.

**Legal claims**

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken.

The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims with no probable adverse effects. Accordingly, no provision, except for the amounts included in provisions note 28, has been made in these Financial Statements.

**34 Related party disclosures**

In the following tables, the Group presents the relationships that existed between the Group and its related parties, the nature of the transactions, outstanding amounts and expenses and/or income recognized as at 31 December 2018 and 31 December 2017.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. Persons or entities that are related to the Group, by being either a person or close member of that person's family to the Group, by having control or joint control by a person or close member of that person's family, or by having significant influence over the entity, are presented as other related parties.

***Related party transactions***

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| Transaction | Key Management Personnel | Other related parties | Key Management Personnel | Other related parties |
| Lease expense | - | 29,802 | - | 30,978 |
| Income | 1,533 | 344,082 | 1,024 | 312,192 |
| Expenses | 71,410 | 35,869 | 61,897 | 31,474 |

### 34 Related party disclosures (continued)

| Type of transaction | 31 December 2018 Key Management Personnel ALL '000 | 31 December 2018 Other related parties ALL '000 | 31 December 2017 Key Management Personnel ALL '000 | 31 December 2017 Other related parties ALL '000 |
|---|---|---|---|---|
| Credit Line | - | 1,119,897 | - | 1,137,108 |
| Overdrafts | 762 | 15,377 | 454 | 31,650 |
| Term Loans | 66,973 | 875,414 | 89,993 | 1,024,439 |
| Leasing | 6,244 | 24,068 | 39,133 | 51,784 |
| LCs + LGs | - | 120,867 | - | 159,810 |
| Current accounts | (19,189) | (299,712) | (21,026) | (71,509) |
| Term deposits | (40,271) | (85,840) | (39,886) | (64,820) |
| Collateral placed in favour of the Group | (97,548) | (7,651,101) | (458,554) | (9,262,703) |

| Type of transaction | Interest rates (in %) 31 December 2018 | Interest rates (in %) 31 December 2017 |
|---|---|---|
| Credit Line | 5%-8% | 5%-8.5% |
| Overdrafts | 2.18%-20% | 1.94%-20% |
| Term Loans | 0.5%-8% | 0.5%-10.02% |
| Leasing | 5.8%-10.5% | 5.8%-10.5% |
| Current accounts | 0.0%-0.164% | 0.0%-0.103% |
| Term deposits | 0.0%-4.5% | 0.0%-4.499% |

In addition the key management personnel remuneration has been as follows, with no other benefits to disclose as at 31 December 2018 and 31 December 2017:

| | Salaries | Bonuses |
|---|---|---|
| **Year ended 31 December 2018** | | |
| Key management remuneration | 57,178 | 10,848 |
| Board of Directors remuneration | 1,072 | 1,550 |
| **Year ended 31 December 2017** | | |
| Key management remuneration | 57,801 | 2,650 |
| Board of Directors remuneration | 2,991 | - |

### 35 Events after the statement of financial position date

The management of the Group is not aware of any event after the reporting date that would require either adjustments or additional disclosures in these consolidated financial statements.

### 36 Risk management

#### 36.1 Introduction and overview

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

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

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

***Risk management framework***

The Board of Directors has overall responsibility for the establishment and oversight and control of the Group's risk management framework. The Board has established the Group Asset and Liability Committee (ALCO) and the Credit Committee, which are responsible for developing and monitoring Group risk management policies in specified areas up to predetermined limits of exposure. The risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group, 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 Group's Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The 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.





### 36 Risk management (continued)

#### 36.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other Groups and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The risk arising from investments in securities is maintained in low levels as investments are made only in government securities, Treasury Bills and Bonds, considered as low risk investments.

The Board of Directors has delegated responsibility for the management of credit risk to its Group Credit Committees for all credit exposures within 5% of the Group's regulatory capital. The Board of Directors in cooperation with the Credit Committee is responsible for oversight of the Group's credit risk, including: formulating credit policies, covering collateral requirements, credit assessment, documentary and legal procedures, compliance with regulatory and statutory requirements, establishing the authorization structure for the approval and renewal of credit facilities.

Authorization limits are allocated to Risk Division Credit Committees. Larger facilities require approval by Senior Credit Committee, with the involvement of the High Management level or the Board of Directors as appropriate. Credit decision making Authorities assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

Developing and maintaining the Group's risk classifications in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades in accordance with the Central Bank Credit Risk Management Regulation, reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approval by Credit Committee and these grades are subject to regular monthly reviews. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk. Each branch and business unit is required to implement credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit/branch has a Chief Credit Risk officer who reports on all credit related matters to local management and the Group Credit Committee. Each business unit/branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Group Credit processes are undertaken by Internal Audit. Based on the Group's internal rating policy, the portfolio rating as at 31 December 2018 and 31 December 2017 is as follows:

| Group's Credit Rating | 31 December 2018 | % to Total Gross | 31 December 2017 | % to Total Gross |
|---|---|---|---|---|
| A+ | 52,662 | 0.05% | 121,070 | 0.11% |
| A | 2,533,374 | 2.47% | 3,656,183 | 3.20% |
| A- | 15,765,218 | 15.36% | 10,960,102 | 9.58% |
| B+ | 9,153,153 | 8.92% | 14,073,898 | 12.30% |
| B | 41,760,495 | 40.69% | 41,801,533 | 36.54% |
| B- | 2,448,170 | 2.39% | 3,155,588 | 2.76% |
| C | 168,118 | 0.16% | 703,118 | 0.61% |
| C- | - | 0.00% | 58,336 | 0.05% |
| D+ | 3,842,921 | 3.74% | 2,852,183 | 2.49% |
| D | 3,214,166 | 3.13% | 2,931,979 | 2.56% |
| E+ | 853,888 | 0.83% | 3,368,002 | 2.94% |
| E | 524,885 | 0.51% | 5,671,481 | 4.96% |
| E- | 1,144,378 | 1.12% | 3,747,330 | 3.28% |
| **Loans with a credit rating** | **81,461,428** | **79.38%** | **93,100,802** | **81.38%** |
| Loans with no rating | 4,502,085 | **4.39%** | 6,640,836 | 5.81% |
| Loans with credit score | 15,456,450 | **15.06%** | 13,512,758 | 11.81% |
| **Total Gross Loan portfolio** | **101,419,963** | **98.82%** | **113,254,396** | **99.00%** |
| Leasing with no rating | 1,206,487 | 1.18% | 1,143,289 | 1.00% |
| **Total Gross Loan & Leasing portfolio** | **102,626,450** | **100.00%** | **114,397,685** | **100.00%** |

# Banka Credins sh.a.

**Notes to the consolidated financial statements for the year ended 31 December 2018**

*(Amounts in ALL'000, unless otherwise stated)*

### 36 Risk management (continued)

### 36.2 Credit risk (continued)

The table below shows the credit quality by class of asset for loans and advances to customers and leasing to credit risk, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

| Group's Internal Credit Rating | 31 December 2018 Default rates in % | 31 December 2018 Total | 31 December 2017 Default rates in % | 31 December 2017 Total |
|---|---|---|---|---|
| **High grade** | | **32,854,085** | | **38,986,920** |
| Risk rating class 1 | 1.89% | 4,906,007 | 0.87% | 4,349,268 |
| Risk rating class 2 | 4.23% | 7,255,348 | 2.29% | 7,595,382 |
| Risk rating class 3 | 1.79% | 20,692,730 | 13.66% | 27,042,270 |
| **Standard grade** | | **44,755,600** | | **51,999,744** |
| Risk rating class 4 | 2.30% | 13,262,284 | 4.43% | 15,083,107 |
| Risk rating class 5 | 5.67% | 31,493,316 | 10.91% | 36,916,637 |
| **Sub–standard grade** | | **4,627,935** | | **4,714,512** |
| Risk rating class 6 and lower | 34.97% | 4,627,935 | 41.38% | 4,714,512 |
| **No rating** | 5.75% | 19,182,344 | 12.90% | 17,553,220 |
| **Leasing with no rating** | 2.75% | 1,206,486 | 4.55% | 1,143,289 |
| **Total** | | **102,626,450** | | **114,397,685** |

The classification of the internal rating is in accordance with the Group's procedures regarding the different segments of the client. In the high grade class are included the valuations for the commercial clients (A+,A,A-) and the valuations for individuals and micro (classes 1,2). For the standard grade are included the valuations for the commercial clients (B+,B) and the valuations for individuals and micro (classes 3,4,5). And in the sub-standard grade are included the valuations for the commercial clients (B- and lower) the valuations for individuals and micro (classes 6,7).

| | Gross maximum exposure 31 December 2018 | Gross maximum exposure 31 December 2017 |
|---|---|---|
| Cash and cash equivalent (exluding cash on hand) | 28,357,194 | 27,105,333 |
| Restricted balances with Central Bank | 12,214,431 | 11,352,440 |
| Loans and advances to banks | 242,300 | 194,606 |
| Financial assets measured at FVPL (held for trading) | 1,085,425 | 450,720 |
| Investment securities | 43,796,570 | 29,322,957 |
| Leasing (gross) | 1,206,543 | 1,143,339 |
| Loans and advances to customers (gross) | 101,419,906 | 113,254,346 |
| Other assets (Debtors) | 234,111 | 889,972 |
| **Total** | **188,556,480** | **183,713,713** |
| Undrawn credit commitments | 3,405,074 | 3,380,361 |
| Letters of credit | 208,202 | 937,726 |
| Guarantees in favor of customers | 4,593,467 | 5,428,062 |
| **Total Credit related commitments** | **8,206,743** | **9,746,149** |
| **Total Credit Risk Exposure** | **196,763,223** | **193,459,862** |

The aging of past due and not impaired exposures for loans and advances to customers as at 31 December 2018 and 31 December 2017 is presented in the following table:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Past due but not individually impaired** | | |
| 1-45 days | 2,115,245 | 814,148 |
| 46-90 days | 330,475 | 425,958 |
| 91 - 120 days | 368,229 | 375,194 |
| 121 - 150 days | 38,564 | 58,587 |
| 151 - 180 days | 756,483 | 82,212 |
| 181 - 270 days | 55,264 | 87,879 |
| 271 - 360 days | 159,761 | 1,674,649 |
| over 360 days | 1,759,065 | 1,807,751 |
| **Total** | **5,583,086** | **5,326,378** |

Exposures past due for more than 91 days and not individually impaired, include those loans and advances to customers which are tested for individual impairment, and resulting with no impairment.



# Banka Credins sh.a.

**Notes to the consolidated financial statements for the year ended 31 December 2018**

*(Amounts in ALL'000, unless otherwise stated)*

### 36 Risk management (continued)

### 36.2 Credit risk (continued)

**Exposure to credit risk (continued)**

The table below shows the credit quality for loans and advances to customers for the year as at 31 December 2018 and 31 December 2017, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

| 31 December 2018 | Neither past due nor impaired | | | | Past due but not impaired | Individually impaired | Total |
|---|---|---|---|---|---|---|---|
| | High grade | Standard grade | Sub standard grade | Without rating | | | |
| Corporate lending | 8,163,684 | 27,335,249 | 5,980,686 | 1,267,651 | 2,100,685 | 3,321,631 | 48,169,586 |
| Small business lending | 9,233,525 | 20,679,451 | 1,819,246 | 2,600,992 | 2,444,418 | 1,488,962 | 38,266,594 |
| Consumer lending | 3,054,052 | 2,519,365 | 463,129 | 12,035 | 319,395 | 410,327 | 6,778,303 |
| Residential mortgage | 1,561,563 | 4,199,285 | 999,615 | 101,415 | 703,245 | 640,300 | 8,205,423 |
| **Total** | **22,012,824** | **54,733,350** | **9,262,676** | **3,982,093** | **5,567,743** | **5,861,220** | **101,419,906** |
| Allowances for impairment of loans | 1,235,071 | 3,684,800 | 541,071 | 196,737 | - | 2,537,125 | 8,194,804 |
| **Loan exposure, net of allowances** | **20,777,753** | **51,048,550** | **8,721,605** | **3,785,356** | **5,567,743** | **3,324,095** | **93,225,102** |

| 31 December 2017 | Neither past due nor impaired | | | | Past due but not impaired | Individually impaired | Total |
|---|---|---|---|---|---|---|---|
| | High grade | Standard grade | Sub standard grade | Without rating | | | |
| Corporate lending | 5,048,434 | 34,703,676 | - | 2,749,012 | 2,853,390 | 14,745,786 | 60,100,298 |
| Small business lending | 9,313,014 | 20,797,868 | 158,759 | 2,299,981 | 1,833,532 | 5,045,775 | 39,448,929 |
| Consumer lending | 3,926,271 | 1,569,494 | 473,269 | 62,423 | - | - | 6,031,457 |
| Residential mortgage | 2,994,701 | 2,420,714 | 821,220 | 79,971 | 639,457 | 717,602 | 7,673,665 |
| **Total** | **21,282,420** | **59,491,752** | **1,453,248** | **5,191,387** | **5,326,379** | **20,509,163** | **113,254,349** |
| Allowances for impairment of loans | 752,278 | 2,803,008 | 124,941 | 298,680 | 393,102 | 11,599,120 | 15,971,129 |
| **Loan exposure, net of allowances** | **20,530,142** | **56,688,744** | **1,328,307** | **4,892,707** | **4,933,277** | **8,910,043** | **97,283,220** |

For the purpose of this disclosure, the Group includes under the category of "neither past due nor impaired" loans that are tested collectively for impairment.

**36 Risk management (continued)**

**36.2 Credit risk (continued)**

**Exposure to credit risk (continued)**

The table below shows the credit quality for leasing for the year as at 31 December 2018 and 31 December 2017, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

| 31 December 2018 | Neither past due nor impaired | | | | Past due but not impaired | Individually impaired | Total |
|---|---|---|---|---|---|---|---|
| | High grade | Standard grade | Sub standard grade | Without rating | | | |
| Corporate | 15,945 | 210 | 3,392 | 322,616 | 1,677 | - | 343,839 |
| Small business | 2,935 | - | - | 645,460 | 701 | 27,206 | 676,302 |
| Consumer | - | - | - | 149,994 | - | 3,746 | 153,740 |
| Residential mortgage | - | - | - | - | 33 | 32,629 | 32,662 |
| **Total** | **18,879** | **210** | **3,392** | **1,118,069** | **2,410** | **63,582** | **1,206,543** |
| Allowances for impairment of leasing | 1,174 | 1 | 88 | 83,285 | - | 6,160 | 90,708 |
| **Leasing exposure, net of allowances** | **17,705** | **209** | **3,304** | **1,034,784** | **2,410** | **57,422** | **1,115,835** |

| 31 December 2017 | Neither past due nor impaired | | | | Past due but not impaired | Individually impaired | Total |
|---|---|---|---|---|---|---|---|
| | High grade | Standard grade | Sub standard grade | Without rating | | | |
| Corporate | 33,036 | 1,086 | 16,375 | 289,184 | - | - | 339,681 |
| Small business | 220,647 | - | 8,215 | 471,166 | - | - | 700,028 |
| Consumer | - | - | - | 103,629 | - | - | 103,629 |
| **Total** | **253,683** | **1,086** | **24,590** | **863,979** | **-** | **-** | **1,143,338** |
| Allowances for impairment of leasing | 11,766 | 67 | 1,489 | 64,239 | - | - | 77,561 |
| **Leasing exposure, net of allowances** | **241,917** | **1,019** | **23,101** | **799,740** | **-** | **-** | **1,065,777** |





**36 Risk management (continued)**

**36.2 Credit risk (continued)**

**Exposure to credit risk (continued)**

The following tables set out information about the credit quality of financial assets measured at amortized 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 2.4.6.1.

| | 31 December 2018 | | | | 31 December 2017 |
|---|---|---|---|---|---|
| **Cash and Cash equivalents** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| ***Current accounts with banks*** | | | | | |
| Low- fair risk | 3,427,096 | - | - | 3,427,096 | 2,662,593 |
| Less: allowance | *(212)* | - | - | *(212)* | - |
| **Carrying amount** | **3,426,884** | **-** | **-** | **3,426,884** | **2,662,593** |
| Money market placements | | | | | |
| Low- fair risk | 5,530,808 | - | - | 5,530,808 | 6,033,303 |
| Less: allowance | *(195)* | - | - | *(195)* | - |
| **Carrying amount** | **5,530,613** | | | **5,530,613** | **6,033,303** |
| **Unrestricted balances with central bank** | | | | | |
| Low- fair risk | 20,553,725 | - | - | 20,553,725 | 19,315,361 |
| Less: allowance | *(17,130)* | - | - | *(17,130)* | - |
| **Carrying amount** | **20,536,595** | | | **20,536,595** | **19,315,361** |
| **Total** | **29,494,092** | **-** | **-** | **29,494,092** | **28,011,257** |

| | 31 December 2018 | | | | 31 December 2017 |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| ***Restricted cash at Central Bank*** | | | | | |
| Low- fair risk | 12,224,620 | - | - | 12,224,620 | 11,352,440 |
| Less: allowance | *(10,189)* | - | - | *(10,189)* | - |
| **Carrying amount** | **12,214,431** | **-** | **-** | **12,214,431** | **11,352,440** |

| | 31 December 2018 | | | | 31 December 2017 |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| ***Investment securities*** | | | | | |
| Low- fair risk | 43,926,903 | - | - | 43,926,903 | 29,322,957 |
| Less: allowance | (130,333) | - | - | (130,333) | - |
| **Carrying amount** | **43,796,570** | **-** | **-** | **43,796,570** | **29,322,957** |

| | 31 December 2018 | | | | 31 December 2017 |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| ***Leasing*** | | | | | |
| Low- fair risk | - | 1,145,28<br>8 | - | 1,145,288 | 1,025,343 |
| Monitoring | - | 27,925 | 14,628 | 42,553 | 50,024 |
| Substandard | - | - | 45 | 45 | 3,835 |
| Doubtful | - | - | 57 | 57 | 25,359 |
| Lost | - | - | 18,600 | 18,600 | 38,778 |
| Less: allowance | - | (84,548) | (7,436) | (91,984) | (77,562) |
| **Carrying amount** | **-** | **1,088,66<br>5** | **25,894** | **1,114,559** | **1,065,777** |

**36 Risk management (continued)**

**36.2 Credit risk (continued)**

**Exposure to credit risk (continued)**

| | Stage 1 | Stage 2 | Stage 3 | 31 December 2018 Total | 31 December 2017 Total |
|---|---|---|---|---|---|
| ***Loans to customers*** | | | | | |
| Low- fair risk | 72,638,164 | 1,598,184 | 1,400,319 | 75,636,667 | 80,162,774 |
| Monitoring | 8,490,023 | 494,511 | 2,200,498 | 11,185,032 | 8,230,988 |
| Substandard | 2,556,611 | 918,928 | 2,433,974 | 5,909,513 | 7,749,655 |
| Doubtful | 935 | 3,257,025 | 1,428,235 | 4,686,195 | 5,062,588 |
| Lost | 538 | 36,022 | 3,965,938 | 4,002,499 | 12,048,343 |
| Less: allowance | (5,174,422) | (575,547) | (2,544,561) | (8,294,530) | (15,971,128) |
| **Carrying amount** | **78,511,849** | **5,729,125** | **8,884,402** | **93,125,376** | **97,283,219** |

| | Stage 1 | Stage 2 | Stage 3 | 31 December 2018 Total | 31 December 2017 Total |
|---|---|---|---|---|---|
| ***Financial guarantees and other commitments*** | | | | | |
| Low- fair risk | 8,258,712 | - | - | 8,258,711 | 9,746,149 |
| Less: allowance | (51,969) | - | - | (51,969) | - |
| **Carrying amount** | **8,206,743** | **-** | **-** | **8,206,743** | **9,746,149** |

The table below shows the net exposure to loans and advances to customers and leasing as at 31 December 2018 and 31 December 2017, categorized as per individual and collective impaired portfolio:

| | Net exposure to Loans and advances to customers and leases | |
|---|---|---|
| | **31 December 2018** | **31 December 2017** |
| *Individually impaired* | | |
| Past due and impaired | 5,924,803 | 20,509,163 |
| Allowance for impairment | (2,543,285) | (11,599,120) |
| **Carrying amount** | **3,381,518** | **8,910,043** |
| *Collectively assessed for impaired* | | |
| Past due but not impaired | 5,570,153 | 6,469,668 |
| Allowance for impairment | - | (470,664) |
| **Carrying amount** | **5,570,153** | **5,999,004** |
| Neither past due nor individually impaired | 91,131,494 | 87,418,855 |
| Allowance for impairment | (5,742,228) | (3,978,906) |
| **Carrying amount** | **85,389,266** | **83,439,949** |
| **Total carrying amount on loans and advances to customers** | **94,340,937** | **98,348,996** |

**Impaired loans and securities**

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s).

**Allowances for impairment**

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance is the specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but not identified on loans subject to individual assessment for impairment.

**Write-off policy**

The writing off of losses is done following a decision from the Board of Directors when the legal process of demanding payment from the borrower is completed and the borrower continues to be a debtor to the Group for the unpaid portion.





**36 Risk management (continued)**

**36.2 Credit risk (continued)**

**Exposure to credit risk (continued)**

**Loans and advances to customers**

The Group holds collateral against loans and advances to customers and leasing in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral is not usually held against investment securities, and no such collateral was held at 31 December 2018 or 31 December 2017. It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Against individually impaired: | **30,157,783** | **28,932,408** |
| Property | 24,057,695 | 21,588,219 |
| Other | 6,100,088 | 7,344,189 |
| Against collectively impaired: | **206,309,619** | **329,608,171** |
| Property | 149,174,969 | 252,174,937 |
| Other | 57,134,650 | 77,433,234 |
| | **236,467,402** | **358,540,579** |

The financial effect of collateral, by showing the level of provisions if no collateral would be considered is shown as below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Gross amount of loans | 101,419,906 | 114,567,030 |
| Provisions if no collateral would be considered | 11,651,004 | 26,253,581 |
| **Total carrying amount on loans and advances to customers** | **89,768,902** | **88,313,449** |

**Risk concentration**

The Group monitors concentrations of credit risk by industry sector, geographic location, counterparty, maturity and currency. An analysis of concentrations of credit risk by industry sector and geographic location at the reporting date is shown below:

| **Loans and advances to customers and leasing** | **31 December 2018** | | | **31 December 2017** | | |
|---|---|---|---|---|---|---|
| | **Albania** | **Others** | **Total** | **Albania** | **Others** | **Total** |
| Construction | 13,413,112 | 3,705,522 | 17,118,634 | 15,125,812 | 4,511,522 | 19,637,334 |
| Commerce | 33,572,952 | 1,622,224 | 35,195,175 | 40,218,425 | 3,202,094 | 43,420,519 |
| Consumer loans | 6,202,321 | - | 6,202,321 | 13,787,431 | 66,818 | 13,854,249 |
| Public,social and personal services | 18,819,057 | 1,450,284 | 20,269,342 | 17,609,526 | 2,251,739 | 19,861,265 |
| Processing industry | 7,172,164 | 510,776 | 7,682,940 | 8,130,831 | 571,945 | 8,702,776 |
| Hotels and restaurants | 2,361,178 | - | 2,361,178 | 2,531,866 | 328,146 | 2,860,012 |
| Production and distribution of electricity/water | 594,893 | 117,550 | 712,444 | 933,099 | 144,116 | 1,077,215 |
| Real estate | 1,236,366 | - | 1,236,366 | 1,343,910 | - | 1,343,910 |
| Transport and telecommunication | 536,062 | - | 536,062 | 535,744 | - | 535,744 |
| Agriculture | 354,176 | - | 354,176 | 549,375 | - | 549,375 |
| Mining | 947,875 | - | 947,875 | 501,015 | - | 501,015 |
| Health and social activities | 476,127 | - | 476,127 | 1,183,438 | - | 1,183,438 |
| Fishery | 31,579 | - | 31,579 | 24,406 | - | 24,406 |
| Other | 9,396,522 | 105,711 | 9,502,232 | 846,427 | - | 846,427 |
| | **95,114,382** | **7,512,067** | **102,626,450** | **103,321,305** | **11,076,380** | **114,397,685** |

# Banka Credins sh.a.

**Notes to the consolidated financial statements for the year ended 31 December 2018**

*(Amounts in ALL'000, unless otherwise stated)*

**36 Risk management (continued)**

**36.2 Credit risk (continued)**

**Risk concentration (continued)**

An analysis of concentrations of credit risk by industry sector at the reporting date is shown below:

| 31 December 2018 | Corporate lending | Small business lending | Consumer lending | Residential mortgage | Total |
|---|---|---|---|---|---|
| Individuals | - | - | 6,932,043 | 8,205,423 | 15,137,466 |
| Public Sector | 539,681 | - | - | - | 539,681 |
| Trade | 20,919,812 | 14,275,363 | - | - | 35,195,175 |
| Manufacturing | 4,055,590 | 4,339,794 | - | - | 8,395,384 |
| Construction | 10,424,826 | 6,693,808 | - | - | 17,118,634 |
| Services | 7,401,842 | 10,511,979 | - | - | 17,913,821 |
| Others | 5,171,676 | 3,154,614 | - | - | 8,326,289 |
| **Total** | **48,513,426** | **38,975,558** | **6,932,043** | **8,205,423** | **102,626,450** |
| **Financial Services** | 41,122 | 192,530 | - | - | **233,652** |

| 31 December 2017 | Corporate lending | Small business lending | Consumer lending | Residential mortgage | Total |
|---|---|---|---|---|---|
| Individuals | - | - | 6,135,036 | 7,673,664 | 13,808,700 |
| Public Sector | 630,740 | - | - | - | 630,740 |
| Trade | 28,711,885 | 14,708,635 | - | - | 43,420,519 |
| Manifacturing | 4,628,920 | 5,151,071 | - | - | 9,779,991 |
| Construction | 12,509,767 | 7,127,568 | - | - | 19,637,334 |
| Services | 7,442,955 | 9,400,821 | - | - | 16,843,776 |
| Others | 6,515,713 | 3,760,912 | - | - | 10,276,625 |
| **Total** | **60,439,979** | **40,149,007** | **6,135,036** | **7,673,664** | **114,397,685** |
| **Financial Services** | 128,351 | 23,081 | - | - | **151,432** |

**36.3 Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

**Management of liquidity risk**

The Group'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, without incurring unacceptable losses or risking damage to the Group's reputation. Short-term liquidity is managed by the Treasury Department, while mid-term and long-term liquidity is managed by ALCO. The Risk Management Division reports regularly to ALCO and the Treasury Department on level of exposure to liquidity risk.

Treasury Department maintains a portfolio of short-term liquid assets, made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained by the Group. Daily reports produced by Treasury as well as weekly and monthly reports produced by the Risk Management Division cover the liquidity position of the Group. All liquidity policies and procedures are subject to review and approval by ALCO.

**Exposure to liquidity risk**

The key measures used by the Group for managing liquidity risk are the calculation of liquidity ratios and the evaluation of liquidity gaps for specific periods. The Group calculates on a weekly 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 one month. Details of the liquid assets to short-term liabilities ratio during the reporting period were as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Average for the period | 105.34% | 106.82% |
| Minimum for the period | 87.69% | 78.54% |
| Maximum for the period | 120.99% | 128.47% |

Maturity gaps for each major currency are calculated and analyzed by the Group on a monthly basis. The tables below show an analysis of the Group's assets and liabilities as of 31 December 2018 and 31 December 2017 according to their remaining maturity.



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**Notes to the consolidated financial statements for the year ended 31 December 2018**

*(Amounts in ALL'000, unless otherwise stated)*

**36 Risk management (continued)**

**36.3 Liquidity risk (continued)**

**Exposure to liquidity risk (continued)**

Maturity gaps for each major currency are calculated and analyzed by the Group on a monthly basis. The tables below show an analysis of the Group's assets and liabilities as of 31 December 2018 and 31 December 2017 according to their remaining maturity. The table shows the liquidity situation of the Group as currently monitored by the Group's management, as at 31 December 2018. It considers the undiscounted cash flows in/out of the Group for on and off financial assets and liabilities, reflecting any earlier repayment or retention history assumptions.

| 31 December 2018 | < 1 month | 1-3 months | 3-12 months | 1-5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **ASSETS (Cash flow in)** | **46,561,325** | **10,515,325** | **36,880,060** | **40,687,168** | **58,777,649** | **193,421,527** |
| Cash and cash equivalents | 33,222,241 | - | - | - | - | 33,222,241 |
| Restriced balances with Central Bank | 2,915,987 | 2,092,180 | 6,575,300 | 630,964 | - | 12,214,431 |
| Loans and advances to banks | - | - | - | 242,300 | - | 242,300 |
| Investment securities | - | 49,925 | - | 1,031,491 | 4,009 | 1,085,425 |
| Financial Assets measured at FVPL | 741,497 | 723,486 | 8,635,819 | 11,457,643 | 22,238,125 | 43,796,570 |
| Loans and advances to customers (gross) | 3,304 | 1,665 | 58,730 | 1,142,844 | - | 1,206,543 |
| Leasing (gross) | 9,444,185 | 7,648,069 | 21,610,211 | 26,181,926 | 36,535,515 | 101,419,906 |
| Other assets (debtors) | 234,111 | - | - | - | - | 234,111 |
| **LIABILITIES(Cash flow out)** | **41,722,129** | **24,835,851** | **69,307,080** | **38,548,281** | **3,438,153** | **177,851,494** |
| Deposits from bank and customers-Current account | **30,549,551** | **9,614,324** | **20,758,827** | **1,006** | **555,390** | **61,479,098** |
| Current account with banks | 997,343 | 646,328 | - | - | 555,390 | 2,199,061 |
| Current account with customers | 29,612,216 | 8,967,996 | 20,758,827 | 1,008 | - | 59,340,047 |
| Deposits from Banks | 439,952 | 12,611 | 1,079,830 | 336,707 | - | 1,869,100 |
| Deposits from customers-Time deposits | 10,355,095 | 14,909,146 | 46,950,178 | 35,728,220 | - | 107,942,639 |
| Borrowing | 175,923 | - | - | - | - | 175,923 |
| Subordinated debt | - | 299,770 | 518,245 | 2,482,346 | 2,882,763 | 6,183,124 |
| Other liabilities (suppliers) | 141,600 | - | - | - | - | 141,600 |
| **TOTAL GAP ON BALANCE SHEET** | **4,839,196** | **(14,320,526)** | **(32,427,020)** | **2,138,887** | **55,339,496** | **15,570,033** |
| Off Balace sheet (Cash flow in) | - | - | - | - | - | - |
| Off Balace sheet (Cash flow out) | (3,405,074) | - | - | - | - | (3,405,074) |
| **TOTAL GAP OFF BALANCE SHEET** | **(3,405,074)** | **-** | **-** | **-** | **-** | **(3,405,074)** |
| | | | | | | - |
| **Total GAP 31 December** | **1,434,122** | **(14,320,526)** | **(32,427,020)** | **2,138,887** | **55,339,496** | **12,164,959** |
| **Cumulative GAP 31 December 2018** | **1,434,122** | **(12,886,404)** | **(45,313,424)** | **(43,174,537)** | **12,164,959** | **-** |

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**Notes to the consolidated financial statements for the year ended 31 December 2018**

*(Amounts in ALL'000, unless otherwise stated)*

**36 Risk management (continued)**

**36.3 Liquidity risk (continued)**

**Exposure to liquidity risk (continued)**

| 31 December 2017 | < 1 month | 1-3 months | 3-12 months | 1-5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **ASSETS (Cash flow in)** | **34,974,187** | **14,035,460** | **47,196,622** | **54,262,936** | **37,103,782** | **187,572,987** |
| Cash and cash equivalents | 26,140,319 | 4,824,288 | - | - | - | 30,964,607 |
| Restriced balances with Central Bank | 3,119,132 | 2,043,805 | 5,937,580 | 251,923 | - | 11,352,440 |
| Loans and advances to banks | - | - | 179,519 | 15,087 | - | 194,606 |
| Financial Assets measured at FVPL | 5,555 | - | 78,059 | 99,000 | 268,106 | 450,720 |
| Investment securities | 574,684 | 546,580 | 8,204,381 | 6,557,591 | 13,439,721 | 29,322,957 |
| Leasing (gross) | 1,038 | 5,778 | 135,387 | 902,614 | 98,522 | 1,143,339 |
| Loans and advances to customers (gross) | 4,243,487 | 6,615,009 | 32,661,696 | 46,436,721 | 23,297,433 | 113,254,346 |
| Other assets (debtors) | 889,972 | - | - | - | - | 889,972 |
| **LIABILITIES(Cash flow out)** | **40,853,469** | **21,819,131** | **63,157,181** | **35,013,348** | **3,331,878** | **164,175,007** |
| Deposits from bank and customers-Current account | **26,609,120** | **8,280,867** | **18,247,030** | **1,072** | **-** | **53,138,089** |
| Current account with banks | 806,158 | - | - | - | - | 806,158 |
| Current account with customers | 25,796,012 | 8,280,867 | 18,225,031 | 1,071 | - | 52,302,981 |
| Deposits from Banks | 3,495,383 | 130,601 | 961,265 | 705,979 | - | 5,293,228 |
| Deposits from customers-Time deposits | 10,178,959 | 13,015,542 | 43,835,563 | 31,720,926 | - | 98,750,990 |
| Borrowing | - | 1,513 | 3,027 | 182,207 | - | 186,747 |
| Other liabilities (suppliers) | - | 390,608 | 132,295 | 2,403,165 | 3,331,878 | 6,257,946 |
| Subordinated debt | 576,957 | - | - | - | - | 576,957 |
| **TOTAL GAP ON BALANCE SHEET** | **(5,879,282)** | **(7,783,671)** | **(15,960,559)** | **19,249,588** | **33,771,904** | **23,397,980** |
| Off Balace sheet (Cash flow in) | - | - | - | - | - | - |
| Off Balace sheet (Cash flow out) | (3,380,361) | - | - | - | - | (3,380,361) |
| **TOTAL GAP OFF BALANCE SHEET** | **(3,380,361)** | **-** | **-** | **-** | **-** | **(3,380,361)** |
| | | | | | | - |
| **Total GAP 31 December** | **(9,259,643)** | **(7,783,671)** | **(15,960,559)** | **19,249,588** | **33,771,904** | **20,017,619** |
| **Cumulative GAP 31 December 2017** | **(9,259,643)** | **(17,043,314)** | **(33,003,873)** | **(13,754,285)** | **20,017,619** | **-** |

# Banka Credins sh.a.

**Notes to the consolidated financial statements for the year ended 31 December 2018**

*(Amounts in ALL'000, unless otherwise stated)*

**36 Risk management (continued)**

**36.3 Liquidity risk (continued)**

**Exposure to liquidity risk (continued)**

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual discounted payments, and not reflecting any earlier repayment or retention history assumptions.

| | < 1 month | 1-3 months | 3-12 months | 1-5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | |
| Deposits from bank and customers-Current account | **29,905,728** | **6,614,797** | **20,757,169** | **-** | **-** | **57,277,694** |
| Current account with banks | 954,681 | - | - | - | - | 954,681 |
| Current account with customers | 28,951,047 | 6,614,797 | 20,757,169 | - | - | 56,323,013 |
| Deposits from banks | 261,885 | 1,213,533 | 1,081,572 | 391,105 | - | 2,948,095 |
| Deposits from customers-Time deposits | 10,798,037 | 14,433,476 | 46,731,736 | 35,165,186 | 704,900 | 107,833,335 |
| Subordinated debt | - | 258,865 | 778,338 | 4,326,622 | 4,976,294 | 10,340,119 |
| Borrowing | 175,923 | - | - | - | - | 175,923 |
| Other liabilities (suppliers) | 141,600 | - | - | - | - | 141,600 |
| | **41,283,173** | **22,520,671** | **69,348,815** | **39,882,913** | **5,681,194** | **178,716,766** |
| **31 December 2017** | | | | | | |
| Deposits from bank and customers-Current account | **25,158,413** | **5,831,793** | **18,245,148** | **-** | **-** | **49,235,354** |
| Current account with banks | 806,158 | - | - | - | - | 806,158 |
| Current account with customers | 24,352,255 | 5,831,793 | 18,245,148 | - | - | 48,429,196 |
| Deposits from bank | 2,903,065 | 17,034 | 1,002,743 | 684,543 | - | 4,607,385 |
| Deposits from customers-Time deposits | 10,172,076 | 13,012,070 | 43,893,853 | 31,577,690 | 611,243 | 99,266,932 |
| Subordinated debt | - | 272,026 | 168,759 | 775,461 | 5,173,957 | 6,390,203 |
| Borrowing | - | 1,513 | 29,692 | 155,542 | - | 186,747 |
| Other liabilities (suppliers) | 576,957 | - | - | - | - | 576,957 |
| | **38,810,511** | **19,134,436** | **63,340,195** | **33,193,236** | **5,785,200** | **160,263,578** |

**36 Risk management (continued)**

**36.4 Market risk**

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments.

***Management of market risks***

ALCO is responsible for the overall management of market risks. The risk of foreign exchange positions is measured and reported by the Risk Management Department on a daily basis. The Group manages this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. The Group manages interest rate risk by conducting reprising gap analysis and profit margin analysis for each major currency. The Risk Management Department produces these reports on a monthly basis.

**Exposure to foreign exchange risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ALCO has set limits on positions by currency. In accordance with the Group's policy, positions are monitored on a daily basis to ensure positions are maintained within established limits.
The analysis of assets and liabilities as of 31 December 2018 and 31 December 2017 by the foreign currencies in which they were denominated is as follows:

| 31 December 2018 | ALL | USD | EUR | OTHER | TOTAL |
|---|---|---|---|---|---|
| Cash and Cash equivalent | 3,923,187 | 6,179,566 | 18,778,661 | 4,340,827 | 33,222,241 |
| Restricted balances with Central Bank | 5,958,921 | 686,770 | 5,568,740 | | 12,214,431 |
| Loans and advances to banks | 5,541 | 32,992 | 203,767 | - | 242,300 |
| Financial Assets measured at FVPL | 1,085,425 | - | - | - | 1,085,425 |
| Investment securities | 21,254,016 | 1,959,521 | 20,583,033 | - | 43,796,570 |
| Leasing | 19,560 | 5,245 | 1,091,030 | - | 1,115,835 |
| Loans and advances to customers | 56,610,283 | 2,113,407 | 34,400,412 | - | 93,124,102 |
| Other assets (debtors) | 232,447 | 70 | 1,562 | 32 | 234,111 |
| **Total assets** | **89,089,380** | **10,977,571** | **80,627,205** | **4,340,859** | **185,035,015** |
| Due to banks and other financial institutions | 2,175,055 | 606,810 | 1,199,312 | 86,984 | 4,068,161 |
| Due to customers | 85,857,504 | 8,751,177 | 68,452,441 | 4,192,324 | 167,253,446 |
| Borrowings | - | - | 175,923 | - | 175,923 |
| Subordinated debt | 2,954,250 | 508,830 | 2,720,044 | - | 6,183,124 |
| Other liabilities (suppliers) | 139,936 | 70 | 1,562 | 32 | 141,600 |
| **Total liabilities** | **91,126,745** | **9,866,887** | **72,549,282** | **4,279,340** | **177,822,254** |
| **Net position** | **(2,037,365)** | **1,110,684** | **8,077,923** | **61,519** | **7,212,761** |

| 31 December 2017 | ALL | USD | EUR | OTHER | TOTAL |
|---|---|---|---|---|---|
| Cash and Cash equivalent | 3,692,864 | 6,416,803 | 18,020,043 | 2,834,897 | 30,964,607 |
| Restricted balances with Central Bank | 5,633,899 | 785,033 | 4,933,508 | - | 11,352,440 |
| Loans and advances to banks | 45,346 | 64,438 | 84,822 | - | 194,606 |
| Investment securities HFT | 365,729 | 41,596 | 43,395 | - | 450,720 |
| Investment securities AFS | 20,893,537 | 2,123,521 | 6,305,899 | - | 29,322,957 |
| Leasing | 20,452 | 10,390 | 1,034,935 | - | 1,065,777 |
| Loans and advances to customers | 52,979,610 | 3,007,477 | 41,296,131 | - | 97,283,218 |
| Other assets (debtors) | 181,935 | 642,603 | 43,608 | 21,826 | 889,972 |
| **Total assets** | **83,813,372** | **13,091,861** | **71,762,341** | **2,856,723** | **171,524,297** |
| Due to banks and other financial institutions | 4,316,098 | 834,694 | 921,344 | 27,250 | 6,099,386 |
| Due to customers | 78,618,376 | 9,348,399 | 60,209,332 | 2,877,864 | 151,053,971 |
| Borrowings | - | - | 186,747 | - | 186,747 |
| Subordinated debt | 3,016,257 | 467,953 | 2,773,736 | - | 6,257,946 |
| Other liabilities (suppliers) | 566,630 | 282 | 9,902 | 143 | 576,957 |
| **Total liabilities** | **86,517,361** | **10,651,328** | **64,101,061** | **2,905,257** | **164,175,007** |
| **Net position** | **(2,703,989)** | **2,440,533** | **7,661,280** | **(48,534)** | **7,349,290** |





**36 Risk management (continued)**

**36.4 Market risk (continued)**

**Exposure to foreign exchange risk (continued)**

The table below shows the sensitivity analysis on currency risk as at 31 December 2018 and 31 December 2017 for a change of +/(-) 100 basis points and the respective effect in pretax profit and loss. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Albanian ALL (all other variables being held constant) on the income statement (due to the fair value of currency sensitive non–trading monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the currencies below against the Albanian ALL would have resulted in an equivalent but opposite impact.

| ***'000 ALL*** **Currency** | **31 December 2018** | | | **31 December 2017** | | |
|---|---|---|---|---|---|---|
| | **Increase in basis point** | **Effect on pretax profit/loss** | **Effect on equity** | **Increase in basis point** | **Effect on pretax profit/loss** | **Effect on equity** |
| EURO | +/- 100 b.p. | +/- 6,999 | +/- 5,950 | +/- 100 b.p. | +/- 4,016 | +/- 3,414 |
| USD | +/- 100 b.p. | +/- 472 | +/- 401 | +/- 100 b.p. | +/- 1,604 | +/- 1,363 |
| Other | +/- 100 b.p. | +/- 84 | +/- 71 | +/- 100 b.p. | +/- 661 | +/- 562 |

As there are no equity balances denominated in foreign currency (share capital paid in either USD or EUR is translated to ALL using the historical foreign exchange rate at the transaction date), the effect in equity is the same to the effect on the income statement, as at 31 December 2018 and 31 December 2017 and for the year then ended.

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**Notes to the consolidated financial statements for the year ended 31 December 2018**
*(Amounts in ALL'000, unless otherwise stated)*

**36 Risk management (continued)**

**36.4 Market risk (continued)**

***Exposure to interest rate risk***

The table below analyses the Group's interest rate risk exposure on financial assets and liabilities and interest rate gap position as at 31 December 2018 and 31 December 2017. The Group's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re–pricing or maturity dates.

| 31 December 2018 | < 1 month | 1-3 months | 3-12 months | 1-5 years | > 5 years | Not allocated | Carrying amounts |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 28,357,194 | - | - | - | - | 4,864,707 | 33,221,901 |
| Restricted balances with Central Group | 12,214,431 | - | - | - | - | - | 12,214,431 |
| Loans and advances to banks | 242,300 | - | - | - | - | - | 242,300 |
| Financial Assets measured at FPVL | - | 49,925 | | 1,031,491 | 4,009 | - | 1,085,425 |
| Investment securities AFS | 1,226,498 | 1,576,978 | 8,360,215 | 10,875,746 | 21,757,133 | - | 43,796,570 |
| Leasing (gross) | 58 | 1,671 | 52,382 | 1,088,877 | 63,555 | - | 1,206,543 |
| Loans and advances to customers (gross) | 2,851,934 | 73,229,568 | 8,614,091 | 2,278,299 | 1,384,639 | 13,061,375 | 101,419,906 |
| Other assets (debtors) | - | - | - | - | - | 234,111 | 234,111 |
| **Total assets** | **44,892,415** | **74,858,142** | **17,026,688** | **15,274,413** | **23,209,336** | **18,160,193** | **193,421,187** |
| **Liabilities** | | | | | | | |
| Due to banks and other financial institutions | 1,437,295 | 1,214,329 | 1,079,830 | 336,707 | - | - | 4,068,161 |
| Due to customers | 175,923 | - | - | - | - | - | 175,923 |
| Borrowing | 49,083,202 | 14,910,153 | 47,072,533 | 35,029,221 | - | 21,187,577 | 167,282,686 |
| Subordinated debt | - | 185,130 | 632,885 | 2,482,346 | 2,882,763 | - | 6,183,124 |
| Other liabilities (suppliers) | - | - | - | - | - | 141,600 | 141,600 |
| **Total liabilities** | **50,696,420** | **16,309,612** | **48,785,248** | **37,848,274** | **2,882,763** | **21,329,177** | **177,851,494** |
| **GAP as at 31 December 2018** | **(5,804,005)** | **58,548,530** | **(31,758,560)** | **(22,573,861)** | **20,326,573** | **(3,168,984)** | **15,569,693** |

The amounts not allocated include exposures that are not sensitive to any interest rates.



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**Notes to the consolidated financial statements for the year ended 31 December 2018**
*(Amounts in ALL'000, unless otherwise stated)*

**36 Risk management (continued)**

**36.4 Market risk (continued)**

***Exposure to interest rate risk (continued)***

A summary of the Group's interest rate gap position as of 31 December 2017 is as follows:

| 31 December 2017 | < 1 month | 1-3 months | 3-12 months | 1-5 years | > 5 years | Not allocated | Carrying amounts |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 11,537,296 | 4,827,441 | - | - | - | 14,599,870 | 30,964,607 |
| Restricted balances with Central Bank | 10,567,398 | - | - | - | - | 785,042 | 11,352,440 |
| Loans and advances to banks | - | - | 179,519 | 15,087 | - | - | 194,606 |
| Investment securities HFT | 5,555 | - | 78,059 | 99,000 | 268,106 | - | 450,720 |
| Investment securities AFS | 574,684 | 1,151,839 | 9,490,524 | 5,252,332 | 12,853,578 | - | 29,322,957 |
| Leasing (gross) | 1,063 | 5,917 | 111,193 | 924,280 | 100,886 | - | 1,143,339 |
| Loans and advances to customers (gross) | 3,729,227 | 78,929,412 | 7,207,013 | 1,291,197 | 1,236,908 | 20,860,589 | 113,254,346 |
| Other assets (debtors) | - | - | - | - | - | 889,972 | 889,972 |
| **Total assets** | **26,415,223** | **84,914,609** | **17,066,308** | **7,581,896** | **14,459,478** | **37,135,473** | **187,572,987** |
| **Liabilities** | | | | | | | |
| Due to banks and other financial institutions | 4,301,541 | 130,601 | 961,266 | 705,978 | - | - | 6,099,386 |
| Due to customers | 43,880,109 | 13,009,664 | 43,813,563 | 31,116,858 | - | 19,233,777 | 151,053,971 |
| Borrowing | - | - | - | 186,747 | - | - | 186,747 |
| Subordinated debt | - | 271,908 | 250,995 | 2,403,165 | 3,331,878 | - | 6,257,946 |
| Other liabilities (suppliers) | - | - | - | - | - | 576,957 | 576,957 |
| **Total liabilities** | **48,181,650** | **13,412,173** | **45,025,824** | **34,412,748** | **3,331,878** | **19,810,734** | **164,175,007** |
| **GAP as at 31 December 2017** | **(21,766,427)** | **71,502,436** | **(27,959,516)** | **(26,830,852)** | **11,127,600** | **17,324,739** | **23,397,980** |

The amounts not allocated include exposures that are not sensitive to any interest rates.

**36 Risk management (continued)**

**36.4 Market risk (continued)**

**Exposure to interest rate risk (continued)**

The following table demonstrates the sensitivity to a possible change in interest rates (all other variables being held constant) of the Group's income statement and equity. The assumptions are for parallel shifts in the yield curve.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the financial assets and financial liabilities held at the end of the year. The sensitivity of equity is calculated by revaluing assets and liabilities, considering the duration gap at 31 December for the effects of the assumed changes in interest rates.

| | | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|---|
| | Increase/(Decrease) in basis points | Sensitivity of profit or loss | Sensitivity of equity | Sensitivity of profit or loss | Sensitivity of equity |
| ALL | +100/(100) | +/-168,766 | +/-279,206 | +/-127,547 | +/-151,099 |
| USD | +100/(100) | +/-43,328 | +/-46,906 | +/-43,102 | +/-67,574 |
| EURO | +100/(100) | +/-128,494 | +/-695,537 | +/-193,327 | +/-84,489 |

The average interest rates on assets and liabilities for the period as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| Currency | Assets | Liabilities | Assets | Liabilities |
| ALL | 5.13% | 1.55% | 5.32% | 1.49% |
| USD | 1.55% | 0.89% | 1.94% | 0.68% |
| EUR | 2.48% | 0.60% | 3.42% | 0.67% |

**36.5 Operational risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

**36.6 Capital management**

***Regulatory capital***

The Group monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Central Bank ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 9662 date 18.12.2006 "On Banks in the Republic of Albania".

The Group's regulatory capital is analyzed into two categories:

1. Base capital, comprising ordinary share capital; premiums of emissions and mergers; retained earnings; less unpaid share capital; debit revaluation differences included in equity for regulatory reporting purposes, which reflect the changes of the historical currency exchange rates compared to the year-end exchange rates when the equity is paid in currencies other than the reporting currency; and intangible assets.

2. Additional capital, which includes subordinated liabilities, general reserves and other regulatory adjustments.

Risk-weighted assets and off balance-sheet items are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance-sheet exposures.

The Group recognizes the need to maintain a balance between the higher returns that might be possible with higher risk weighted investments and the requirements for capital adequacy ratio higher than 14% which is the minimum capital adequacy ratio required by the regulator.

The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period. As at 31 December 2018, the CAR is 14.44% (31 December 2017: 14.15%).





**36 Risk management (continued)**

**36.6 Capital management (continued)**

The Group's regulatory capital is determined in accordance with regulations and accounting policies of the Albanian Central Bank which are different from IFRS accounting policies. One of the most significant differences relates to regulatory loan provisions that do not take into account any cash flows from execution of collaterals held as security. This policy has the most significant impact over loss provisions and equity.

The banks regulatory capital is calculated based on accounting policies and regulation of the Bank of Albania. The differences between the regulatory capital and IFRS capital are as follows.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Equity, as per IFRS | **15,514,354** | **15,190,381** |
| Difference in revaluation reserve from FVOCI assets | (769,783) | (45,075) |
| Translation reserve | (736,308) | (209,416) |
| Difference in accumulated retained earnings | (969) | (1,279,621) |
| **Bank of Albania equity** | **14,007,294** | **13,656,269** |

The translation reserve arises because capital treated as monetary item by accounting policies of Bank of Albania. Differences in accumulated retaining earnings arises primary due to different loan provision regulations.

***Capital allocation***

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is also dependent upon the regulatory capital. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, and is subject to review by the Group Credit Committee or ALCO as appropriate.

**36.7 Fair value disclosures**

Fair value estimates are based on existing statement of financial position financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

*Due from Banks* - Due from Banks include inter-bank placements and items in the course of collection. As deposits are short term and at floating rates their fair value is considered to approximate their carrying amount.

*Investment securities* - Treasury bills and Government bonds are interest-bearing assets available for sale. The fair value has been estimated using a discounted cash flow model based on a current market yield curve appropriate for the remaining term to maturity as per the latest auction price as declared by Bank of Albania for similar investment securities. For the investments is used a level 2 input in the fair value hierarchy.

*Loans and advances to customers* - Loans and advances are net of allowances for impairment. The majority of the loan portfolio is subject to repricing within a year, by changing the base rate. The fair value is calculated using the cash flow of the payments for their remaining maturity discounted with an average market interest rate. For the investments is used a level 2 input in the fair value hierarchy.

*Deposits from banks* - The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

*Deposits from customers and Subordinated liabilities* - Because no active market exists for these instruments, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity as per the latest market rate for deposits with similar maturity and currency. For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. For the deposits and subordinated liabilities is used a level 3 input in the fair value hierarchy.

# Banka Credins sh.a.

**Notes to the consolidated financial statements for the year ended 31 December 2018**

*(Amounts in ALL'000, unless otherwise stated)*

**36 Risk management (continued)**

**36.7 Fair value disclosures (continued)**

| 31 December 2018 | FVPL (mandatory) | FVOCI | Amortized cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|
| Cash and cash equivalents | - | - | 33,222,241 | 33,222,241 | **33,222,241** |
| Restricted Balances with Central Bank | - | - | 12,214,431 | 12,214,431 | **12,214,431** |
| Loans and advances to banks | - | - | 242,300 | 242,300 | **242,300** |
| Financial assets measured at FVPL | 1,085,425 | - | - | 1,085,425 | **1,085,425** |
| Investment in securities | - | 43,796,570 | - | 43,796,570 | **43,796,570** |
| Leasing | - | - | 1,115,835 | 1,115,835 | **987,071** |
| Loans and advances to customers | - | - | 93,124,102 | 93,124,102 | **83,147,660** |
| Other assets (debtors) | - | - | 234,111 | 234,111 | **234,111** |
| Due to banks and other financial institutions | - | - | 4,068,161 | 4,068,161 | **4,068,161** |
| Due to customers | - | - | 167,253,446 | 167,253,446 | **165,140,614** |
| Borrowing | - | - | 175,923 | 175,923 | **168,813** |
| Subordinated liabilities | - | - | 6,183,124 | 6,183,124 | **4,792,498** |
| Other liabilities (suppliers) | - | - | 141,600 | 141,600 | **141,600** |

| 31 December 2017 | Held for trading | Available for sale | Loans and receivables | Other amortized cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | - | - | 30,964,607 | 30,964,607 | **30,964,607** |
| Restricted Balances with Central Bank | - | - | 11,352,440 | - | 11,352,440 | **11,352,440** |
| Loans and advances to banks | - | - | 194,606 | - | 194,606 | **194,606** |
| Investment securities held for trading | 450,720 | - | - | - | 450,720 | **450,720** |
| Investment in securities | - | 29,322,957 | - | - | 29,322,957 | **29,322,957** |
| Leasing | - | - | - | 1,065,777 | 1,065,777 | **892,364** |
| Loans and advances to customers | - | - | - | 97,283,218 | 97,283,218 | **79,299,553** |
| Other assets (debtors) | - | - | 889,972 | - | 889,972 | **889,972** |
| Due to banks and other financial institutions | - | - | - | 6,099,386 | 6,099,386 | **6,099,386** |
| Due to customers | - | - | - | 151,053,971 | 151,053,971 | **149,326,945** |
| Borrowing | - | - | - | 186,747 | 186,747 | **177,656** |
| Subordinated liabilities | - | - | - | 6,257,946 | 6,257,946 | **4,481,640** |
| Other liabilities (suppliers) | - | - | 576,957 | - | 576,957 | **576,957** |

# Banka Credins sh.a.

**Notes to the consolidated financial statements for the year ended 31 December 2018**

*(Amounts in ALL'000, unless otherwise stated)*

**36 Risk management (continued)**

**36.7 Fair value disclosures (continued)**

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized:

| | | Fair value | | | |
|---|---|---|---|---|---|
| **31 December 2018** | **Carrying amount** | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
| Cash and cash equivalents | 33,222,241 | 33,222,241 | - | - | **33,222,241** |
| Restricted Balances with Central Bank | 12,214,431 | 12,214,431 | - | - | **12,214,431** |
| Loans and advances to banks | 242,300 | 242,300 | - | - | **242,300** |
| Financial assets measured at FVPL | 1,085,425 | - | 1,085,425 | - | **1,085,425** |
| Investment in securities | 43,796,570 | 22,276,168 | 21,520,402 | - | **43,796,570** |
| Leasing | 1,115,835 | - | 987,071 | - | **987,071** |
| Loans and advances to customers | 93,124,102 | - | 83,147,660 | - | **83,147,660** |
| Other assets (debtors) | 234,111 | 234,111 | - | - | **234,111** |
| Due to banks and other financial institutions | 4,068,161 | - | - | 4,068,161 | **4,068,161** |
| Due to customers | 167,253,446 | - | 165,140,614 | - | **165,140,614** |
| Borrowing | 175,923 | - | 168,813 | - | **168,813** |
| Subordinated liabilities | 6,183,124 | - | 4,792,498 | - | **4,792,498** |
| Other liabilities (suppliers) | 141,600 | 141,600 | - | - | **141,600** |

| | | Fair value | | | |
|---|---|---|---|---|---|
| **31 December 2017** | **Carrying amount** | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
| Cash and cash equivalents | 30,964,607 | 30,964,607 | - | - | **30,964,607** |
| Restricted Balances with Central Bank | 11,352,440 | 11,352,440 | - | - | **11,352,440** |
| Loans and advances to banks | 194,606 | 194,606 | - | - | **194,606** |
| Investment securities HFT | 450,720 | - | 450,720 | - | **450,720** |
| Investment in securities AFS | 29,322,957 | 7,484,425 | 21,838,532 | - | **29,322,957** |
| Leasing | 1,065,777 | - | 892,364 | - | **892,364** |
| Loans and advances to customers | 97,283,218 | - | **79,299,553** | - | **79,299,553** |
| Other assets (debtors) | 889,972 | 889,972 | - | - | **889,972** |
| Due to banks and other financial institutions | 6,099,386 | 6,099,386 | - | - | **6,099,386** |
| Due to customers | 151,053,971 | - | 149,326,945 | - | **149,326,945** |
| Borrowing | 186,747 | - | 177,656 | - | **177,656** |
| Subordinated liabilities | 6,257,946 | - | 4,481,640 | - | **4,481,640** |
| Other liabilities (suppliers) | 576,957 | 576,957 | - | - | **576,957** |