INTESA SANPAOLO BANK
Albania

2021 Annual Report

Bank of INTESA SANPAOLO

GALLERIE D'ITALIA.
FOUR MUSEUMS, A NATIONWIDE CULTURAL NETWORK.

Gallerie d'Italia enables Intesa Sanpaolo to share its artistic and architectural heritage with the general public: the art collections of the Bank, ranging from archaeological artefacts to contemporary works of art, are housed in historic buildings located in four cities, in a unique network of museums.

Gallerie d'Italia - Piazza Scala in Milan hosts, in a highly prestigious architectural setting, a selection of two hundred masterpieces of the nineteenth century in Lombardy, that are part of art collections of Fondazione Cariplo and Intesa Sanpaolo, and an exhibition dedicated to twentieth century Italian art.

Gallerie d'Italia - Palazzo Leoni Montanari, Vicenza is home to art of the region Veneto from the 1700s as well as pottery from Attica and Magna Graecia. It also holds one of the most important collections of Russian icons in the West.

Gallerie d'Italia - Palazzo Zevallos Stigliano, Naples hosts the Martyrdom of Saint Ursula, the last known painting by Caravaggio, alongside more than 120 examples of Neapolitan art dating from the early 17th to the early 20th century. New premises within the majestic building which was formerly the Bank of Naples in Via Toledo mean that the museum space is tripled in size, increasing exhibition opportunities.

There is also the newly-open fourth location of Gallerie d'Italia in Piazza San Carlo in Turin, a site which is mainly dedicated to photography and the digital world.
Cover photo:

Gaspar van Wittel (also known as Gaspare Vanvitelli, or Gaspare degli Occhiali)
(Amersfoort, 1652 - Rome, 1736)
A View of the Piazza Navona in Rome, 1688-1721
oil on canvas, 62.5 x 125.5 cm
Intesa Sanpaolo Collection
Gallerie d'Italia -
Palazzo Zevallos Stigliano, Naples

A View of the Piazza Navona in Rome is a work by Gaspar van Wittel. A Dutch painter who relocated to Italy, he is considered the forerunner of modern vedutism, as a result of the almost topographic precision of the scene.

The painting belongs to a series of nine landscapes that van Wittel dedicated to Piazza Navona between 1688 and 1721, the largest square in Rome after St. Peter's Square, and undoubtedly the most picturesque thanks to its market and countless related activities. The piazza, a "grand example of theatrical Baroque" was blessed in the mid-seven teenth century with an architectural renovation that gave it a reputation as one of the most beautiful squares in Rome, famous for the magnificence of its buildings and fountains. The view is from the first floor of Palazzo Lancelotti; on the left, the light highlights a series of buildings including the Church of Sant'Agnese in Agone which was rebuilt under the guidance of Francesco Borromini. On the right, in the shadows and strongly shortened, it is possible to see the sixteenth century façade of San Giacomo degli Spagnoli; the roof terrace of Palazzo Altemps stands out against the background, while in the centre there is the Fontana dei Fiumi by Gian Lorenzo Bernini and the sixteenth-century fountains known as del Moro and dei Calderari.

The painting excels for its splendid colours and the clarity of its lines and volumes. The sky is intensely bright with a hue of light blue that is characteristic of the Dutch artist's best works.
The work is part of the art collections on permanent display in Gallerie d'Italia of Intesa Sanpaolo in Naples. The collec tion traces
the most important moments of art in Naples and Campania from the early seventeenth century up to the first decades of the twentieth century, from Caravaggio and the naturalist turning point which took place with the artist's arrival in the city in 1606, right up to the works by Vincenzo Gemito, through the pomp and splendour of the Spanish viceroyalty and the Bourbon era.

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Board of Directors

Božo Prka
Chairman of the Board of Directors

Paolo Genovese
Deputy Chairman of the Board of Directors

Marco Fabris
Member - Head of Planning and Control Department, International Subsidiary Banks Division, Intesa Sanpaolo

Gabriele Gherardi
Member
Head of People Management and Development Sub-Department, International Subsidiary Banks Division, Intesa Sanpaolo, Italy

Alessandro D'Oria
Member
Chief Executive Officer, Intesa Sanpaolo Bank Albania

Konrad Kozik
Independent Member

Audit Committee

Marco Fabris
Member – Head of Planning and Control Department, International Subsidiary Banks Division, Intesa Sanpaolo

Božo Prka
Member

Zoltan Mogyorosi
Member
Office of Foreign Banks, CEE, CIS & SM, Internal Auditing Directory, Intesa Sanpaolo Italy

Senior Management

Alessandro D' Oria
Chief Executive Officer

Mr. Alessandro D'Oria has been appointed as Chief Executive Officer (CEO) and Member of the Board of Directors of Intesa Sanpaolo Bank Albania in September 2021. During the last months of 2021 he has initiated and led the Transformation Programme at Intesa Sanpaolo Bank Albania which aims to revolutionize internal processes and further drive digitalization in order to increase effectiveness and efficiency and offer impeccable service to the customers of the Bank.

Prior to his appointment as Chief Executive Officer of Intesa Sanpaolo Bank Albania, Mr. D'Oria held the position of Head of Retail and Wealth Management Department of International Subsidiary Banks Division at Intesa Sanpaolo directly reporting to the Chief of Division of ISBD. Based in Milan he was responsible for all retail segments (mass, upper mass, affluent, private and small business) in 11 banks belonging to the Intesa Sanpaolo Group in CEE/SEE region and Egypt. The retail ISBD network is composed by 1,000 branches and 22,000 employees.

Mr. Doria was Head of Retail sub department of ISBD, responsible for mass and small business segments, pricing, cards and payments, customers' satisfaction. The main goal achieved during this experience is the business transformation project named "Adopting Group business model", with the aim to introduce more modern technologies and a new organization in the network, revising roles, skills and commercial methodology (segmentation, portfolios for RMs, campaign management and proactive approach) to increase service level and revenues generation. More than 500 branches involved in the transformation in five main subsidiaries in two years; created 800 new roles with portfolio assignment.

Earlier in his 20-year long and extensive banking career Mr. D' Oria held the position of Head of Regional Director of Milan and province of Intesa Sanpaolo - Banca dei Territori, reporting directly to the Head of Division of Banca dei Territori, where he managed approximately 400 branches and 5,000 employees to serve 1.2 million customers. Other positions held by Mr. D'Oria were Head of Area Puglia of Banca dei Territori Division, Intesa Sanpaolo managing 200 branches coordinated and 2,000 employees, Area/Segment manager in several Italian regions – Banca Intesa Group: Puglia, Calabria, Campania, Friuli Venezia Giulia, Lombardy.

During his career, Mr. D'Oria has held the position of Deputy Chairman of ABI Lombardia (ABI – Italian banking association) and Chairman of ABI Puglia – the Italian banking association - and Member of local Chamber of Commerce, representing banking and insurance sectors.

Since July 2020 Mr. D'Oria has been appointed as non-executive board member of AlexBank where he also held the positions of Chairman of Risk Committee, Member of Audit Committee and Member of Remuneration Committee.

Mr. D'Oria received his Economics and Corporate Organization Degree from University LUM - Libera Università Mediterranea.

Julian Çela
Chief Financial Officer

Mr. Çela holds the position of Chief Financial Officer.

Mr. Çela is responsible for coordinating the preparation and monitoring of Strategic Plan and annual budgets, presenting and reporting accurate and timely financial information, asset liability management and treasury as well as accounting and procurement activities. He joined the Bank (former American Bank of Albania) in 2004. His prior work experience was at Procredit Bank in Internal Audit Department.

Mr. Çela has graduated in Finance and Banking at University of Tirana, Economic Faculty. In 2003-2004 he completed an accelerated finance and banking curriculum, a Georgetown University Program, at University of Wisconsin.

Ervin Xhomo
Head of Corporate & SME Division

Mr. Xhomo is currently holding the position of the Division Head of Corporate & SME in charge of the Corporate, SME, Product and CRM & Network Support's Departments.

Previous experiences of Mr. Xhomo include management positions at Banca Italo Albanese (BIA) as Head of Credit Office for 2 years, Treasury Responsible at BIA and at Emporiki Bank and BIA Main Branch Manager. Since 2008, by the merger of BIA with American Bank of Albania, Mr. Xhomo was first appointed as Head of Corporate Department followed by the promotion as Division Head since 2009 thanks to his consolidated experience and know how in commercial business and credit risk management, associated with a thorough knowledge of treasury products. Moreover, for a transitory period of almost 1 year during 2015-2016, Mr. Xhomo was holding also the position of Retail Division Head, contributing to positive indicators at retail banking.

Mr. Xhomo holds a bachelor's degree in Business Administration from University of Tirana and a Master Degree in Business Administration from Nebraska University in cooperation with University of Tirana.

Klodiana Piqani (Keçi)
Head of Retail Division

Mrs. Piqani holds the position of Head of Retail, covering the whole network of the Bank including Individual segment and Small Business, as well as other supporting departments for the development of these client segments. Mrs. Piqani joined Intesa Sanpaolo Bank in 2013, initially in the Risk Management Division holding for three years the position of Head of Risk Analysis, and later the current position.

Before joining the Bank, Mrs. Piqani has developed an extensive experience in other Banks such as ProCredit and Societe generale Albania, in the latter holding important managerial positions such as Branch manager of Main Branch of Tirana as well as Head of Department for the Business Promotion.

Mrs. Piqani graduated in Finance & Accounting in the University of Economics of Tirana, and is in the process of finalizing a Masters Degree in European Economic Studies at the University of Tirana in conjunction with Bamberg University. During these years she has followed and has been certified in various courses and trainings in the banking field.

Jola Dima
Head of Risk Management Division

Mrs. Dima holds the position of Head of Risk Management Division, covering the areas of Underwriting, Non-Performing Loans, Credit, Market and Operational Risks. Following her initial experience in a Group member Bank in Milan, she joined the Bank (former American Bank of Albania) in 2005, initially at CFO Division and later establishing and managing Market, Operational and Credit Risk Departments.

Ms. Dima has been Deputy Chairman of ISBA committees, including Credit, Financial, Underwriting, Asset Quality and Operational Risk Committees.
Ms. Dima graduated with Laude in Business Economics at the University of Bologna, Italy in 2001 and later completed two master degrees, in Management and Information Technology (ALMAWEB, Bologna) and Banking Risk Management (UNSBC, Tirana).

During these years she has lectured in different private universities and followed professional training courses related to her area of interest.

Albina Mançka
Head of Operations Division

Mrs. Mançka holds the position of Head of Operations Division, covering the areas of Back office,

Real Estate and Security. Mrs. Mançka has a twenty year successful experience in management, project financing and coordination in financial institution(s) and private companies. Prior to joining the Bank (former American Bank of Albania) in 2007, she worked for seven years for Albanian-American Enterprise Fund, where she managed the biggest and most important investments of the Fund in Real Estate area. Mrs. Mançka's experience also includes management of the first private telecommunication company, managing position in different USAID projects, private consulting company as well as lecturing at the State Economic Faculty in the subjects of Strategic Management.

Mrs. Mançka graduated at the University of Tirana, Economic Faculty. In 1995 she was awarded a Fulbright Scholarship and in 1997 she obtained her MBA from Wisconsin University, USA.

Alketa Lamçe
Head of IT Division

Mrs.Lamçe holds the position of Head of ICT Division, where her responsibilities include development of IT strategies, IT applications and infrastructure, IT projects and IT services support.

Mrs. Lamçe joined the Bank (former American Bank of Albania) in 1999 and she has worked in different leading positions, such as Head of Information System Department and Deputy Head of IT.

Before joining the bank, Mrs. Lamçe worked as a Developer at INIMA and IT specialist at Savings Banks of Albania.

Mrs. Lamçe has a degree in Applied Mathematics, Faculty of Natural Sciences, University of Tirana and completed the Master in Business Administration, University of Tirana (Nebraska University Program). Throughout her outstanding career, in addition to successfully leading complex projects, she has attended numerous advanced trainings on ICT, Banking and Leadership Development Program.

Mrs. Lamçe represents Intesa Sanpaolo Bank Albania in the Albanian Association of Banks as chairman of the ICT Committee established in February 2017.

Ledia Plaku
Head of Legal Department

Mrs. Plaku holds the position of Head of Legal Department.

Mrs. Plaku has a long and remarkable career in the Bank, which starts back on year 2000 at "American Bank of Albania" Sh.A and includes managerial positions such as Head of Legal, Compliance, Human Resources, General Secretariat and Physical Security Department(s). Before that, she used to work for PMU/Immovable Properties Registration System as Head of Legal Department. She has held the position of Assistant Professor at the Faculty of Law, University of Tirana (part-time).

Mrs. Plaku graduated in Law at the University of Tirana and completed the Master of Laws at Queens' University, Canada (full time). She has attended advanced courses on Leadership such as Executive Program, Emerging Leaders at London Business School, U.K and Leadership Development Program organized by Intesa Sanpaolo Group. Ms. Ledia Plaku is member of Tirana Bar Association since May 2003 and throughout the times has served as Member of various Boards/Committees.

Ediola Biçaku
Head of Internal Audit Department

Ms. Biçaku holds the position of Head of Internal Audit, since April 2017, when she joined Intesa Sanpaolo Bank Albania.

She brings a wide range of experiences from 15+ years of career in audit.

Prior to joining ISBA, she worked in National Commercial Bank (BKT). She began her professional banking career in 2006 at BKT Internal Audit Group achieving all hierarchical audit rankings within the Group. She has been Responsible Person for the design and maintenance of audit methodologies, as well as Manager of Internal Control Department, where she established the new function and methodologies of continuous audit for the company.

Ms. Biçaku graduated from the Political Sciences Faculty, Ankara University in Turkey, with a Bachelor's degree in International Relations. During these years, she has attended a series of professional training courses related to her areas of responsibility. She is a passionate audit leader and has prepared and conducted several training modules on a variety of topics related to international standards of internal audit, periodic and continuous audit, COSO framework, control optimization, fraud prevention and detection.

Markeljan Rriska
Head of Compliance and AML Department

Mr. Rriska holds the position of the Head of Compliance and AML Department.

Mr. Rriska joined the Bank (former American Bank of Albania) in April, 2004 and has held different positions such as Head of Legal Affairs Unit and Deputy Head of Legal Department. In September 2002, he was admitted at Tirana Bar Association where he still is a member.

Following a successful experience as Attorney at Law, he was appointed Head of Legal Department and Public Relationship at Albanian Shares Register, a position held until 2004. His vast experience in Legal Departments enabled him to accrue a depth of professional expertise and proficiency. Mr. Rriska has taught several Law Courses during his career.

Mr. Rriska graduated in Law at the University of Bucharest, Romania. He has attended the Leadership Development Program and Compliance Function Training organized by Intesa Sanpaolo Group.

Entela Zigori
Head of Human Resources and Organization Department

Mrs. Entela Zigori holds the position of Head of Human Resources and Organization Department covering the areas of Human Resources, Organization and Corporate Social Responsibility. Mrs. Zigori is a member of Society of Human Resources Management (SHRM) and holds the credential as Senior Certified Professional (SCP-SHRM). Mrs. Zigori started her professional career in the Bank (former Banca Italo Albanese) in June 1993 and worked for about 4 years in the area of payments, guarantees and letter of credits. In year 1997 she has been assigned as the Team Leader for the migration project of the Core Banking System and after successful implementation of the project in 1999 she was relocated for a short time as Branch Manager. In 2000 Mrs. Zigori was appointed as Head of Accounting Department and has continued her carrier through the years, by being part of the management team of the Bank holding the position of Head of Administration Division being responsible of Financial Control & Accounting Department, HR Department, IT Department and Treasury Back Office. Since 2008, following the reorganization of Intesa Sanpaolo Bank Albania sh.a., Mrs. Zigori is covering the area of Human Resources, where the main contribution is dedicated to the development and growth of the Human Resources capital, side by side with a distinct focus to the Corporate Social Responsibility initiatives. Mrs. Zigori graduated from Faculty of Economy - Tirana University as Economist for Industry.

The speech of the Chairman of the Steering Board

As we entered the second year of pandemic, there are still many uncertainties in the global economy. Thanks to the development of highly effective vaccines, the death rate has declined worldwide and the recovery has allowed the global economy to return to its pre-pandemic levels.

New COVID-19 variants could challenge us again. Inflation, driven by high energy prices and persistent supply chain disruption, remains a matter of serious concerns. Facing rising geopolitical tensions, and adding to all of this the challenge of an accelerated change in monetary and fiscal policy, although the recovery will continue, the risks to global growth are real. Clearly, we are navigating a highly challenging environment.

Along these lines and fostered by the easing of containment measures, higher confidence, increase in aggregate demand, investments, reconstruction, strong electricity productivity, consumption, improved tourist season, exports, as well as supportive monetary and fiscal policy, the Albanian GDP growth recovered strongly with a projection of 7.5% in 2021.

The banking sector has played a major role in the economic and business recovery. This is not only because of the financial support and liquidity the banks have provided to businesses and households, but also because of their ability to efficiently channel financial aid to most sectors and segments of society.

Since the start of the pandemic and continuing in 2021, Intesa Sanpaolo Bank Albania took the necessary measures to maintaining the stability of the bank's activity and to preserve and protect the health of its employees, while concomitantly ensuring stability of the performance of its clients and keeping the same level of credit risk as in the previous years. For sectors most affected by the Pandemic, such as tourism and its related activities and services, the credit restructuring was extended by up to two years.

To date, as we leave the worst behind, we take pride in saying that Intesa Sanpaolo Bank managed to be successful in surmounting one of the most difficult crisis in the last decades. The quality of the loan portfolio improved further, and the problematic loan portfolio indicator fell to its lowest level in the last ten years, at 3.9%. The credit portfolio kept growing, while further strengthening the bank's position in the market. In addition, deposits marked a very strong growth. The Pandemic had emerged the need on speeding up the digitalization process, which has and will continue to be a priority.

I would like to convey my special thanks to all the staff of the Bank who took no time in shaping their working habits to the new extraordinary circumstances, and to all the clients who continued to trust in our bank during these difficult times. I am optimistic that rapid recovery of the local and European economy will be reflected in the performance of the Bank in the period to come. We will not stop at any time to invest in our energetic staff, and take care of our clients, while being at the forefront of technological developments. The future remains a challenge, but together we can!

Speech of CEO, Intesa Sanpaolo Bank Albania

2021 was yet another difficult year and it continued to put challenges ahead for everyone, all over the world.

Although 2021 was characterized by a strong economic rebound, the recovery has been slow and rough across sectors. Opportunities came in different shapes and forms, some of which have required us to change and evolve to make the most of them.

Priorities enabled us to increase revenue, remain as an efficient bank and deliver profitability in line with expectations.

The 2021 was a very positive year for Intesa Sanpaolo Bank Albania. The net profit normalized from one-off effect (risk parameters update) was ALL 1.1 bln, with an increase by 13% y/y compared to 2020 normalized net profit. Outstanding performance was recorded in all categories of revenues where the bank managed to deliver an annual growth rate of 13% and 10% in income from commissions and income from trading activities respectively. The annual increase of 6% in net interest income was mainly driven by the growth of 3.9% in total customer loans and by the improvement of global spread.

Driven by the growth of 7.9% in revenues, the bank managed to reduce the cost income ratio by 0.4% reaching at 54.7%

We focused ourselves on continuing to support our customers' needs through their preferred channels and recovering growth to pre-pandemic profitability levels.

The transformation process that we started in 2021 and will continue to define one of our startegic pillars for 2022, aims at improving the productivity of our network, while maintaining high market share and outstanding service quality.
Based on the experience of Intesa Sanpaolo Group, the bank continued with the corporate social responsibility practice, thus contributing to the country's economic growth.
I strongly appreciate and embrace the commitment that our professional staff shows everyday, despite the difficulties that lay ahead.
I'm confident that thanks to our colleagues, their efforts and their support, we'll continue to achieve great results for our bank, for our Group, for our clients, for Albania.

Together, we can. We will.

Macroeconomic Environment and Banking Sector

General Overview

Albanian economy recorded a rapid recovery in 2021, following the decline of the previous year, which was affected by the constraints resulting due to Covid-19 pandemic. The domestic economy reached pre-crisis levels within the first quarter of 2021. Ease of restrictive measures, the revival of domestic consumption, high public investment and tourism improvement supported the recovery.

All the sectors recorded a rapid economic growth in 2021, which was stronger for the activities that were most affected by the pandemic in the previous year, such as "Trade, Transport, Accommodation and Food Services", supported by increased consumption and tourism and also "Manufacturing, Mining and Energy Industry", which was positively impacted by the increase of the demand in the export markets and the most favorable price conjuncture in international commodity stock exchanges. "Construction" and "Real estate activities", which had the best performance during the pandemic, continued the positive trend, also in 2021. "Financial and insurance activities" increased at double-digit rates throughout the quarters. "Information and communication" enhanced at a slower pace. The only sector that demonstrated weakness during 2021 was agriculture, which recorded a minimum increase, as a result of increased costs of raw materials purchase and unfavorable weather conditions.

For 2022, international institutions and the Albanian government forecast a recovery to normality, at an average increase of about 4%. But risks are rising, and growth is threatened by high inflation and the consequences of Russia's attack on Ukraine in the global economy. In February 2022, inflation peaked 3.9%, being the highest level of the decade. Meanwhile, the interruption of supply sources, as a result of the war is being accompanied by a rapid increase in prices of oil, crops and other products in global markets, which is expected to have a negative impact also in Albania, affecting consumption reduction and jeopardizing the slowdown of the economic growth.

Consumption restarted to grow in 2021, recovering losses of the previous year, when due to constraints and employment indicators' deterioration, it reached a negative level for the first time in more than a decade.

The increase of Consumer Price Index (CPI) accelerated in 2021, especially in the last months of the year, approaching to the Bank of Albania's targeted objective of approximately 3%, but still remaining below it for the ninth consecutive year. Rising consumption, high imported inflation, increased transport costs due to global supply chain problems and increasing prices of agricultural products following the increase of raw material costs impacted the increase of prices.

The average annual inflation for year 2021 was 2.00%, compared to 1.60%, a year ago, the highest level since 2018. Inflationary pressures increased, starting from July, peaking in December by 3.7%, the highest level of the decade. The main impact was rendered by the increase in food prices, mainly "milk, cheese and eggs and vegetables".

The Bank of Albania continued to maintain an eased monetary policy, but did not undertake any moves in respect of the interest base rate during 2021, retaining it at the historical minimum level of 0.50%.

Foreign direct investment in Albania increased by 10.03% in 2021, reaching EUR 1.03 billion. The decline of investments in the activity of "Electricity, gas, and water supply" (-324.60%) as a result of the completion of two major projects, TAP gas pipeline and hydropower plants on Devoll river, was offset by the increase in inflows in the activities of "Extractive industry" (+ 46.60%) and "Real estate activities" (+ 58.10%).

Rating agencies continued to maintain the country rating unchanged, with a sustainable perspective, drawing attention to the exposure against potential fiscal risks, following the increase of the public debt and to the use of fiscal space in support the pandemic-hit economy in 2021.

The unemployment rate, for the population aged 15 and up, reached 11.40% at the end of 2021, decreasing by 0.40-point percentage, following the economic recovery from the crisis caused by Covid-19 pandemic to the economy and employment.

As a result of the reduction by 50% of the inflow of foreign nationals in 2020, due to the pandemic restrictions, tourism recovered in 2021, but remained below the pre-pandemic levels again. The number of foreign citizens entering our country in 2021 was 5.7 million, demonstrating an increase of 119% compared to the pandemic year 2020, but 11.2% lower when compared to 2019. Tourists from Kosovo continued for the second consecutive year to hold the higher weight in terms of the total inflows of foreign citizens, offsetting the decline in bookings from other European countries.

In 2021, tourists from Kosovo accounted for 46.10% of the total inflows of foreign citizens, compared to 52.03% in 2020 and 34.21% in 2019, which so far has been recorded as the best historical year, with 6.4 million foreign citizens entering the country.

Banking sector

The banking system demonstrated an increasing activity in 2021, recovering rapidly after the pandemic year, although in 2020 the system was sustainable, thanks to the interventions of the Bank of Albania for supplying continuous liquidity and the upward trend of deposits. Non-performing loans continued to decline further, whereas loans and deposits increased and profitability indicators improved.

According to the data of the Bank of Albania, the total assets of the system at the end of 2021 amounted ALL 1.77 trillion, recording an expansion of 12.16% compared to the end of 2020, from 7.18% which was the increase the previous year. The annual growth rates of assets were the highest since 2011. The system invested free money mainly in securities transactions and lending to the economy.

The Bank of Albania estimates that the banking system is operating under satisfactory liquidity and sound financial conditions, which has enabled the fulfillment of the needs of the private and public sector for funds. Improved economic and monetary conditions and positive expectations for the future have allowed banks to take a more positive approach to the demands of economy for financing and increase of financial intermediation.

The credit stock reached ALL 666.18 billion, increasing by 9.43% on an annual basis, driven by the expansion of new lending to the construction sector and information and communication activity. In other sectors, such as trade, processing industry, energy, new lending declined on an annual basis. The stock of ALL loans as of the end of 2021 accounted for 52.00% of the total, recording a slight decrease, compared to 52.67% a year ago.

Furthermore, savings increased rapidly in 2021, but unlike 2020, the greatest impact was rendered by the expansion of deposits in foreign currency. Total deposits reached ALL 1.22 trillion at the end of 2021, with an annual increase of 9.32%, from 8.29% a year ago. This is the highest growth rate of deposits, since 2010. The growth was stronger due to foreign currency savings. This led to a slight improvement of the weight of foreign currency deposits by 1-point percentage to 55%.

The profit of the system for 2021, reported according to local standards, amounted ALL 21.63 billion, recording an increase of 28.22% compared to the previous year. The increase in operating income and the reduction of expenses for non-performing loan provisions were the main factors that influenced the increase of profits.

Profit increase improved profitability indicators. Return on Assets (RoA) recorded an average level of 1.33% in 2021, compared to 1.02% in 2020. Return on Equity (RoE) increased to 12.17% in 2021, compared to 8.65% a year ago.

Non-performing loans continued the downward trend and ended the year at the level of 5.65%, recording a significant reduction of 3.52-point percentage compared to the previous year, reaching the lowest level since 2008, impacted also by the growth of rapid credit stock for the economy. The consequences of the pandemic on the quality of banks' credit portfolio were short-term once. However, in the short-term perspective, the risks are down due to the effects that high inflation and supply-demand imbalance could have on the economy as a result of the war in Ukraine, which could deteriorate the solvency of businesses.

At the end of 2021, the banking system had 417 branches, 4 more than in the same period a year ago. The number of employees was 6,619, increasing by 61 employees, compared to the end of 2020.

Financials at a Glance

Explanatory note:

Managerial financial statements and audited "Financial Statements" are different due to the fact that the Bank has restated its comparative financial statements to include the assets, liabilities, results of operations and cash flows of Veneto Banka (joint stock), from 5 December 2017 in the audited FS.

FINANCIALIST AT A GLANCE

	2018	2019	2020	2021
Income Statement **Amounts in ALL/1,000**				
Net Interest Income	3.782.370	3.538.978	3.290.133	3.486.406
Net Fees and Commissions	785.295	852.700	771.942	872.991
Pre-tax Income	997.498	2.420.288	2.015.748	1.163.932
Taxes	57.290	381.606	290.478	204.552
Profit	436.707	1.701.875	1.294.535	519.679
Balance Sheet				
Total Assets	177.699.734	183.006.669	194.304.286	201.750.857
Loans	46.500.426	46.878.405	52.898.601	54.981.874
Securities	64.000.757	67.228.165	72.073.721	74.422.412
Due from Banks	20.253.667	29.146.303	26.721.728	33.853.071
Deposits	145.483.303	150.941.624	159.507.095	169.461.419
Capital	20.274.284	21.631.243	23.051.769	21.750.587
Total Liabilities	157.425.450	161.375.427	171.252.517	180.000.270
Indicators				
Profit / Assets	0,25%	0,93%	0,67%	0,26%
Profit / Total Capital	2,15%	7,87%	5,62%	2,39%
Income from interest / Assets	2,54%	2,38%	2,08%	2,09%
Interest expense / Liability	0,47%	0,50%	0,44%	0,40%
Capital Adequacy	23,17%	22,69%	21,54%	24,92%
Net Assets / Employee	245.977	243.402	260.658	273.142
Number of employees	640	663	657	659

**Consolidated with Veneto Bank*

INTESA SANPAOLO BANK / KEY FIGURES

	2020	2021	Change	Change in %
Net Interest Margin	3.290	3.486	196	6.0%
Non Interest Income	1.298	1.463	166	12.8%
Total Revenue	4.588	4.950	362	7.9%
Operating Expenses	(2.531)	(2.709)	179	7.1%
Loan Provisions	(188)	(484)	297	158.2%
Net Income	1.295	520	(775)	-59.9%
Return on Equity	5.8%	2.2%	-3.6%	
Cost/Income Ratio	55.2%	54.7%	-0.4%	
Total Assets	194.304	201.751	7.447	3.8%
Total Loans (gross)	52.899	54.982	2.083	3.9%
Customer Deposits	159.507	169.461	9.954	6.2%
Total Shareholders' Equity	23.052	21.751	(1.301)	-5.6%

Management Discussion

Management Discussion

DOMESTIC ENVIRONMENT

Intesa Sanpaolo Bank Albania 2021 Main Challenges and Achievements

The Bank managed to grow in terms of number of customers and profitable transactions in all business units.

The Bank made significant progress during 2021 in the following aspects:

Solid capital position: the capital adequacy ratio in 2021 stood at the level of 24.92%, keeping ISP Albania in a comfortable position for taking advantage of organic growth opportunities.

Credit quality: further improvement of the NPL stock in 2021, which decreased by 10% pushing further down the NPL ratio by 0.6% reaching 3.9% in December 2021, and marking a historical low level in the last 10 years.

Commercial activity: optimistic growth and a well-positioned commercial model focus on higher growth, especially in the Individuals segments. The Financial leasing opened up new opportunities for the Bank to extend its product portfolio, and to increase its lending volumes and customer base, along with new opportunities on financing photovoltaics and sectors complying with ESG.

Digitalization has remained one of the Bank priorities. 2021 witnessed many new developments in this area, and those will continue to evolve further during 2022, and will drive the bank toward paperless approach.

Cost-to-income ratio at 54.7%: 2021 was affected by cost saving initiatives and improved control systems which secured yet another year driven by operational efficiency.

Manage risk well

CREDIT RISK

Credit Origination quality was at healthy levels, with just 1.79% of new lending for the last three years recording 90+ days average vintage.
New lending is acquired based on know-how and awareness of sectors' specificities, pre-defined solutions, policies & products, with main reference to Energy and Agribusiness as components of volumes increase. Such results involved also partnerships and risk sharing agreements with experienced players such as EBRD. The collaboration will be further extended to other sectors such as Tourism.

The bank is developing guidelines and rules regarding the Environment Social Governance important for the lending process. In this prospect, the bank does not lend in coal sector, and gradually exit within 2030 for the sectors as exploration and production of Tar sands, Shale/tight oil&gas and similiar.
The Bank, in compliance with Group rules, has in place a Risk Appetite Framework (RAF) with regards to the control of main risks such as Credit Concentration risk, Real Estate risk, Sovereign risk, Foreign Exchange credit risk, etc.

The function of Proactive Credit Exposures Management (PCEM) has been in place since 2016, providing for more pro-active credit quality monitoring and addressing credit deterioration from the outset.
The framework on Credit Control activities, setting up 1st and 2nd level controls on credit area aims at a prompt and better identification of any inadequate credit practices and mechanisms, as well as ensuring effective corrective actions.

The Bank has adopted IFRS 9 standard since January 1, 2018, by reclassifying the financial assets in stages as per risk classification applying respective credit losses calculation (1 year or Lifetime expected credit losses). While in 2019, the bank adopted the New Definition of the Default, in compliance with ISP Group rules.

NPL MANAGEMENT

2021 continued the trend of significant improvements in the loan portfolio quality. The Bank continues to outperform the Banking sector average regarding the reductions of NPL having lowered their percentage 0.6 %. These results were mainly due to:
- NPL stock Reduction to healthy levels, enabled by good collection results, coupled with the moving off balance sheet of staled positions as per Central Bank regulations.
- Early intervention on positions potentially object of restructuring/rescheduling avoiding portfolio deterioration combined with support/involvement by Under-writing team and the new PCEM role, in defining solutions from early revision stages to later deteriorated ones.
- Re-possessed Assets structure, a separated unit within Risk Management Division went on generating positive results with regards to assets marketing and sale.

Retail Banking

Over the 2021, the COVID-19 pandemic continued to dominate the world. Banks recovered in 2021, but challenges remain. The defining backdrop to 2021 was the continuation and evolution of the pandemic, together with the associated economic uncertainties. Moreover, in response to the impact of the health crisis were implemented and ensured application of all measures related to the health of our customers and staff.
The staff have continued to work hard, adapting well to the

mixed home/office environment, while also confronting the dreadful reality of the various COVID-19 waves. The access to the branches was organized in accordance with precise rules on social distancing and the number of employees and customers in the premises, to ensure the protection of their health. These measures were adapted over time following government guidelines.
Consistent with the purpose to support people and businesses affected by the shutdown of the economy we provided sustainable services and operations in all the branches of the Bank as well as guaranteeing business continuity and results. In 2021 we have shown an overall positive performance in the efficiency and quality of the operations and with the aim of continuing to progress and turning the challenges of an increasingly complex environment into opportunities.

Despite the difficulties inherited from 2020 and uncertain environment during which the Bank operated in 2021, the Bank managed to increase its number of total Individuals customers by 1%, meanwhile the active customers ratio remained on the same levels. Although amongst the sectors more heavily impacted by the pandemics, the number of Small Business customers increased with 4% positively impacting in Small Business customers' activity delivering a growth of 1% in this indicator.

The economic consequences of the crisis and the steps taken by the bank have had a direct impact on the results for the year. The efforts in applying new processes flow, pricing structure, shortening and improvements of processing time through the automatization of the process for the consumer loans products, resulted successful in all customer segments, showing an increase of overall retail performing loan volumes of 11% year on year with Individuals lending increase at 14% followed by Small Business increase of 2%.

The crisis caused by covid-19 is having a tremendous impact on the financial environment, significantly affecting interest rates. We managed to grow our total lending portfolio, improving our position in terms of market share by 0.1% for Individuals. The principal increase is vested primarily to the Mortgage Loan product where the bank managed to increase its market share with 0.2% compared to 2020 and marked a better overall growth compared to the market.

Retail Divisions marked a very good performance in terms of Deposits with an increase in both segments respectively Individuals by 5% and Small Business by 19%. The overall division increase was at 6%. The increase in deposits was driven by several factors: on the one hand, the climate of uncertainty and risk aversion, which resulted in a strong preference for liquidity, combined with lower consumption levels and higher propensity to save.

Although anti-Covid measures were somewhat eased during 2021, cardholders' preserved the same spending behavior with the same trend of 2020.
However, easier travel restrictions to enter Albania favored foreign tourists to visit Albania which was translated to almost double the income from ATM access fee compared to 2020.
Overall usage of ISPBA cards has increased by 11% in transaction Numbers and 13% in volume compared to 2020 and 7% in transaction Numbers and 9% in volume compared to 2019. International transactions with ISPBA cards have shown significant increase by 17% in Trnx numbers and almost 40% in volume compared to 2020, but 2019 numbers could not be reached.
There has been a significant increase in the Acquiring activity in both POS and ATM compared to both 2020 and 2019, demonstrating a shift of customers' transactional behavior towards electronic payment channels. During all 2021 Retail has conducted internal campaigns to promote cards products, to incentivize their usage and increase their activation rate.
With the new reality starting to take shape, one of the challenges the bank faced was the shift to digital banking usage. The digital transformation strategy aims to aid exactly in this direction by integrating customers' demands on online platforms.

In particular we focused on data-driven digitalization to create a differentiating customer experience, on being a financially healthy, a safe, secure and compliant bank, and on sustainability, which is at the heart of what we do. The pace of digital adoption amongst customers continues to increase and a physical presence being no longer a prerequisite for daily banking transactions. Customers are moving to digital channels faster than they have in the past. Digital banking users have increased by 22%, and digital banking usage is up by 29% compared to December 2020.

Since the new direct channels launch in 2019, we have seen a sustainable growth in number of customers contracting the service. In the end of 2021, around 36% is the ratio to active customer base. A similar growth was noticed also in terms of transactions being channeled through online banking platform. In the end of 2021, customers with transactions have seen an increase by 40% from December 2020. In-app payments such as domestic and international transfers, bill payment and mobile top up registered growth, up to 36 percentage points in December 2021.

These results prove that customers are embracing digitalization and are ready for more developments.

Another important aspect the Bank made progress on is the qualified electronic signature as a pre-requisite for online sales process. We continued to intensively work on enabling the sales process for Debit Cards and Fast loan over online channels. During 2021, 19% of debit card applications and 8% of fast loan applications are made via Digital Channels since their release in March 2021. Both processes together with remote offer ensured an important step in the digitalization process and marked a considerable drive towards paperless online processes. From March 2021 via qualified electronic signature were signed 92,249 (and a total of 705,337 pages).

Serving customers though all the touchpoints has had it's fair share of benefit. The chat option on all channels and chatbot enabled virtual assistant on public portal gave customers the flexibility to get the right support in real time. During 2021, 71% of interactions with chatbot were successful.

We can clearly conclude that more interactions are moving to alternative channels, however we still have customers who are using our branch network, which is a clear indication that the strategy on upcoming years will continue focus on further digitalization and enabling of products and services with a mobile first approach.

CORPORATE BANKING & SME

Corporate Banking in Intesa Sanpaolo Bank Albania includes Domestic and Multinational companies as well as Institutional Customers (Government, Municipalities, and Public Sector Entities), while SME Department comprises companies or Group of Companies with revenues in the range of EUR 1 – 10 Million.
Paramount importance during 2021, remained the support of business customers to overcome the difficulties caused by COVID 19 pandemic situation. In line with Government measures in this regard, Bank continued to facilitate its borrowers, offering lending facility under Government sovereign guarantees schemes (Program 2, for working capital / investment needs).

The challenges caused by the coronavirus pandemic did not turn Bank's attention away from other global challenges such as climate change and pollution. ESG issues are central to our corporate development strategy. In this framework, investing in Green and Circular economy has been in the focus of business. During last year bank supported with lending facility customers investing in Photovoltaic Plants for self-consumption, promoting this facility by offering special Terms and Conditions.

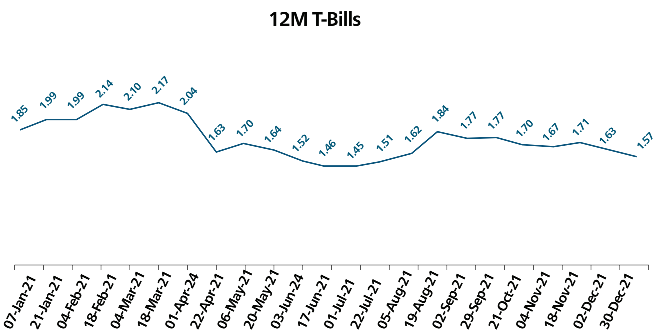
Notwithstanding the difficult situation of the country, Corporate & SME grew its lending portfolio, and consolidated its deposit market share confirming its position as the biggest in the country.

Corporate & SME Division continued to be a strategic partner to its customers offering a variety of product and services beside financing facilities (standard loans, overdraft facilities, project financing, syndication loans), such as trade finance facilities (guarantees and letters of credit), deposits, treasury products (spot and forward transactions), domestic and international payment transactions, POS-terminals, business cards and "on-line" banking.

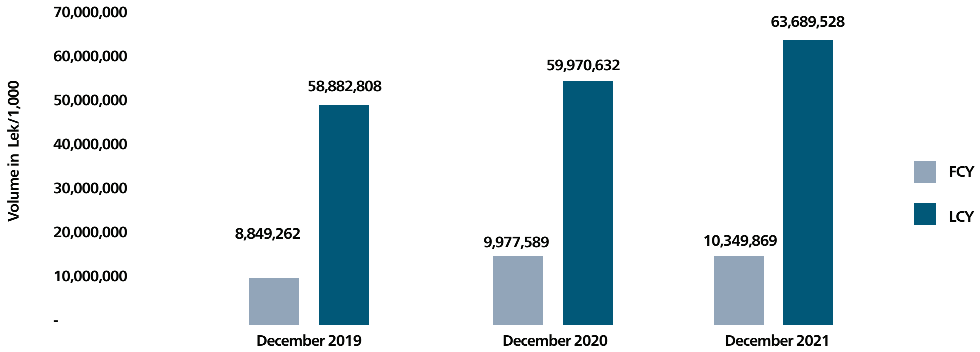
During 2021, in the focus of Cash Management team continued to be optimization of the payment businesses, aiming to improving customers' cash flow, with distinct attention on the digitalization of cash management products and services. Bank promoted the "Bulk payment" service, as an enhanced capability to perform the Salary payments through Internet banking.
With final goal to drive customers in digital channels, Bank has reviewed the commissions for payments favorizing transactions executed via Internet banking compared to the ones performed in branches/counters. During 2021, the revenues generated from Cash Management showed an increase of 11% compared to previous year, by improving its contribution to overall Banks' results.

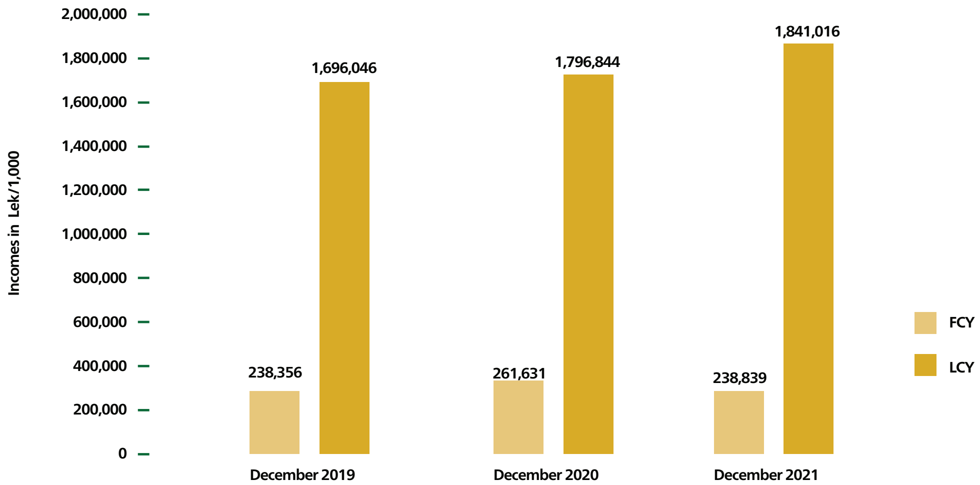
Supported by our Treasury team, Corporate and SME Division continue to show good results in FX trading revenues, as one of the core business streams especially for Domestic and Multinational Corporate Customers.

Finance and Capital Market
Treasury and ALM during the year 2021 delivered an increased contribution in NII as it relates to the investments in Albanian Government Securities, which was driven by higher volumes of investment in both local and foreign currency. The increased volumes in FCY provided a good return since it was realized through the purchase of the Albanian Government Eurobonds securities at a good yield. The value of such investments into our portfolio specially increased considering that all the alternative high quality investments in the international market were available only with negative yields . As for the yields of the Albanian Government securities in LCY, they continued to be quite volatile lingering on the downward trend, reflecting the cumulative effect of the prolonged Covid-19 pandemic situation. The yields of the 12M T-Bill in the local currency, the most sensitive domestic instrument to the market condition developments, in 2021 varied from 1.46% to 2.17% with average 1.75% versus the range 1.63% to 2.25% with average 1.86% in 2020.



One of the important activities of this department, closely related to the activity of Corporate & SME and Retail customers, has been competitiveness in trading the financial instruments like Spot Foreign Exchange transactions and Albanian Government securities in the retail market, both increased compared to previous year.





ICT MANAGEMENT

During 2021, ICT Division was mostly focused to support ISP Albania business initiatives, while still being aligned and compliant with ISP Group Strategy and Albanian local regulatory institutions.

Among the main achievements of this year, in support of digitalization of Retail area, we can proudly mention the major enhancements of **Digical online banking** platform of individual customers. As part of a very challenging project, aiming to further digitalize the banking services, several **important features** were made available to the online banking customers through online channels:
- Activation of Remote Digital Signature for customers and bank clerks
- Online multichannel contracting
- Online sales of debit cards
- Online sales of consumer loans
- Bill payments utility

Important initiatives have also been accomplished in o**ther alternative channels.** Among the most important ones to be mentioned are:
- Utility and tax payments via Payment Factory services (Global Transaction Banking)
- Enhancement of salary payments functionality of Legal Entities e-banking platform, through Single-Debit-Multiple-Credit bulk payments template
- Master Credit Cards in EUR to individual customers

Aiming to facilitate and increase the level of **automation of processes in the branch**, important projects were also implemented on several applications:
- Digical ABC and CRISP – to facilitate the RM sales processes, enhanced functionalities were introduced through the integration of these two applications.
- Introduction of Danube tablet devices, for ease of sales process with real-time info sharing, and contract signing, among RM and the customer.
- ICPA (Individual Credit Automation Process) new release – several new consumer lending typologies were added to consumer loan origination application, aiming to increase automation, and lower time-to-yes and time-to-cash for credit applications.

Beside the new implementations in support of ISBA Business growth, ICT Division has also been dedicated to **projects and initiatives introduced by Albanian Regulatory institutions.** The two most demanding

projects in this area, requested by Albanian Tax Authorities were:
1. Fiscal e-invoices – The bank has the obligation to collect information and report payments of fiscal e-invoices. All bank's payment initiation channels were adapted to collect the necessary information, and integration interfaces to AKSHI systems have been developed, to report the payments.

2. Central Registry of Accounts – Enhancements in the Core Banking system were introduced, and integration interfaces to AKSHI systems were developed, to report in real-time any new/amended customer account.
As per Bank of Albania requirement, significant changes were also introduced in the treatment of domestic payments, specifically in relation to funds value date and applicable charges, as well as channeling the domestic payments in EUR currency through BoA AIPS.

Other internal ISP Albania initiatives involve implementation of **new applications in Human Resources area**, for time attendance HR Infinity, and the initiation of implementing Business Central as 'central employee database' and payroll calculations application, integrated with other ISBA applications (Flexcube, HR Infinity, etc.)

From the technological perspective, important initiatives have been also achieved, with the most important ones to mention as:

Configuration Management: The initiatives for configuration management had started earlier but in 2021 we put in production two different solutions, each one for specific perimeters:
• Microsoft System Center Configuration Manager, for all Microsoft Operating Systems.
• Cisco Prime Infrastructure for all networking equipment.
Today via those tools ICT manages: Patches/Upgrades, Configurations, Compliance and Automated Deployment.

Mobile Device Management (Microsoft Intune/Windows Hello for Business): As many mobile devices like Mobile ThinClients and Laptops were distributed during the pandemic an MDM solution become mandatory, and ISP Albania leveraged the Microsoft M365 E3 licenses which included the Microsoft Intune MDM solution in cloud.
Intune solution has been integration with banks existing System Center Configuration Manager and local identity infrastructure, and the mobile devices are configured in "Co-managed" mode, meaning managed by both System Center and Intune.
During this setup has been activated as well "Windows Hello for Business" authentication methods for mobile devices, which provides strong authentication, seamless experience and Single Sign-On to the end users.

Microsoft Teams (in VDI): The existing Skype for Business collaboration solution lacks many functionalities compared to the modern Microsoft Teams. Bank Microsoft M365 E3 licenses include Teams licenses also. As the Azure Active Directory infrastructure was already prepared during Intune Setup the activation of Microsoft Teams on cloud was a straight through process.
ICT adopted banks VDI environment so it could function with Teams via WebRTC technology and provide a seamless experience to the End Users.

ISP Group ICT Convergence

In scope of ISP Group Strategic initiatives, the **Flexcube Multibank feasibility study** was conducted during 2021, aiming to identify the potential to achieve harmonized functionality, application & organization architecture blueprint for strategic convergence of Core Banking ecosystems in member banks of Intesa's ISBD division.
The outcome of the Feasibility Assessment performed from ISP Group, IVS, Oracle and local banks, was that implementation of Flexcube Multi-Entity approach in ISP Subsidiaries is feasible, giving green light to the Flexcube ME upgrade program initiation in 2022, for two pilot ISP subsidiary banks: Slovakia (VUB) and Albania (ISBA).
Keeping focused on ISP Group and local bank strategic plan, ISP Albania ICT Division mission is to be an important driver and facilitator of the banking business digitalization and ISP Group ICT convergence. The successful achievements so far, are just part of the upcoming projects and initiatives that aim to further converge toward ISP Group ICT standards and increase the level of self service and digitalization for external and internal customers. The work has already started during 2021for several important innovative projects, and is expected to be finalized in the ISP Albania short-term plans.

OPERATIONS

Intesa Sanpaolo Group pays important attention to "Occupational Health and Safety" aspects. During 2021 The bank continued responded in time to safety and protection of its staff and clients, by starting the equipment of PPE due to Pandemic situation. In a very short time, the respect of Yellow Protocol following local and international requirements in all Albania territory network. During 2021 through an ongoing process, Operation Division and other structures of the bank operate continuously as an effective and active instrument in respecting the health, security and safety of the staff, clients and collaborators.

During 2021, the operations of Intesa Sanpaolo Bank Albania focused on enhancing efficiency, envoiremental friendly politics, cost and surface optimization, improving client satisfaction and the bank's image. Despite 2021 being a difficult year due to the Pandemic, the planned projects were successfully completed. The refurbishment of Lapraka premises, ground floor dedicated to clients and first floor dedicated to Head Quarter offices were implemented eith high efficieny equipment, surface optimization and a contemporary design and working conditions. The improvement of façade of the bank contributed in bank image improvement and even in area image. This insvestment ensured a significant cost saving for this premises.

All these investments have turned the branch and Head

Offices area into a place of partnership, an open place for dialogue, meetings, communication and work, a friendly customer service, strengthening human relations. The new layout offers many diversions while waiting to be served: besides internet access, clients can also read one of the many books available for consultation, enjoy a good cup of coffee in a very relaxed environment while listening to the background music, which mitigates the surrounding 'working' noise. In addition to all the customer's facilities and friendly environment the new spaces offer better working conditions for the staff of our Bank as well, more natural light, more fresh air and more spacious working place.

Another aspect of the focus of the Intesa Sanpaolo Bank Albania is the Enhancement of the power infrastructure in bank premises. Following the project completion during 2019 and 2020 , in 2021the Enhancement of the Electrical power facility of Rruga e Barrikadave premises and Lapraka Branch parallely with the refurbishment were a big and very important project that started with a Feasibility study and was finalized with the replacement of the old infrastructure with a new one, construction of a Technical Unit, according to the contemporary technology standards. The Technical room are constructed with fire protection, Emergency Doors, main and backup generators, according to the latest technology, ISSO, Health and Safety in the work place and Business Continuity Management standards and costs saving. The remote-control mode of the systems represents an added value of the new infrastructure.

Energy and Environment represent the bank's goal, to monitor the compliance risk regarding environmental protection, ensuring alignment with international and local requirements on environmental issues (e.g. waste disposal, environment dangerous substances management, soil and water discharges, atmospheric emissions, noise pollution, etc.), to identify actions, measures, proceedings and strategies to promote the rational use of energy.

In 2021 the bank has worked for a more circular economy. From our company are collected about 52.650 kg of waste paper/cardboard. This material was prepared for recovery and sent to certified paper mills for recycling. By doing this, ISBA has contributed to reduce CO2 emissions by 68.445 kg. This is equivalent to:

- **975 trees saved or**
- **215.865 kilowatt of energy saved or**
- **1922 cubic meters of water saved or**
- **173,7 cubic meters of landfill space saved**

The main focus of the Operation Division remains the optimization, cost saving, and improving customer satisfaction, Occupational Health and Safety and Energy and Environment, all in the light of Intesa Group values.

Implementation of Intesa Sanpaolo Group standards that refer to best international practice are strongly endorsed by the Senior Management of Intesa Sanpaolo Bank Albania.

CYBERSECURITY AND BUSINESS CONTINUITY MANAGEMENT

Intesa Sanpaolo Bank Albania as a legal entitiy based in a non-EU country but part of one of the biggest financial groups in Europe "Intesa Sanpaolo Group" has been positioned itself as a leading bank in Albania in regards to cybersersecurity by adopting and promoting the best practices and contributing to the averall financial echosystem cyber space.

While Albania is working on the EU Integration process trying also to adopt Europe best practices also in cybersecurity field the increased need for digitalization and also the already digitalized services has increased the risk surface which demands more attention from policy makers which are focused more on managing covid-19 crisis and a variety of other issue that a developing country like Albania has.
This kind of situation is extended to almost any institution in the country adding more external risk factors to ISP Bank Albania in terms of threats that represent any institution that ISP Bank Albania collaborate for their daily activitites some due to regulatory context and some for business purpouses.

The lack of the standardized approach on cybersecurity from external collaborators being them public institution or private companies is a challenge that ISP Bank Albania is determined to face by adopting ISP Group strategy on cybersecurity by aligning processes and technologies and having long term goals with a synergetic approach. Where has been possible ISP Bank Albania has given its contribution for new regulations or laws that needs expertise in cybersecurity.

In this context information security is increasingly important for the regular operation of business activities, and Intesa Sanpaolo Bank Albania has continued with the improvement of the security posture by further aligning the information security model with that of the parent company to be able to provide to its customers a level of security commensurate to the threats to which the Bank's services are exposed and also ensure their data are protected with the best mechanisms.

The context in which Intesa Sanpaolo Bank Albania operates daily for sure reflects the local evolution of the economic and social system, which has become increasingly dependent on so-called digitalization, which is the set of networks, and systems through which (fundamental) services are provided to citizens by businesses, critical infrastructures, government agencies and public administration.
As such, the Bank during year 2021 has continued the alignment of its security governance model to the ISP Group by adopting and renewing cybersecurity macro-processes, continuing the training and awareness program

and integrating further the cyber risk model on the overall risk management strategy.

A series of introductory milestones have been followed and achieved during the year, more specifically related to ongoing process of adoption and enhancement of relevant security macro processes. As the previous year, the Bank has done the assessment between the actual security posture and the needed initiatives / investments that were required to be initiated in order to close the identified gaps and prepare the budgeting necessary for year 2022 in order to comply with the required improvements for the enhancement of the security model and its posture. For the industrial plan 2022 – 25 ISP Bank Albania will rely on further integration with parent company proceses and solution and also by increasing the adoption of cloud solutions.

Leveraging on an extended coordination between all the Bank's units and the Parent Company, the security integration plan timeline has been followed in a timely manner; specific important points such as inclusion of security in Bank's projects methodology, adoption and implementation of third-pary security model through initation of specific activities and communications with internal functions and also with suppliers to address security concerns in regards to the threads they represent to the overall business.

Important achievement of year 2021 is the level of the training and awareness program which this year has been concluded with the completion of the online learning of all the mandatory cybersecurity topics from 4 training course campaign for all the bank personnel reaching like this a historic milestone on ISP Bank Albania.

Training and awareness has been extended to all the customers, collaborators, information security and BCM Personnel and ICT staff dealing with critical activities.

Ongoing is the preparation for the execution of a cyber crisis simulation as a table top exercise for top management.

Meanwhile it is completed the IT Security Risk assessment activity part of the Risk Management Self Diagnosis Process.

Furthermore, as per Parent Company indications, the Bank has revised control model of the security; the security functions have assessed and has defined in 3 waves the applicable and operating controls and has concluded the security controls activity by the end of the 2021 as per defined plan.

The integrated internal control system is in place and Cybersecurity Governance Function along with the Information Security Officer of ISP Bank Albania has been assigned as a supporting function of second level of control in support of Compliance, Risk Management and Internal Audit.

The posture of the cyber security versus threats and attacks landscape on one side and the relevant security countermeasures in place for Intesa Bank Albania is such that the Bank has not been suffering from any security incident for the period 2018-2021.

During 2021, there have been followed important initiatives such as the implementation of security measures such as Trendmicro Antivirus target solution which has been finalized. Microsoft Defender for EDR which has been initiated to be implemented.

Numerous activites followed through Security Integration Plan also ongoing which will improve further the security posture and align with parent company cybersecurity standards.

In response to Covid, measures to protect people and continuity of services active from March 2020:

• Monitored contagion and ensured employee and customer protection;
- Defined a key risk indicator monitoring model to be used during pandemic
- Purchased masks and disinfectant
- Disinfected all branches, ATM's and HO's

• Guaranteed business continuity;
- Enabled replacement teams for network branches staff in case of infections.
- Enabled Smart-Working for all employees, equipped with laptops over 490 employees
- Increased remote service and offer processes for customers
- Updated business continuity plans and reviewed critical supplier plans

• Mitigated the growing Cyber Threats and Fraud;
- Launched/accelerated initiatives to strengthen cybersecurity safeguards
- Increased awareness activities towards employees and customers

• Finalised the adoption of "The Future of the Work" (Project from HR & Organization";
- Consolidation of Smart-Working as a Business Continuity Solution
- Adoption of a Dynamic Business Continuity model inline with BCM guidelines.

Financial Review

Financial Review

In 2021 ISP Albania reported a net profit of ALL 520 million.

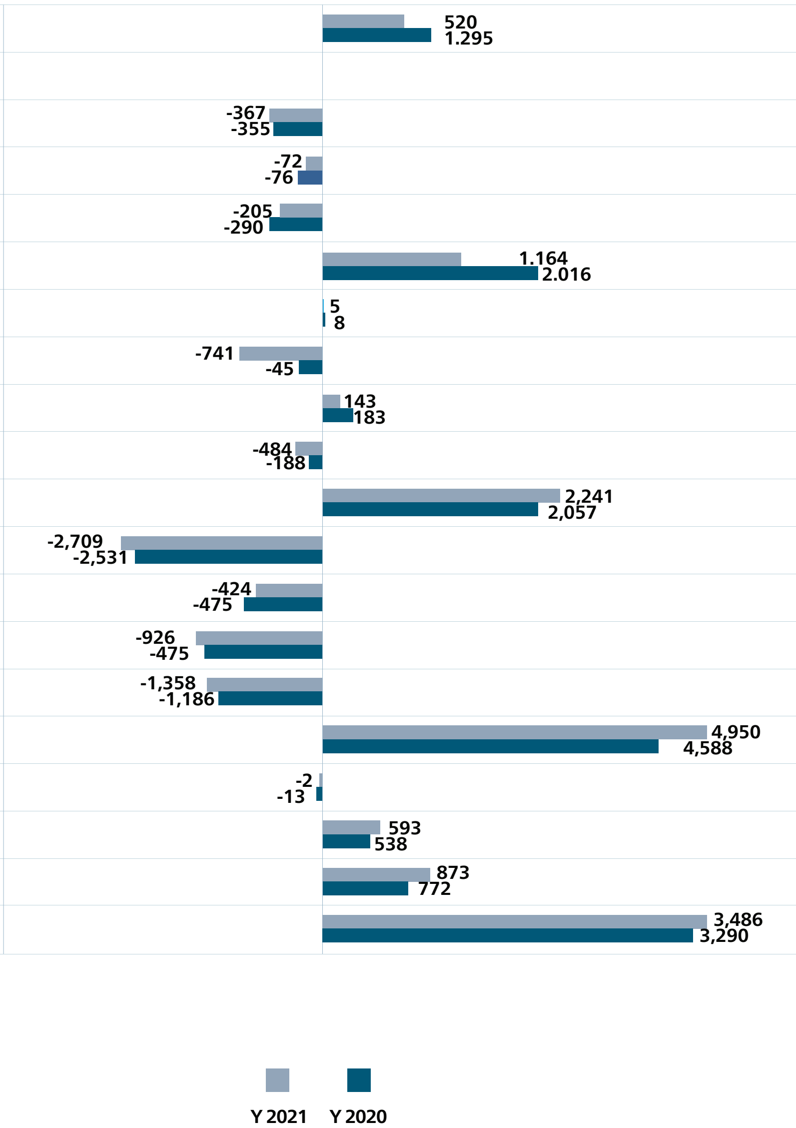
Compared to 2020, net revenues increased in all components.

Transaction-based revenues continued to present a core income, motivated by payments and cards. Operating cost were successfully maintained under control, during 2021 in all components. Credit quality positively improved keeping NPL ratio at minimal levels.

Net profit in 2021 was strongly affected by the one-off event of update of risk parameters. However, the Bank managed to deliver a good performance, while concomitantly maintaining a healthy balance sheet structure.

The analysis is made based on 2021 and 2020 results according to IFRS. If otherwise stated, all figures are presented in millions of ALL.

Results 2021 Highlights



	Y 2021	Y 2020	Change amount	Change %
NET INCOME (LOSS)	520	1.295	(775)	-60%
Minority interests				
Levies and other changes concerning the banking industry (net of tax)	-367	-355	(12)	3%
Charges (net of tax) for integration and exit incentives	-72	-76	3	-4%
Taxes on income	-205	-290	86	-30%
Income (loss) before tax	1.164	2.016	(852)	-42%
Other income (expenses)	5	8	3	-34%
- Net impairment losses on other assets	-741	-45	696	1552%
Net privisions for risks and charges	143	183	(39)	-22%
Net adjustments to loans	-484	-188	(297)	158%
Operating margin	2,241	2,057	183	9%
Operating costs	-2,709	-2,531	(179)	7%
Adjustments to poperty, equipment and intangible assets	-424	-475	51	-11%
Other administrative expenses	-926	-475	(57)	7%
Personnel Expenses	-1,358	-1,186	(172)	14%
Operating income	4,950	4,588	362	8%
Other Operating Income (Expenses)	-2	-13	10	-83%
Net result of fin. assets and liab. valued at FV through PL and on Oth.	593	538	54	10%
Net fee and commission income	873	772	101	13%
Net Interest Income	3,486	3,290	196	6%

Lending results – entirely generated in domestic market

• Total performing loans in Dec 2021 at ALL 52,862 mln, up 4.6% from Dec 2020, driven by Corporate segments. Needs to be mentioned that all segments delivered an outperformance.

Credit quality - further improvement

• Improved credit quality, with a decline in the NPL ratio. Total Nonperforming loans in Dec-2021 at ALL 2,120 mln, down 10% from Dec-2020

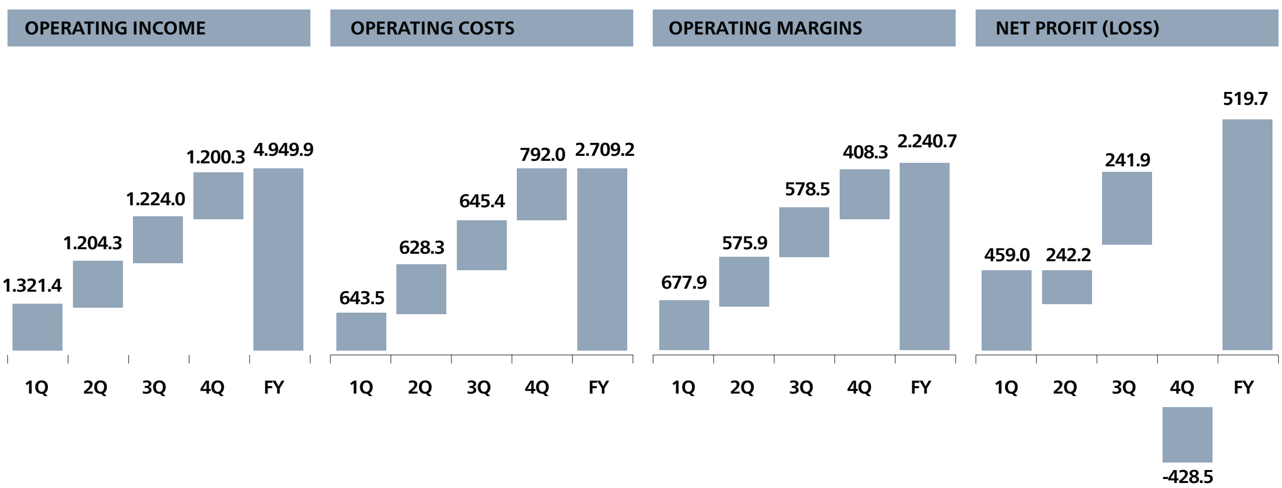
Strengthened capital position

• Regulatory Capital in Dec-2021 at ALL 19,983 million, up by 7.8% from Dec-2020.
• Capital Adequacy Ratio at 24.92%, up by 3.38% (Dec 2020: 21.54%)

Cost discipline and efficiency

• Cost income ratio at 54.7%, down by 0.4% (2020: 55.2%).

Quarterly development of main consolidated income statement figures (ALL in mln)

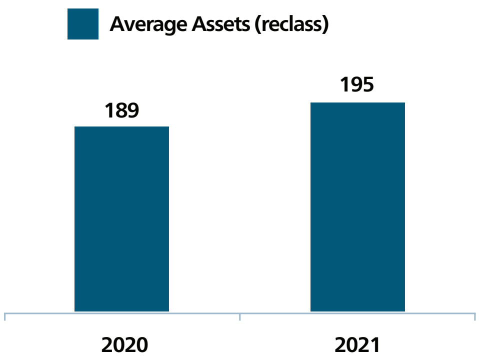


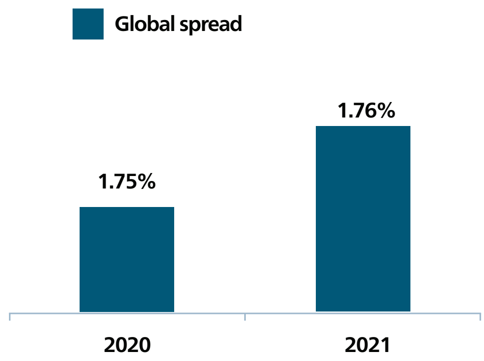
Operating Income

During 2021, operating Income increased by 7.9%, impacted by all categories of income and primarily driven by net interest income, due to non-recurring positive impact on NII.

- **Interest income**

Interest rate dropped, reflecting the continuous decline of interest rates and the market behavior, affecting normal income from loans, securities and placements. Liabilities side, lower expenses are evidenced compared to previous year driven by deposits in LCY, mainly due to lower interest rates for funding.

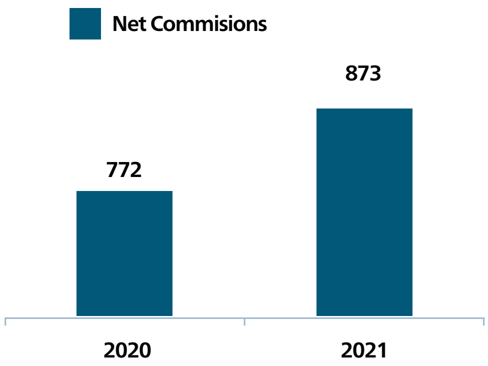


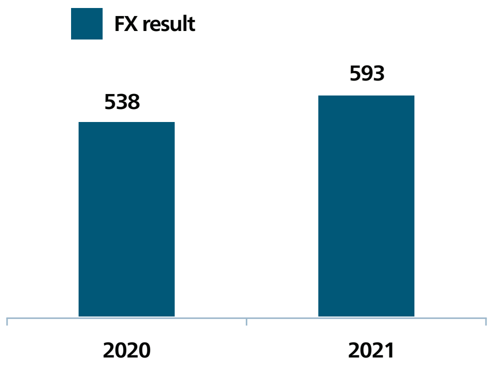


- **Higher commission income in all categories**

Net commission resulted 13.1% higher in 2021 compared to 2020, with a positive impact in almost all categories, totally impacted by the Pandemic amid Covid-19 outbreak in 2020.

Higher income on trading transactions by 10.1% in 2021 compared to 2020.





Total Operating Costs

Operating costs resulted 7.2% higher than in 2020. Such result was mainly impacted by personnel expenses.
In full alignment with Bank's strategy, the bank keeps under particular focus the lowering of "run the bank" costs by leveraging on the development of economies of scale through ISG Central Procurement.

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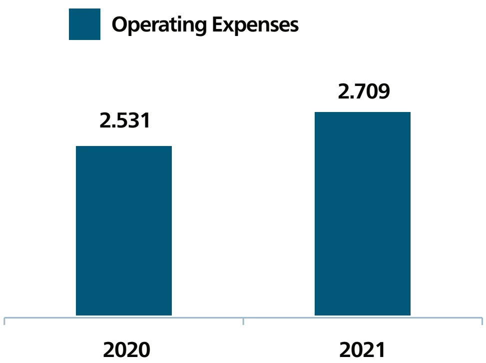
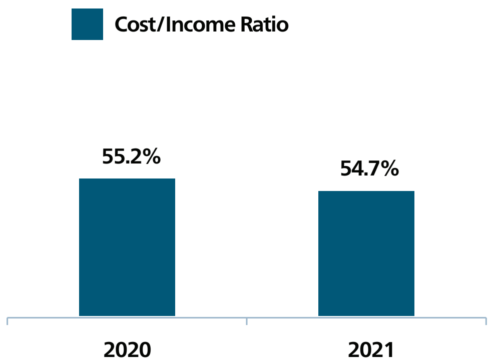




Improved credit risk

NPL ratio was further reduced in 2021, reaching a historical minimum level of 3.9%. The Bank managed to keep cost of risk at minimal levels. The following events determined the yearly loan impairment costs:

• Update of EBA risk parameters raising additional provisions for sovereign exposures;

• Several repayments of lost loans from customers;

	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Dec 2021
NPL ratio	7.9%	6.6%	5.4%	4.5%	3.9%
NPL coverage ratio	40.4%	47.7%	46.3%	54.5%	52.9%
Cost of risk	0.03%	0.47%	-0.09%	0.37%	0.91%

**) Consolidated with Veneto Bank*

Legal Disputes

The internal Policy for "Operating Rules for Accounting for Provisions on Contingent Liability and Contingent Assets" adopted by the Board of Directors on July 2014 outlines the rules for the establishment of provision on litigations, as well as the actors involved in the process.

Based on the above mentioned policy, provisions have been duly recognized when present obligation have been evidenced or when a probable outflow of resources has been estimated to settle the probable obligation.

Forward looking statement

• The Bank short- and medium-term objectives will be focused on developing fee-based business. Increase **contribution from commission margin**, leveraging on the market penetration potential, also by developing synergies with other Group Divisions and/or partnerships with third-parties, with particular focus on:

• **Bancassurance: introduction of CPI for secured and un-secured loans**; the aim of this initiative is to increase commissions revenues and increase level of protection for customer loans by enlarging the risk clauses.

• **AUM & Wealth Management:** focus on Assets Under Management market (AUM) in order to increase the range of financial activities for **Premium Affluent** and **Private Banking** customers, by offering new opportunities to invest in Eurizon S.A. sub-funds

• **AUC**; introduce and offer to the customers investments in Bonds especially to those with savings in Eur, which will serve both to boost fee income & mitigate Eur liquidity costs

• **IMI C&IB**, enhancing fees/ revenues starting from both Debt (e.g., Structured finance and DCM) and Hedging (e.g., FX, IRS) businesses

• Boosting number of **SME clients**, average profitability and volumes through dedicated actions, also thanks to "confirming" platform

• In collaboration with **IMI C&IB and BdT**, developing products/ services to support the ESG/ green transition for Corporates/ SMEs, also through culture building initiatives on sales network (e.g., identifying industry trends)

• **Branch effectiveness project** (cross division activity); redesigning and enhancement of the operating model of branches, with a focus on customer needs for remote and digitalized operations

• **Digitalization**; strong focus on digitalization by aiming: **80%** of customers with a digital contract; enhance the on-line sales processes with the aim to increase overall revenue chain

• Develop a modern **Contact Center** by improving a solid service model, to support digitalization and customer care

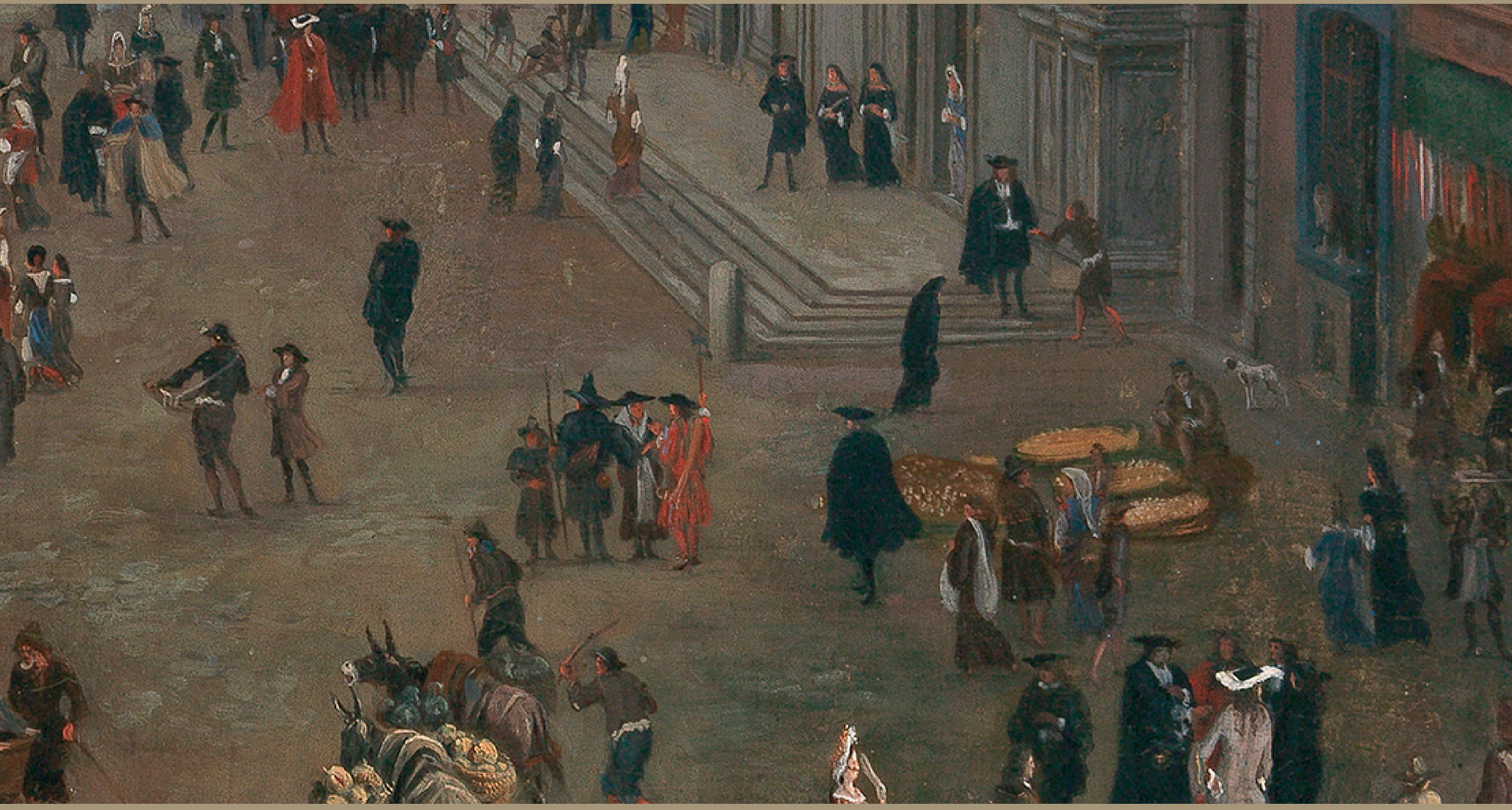
• **ESG proposition** through:

• New products for financing of photovoltaic systems, renewable energy sources, green buildings for prevention and management of pollution, green transportation (electrical cars) etc.

• Introduction of consumer loan that would contribute on energy efficiency

• Accelerate the position of the Bank toward paperless through extension of Remote Digital Signature to new products, to assure safe operating condition by avoiding physical presence and paper saving; implementation of Document Management System and Safe Custody to support both paperless and electronic/RDS processes

Corporate Social Responsibility



CORPORATE SOCIAL RESPONSIBILITY

Forward looking statement

Intesa Sanpaolo Bank Albania sh.a. promotes and implements Corporate and Social Responsibility policies and practices in relation to its employees, its customers, its suppliers, its shareholders and the environment, guided by Code of Ethics, our "constitutional charter".
Our Code of Ethics drives our vizion toward a better Bank that can contribute not only to the economic developement of the country, but also toward a better society & a better environment.
Intesa Sanpaolo Bank Albania sh.a. remains committed in reinforcing further the Corporate Social Responsibility governance and being a good example for Albania. The Bank is aware of its impact on the society and on the Albanian Economy and integrates sustainability in its corporate governance. Following the ISP Group approach, ISBA recognizes concretely it's social responsibility and integrates it into the decisionmaking proccess and in concrete operations, being closer to its customers.

Bank's measures to manage the coronavirus outbreak:

In order to manage the Covid pandemics Intesa Sanpaolo Bank Albania followed the "Pandemic Plan". Since 09 March 2020, following also the Albanian Government decision to declare state of emergency, Intesa Sanpaolo Bank Albania Crisis Committee was convened by the Crisis Manager, . Two extraordinary structures were responsible for managing the pandemics for our Bank that continued to operate also during 2021:

- The Crisis Committee &
- Covid 19 Emergency Unit.

The Health &Safety measures wereimmediately increased to protect the health of our employees, but also the health of our customers, and all the measures and protocols issued by the Albanian Government Authorities were strictly implemented and respected:

- Personal Protective Equipment were distributed: alcohol-based hand rubber disinfection lotio, gloves and masks, FPP2 masks for all Network staff
- Premises were disinfected regularly, every 40 days.
- Social distance measures were taken: yellow

Implementing government yellow protocol measures against Covid-19

stripes, transparent plastic barrier for customer service and adhesive to guarantee 2m distance between staff and customers.

- Measurement of temperature was done at entrance of branches and Head Quarters for staff and customers
- Queue management system for branches was placed
- Government Protocol letter stickers were placed in all branches.
- A self-assessment was done every day for symptoms of COVID-19 according to the approved checklists for emplyees
- Dedicated team of Doctors was available for further support to employees and their family members even during 2021
- Covid tests were offered by the bank in case of symptoms and when the employee comes back to the office after Covid-19
- Pandemic Key Risk Indicators were periodically monitored.
- Remote-work ratio 70% from home and 30% with physical presence was in force.

During 2021, considering that the number of online services and transactions has increased considerably, ISBA has organised several awareness campaigns addressed to the employees and to the broad public on the forms of #cyberscams in order to educate the public on these sensitive matters. Furthermore, Intesa Sanpaolo Bank Albania is the only bank in Albania that has a dedicated webpage to Cyber Security! This webpage is accessible from everyone entering our website and offers valuable advices and practical tips to be kept in mind regarding "Online Security" and on how to recognise phishing and malware especially on the Internet in order to avoid being a victim to various types of scams. Many internal trainings were organised for the bank employees regarding cyber security.

RELATIONSHIP WITH EMPLOYEES

For Intesa Sanpaolo Bank Albania SHA the importance of the relationships with employees remained intensively to be reinforced even during year 2021 in order to ease the work circumstances as persisted to be affected by Covid-19 pandemic.

As instructed by the local state authorities Intesa Sanpaolo Bank Albania SHA continued to provide secure and safe working conditions in the premises and utilized the remote work and flexible working, during year 2021. In critical periods under the severe flux of the pandemic situation the rate of staff working remotely was set 70% working from home and 30% working from the offices.

Intesa Sanpaolo Bank Albania employees went through various dedicated Trainings during year 2021 as an essential part of their continuous professional development.

Intesa Sanpaolo Bank Albania strongly encourages the security of his employees by offering trainings on health and safety at work. In this framework were delivered online trainings during 2021, involving Head office colleagues by giving them the ability and knowledge to deal with emergencies in working place.

Webinar trainings in the framework of Digical project dedicated to Retail staff aimed at raising awareness towards the future of this platform and its new functionalities.

Trainings held through our local platform (MyLearning) on Cyber Security and delivered to all our staff, aiming at mitigation of cyber risks arising from the disinformation, compliant with 2020-2021 Cyber-Awareness Plan and in full synergy with Group's training initiative.

Training sessions were held from Retail Division in the framework of the rollout of the project Adoption of Group Distribution Model (AGDM)

Several training initiatives organized in collaboration with ISBD, impacting main topics, such as: Credit courses on Forborne exposures; Seminars on Sustainable Finance; ISBD Process Management Framework.

A special focus during 2021 was dedicated to ESG (Environmental Social and Governance) topics.

The integration of the ESG aspects in the business activities is becoming more and more important at ISP Group level. Due to the relevance of the topic and the need to increase the ESG competences throughout the ISP perimeter, the group, in collaboration with ISP ESG & Reputational Risk and ISP Learning Academy, and with the support of the external consultancy of, has developed an e-learning course for a wider audience in the ISBD Banks.

Several training modules were delivered on topics related to the climate-change risk for the lending operations as well as to climate change strategy and respective action plan.

In the framework of mandatory trainings on "Anti-money laundering and terrorism financing", were organized virtual classrooms and online trainings through our local platform MyLearning and with the support of the external consultants of the field. Modules aimed at increasing the level of awareness and knowledge of the staff of bank on money laundering prevention and terrorist financing issues, international sanctions and embargoes.

During year 2021 were organized trainings delivered through "Management Academy of Intesa Sanpaolo", which is a Platform dedicated to the managerial population. The Platform can be used anytime, anywhere via mobile and offers a wide range of managerial courses.

Furthermore, several training initiatives were also organized in collaboration with Albanian Association of Banks related to different fields of banking sector such as: Governance, SME financing, Retail, Risk Management, Digital Banking, Audit, AML, Fraud and Information Security.

Within the framework of top management leadership development during year 2021 was organized the **Team Facilitation workshop** with the support of International Subsidiary Banks Division and it aimed at hiring, integration and training with respect to the collective governance of complexity. The program intends to deepen the paradigms and enables full collaboration, with particular reference to innovation and enhancement practices of people, cooperation and complexity management. This leadership project is focused as well at equipping the top management with a vision oriented towards innovation and future.

Following the Digital Transformation of Human Resources (HR), the HR Department continued to work for a new platform used to manage employee's personal data, organizational structures and basic administrative events with the aim at providing a brand new and flexible HR system able to comply with the local regulatory rules and other local mandatory processes. It will achieve as well an additional important step in the IT convergence strategy as requested by upcoming demands of the time. The whole process will move towards a new workforce vision and IT design. The HR staff has been consequently under training by the authorized local providers and dedicated to input and implement at their best the new platform. The ICT Department of the Bank has provided a full support related to the technical parameters of the platform. The new platform will be integrated with the newly modelled time and attendance system, which has undergone an obvious functional improvement, as well.

The "Town Hall" Meeting organized during the month of October 2021 invited all staff of the bank to participate and to get to know the results of the second phase of the project **"The Future of Work".** The definition of the Hybrid way of work was a novelty for HR and a method of future work. The first thing in the Hybrid Model is ensuring that activities are aligned with location, meaning: Interactions at Office and Deep work at Home

The results of the second phase of the project **"The Future of Work"**, based on the choice made by employees of Head Office, demonstrated that the "teams" working in Hybrid Model are teams that will work: one day, two days or three days from office and the rest of the work week from home. These results were based on the typology of "teams": "teams" that need interaction or "teams" that need guidance.

Under the instruction and as guided by Intesa Sanpaolo Group the HR Department worked for the transformation and the improvement for the Performance Evaluation process for the Network population. The platform which will Go Live in 2022, is a friendly practise used for both the Appraiser and the Appraisee and it will facilitate the whole process of network evaluation, being in line with Group guidelines, as set across the perimeter of ISBD.

During month of September 2021 was launched the 2nd edition of the I&D survey a dedicated **Inclusiveness and Diversity Survey** aimed at all bank's employees. As in previous years the feedback of the employees participating in this survey will help the management and the bank to set various activities, aimed at ensuring a work environment with equal opportunities, where all employees feel free to realise their full potential. By dedicating time to this initiative and answering fully and honestly, the employees are contributing to address the relevant issues on the way of becoming a culture that fosters inclusion.

As in recent year all Employees of the Bank with indefinite employment contract were again enrolled in the Programme of **Health Care** of Intesa Sanpaolo Group, ensuring that colleagues with serious diseases will continue to receive the best possible care from a network of Best International doctors. Under the exposure of the Covid-19 situation the Bank continued to pay the PCR/antigen test, or serological tests for its employees, since the very beginning the infected personnel confirmed their status. The HR department has maintained all the necessary relations and contacts between the staff that were infected by the virus, and the Bank Doctors, or medical clinics. The staff under Covid -19 symptoms were supported by Bank and those ones with critical symptoms were carefully treated. Even during 2021, ISBA managed to purchase and offer for free to all employees of the Bank the INFLUVAC flu vaccine.

RAISING AWARENESS ON SUSTAINABLE DEVELOPMENT GOALS!

Intesa Sanpaolo Bank Albania continued to supported and to raise awareness on the Sustainable Development Goals (SDG) during 2021 by organizing several activities and events. Some of the most important activities organized during the year according to these objectives were:

SDG 3 – GOOD HEALTH AND WELLBEING

The bank has a special focus on sustainable agriculture and supported the agro sector with a total figure of ALL 422.6 mln in new loans only during 2021.

SDG 3 – GOOD HEALTH AND WELLBEING

Blood Donation: This voluntary initiative continues as a good habit now in Intesa Sanpaolo Bank Albania. For the 12th consecutive year, even in the difficulties that the pandemics has created for everyone, 33 colleagues participated in the voluntary blood donation initiative, to help children suffering from Thalassemia.Due to the restricted measures regarding Covid-19, the need for blood from the Children suffering from Thalassemia increased considerably. In order to respect the safety protocols issued by the Albanian Government, it was impossible to organise the activity within the Bank premises, however the colleagues managed to donate blood in a laboratory premissed, ensuring safety measures for their health.

October-The Breast Cancer awareness month: In order to emphasise the importance of diagnostic controls for preventing breast cancer disease, a video was produced by Intesa Sanpaolo Bank Albania! This campaign was dedicated to our employees and to public! The video message was produced in-house with the participation of several male collegues in leading managerial positions including the CEO of Intesa Sanpaolo Bank Albania. You can take a look at our video in the below link:
https://youtu.be/dENj3wQ2zek

SDG 4 – QUALITY EDUCATION

Activities organized for the Global Money Week!
Online open lessons: The Head of The Bank's Internal Audit organized and online lesson with the students of the European University of Tirana on the topic: "Internal Audit in Albanian Banking Sector ". The sesion was inteactive and ISBA representative answered with pleasure to a lot of questions raised from the participants.by the Bank's IT experts.

3 educational labs regarding financial education: Considering the situation created by the COVID-19 pandemics, due to the government protocols and due to the fact that the classroom hours were really concentrated and short, ISBA VOLUNTEERS couldn't be physically present in the schools for realizing financial education educational labs. However, Intesa Sanpaolo Bank Albania prepared and shared three videos regarding financial education activities through a massive online platform which is used also for online

classes, AKADEMI.al.
3 on Line videos contained information on Savings and on Recycling:

- Kids and Savings
- It's up to You!
- Waste Revival even children can recycle

The videos were prepared by colleagues and their respective children recorded while explaining the educational labs. The videos are available for the kids at any time when they can access this platform. The platform ACADEMIA.al. is supported from the Albanian Government as is accessible from the major part of kids in Albania. The content of these videos has been inspired by the Museum of Saving in Turin.

Financial Education TV Series: A unique initiative - one of its kind - focused totally on the audience!
The initiative consists in 34 short TV series and an opening interview that explains the whole project that was driven by the Corporate Social Responsibility. Despite the efforts that are done with regard to Financial Education activities by various actors and partners in the country, there is still much to do on this regard. This way, were designed very carefully all these innovative TV series, which may serve to the audience in order to better understand some products, services, concepts and the terminology that the 2nd tier banks use in their daily activity. The concepts were designed and examined carefully, they were simplified and treated from the public prospective with a particular view on transparency and on fairplay; moreover, the costs remain in the spotlight! There was no advertising related to these series and they include concepts on Digital Banking and Circular Economy as well.

Aim: to educate the public in order to better understand banking products, but most importantly, to enhance the channeling of money through banks and financial institutions. We aim to pave the way toward further initiatives that the other actors in the market can undertake toward financial education. These series, can be considered as a "pro-bono" professional consultancy of ISBA experts offered to public. A Special Thanks goes to: all the Intesa Sanpaolo Bank's colleagues that helped and enriched the content of this material in compliance with their expertise. You can find the series in the below link:
https://youtube.com/playlist?list=PLGmsNTcoa6BE8cWKk1L3pr4-kxVstAZrt

Intesa Sanpaolo Bank Albania in cooperation with EESTEC Tirana organized for the third year the "ICT Competition": The event took place on the premises of TechSpace and was attended by 32 students and young people, who completed logical and technical tests in various fields of Information and Communication Technology. The participants who achieved the highest scores were given the opportunity of an interview for a job position at the IT Department of Intesa Sanpaolo Bank Albania.

SDG 5 – GENDER EQUALITY

ISBA joined the UN Women Albania campaign for Elimination of Violence Against Women and Girls. The 16 Days of Activism against Gender-Based Violence is an international campaign that takes place each year also in Albania. It commences on 25 November - the International Day for the Elimination of Violence against Women, to 10 December - Human Rights Day, indicating that violence against women is the most pervasive breach of human rights worldwide.

- **On 25th of November 2021 (International Day for the Elimination of Violance Against Women and Girls)**, Intesa Sanpaolo Bank Albania joined UN Women Albania for the 16-Days of Activism against Gender-Based Violence under the slogan **"Orange the World: END VIOLENCE AGAINST WOMEN and GIRLS, NOW!"**, that was organized in the framework of the global UNiTE campaign to end violence against women and girls. This was an external and internal camnpaign

Proudly we can mention that in Intesa Sanpaolo Bank Albania sh.a. (as end of Dec'21) 75% of managers reporting directly to CEO are women, while 71.8 % of the Bank Employees is made by women colleagues.

On 22nd of April 2021 **(International Day of Girls in ICT)**, ISBA prepared a short video for all the Bank colleagues to present one by one all the women colleagues that work on this Division.

Women in Business (WIB) Product: offers access to credit for female entrepreneurs. Western Balkans Women in Business Programme promotes women's participation in business, by helping women-led small and medium-sized enterprises to access finance, know-how and non-financial business development services. Short & Mid-term financings are offered to SB and SME customers. Mid term loans are granted to cover their needs for investment projects, which could not be carried out with capital alone, and can be either to extend/ improve their business capacity or start another business project. Customers can also choose to have short-term loans to cover their needs for operation expenses incurred on day-to-day business, aiming to support them to grow their businesses. Eligibility criteria: all business led by woman as enterpreneurs or having majority of shares; Albanian ownership and duly registration as per the Albanian law.

- Disbursed loans for WIB Jan-Dec'21: 10 clients/ 10 loans ~ 633,697 Eur
- Outstanding portfolio 31 Dec'21: 43 clients/45 loans ~ 1,243,536 Eur

SDG 13 – CLIMATE ACTION - SDG 14 – LIFE BELOW WATER - SDG 15 – LIFE ON LAND

TIRANA MARATHON 2021: Running for a good cause: Run #WithRefugees! In this event, Intesa Sanpaolo Bank Albania in partnership with UNHCR Albania, supported the cause of 82 million displaced persons, their strength and resilience. 22 colleagues participated in the marathon, where three managed to be classified in the list of Top 50 fastest among 1729 participants registered in the 10 KM itinerary.

Intesa Sanpaolo Bank Albania has implemented several policies in order to avoid discrimination and reduce inequalities where to be mentioned are: ISBA Diversity and Inclusion Principles, Rules on diversity for sexual orientation and identity and Rules for combatting sexual harassment!

The Bank promoted several international days (according to Un Calendar) related to diversity in a broader spectrum, such as: 1st of March, 2021 (Zero Discrimination Day), the16th of May 2021 (International Day of Living Together in Peace), the World Day for Cultural Diversity, Dialogue and Developement, World Refugees Day, etc. For the International Day of Sign Language, a symbolic postcard was sent internally for every employee of the Bank & also on social networks of the Bank, promoting the usage of the sign languages in any area of our lives as a way to encourage linguistic identity and cultural diversity of all the deaf people.

- On 8th of December (National Youth Day), a symbolic postcard was delivered to all employees, but was also posted in social channels. The youth plays an important role in the transformation that every company goes through in these dynamic times. On December 2021, employees aged 18-29 comprised 27% of ISBA's staff.

SDG 12 – RESPONSIBLE CONSUMPTION AND PRODUCTION

Contribution to reduction of waste through prevention, reduction, recycling and reuse: In 2021 Intesa Sanpaolo Bank Albania has managed to collect 52.650 kg of waste paper/cardboard. This materialwas prepared for recovery and sent to certified paper millsfor recycling. By doing this, the Bank has contributed to reduce CO2 emissions by 68.445 kg. This is equivalent to: 975 trees saved, or 215.865 kilowatt of energy saved, or 1922 cubic meters of water saved, or 173,7 cubic meters of landfill space saved

SDG 13 – CLIMATE ACTION - SDG 14 – LIFE BELOW WATER - SDG 15 – LIFE ON LAND

WORLD ENVIRONMENT DAY-The Bank joined the ISBD activities regarding The World Environment Day! Strongly promoted by United Nations. The theme of the 2021 campaign was:

"REIMAGINE. RECREATE. RESTORE - #GenerationRestoration"!

It continued for one week and during these days several postcards and awareness messages were delivered to all colleagues. Communication with customers and the public was done through ATM screens, e-mail exchange footers, bank websites, bank official websites on social media.

The Bank continued to support the UN International Days calendar for raising awareness on SDGs internally and externally through several campaigns.

AWARDS of Intesa Sanpaolo Bank Albania sh.a. for the year 2021: Best CSR Bank Albania 2021

About "Global Banking & Finance Review®":

Global Banking & Finance Review® is a leading financial portal and Print Magazine offering News, Analysis, Opinion, Reviews, Interviews and Videos from the world of Banking, Finance, Business, Trading, Technology, Investing, Brokerage, Foreign Exchange, Tax & Legal, Islamic Finance, Asset & Wealth Management. The Global Banking & Finance Awards was started in 2011 to recognize and honor inspirational changes happening in the global financing community. They reflect the innovation, achievement, strategy, progressive and inspirational changes taking place within the financial sector every year, with the help of financial analysts the top performers among international banks and financial providers are selected and awarded in various financial sectors.

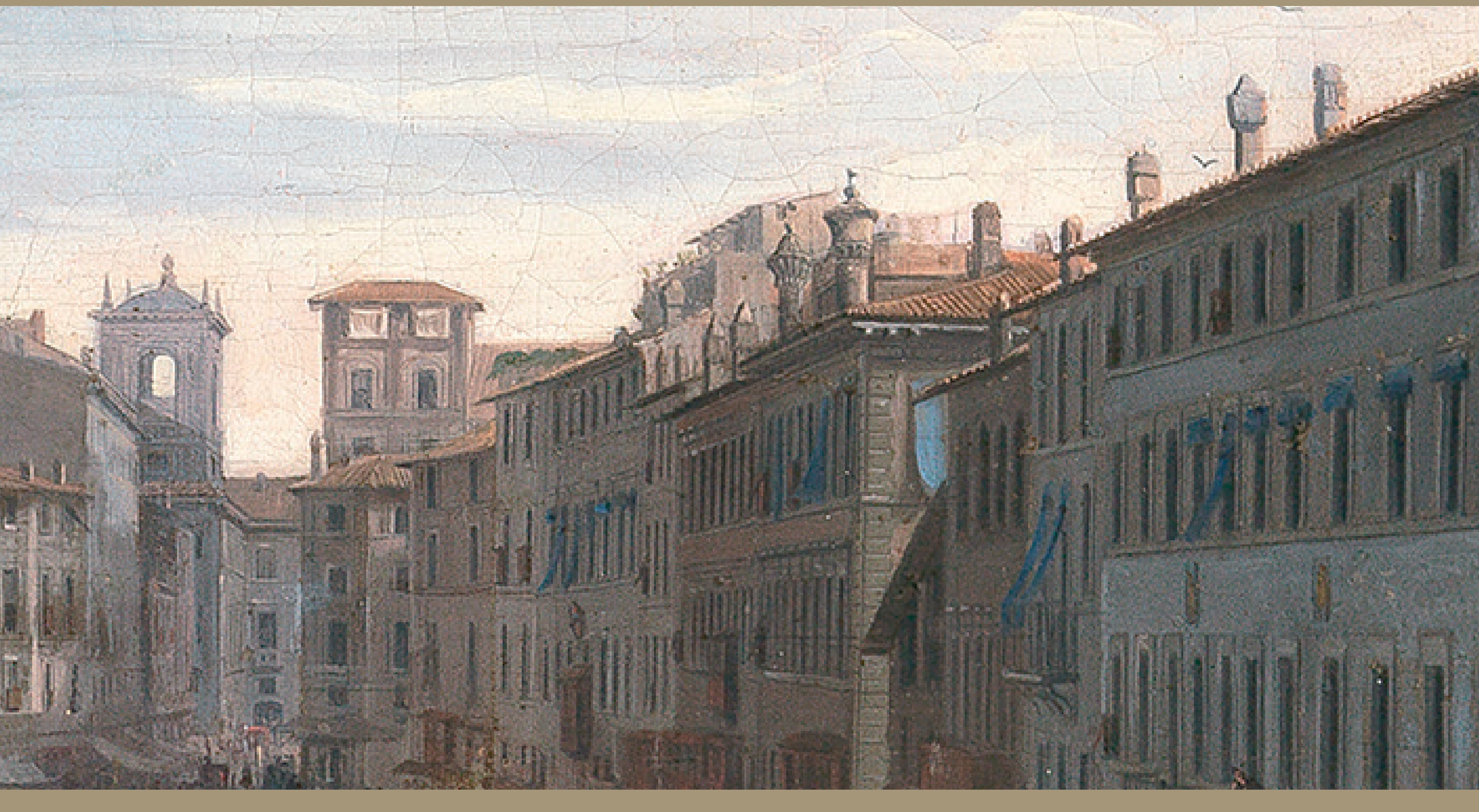
The top performers in the category are chosen through the evaluation of a series of criteria including: sustainable business model, sound governance, results achieved in the previous year, managerial excellence, innovative technology at the disposal of customers and leadership in digital transformation.

The Banker Awards: Bank of the Year for Banking in the Community

About "The Banker":

"For the past 95 years, The Banker has provided intelligence about international banking and capital markets. Regarded as the industry standard for assessing banks globally since 1926, The Banker's 'Bank of the Year' is the point in the year where we take the opportunity to recognize the world's leading institutions. A rigorous and highly analytical process is made to reach each Bank of the Year decision and our reputation for independence, authority and integrity is applied to each submission. More banks apply for the Bank of the Year Awards than any other similar process, and our access to data on each bank and our focus on transformation, inclusion and diversity in the industry are well known. The judges this year have placed continued emphasis on which banks have led the way in helping customers and the wider economy to meet the needs of the future and which banks have adapted best to establishing long term growth in the face of such global change."

Relationships with Shareholders



RELATIONSHIP WITH SHAREHOLDERS

Intesa Sanpaolo Bank Albania guarantees timely and transparent communication with shareholders and the financial community in general, with the intent of providing clear, complete and prompt information on the status of the Bank’s implementation of strategies and the results it achieves. The Bank has established a specific relationship with its shareholders, based on transparency and full mutual trust. We act in such a way that the value of all shareholders’ capital invested in Intesa Sanpaolo Bank Albania is protected and increased in a sustainable manner. We invest in enhancing this trust with information through different communication channels as: the publication of the financial statements after each semester, annual reports and press releases in the Bank’s website, keeping the continuous exchange and organizing frequent meetings with the Shareholders Assemblies in writing or in their physical presence. The Bank’s capacity to generate constant growth in profitability is also determined by high liquidity, further improvement of the capital base, reduction of operating costs, rigorous and prudent provisioning policy as well as the continuous and careful crediting to support the economy.

RESPONSIBLE MANAGEMENT OF THE SUPPLY CHAIN

We believe that behavior based on listening and sharing ideas with our suppliers fosters the ongoing improvement of those relationships, reinforcing them and generating reciprocal value. Our attitude is based on trust that involves the suppliers in an active role and that leads them to promptly report problems that require the identification of a common solution. We believe that a clear and transparent attitude contributes to maintaining enduring relationships with our suppliers. We are convinced that integrity is a fundamental premise of these relationships. Our choice of suppliers is based on clear and proven criteria through objective and transparent procedures. We guarantee equal opportunity in the selection of suppliers and commercial partners, considering their compatibility with and capacity for the size and needs of our company. Intesa Sanpaolo Bank Albania criteria on supplier and technology selection are part of the process to have a better environment and energy efficiency equipment.

Intesa Sanpaolo Bank Albania, as part of Intesa Sanpaolo Group during 2021 has been working for complementing the Group’s centralized procurement project with the principles of transparency and fairness declared in the Code of Ethics and aligning it with EU and ECB procurement directives.

Audited Financial Statements

INTESA SANPAOLO BANK ALBANIA SH.A.

Financial Statements
For the year ended 31 December 2021

(with independent auditors' report thereon)

CONTENTS

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Intesa Sanpaolo Bank Albania sh.a

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Intesa Sanpaolo Bank Albania sh.a (the "Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

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

Other matter

The financial statements of Intesa Sanpaolo Bank Albania sh.a. as at and for the year ending on 31 December 2020, were audited by another auditor, who issued an unqualified opinion on 15 March 2021.

Other information included in Intesa Sanpaolo Bank Albania sh.a 2021 Annual Report

Other information consists of the information included in Bank's 2021 Annual Report, prepared in accordance with articles 17, 18 and 19 of the Law no. 25/2018 "For Accounting and Financial Statements", other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2021 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Ernst & Young - Ekspert Kontabël i Autorizuar
Dega në Shqipëri
Ernst & Young Certified Auditors
29 March 2022
Tirana, Albania

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

Mario Vangjel
Audituės Ligjor

Intesa Sanpaolo Bank Albania Sh.a.
Statement of financial position as at 31 December 2021
(in thousands of Lek)

Statement of financial position

	Notes	31 December 2021	31 December 2020 (Restated) (note 7)
Assets			
Cash and cash equivalents	15	29,643,298	32,432,194
Loans and advances to banks	16	33,853,071	26,721,728
Investment securities	17	74,135,379	71,920,406
Loans and advances to customers	18	52,967,843	50,902,837
Current tax assets	38	290,395	379,233
Property and equipment	19	1,974,017	1,915,582
Right-of-use assets	20	469,669	601,159
Intangible assets	21	517,811	489,831
Investment property	22	533,798	533,798
Inventory and other assets	23	503,339	482,534
Repossessed assets	24	359,008	668,996
Deferred tax assets	27	422,933	458,319
Total Assets		**195,670,561**	**187,506,617**
Liabilities			
Due to banks	25	1,476,439	2,273,426
Due to customers	26	169,461,419	159,507,095
Lease liabilities	20	468,760	602,986
Other liabilities	29	1,182,077	829,989
Deferred tax liabilities	27	220,618	259,345
Provisions	28	534,549	835,305
Total Liabilities		**173,343,862**	**164,308,146**
Equity			
Share capital	30	5,562,518	5,562,518
Share premium	30	1,383,880	1,383,880
Reserves	31	6,771,573	6,449,856
Retained earnings		8,608,728	9,802,217
Total Equity		**22,326,699**	**23,198,471**
Total Liabilities and Equity		**195,670,561**	**187,506,617**

* The comparative amounts were restated as disclosed in Note 7

These financial statements have been approved by the Board of Directors of Intesa Sanpaolo Bank Albania sh.a. on 24 February 2022 and signed on its behalf by:

Alessandro D'oria
Chief Executive Officer

INTESA SANPAOLO BANK Albania
Rr. Ismail Qemali, Nr 27. Tirane
NIPT J61817006P

Julian Cela
Chief Financial Officer

The Statement of financial position is to be read in conjunction with the accompanying notes on pages 6 to 76 forming an integral part of these financial statements.

Intesa Sanpaolo Bank Albania Sh.a.
Statement of profit or loss and other comprehensive income for the year ended 31 December 2021
(in thousands of Lek)

Statement of profit or loss and other comprehensive income

	Notes	2021	2020 Restated
Interest income	32	4,231,527	4,168,761
Interest expense	32	(940,494)	(937,196)
Net interest income		**3,291,033**	**3,231,565**
Fee and commission income	33	1,284,068	1,092,457
Fee and commission expense	33	(411,077)	(320,515)
Net fee and commission income		**872,991**	**771,942**
Net other income	34	783,084	588,588
Other operating expenses	35	**(478,369)**	**(453,168)**
Operating income		**4,468,739**	**4,138,927**
Net impairment loss on financial assets	11(v)	(983,890)	(126,879)
Impairment losses/write-backs to other financial activities	28	3,335	7,891
Write down to NRV of repossessed collaterals	24	(176,780)	(46,790)
Personnel expenses	36	(1,359,292)	(1,184,249)
Depreciation and amortization	19,20,21	(473,224)	(520,844)
Amortization of leasehold improvements	23	(15,516)	(15,891)
Impairment of Investment property	22	-	(11,758)
Other administration expenses	37	(960,105)	(914,283)
Provisions for risk and expenses	28	143,369	182,866
Total expenses		**(3,822,103)**	**(2,629,937)**
Net income before taxes		**646,636**	**1,508,990**
Income tax expense	38	(126,957)	(214,456)
Profit for the year		**519,679**	**1,294,534**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			**(Restated*)**
Change in fair value of investment securities at FVOCI		302,714	589,747
Related tax		19,004	(66,456)
Items that will not be reclassified to profit or loss			
Change in revaluation of properties		-	(284,426)
Related tax		-	42,664
Other comprehensive income for the year, net of tax		**321,718**	**281,529**
Total comprehensive income for the year, net of tax		**841,397**	**1,576,063**

* The comparative amounts were restated as disclosed in Note 7

The Statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes on pages 6 to 76 forming an integral part of these financial statements.

Intesa Sanpaolo Bank Albania sh.a.
Statement of changes in equity for the year ended 31 December 2021
(in thousands of Lek)

Statement of changes in equity

	Share capital	Share premium	Legal and regulatory reserves	Fair value reserve	Revaluation reserve	Other capital reserve	Merger Reserve	Retained earnings	Total
Balance at 1 January 2021	**5,562,518**	**1,383,880**	**1,825,623**	**562,613**	**533,669**	**714,554**	**2,813,396**	**9,802,219**	**23,198,472**
Profit for the year	-	-	-	-	-	-	-	519,679	**519,679**
Other comprehensive income									**-**
Change in fair value of debt investment at FVOCI, net of income tax	-	-	-	321,718	-	-	-	-	**321,718**
Change in the Revaluation reserve	-	-	-	-	-	-	-	-	-
Change in the DTA of FTA reserve	-	-	-	-	-	-	-	(11,295)	(11,295)
Total comprehensive income for the year	**-**	**-**	**-**	**321,718**	**-**	**-**	**-**	**(11,295)**	**310,423**
Transaction with owners, recorded directly in equity									**-**
Dividends to equity holders	-	-	-	-	-	-	-	(1,701,875)	**(1,701,875)**
Total contributions by and distribution to owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,701,875)**	**(1,701,875)**
Balance at 31 December 2021	**5,562,518**	**1,383,880**	**1,825,623**	**884,331**	**533,669**	**714,554**	**2,813,396**	**8,608,728**	**22,326,699**

The Statement of changes in equity is to be read in conjunction with the accompanying notes on pages 6 to 76 forming an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2021 (continued)
(in thousands of Lek)

Statement of changes in equity (restated)

	Share capital	Share premium	Legal and regulatory reserves	Fair value reserve*	Revaluation reserve	Other capital reserve	Merger Reserve	Retained earnings	Total
				(Restated)					
Balance at 1 January 2020	5,562,518	1,383,880	1,825,623	39,323	775,431	714,554	2,813,396	8,521,206	21,635,931
Profit for the year	-	-	-	-	-	-	-	1,294,534	1,294,534
Other comprehensive income									-
Change in fair value of debt investment at FVOCI, net of income tax	-	-	-	523,291	-	-	-	-	523,291
Change in the Revaluation reserve					(241,762)				(241,762)
Change in the DTA of FTA reserve	-	-	-	-	-	-	-	(13,523)	(13,523)
Total comprehensive income for the year	-	-	-	523,291	(241,762)	-	-	(13,523)	268,006
Transaction with owners, recorded directly in equity									-
Dividends to equity holders	-	-	-	-	-	-	-	-	-
Total contributions by and distribution to owners	-	-	-	-	-	-	-	-	-
Balance at 31 December 2020	5,562,518	1,383,880	1,825,623	562,614	533,669	714,554	2,813,396	9,802,217	23,198,471

* The comparative amounts were restated as disclosed in Note 7

The Statement of changes in equity is to be read in conjunction with the accompanying notes on pages 6 to 76 forming an integral part of these financial statements.

Intesa Sanpaolo Bank Albania Sh.a.
Statement of cash flows for the year ended 31 December 2021
(in thousands of Lek)

Statement of cash flows

	Notes	2021	2020
Net profit for the year		**519,679**	**1,294,534**
Adjustments for:			
Depreciation and amortization	19,20,21	473,224	520,844
Impairment of investment property	22	-	15,891
Disposal of property and equipment and intangibles		116	-
Net impairment reversal on loans and advances to customers	11 (v)	1,140,004	126,879
Write down of inventory		276,651	(565,988)
Net interest income	32	(3,447,148)	(3,231,565)
Net impairment loss on off-balance sheet items	28	(3,335)	(7,891)
Tax expense	38	126,957	214,456
Changes in			
Loans and advances to banks		(7,131,343)	2,409,731
Loans and advances to customers		(3,183,213)	(6,211,406)
Due to banks		(796,987)	38,229
Due to customers		9,961,977	8,617,998
Non-current assets held for sale		-	20,711
Inventory and other assets		530,782	(207,695)
Other liabilities and provisions		46,141	837,943
Deferred tax asset		131,932	(2,556)
Deferred tax liability		(92,855)	91,322
Interest received		4,301,674	4,276,139
Interest paid		(875,220)	(922,657)
Income taxes paid	38	(161,667)	(183,215)
Net cash from/(used) in operating activities		**1,817,369**	**7,131,704**
Cash flows from investing activities			
Acquisition of property and equipment	19	(217,004)	(233,255)
Acquisition of intangible assets	21	(184,516)	312,227
Net acquisitions of investments securities	17	(2,341,668)	(4,854,509)
Net cash used in investing activities		**(2,743,188)**	**(4,775,537)**
Cash flows from financing activities			
Dividend paid to shareholders	30	(1,701,875)	-
Repayment of lease liability	20	(161,202)	(164,088)
Net cash used in financing activities		**(1,863,077)**	**(164,088)**
Net increase in cash and cash equivalents		**(2,788,896)**	**2,192,079**
Cash and cash equivalents at 1 January	15	32,432,194	30,240,115
Cash and cash equivalents at 31 December	**15**	**29,643,298**	**32,432,194**

The Statement of cash flows is to be read in conjunction with the accompanying notes on pages 6 to 76 forming an integral part of these financial statements.

Intesa Sanpaolo Bank Albania sh.a.
Notes to the financial statements for the year ended 31 December 2021
(in thousands of Lek, unless otherwise stated)

1. Reporting entity

Intesa Sanpaolo Bank Albania Sh.a, (the "Bank"), is a financial institution domiciled in Albania as joint stock company and involved primarily in corporate and retail banking. The Bank's registered office is at "Ismail Qemali" street, no. 27, and operates through a network of 35 branches and agencies, located in different cities of Albania: Tirana, Durres, Vlora, Elbasan, Fier, Berat, Gjirokastra, Korca, Lushnja, Shkoder, Lezhe, Kavaje (2020: 35 branches and agencies). The Bank had 659 employees as at 31 December 2021 (2020: 657).

2. Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). They were authorized for issue by Management 24 February 2022 for approval by the Board of Directors.

3. Basis of measurement

The financial statements are prepared on the amortized or historical cost basis except for financial assets at FVOCI, investment properties and own used properties, which are stated at fair value and inventory of repossessed collaterals which is measured at the lower of cost and net realizable.

4. Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 14.

5. Functional and presentation currency

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

6. Going Concern

The Bank's management has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

7. Correction of error

During 2021, the Bank discovered that ECL allowance, net of tax, amounting Lek 147 million for FVOCI investment securities was accounted for as a reduction in the carrying amount of the assets rather than offsetting the fair value reserve in OCI.

Secondly, a foreign currency conversion transaction in suspense account on December 31, 2020 amounting to Lek 1,273 million has been erroneously presented both in other assets and other liabilities on a gross basis rather than on net.

The errors have been corrected by restating each of the affected financial statement line items for prior period as summarized below. There was no impact on net profit of the Bank for the year.

Intesa Sanpaolo Bank Albania sh.a.
Notes to the financial statements for the year ended 31 December 2021
(in thousands of Lek, unless otherwise stated)

7. Correction of error (continued)

The effect on equity on 1 January 2020 is not material. The following table summarizes the impacts on the Bank's financial statements.

	Impact of correction of error		
	As previously reported	Adjustments	As restated
Investment securities	71,773,704	146,702	**71,920,406**
Inventory and other assets	2,425,088	(1,273,557)	**1,151,531**
Total assets	**74,198,792**	**(1,126,855)**	**73,071,937**
Other liabilities	2,103,547	(1,273,557)	**829,990**
Total liabilities	**2,103,547**	**(1,273,557)**	**829,990**
Reserves	6,303,153	146,702	6,449,855
Retained earnings	9,802,217	-	9,802,217
Total Equity	**16,105,370**	**146,702**	**16,252,072**

8. Comparative

Certain reclassification is made in order to obtain better presentation and disclosure in the financial statements as at 31 December 2021 and as at 31 December 2020. More specifically:

- "Placements with contractual maturity less than 3 months" of ALL 7,183 thousand was presented under "Due from Banks" in the statement of financial position for the year ended 31 December 2020, and for both periods ending on 31 December 2021 and 31 December 2020 these are presented under "Cash and cash equivalents". The respective disclosures in the notes to the financial statements have been made with respect to this reclassification.
- "Repossessed assets" of ALL 668,996 thousand was presented under "Inentory and other assets" in the statement of financial position for the year ended 31 December 2020, and for both periods ending on 31 December 2021 and 31 December 2020 these are presented in a separate line in Financial Statements. The respective disclosures in the notes to the financial statements have been made with respect to this reclassification.
- "Negative interest income" of ALL 58,345 thousand was presented under "Interest income" in the statement of profit and loss and other comprehensive income for the year ended 31 December 2020, and for both periods ending on 31 December 2021 and 31 December 2020 these are presented under "Interest expenses". The respective disclosures in the notes to the financial statements have been made with respect to this reclassification.
- "Write back of sold repossessed collaterals" of ALL 612,778 thousand was presented under "Write down to NRV of repossessed collaterals" in the statement of profit and loss and other comprehensive income for the year ended 31 December 2020, and for both periods ending on 31 December 2021 and 31 December 2020 these are presented under "Net other income". The respective disclosures in the notes to the financial statements have been made with respect to this reclassification.
- "Recoveries on written off loans" and "Rent income" presented ALL 180,181 thousand was presented under "Other operating expenses" in the statement of profit and loss and other comprehensive income for the year ended 31 December 2020, and for both periods ending on 31 December 2021 and 31 December 2020 these are presented under "Net other income". The respective disclosures in the notes to the financial statements have been made with respect to this reclassification.

9. Use of estimates and judgments

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates from this review are recognized prospectively.

9. Use of estimates and judgments (continued)

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes.

-Note 10.(f): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

-Note 10.(f).(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2021 is included in the following notes.

-Note 10.(f): impairment of financial instruments: determining inputs into the ECL impairment model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information

-Note 10.(g): determination of the fair value of financial instruments and non-financial assets with significant unobservable inputs

-Note 10.(e).(ii): recognition of deferred tax assets

-Note 10.(r): recognition and measurement of contingencies: key assumption about the likelihood and magnitude of an outflow of resources

-Note 10.(o): net realizable value of inventory: fair value measurement with significant unobservable inputs.

10. Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements by the Bank.

(a) Foreign currency

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to 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 year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the year. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are generally recognized in profit or loss. Foreign currency differences arising from retranslation of transactions with owners are recorded directly in equity.

Effective Interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability

Intesa Sanpaolo Bank Albania sh.a.
Notes to the financial statements for the year ended 31 December 2021
(in thousands of Lek, unless otherwise stated)

10. Significant accounting policies (continued)

(b) Interest

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 10.(f)(vii).

Presentation

Net interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- Other interest income presented in the statement of profit or loss and OCI includes interest income on lease receivables.

(c) Fees and commissions

Fees, commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate (see 10.(b)).

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Intesa Sanpaolo Bank Albania sh.a.
Notes to the financial statements for the year ended 31 December 2021
(in thousands of Lek, unless otherwise stated)

10. Significant accounting policies (continued)

(c) Fees and commissions (continued)

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not include multiple performance obligations, as explained further in the notes below.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

i. Fee income earned from services that are provided over a certain period of time

Fees and commission earned for the provision of services over a period of time are accrued over that period. These fees include commission income, including collection and payment, account servicing fees, investment management fees, and guarantees fees.

ii. Fee income from providing financial services and earned at a point in time

Fees and commissions arising from negotiating or participating in the negotiation of a transaction with a third party, such as other fees and commission expense relating mainly to transaction and service fees including ATM and POS fees, advance liquidation of credit lines, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(d) Leases

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

i. Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of branches and offices premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Intesa Sanpaolo Bank Albania sh.a.
Notes to the financial statements for the year ended 31 December 2021
(in thousands of Lek, unless otherwise stated)

10. Significant accounting policies (continued)

(d) Leases (continued)

i. Bank acting as a lessee (continued)

Lease payment included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index of rate as the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is change in the Bank's estimate of the amount expected to payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset is reduced to zero.

The Bank presents right-of-use assets in and lease liabilities in separate lines in the face of statement of financial position. The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Bank acts as a lessor, it determines at lease inception whether the lease is a financial lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(e) Income Tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI. Interest and penalties related to income taxes, including uncertain tax treatments, are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(i) Current Tax

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

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10. Significant accounting policies (continued)

(e) Income Tax (continued)

(ii) Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

(f) Financial assets and financial liabilities

(i) Recognition and initial measurement

Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank. Nostro transactions are recognized when the transaction is settled and cleared internally. All other financial instruments (including regular-way purchases and sales of financial assets) are initially recognized on the trade date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

On initial recognition, the Bank classified a financial asset as measured at amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows (Hold to collect mode);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (Hold to collect and sell model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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10. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(iii) Business model assessment

The Bank assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

(iv) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities as other financial liabilities, subsequently measured at amortized cost. See notes 10.(f)ii, 10.(p).

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10. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iii) De-recognition

Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized (see (iii)) and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

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10. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iv) Modification of financial assets and financial liabilities (continued)

Financial assets (continued)

Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see 10.f.(vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method (see 10 (b)).

Financial liabilities

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Off-setting

Financial assets and liabilities are offset, and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to offset 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 Bank’s similar transactions such as in the trading activity.

(vi) Impairment

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Bank does not apply the low credit risk exemption to any other financial instruments.

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10. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vi) Impairment (continued)

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *cash and deposits*: is measured as 12-month ECLs which represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Due to the maturity of less than 12 months then the 12-month ECLs are the credit losses expected over the period to maturity.
- *financial guarantee contracts*: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See also Note 11(a).

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

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10. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

In assessing whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortized cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; *and*
- *debt instruments measured at FVOCI*: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized against the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

The contractual amount outstanding on financial assets that were written off by the Bank as at 31 December 2021 and that were still subject to enforcement activity was LEK 186,006 thousand (2020: 109,508 thousand).

(g) Fair value measurement

The bank measures financial instruments such as FVOCI, and non-financial assets such as investment properties and buildings (part of property and equipment), at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

10. Significant accounting policies (continued)

(g) Fair value measurement (continued)

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would consider in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is entirely supported by observable market data or the transaction is closed out.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines and recognize whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of investment properties and buildings. Involvement of external valuers is determined by the Parent Bank.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the notes 12 and 13.

(h) Cash and cash equivalents

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

(i) Loans and advances

Loans and advances captions in the statement of financial position include loans and advances measured at amortized cost. They are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

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10. Significant accounting policies (continued)

(i) Loans and advances (continued)

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Bank's financial statements.

(j) Investment securities

The "investment securities" caption in the statement of financial position includes

- debt investment securities measured at amortized cost (see f (ii)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- debt securities measured at FVOCI;

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest revenue using the effective interest method
- ECL and reversals, and
- Foreign exchange gains and losses

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

(k) Property and equipment

(i) Recognition and measurement

Equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Property are measured at revalued amounts, being the fair value at the date of revaluation less accumulated depreciation and any accumulated impairment losses. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Land and art works are not depreciated.

The estimated useful live for the current and comparative periods are as follows:

	2021	2020
• Buildings	20-33 years	20-33 years
• IT and Electrical Equipment	4 to 8 years	4 to 8 years
• Furniture	3 to 10 years	3 to 10 years
• Other non-electrical assets	5 years	5 years

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10. Significant accounting policies (continued)

(l) Intangible assets

Software, licenses and trademarks compose intangible assets and are stated at cost less accumulated amortization. Subsequent expenditure on intangible 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 charged on a straight-line basis in profit or loss over the estimated useful lives, from the date that it is available for use. The estimated useful lives for the current and comparative periods are as follows:

	2021	2020
• Software	5 years	5 years
• Licenses and trademarks	10 years	10 years

(m) Investment property

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognized in profit or loss within other income. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(n) Inventory

Inventory comprises repossessed assets acquired through enforcement of security over non-performing loans and advances to customers which do not earn rental, and are not used by the Bank and are intended for disposal in a reasonably short period of time, without significant restructuring. Repossessed assets are measured at the lower of cost and net realizable value and any write-down is recognized in the profit or loss.

(o) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amount of its non-financial assets (other than inventory and deferred tax assets) 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 exceeds its recoverable amount. The recoverable amount of an asset 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 which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) Deposits

Deposits are the Bank's sources of debt funding. Deposits are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortized cost using the effective interest method.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the Bank's financial statements.

(q) Provisions

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

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10. Significant accounting policies (continued)

(r) Provisions (continued)

A provision for bank levies is recognized when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognized when that minimum activity threshold is reached.

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

(r) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.
- the Bank recognizes a loss allowance

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(s) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(t) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2021:

- **Interest Rate Benchmark Reform - Phase 2 - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

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Notes to the financial statements for the year ended 31 December 2021
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10. Significant accounting policies (continued)

(t) Changes in accounting policy and disclosures (continued)

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments) (continued)**

  There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. The amendments of reference rates or known as just benchmark rates had no impact on the financial statements of the Bank since the contracts are with Minimum rates and the replacement of reference interest rate with an alternative benchmark rate had no effects of changes to contractual cash flows. The assessment of the Bank in accounting implications of the implementation of the new requirements has started before the IBORs reform start. The Bank assessed for the IBOR reform that no impact in financial statements will results. The amendments of the replacement of reference interest rate of the contracts with Minimum rates with an alternative benchmark rate for the bank has results in no modification of the contracts and the de-recognitions of the assets has not been applied, since the contractual cash flows of financial assets and liabilities had no changes in order to require the effective interest rate to be adjusted.

(u) New standards and interpretation not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. The Bank has not early adopted them in preparing these financial statements.

The following amended standards are not expected to have a significant impact on the Bank's Financial Statements:

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

  The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. Management is currently assessing the impact the amendments will have on current practice. The Bank does presents its assets and liabilities in order of liquidity in the financial statements, but makes a current vs non current disclosure in the notes.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

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10. Significant accounting policies (continued)

(v) New standards and interpretation not yet adopted (continued)

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments) (continued)**
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

  The amendments are not expected to have a material impact on the Bank.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

  The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. Management has assessed that the amendment will have no impact.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

  The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. Management has assessed that the amendment will not have material impact on the Bank.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments are not expected to have a material impact on the Bank.

- **Deferred Tax related to Assets and Liabilites arising from a Single Transactions (Amendments to IAS 12)**

  The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. Management has assessed that the amendment will have no impact.

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11. Financial Risk Management

The Bank is exposed to the following risks from financial instruments:

a. credit risk
b. liquidity risk
c. market risk
d. operational risk

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

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank's Governance Committees (Executive Directors Committee, Credit Committee, Asset Liability Committee, Operational Risk Committee, Credit Risk Governance Committee, Problematic Loans Committee and other committees) that have the authority for decision-making in their specified areas.

Risk Management Division is responsible for developing and monitoring the Bank's risk management policies in these areas. All the Bank's committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

(a) Credit Risk

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

During 2020 in order to deal with the COVID-19 emergency the Bank implemented a moratorium on installments payments from March to September 2020 based on requests received by customers.

In addition, the bank has signed with the state of Albania two sovereign guarantees used to facilitate the credit granting to legal entities which have been impacted by the state lock down as a conservative measure derived by the pandemic or by the pandemic in overall.
The first Guarantee: **"Payroll Loans Under Sovereign Guarantee (Sovereign Guarantee 1) - Limit: 900,000,000 ALL,** aiming legal entities to obtain credit facilities to pay their staff employee's payroll. The second guarantee: **"Credit facilities Sovereign Guarantee for Working Capital and Investments (Sovereign Guarantee 2) - Limit: 1,200,000,000 ALL** aiming legal entities to obtain credit facility to finance their temporary liquidity gaps (Working Capital) or needed investments imposed by the pandemic.

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11. Financial Risk Management (continued)

(a) Credit Risk

On the below table a summary of the exposures that were subject to moratoria for each stage is presented for end of December 2020, along with changes during 2021.

	Applied for Covid-19 Moratoria			
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage3**	**Total**
31 December 2020	16,754,699	576,496	102,802	**17,433,997**
Repayment	(4,080,649)	(350,621)	(633,950)	(5,065,220)
Transfer to Stage 1	57,375	(50,932)	(6,443)	-
Transfer to Stage 2	(541,257)	555,806	(14,549)	-
Transfer to Stage 3	(282,149)	(327,447)	609,596	-
Amounts written off	-	-	-	-
31 December 2021	**11,908,019**	**403,302**	**57,456**	**12,368,777**

(i) Management of credit risk

The Board of Directors has delegated responsibility for decision-making to Committees in Credit Area. The Risk Management Division, reporting to the CEO, is responsible for the oversight and management of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Reviewing and assessing credit risk*. The Bank's Underwriting Department assesses all credit exposures, before facilities are committed to customers by the Bank. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Bank's risk classifications* in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk classification is used in determining where impairment may be required against specific credit exposures.

According to the Bank's methodology, all exposures are classified between Performing (including Stage 1 and Stage 2) and Non- Performing exposures (Stage 3-including Past Due, Unlikely to Pay "UTP" and Doubtful). The bank classifies the performing portfolio in two clusters Stage 1 and Stage 2 based on a set of rules harmonized with the guidelines of Intesa Sanpaolo Group, driven by the signs of deterioration of the exposure as per below specifications:

Stage 1	Stage 2	Stage 3
• Performing exposures without days past due • Performing exposures with less than 30 days past due • Intragroup transactions	• Performing exposures with more than 30 days past due • Forborne performing exposures • Performing exposures showing Early Warning signals (orange, red and light blue) and PCM. • Low default portfolio based on residual maturitu and specific criteria as per group thresholds	• Exposures with more than 90 days past due under New DoD rules • Past Due in Probation Period • Unlikely to Pay • UTP in Probation Period • Doubtful • Forborne Non performing NPV test>1% in case of distressed restructuring

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(i) Management of credit risk (continued)

- *Developing and maintaining the Bank's risk classifications* (continued) The Non-Performin portfolio is classified by analyzing the exposures also based on a set of rules harmonized wit the guidelines of Intesa Sanpaolo Group. These rules include objective evidence being breach of contract (such as default or delinquency in interest or principal payments) significant financial difficulty of the borrower; and other significant adverse financia information relating to the customer.
- *Reviewing compliance* of business units with agreed exposure limits, including those fo selected industries and product types. Detailed analyses are provided monthly to the Probler Assets Committee on the credit quality of customer exposures and specific actions ar proposed.
- *Providing advice, guidance and specialist skills* to business units to promote best practic throughout the Bank in the management of credit risk.

(ii) Maximum Exposure to Credit Risk

The following table shows the current maximum exposure to credit risk for the applicabl components of statement of financial position:

	Maximum Exposure	
	31 December 2021	**31 December 2020**
Cash and cash equivalents (excluding cash on hand)	28,121,532	30,928,554
Loans and advances to banks	33,853,071	26,721,728
Investment securities	74,135,379	71,920,406
Loans and advances to customers	52,967,843	50,902,837
Sundry debtors	29,520	54,197
Total on-balance-sheet risk	189,107,345	180,527,722
Undrawn credit commitments	5,887,122	7,136,265
Letters of credit	77,238	199,916
Guarantees in favor of customers	4,823,168	4,873,518
Total credit related commitments	10,787,528	12,209,699
Total Credit Risk Exposure	**199,894,873**	**192,737,421**

The balances are presented net of ECL. Where financial assets are recorded at fair value, the amount shown represent the current credit risk exposure, but not the maximum risk exposure that coul arise in the future as a result of changes in values. The Bank makes available to its customer guarantees which may require that the Bank makes payments on their behalf and enters int commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantee commit the Bank to make payments on behalf of customers in the event of a specific act or event generally related to the import or export of goods, and payment and performance guarantees.

Such commitments expose the Bank to similar credit risks, which are mitigated by the same contro processes and policies. Every month, the Bank assesses the credit related commitments fo impairment. Amounts subject to individual impairment assessment are non-cancellable commitment granted to non-performing customers or customers with restructured credit facilities.

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Credit Quality by class of financial assets

The following table sets out information about the credit quality of financial assets measured at amortized cost and FVOCI debt investments. 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, respectively. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 11(i).

				31 December 2021
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
Performing	50,960,371	1,901,218	-	52,861,589
Past Due	-	-	29,172	29,172
Unlikely to Pay	-	-	1,000,079	1,000,079
Doubtful	-	-	1,091,034	1,091,034
Total	**50,960,371**	**1,901,218**	**2,120,285**	**54,981,874**
Loss allowance	**565,290**	**326,592**	**1,122,149**	**2,014,031**
Carrying amount	**50,395,081**	**1,574,626**	**998,136**	**52,967,843**

				31 December 2020
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
Performing	49,824,618	716,989	-	**50,541,607**
Past Due	-	-	136,760	**136,760**
Unlikely to Pay	-	-	845,467	**845,467**
Doubtful	-	-	1,374,767	**1,374,767**
Total	**49,824,618**	**716,989**	**2,356,994**	**52,898,601**
Loss allowance	**480,387**	**229,916**	**1,285,461**	**1,995,764**
Carrying amount	**49,344,231**	**487,073**	**1,071,533**	**50,902,837**

				31 December 2021
	Stage 1	Stage 2	Stage3	Total
Financial guarantee and commitment				
Performing	9,842,804	1,043	-	**9,843,847**
Past Due	-	-	85	**85**
Unlikely to Pay	-	-	720	**720**
Doubtful	-	-	5,033	**5,033**
Total	**9,842,804**	**1,043**	**5,838**	**9,849,685**
Loss allowance	**37,561**	**91**	**5,523**	**43,175**
Carrying amount	**9,805,243**	**952**	**315**	**9,806,510**

				31 December 2020
	Stage 1	Stage 2	Stage3	Total
Financial guarantee and commitment				
Performing	11,118,263	38,507	-	**11,156,770**
Past Due	-	-	163	**163**
Unlikely to Pay	-	-	2,141	**2,141**
Doubtful	-	-	8,687	**8,687**
Total	**11,118,263**	**38,507**	**10,991**	**11,167,761**
Loss allowance	**34,792**	**2,086**	**10,085**	**46,963**
Carrying amount	**11,083,471**	**36,421**	**906**	**11,120,798**

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Credit Quality by class of financial assets (continued)

				31 December 2021
PD Range	**Stage 1**	**Stage 2**	**Stage3**	**Total**
Loans and advances to customers				
0%-0.05%	-	-	-	-
0.05% -11.70%	50,676,763	1,129,921	-	**51,806,684**
11.70%-29.50%	283,608	-	-	**283,608**
29.50%-99.99%	-	771,297	-	**771,297**
100%	-	-	2,120,285	**2,120,285**
Total	**50,960,371**	**1,901,218**	**2,120,285**	**54,981,874**
Loss allowance	**565,290**	**326,592**	**1,122,149**	**2,014,031**
Carrying amount	**50,395,081**	**1,574,626**	**998,136**	**52,967,843**

				31 December 2020
PD Range	**Stage 1**	**Stage 2**	**Stage3**	**Total**
Loans and advances to customers				
0%-0.05%	-	-	-	-
0.05% -11.70%	49,824,618	-	-	**49,824,618**
11.70%-29.50%	-	-	-	-
29.50%-99.99%	-	716,989	-	**716,989**
100%	-	-	2,356,994	**2,356,994**
Total	**49,824,618**	**716,989**	**2,356,994**	**52,898,601**
Loss allowance	**480,387**	**229,916**	**1,285,461**	**1,995,764**
Carrying amount	**49,344,231**	**487,073**	**1,071,533**	**50,902,837**

				31 December 2021
	Stage 1	**Stage 2**	**Stage3**	**Total**
Loans and advances to banks*				
Performing	39,122,156	4,738,257	-	**43,860,413**
Total	**39,122,156**	**4,738,257**	-	**43,860,413**
Loss allowance	4,696	4,298		**8,994**
Carrying amount	**39,117,460**	**4,733,959**	-	**43,851,419**
Investment securities at FVOCI				
Performing	51,927,282	-	-	**51,927,282**
Total	**51,927,282**	-	-	**51,927,282**
Loss allowance**	576,112	-		**576,112**
Carrying amount	**51,351,170**	-	-	**51,351,170**
Investment securities at amortized cost				
Performing	21,042,803	2,028,440	-	**23,071,243**
Total	**21,042,803**	**2,028,440**	-	**23,071,243**
Loss allowance	282,560	4,474	-	**287,034**
Carrying amount	**20,760,243**	**2,023,966**	-	**22,784,209**

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Credit Quality by class of financial assets (continued)

				31 December 2020
	Stage 1	Stage 2	Stage3	Total
Loans and advances to banks*				
Performing	38,062,282	2,529,732	-	40,592,014
Total	**38,062,282**	**2,529,732**	-	**40,592,014**
Loss allowance	14,022	630	-	**14,652**
Carrying amount	**38,048,260**	**2,529,102**	-	**40,577,362**
Investment securities at FVOCI				
Performing	36,983,154	737	-	36,983,891
Total	**36,983,154**	**737**	-	**36,983,891**
Loss allowance**	146,699	3	-	**146,702**
Carrying amount	**36,836,455**	**734**	-	**36,837,189**
Investment securities at amortized cost				
Performing	31,782,220	3,454,312	-	35,236,532
Total	**31,782,220**	**3,454,312**	-	**35,236,532**
Loss allowance	141,584	11,731	-	**153,315**
Carrying amount	**31,640,636**	**3,442,581**	-	**35,083,217**

*Loans and advances to banks include current accounts with banks, money market placements with contractual maturity less than 3 months (see Note 15) and deposits with correspondent banks (see Note 16).

**Loss allowance for investment securities at FVOCI is recognized in other comprehensive income and not as a contra account to the carrying amount of the financial asset in the statement of financial position (see Note 10 (f) (vii) Presentation of allowance for ECL in the statement of financial position).

The following table sets out information about the overdue status of gross amount of loans and advances to customers in Stages 1, 2 and 3.

				31 December 2021
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage3**	**Total**
Up to 30 days in arrears	50,960,371	1,831,879	970,856	**53,763,106**
30 to 90 days in arrears	-	69,339	26,118	**95,457**
More than 90 days	-	-	1,123,311	**1,123,311**
Total	**50,960,371**	**1,901,218**	**2,120,285**	**54,981,874**

				31 December 2020
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage3**	**Total**
Up to 30 days in arrears	49,824,618	341,198	568,750	**50,734,566**
30 to 90 days in arrears	-	375,791	27,550	**403,341**
More than 90 days in arrears	-	-	1,760,694	**1,760,694**
Total	**49,824,618**	**716,989**	**2,356,994**	**52,898,601**

All loans and advances to banks and investment securities fall in the overdue status of less than 30 days in arrears as of 31 December 2021 and 31 December 2020.

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Credit Quality by class of financial assets (continued)

The following table sets out the credit quality of debt securities and loans and advances to banks based on Moody's ratings, Staging and IFRS Category:

	Investment's debt securities		
	31 December 2021		
Sovereign	**Stage 1**	**Stage 2**	**Total**
Rate Baa2	**68,836,562**	**-**	**68,836,562**
FVOCI	48,076,319	-	**48,076,319**
AC	20,760,243	-	**20,760,243**
Rate B1	**2,743,193**	**2,023,966**	**4,767,159**
FVOCI	2,743,193	-	**2,743,193**
AC	-	2,023,966	**2,023,966**
	71,579,755	**2,023,966**	**73,603,721**
Financial Institutions			
Rated Aaa	**531,658**	**-**	**531,658**
FVOCI	531,658	-	**531,658**
Total carrying amount	**72,111,413**	**2,023,966**	**74,135,379**

	31 December 2020		
Sovereign	**Stage 1**	**Stage 2**	**Total**
Rate Baa2	**2,885,166**	**1,933,978**	**4,819,144**
FVOCI	2,885,166	-	2,885,166
AC	-	1,933,978	1,933,978
Rate B1	**64,895,333**	**1,509,337**	**66,404,670**
FVOCI	33,254,697	734	33,255,431
AC	31,640,636	1,508,603	33,149,239
	67,780,499	**3,443,315**	**71,223,814**
Financial Institutions			
Rated Aaa	**696,592**	**-**	**696,592**
FVOCI	696,592	-	696,592
Total carrying amount	**68,477,091**	**3,443,315**	**71,920,406**

	Loans and advances to Banks		
	31 December 2021		
	Stage 1	**Stage 2**	**Total**
Rated Aa3	10,726	-	**10,726**
Rated A1	2,457,955	33,482	**2,491,436**
Rated A2	7,693,467	50,969	**7,744,436**
Rated Baa1	19,783,949	903,687	**20,687,636**
Rated Ba2	782,652	3,745,822	**4,528,474**
Rated B1	717,403	-	**717,403**
Non rated	7,671,309	-	**7,671,309**
	39,117,460	**4,733,959**	**43,851,419**

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Credit Quality by class of financial assets (continued)

	31 December 2020		
	Stage 1	Stage 2	Total
Rated Aa1	3,951,970	-	3,951,970
Rated Aa3	9,931	-	9,931
Rated A1	33,642	27,427	61,070
Rated A2	1,583,179	-	1,583,179
Rated A3	2,383,725	-	2,383,725
Rated Baa1	18,329,101	2,501,674	20,830,775
Rated Baa2	27,268	-	27,268
Rated Baa3	2,961,349	-	2,961,349
Rated Ba2	5,001,598	-	5,001,598
Rated B3	615,373	-	615,373
Non-rated	3,151,125	-	3,151,125
	38,048,261	**2,529,101**	**40,577,363**

(iv) Collateral held and other credit enhancements

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

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

The recovery costs are deducted from estimated future cash flows. Collateral, generally, is not held over loans and advances to financial institutions, except when securities are held as part of reverse repurchase and securities borrowing activity. Usually, collateral is not held against investment securities, and no such collateral was held at 31 December 2021 and 2020.

Below is a summary of loans and advances to customer portfolio by stage and collateral:

	Loans and advances to customers		Collateral		No-collateral	
	GBV	NBV	GBV	NBV	GBV	NBV
Stage 1	50,960,371	50,395,081	45,515,242	45,161,815	5,445,130	5,233,267
Stage 2	1,901,218	1,574,626	1,861,588	1,558,449	39,629	16,177
Stage 3 collectively	448,833	149,034	218,736	134,324	230,098	14,710
Stage 3 individually	1,671,452	849,102	1,664,524	849,101	6,927	-
Total	**54,981,874**	**52,967,843**	**49,260,090**	**47,703,689**	**5,721,784**	**5,264,154**

	Loans and advances to customers		Collateral		No-collateral	
	GBV	NBV	GBV	NBV	GBV	NBV
Stage 1	49,824,618	49,344,231	44,509,098	44,201,582	5,315,519	5,142,649
Stage 2	716,989	487,073	666,833	466,294	50,156	20,779
Stage 3 collectively	471,769	173,313	258,534	156,898	213,235	16,415
Stage 3 individually	1,885,225	898,220	1,799,137	898,220	86,089	-
Total	**52,898,601**	**50,902,837**	**47,233,602**	**45,722,994**	**5,664,999**	**5,179,843**

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iv) Collateral held and other credit enhancements (continued)

Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated every year for corporate segment and every three years for retail segment. An estimate of the undiscounted and discounted fair value of collaterals and other security enhancements held against financial assets is shown below:

	Collateral of Loans and advances to customers			
	31 December 2021		31 December 2020	
	Undiscounted	Discounted	Undiscounted	Discounted
Against individually impaired				
Property	3,735,598	1,275,622	4,515,057	1,456,225
Debt securities	673,774	-	295,110	-
Cash	-	-	-	-
Pledges and guarantees	139,850	-	39,700	-
Other	-	-	-	-
Total	**4,549,222**	**1,275,622**	**4,849,867**	**1,456,225**
Net carrying amount		**849,102**		**898,220**

Net carrying amount represent loans which are individually assessed and in recovery amount is considered only eligible collateral.

The gross amount of collaterals includes the value of collaterals before testing the individually impaired loans. The net carrying amount shows the fair present value of the same collaterals under this test. The table below shows the total amount of collaterals for the loans assessed under the category of collectively impaired including all the Stage 3 exposures that are lower than EUR 100 thousand.

These collaterals do not undergo the same testing procedures as the above group.

The information on the table below provides information on how much the collectively impaired loans and advances to customers are secured against their respective collaterals. Only eligible collaterals are included in discounted collaterals.

	Collateral of Loans and advances to customers			
	31 December 2021		31 December 2020	
	Undiscounted	Discounted	Undiscounted	Discounted
Against Collectively Impaired				
Property	82,923,180	37,359,111	80,879,648	36,155,755
Pledges and guarantees	69,260,598	4,831,072	43,960,488	1,984,816
Cash	798,859	767,359	791,352	759,767
Debt securities	1,626,577	51,804	1,681,404	54,559
Other	1,084,230	-	1,092,724	-
Total	**155,693,444**	**43,009,346**	**128,405,616**	**38,954,897**
Net carrying amount		**46,854,588**		**44,824,774**

It is the Bank's policy to dispose of assets repossessed through the recovering process. The amounts collected from the proceeds are used to reduce or liquidate the carrying amount of the non-performing loans.

The table below sets out the carrying amount and the value of undiscounted collateral of the loans and advances to customers measured at amortized cost.

	31 December 2021		31 December 2020	
	Net carrying amount	Collateral	Net carrying amount	Collateral
Stage 1 and Stage 2	51,969,707	155,693,444	49,831,304	128,405,616
Stage 3	998,136	4,549,222	1,071,533	4,849,867
	52,967,843	**160,242,666**	**50,902,837**	**133,255,483**

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iv) Collateral held and other credit enhancements (continued)

When the Bank holds repossessed assets in its ownership, their conversion into cash is the Bank's first aim, through marketing the properties for sale. If there is no satisfactory offer collected, the Bank's practice is to keep the asset for sale until receiving the best offer. The amounts of repossessed properties are disclosed in note 24.

Depending on operational needs and the suitability of the asset to fulfill those needs, management may decide to make use of the property; in such cases a reclassification into property and equipment (see note 19) of the Bank is performed. The breakdown of the gross book value of the loans and advances by class, along with the fair value of the collateral held by the Bank as security, are as follows:

31 December 2021	**Over-collateralized portfolio**		**Under-collateralized portfolio**	
	Gross book value of portfolio	**Fair value of collateral**	**Gross book value of portfolio**	**Fair value of collateral**
Mortgage Lending	10,037,610	27,371,176	1,939,594	185,544
Leasing	19,737	43,331	-	-
Personal loans	22,140	74,703	2,213,307	-
Overdrafts and credit cards	31,041	53,235	255,270	-
Loans to businesses	34,660,230	125,329,391	3,682,660	1,742,060
Total	**44,770,758**	**152,871,836**	**8,090,831**	**1,927,604**

31 December 2020	**Over-collateralized portfolio**		**Under-collateralized portfolio**	
	Gross book value of portfolio	**Fair value of collateral**	**Gross book value of portfolio**	**Fair value of collateral**
Mortgage Lending	8,793,989	23,940,537	1,352,190	119,038
Leasing	21,268	47,031	-	-
Personal loans	34,589	98,517	2,198,274	-
Overdrafts and credit cards	48,789	75,890	282,648	66
Loans to businesses	31,963,760	99,762,369	5,846,099	3,055,534
Total	**40,862,395**	**123,924,344**	**9,679,212**	**3,174,639**

The table below shows the breakdown of the gross book value of credit impaired loans and advances given to customers by ranges of their collateral coverage:

31 December 2021	**Over-collateralized portfolio**		**Under-collateralized portfolio**	
	Credit impaired loans	**Fair value of collateral**	**Credit impaired loans**	**Fair value of collateral**
Mortgage Lending	232,559	1,042,932	9,467	-
Financial Leasing	-	-	-	-
Personal loans	-	-	196,408	200
Overdrafts and credit cards	1,195	1,418	24,205	483
Loans to businesses	1,484,888	4,257,817	171,563	140,376
Total	**1,718,642**	**5,302,167**	**401,643**	**141,059**

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iv) Collateral held and other credit enhancements (continued)

31 December 2020	Over-collateralized portfolio		Under-collateralized portfolio	
	Credit impaired loans	Fair value of collateral	Credit impaired loans	Fair value of collateral
Mortgage Lending	323,997	1,778,688	8,671	-
Financial Leasing	-	-	-	-
Personal loans	318	3,374	178,310	200
Overdrafts and credit cards	1,325	1,565	25,449	495
Loans to businesses	1,403,664	4,051,058	415,260	321,122
Total	**1,729,304**	**5,834,685**	**627,690**	**321,817**

(v) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 10(f).(vi).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD, for loans to banks and investment securities only;
- qualitative indicators based on forbearance and early warning signals; and
- a backstop of 30 days past due.

New Definition of default "DoD"

The Bank considers a financial asset to be in default when one of the following is met:

- the borrower is in a state of insolvency (even though not legally insolvent) or in a de facto equivalent status. By "state of insolvency" the following shall be intended: structural and permanent (not transitory) inability to satisfy, regularly and through ordinary sources, the Counterparty's obligations due to lack of liquidity and/or access to external funding
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse to actions such as the enforcement of guarantees/ collateral.
- the borrower is more than 90 days past due as described in note 10(f).

Incorporation of forward-looking information

The Bank incorporates forward-looking information into the measurement of ECL. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between EBA (European Banking Authority) stress coefficients and credit losses. The Bank considers three economic scenarios: baseline, adverse scenario, as published by EBA, and best scenario, an internal estimate as a symmetrical reflection of adverse scenario toward baseline one.

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 10 (f)(iv).

Measurement of ECL (Expected Credit Losses)

The framework, IFRS 9 (International Financial Reporting Standard) – Financial Instruments, is based on the estimation of expected losses, different from the incurred losses used under IAS 39. When significant deterioration of the credit quality is recognized, the new concept of Lifetime expected loss is introduced.

Lifetime expected loss covers expected loss for the whole life IFRS 9 specifies that if the credit risk on a financial instrument has increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to Lifetime expected credit losses and if the credit risk on such instrument has not increased significantly, 12-months expected losses should be calculated instead.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of loss rates from defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Low Default Portfolio

A new category of financial instruments are considered for impairment purposes under the IFRS 9 rules, called “Low Default Portfolio”. It includes securities and loans to banks, and as defined by Parent Company consists of exposures with the following parties:

- Sovereign (Central Banks, Governments, Municipalities, Public Sector Entities);
- Institutions (Banks, and other financial institutions);

  Intragroup exposures are exposures with the following parties:

- Parent Company;
- Other ISP subsidiaries.

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

Intragroup transactions are generally classified as Stage 1 with a 12- months ECL following the staging rules for Low Default Portfolio and intragroup exposures based on parent company driven methodologies including validation. Exposures are classified to Stage 2 based on the significant increase of credit risk criterion measured by Lifetime PD comparison. This criterion for Low Default Portfolio is defined based on the specific rating and residual maturity of exposure. Thresholds are provided by Parent Company.

The criteria used to access whether the debt securities credit quality deteriorated significantly since origination is Lifetime PDs comparison. The instrument issuer rating (counterparty rating) is used for the Lifetime PD comparison rather than rating of the single instrument (i.e. at the reporting date different instruments or tranches related to the same issuer will be assigned with the rating of the counterparty at a given date). Debt securities purchased in tranches PD at origination is determined through First In First Out (FIFO) methodology.

Debt securities include “Low Credit Risk Exemption” based on the assumption that the credit risk has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. Therefore, Investment grade instruments at the reporting date are classified to Stage 1.

This exemption is applicable only for instruments belonging to FVOCI portfolio upon the IFRS 9 transition. The following criteria are approved for each stage for Bonds residual maturity of the financial instrument.

Stage 1	Stage 2	Stage 3
• Debt with no significant credit quality deterioration Investment grade debts	• Debt with significant increase in PD since origination	• Defaulted Debt

For Stage 3 – Defaulted debt the impairment testing process for any individually securities is applied. If the fair value is less than the carrying amount or if the issuer is delinquent in its debtor obligations or defaults on payments as demonstrated by any one of the following events:

1. Default;
2. Bankruptcy proceedings;
3. Delinquency in interest or principal payments.

Where any one of these events occurs, given the gravity and the irreversibility of the confirmed situation, an impairment loss should be recorded directly. If the fair value is not more than 20% less than the carrying amount and no other impairment indicators are found, there is no need to test the securities further for impairment. The impairment test for this stage classification is performed according to the rules defined in the ISP Group accounting policy.

Both collective assessment and individual assessment on portfolio basis are approaches to impairment evaluation based on statistical methods by using credit risk parameters which are estimated based on historical data for homogenous groups of assets.

During 2021 the Bank has revised the Loss Given Default Sovereign model, using a model based in the relationship between recovery rates and income/wealth of the countries: the higher the income and wealth of a country, the higher the expected recovery rate in the event of default. The Bank has assessed the impact in Sovereign portfolio for 31 December 2020 was approximate LEK 619 million.

Loss allowances

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, as well as collectively assessed and less significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of expected losses that have not been identified.

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

Movements in impairment allowance funds for:

Loans and advances to banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**14,022**	**630**	**-**	**14,652**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	**(2,987)**	**2,987**	-	-
Transfer to Stage 3	-	-	-	-
Financial Assets that have been derecognized	(7,589)	-	-	**(7,589)**
Net remeasurement of loss allowances	(1,411)	(455)	-	**(1,866)**
New financial assets originated or purchased	2,934	1,135	-	**4,069**
Foreign exchange and other movements	(273)	1	-	**(272)**
Balances at 31 December 2021	**4,696**	**4,298**	**-**	**8,994**

Loans and advances to banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2020	**9,509**	**6,539**	**-**	**16,048**
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(6,488)	-	-	(6,488)
Net remeasurement of loss allowances	1,155	(5,880)	-	(4,725)
New financial assets originated or purchased	4,538	-	-	4,538
Foreign exchange and other movements	(80)	(51)	-	(131)
Balances at 31 December 2020	**8,634**	**608**	**-**	**9,242**

Investment securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**146,699**	**3**	**-**	**146,702**
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(93,662)	(3)	-	**(93,665)**
Net remeasurement of loss allowances	41,428	-	-	**41,428**
New financial assets originated or purchased	482,547	-	-	**482,547**
Foreign exchange and other movements	(900)	-	-	**(900)**
Balances at 31 December 2021	**576,112**	**-**	**-**	**576,112**

Investment securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2020	**5,517**	**-**	**-**	**5,517**
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(5,517)	-	-	(5,517)
Net remeasurement of loss allowances	-	-	-	-
New financial assets originated or purchased	146,903	3	-	146,906
Foreign exchange and other movements	(204)	-	-	(204)
Balances at 31 December 2020	**146,699**	**3**	**-**	**146,702**

Investment securities at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**141,584**	**11,731**	**-**	**153,315**
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(13,294)	(7,745)	-	**(21,039)**
Net remeasurement of loss allowances	154,521	488	-	**155,009**
New financial assets originated or purchased	-	-	-	-
Foreign exchange and other movements	(251)	-	-	(251)
Balances at 31 December 2021	**282,560**	**4,474**	**-**	**287,034**

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

Investment securities at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2020	**301,928**	**6,594**	**-**	**308,522**
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(301,928)	(6,594)	-	(308,522)
Net remeasurement of loss allowances	-	-	-	-
New financial assets originated or purchased	141,706	12,215		153,921
Foreign exchange and other movements	(122)	(484)	-	(606)
Balances at 31 December 2020	**141,584**	**11,731**	**-**	**153,315**

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**480,387**	**229,916**	**1,285,461**	**1,995,764**
Transfer to Stage 1	2,258	(717)	(1,541)	-
Transfer to Stage 2	(115,333)	118,410	(3,077)	-
Transfer to Stage 3	(182,255)	(196,359)	378,614	-
Financial Assets that have been derecognized	(71,562)	(48,379)	(226,915)	**(346,856)**
Net remeasurement of loss allowances	260,273	56,110	(34,668)	**281,715**
New financial assets originated or purchased	209,224	164,535	116,378	**490,137**
Write offs	-	-	(392,103)	**(392,103)**
Foreign exchange and other movements	(14,626)	-	-	**(14,626)**
Balances at 31 December 2021	**565,290**	**326,592**	**1,122,149**	**2,014,031**

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2020	**710,116**	**136,858**	**1,167,339**	**2,014,313**
Transfer to Stage 1	20,548	(7,784)	(12,764)	-
Transfer to Stage 2	(40,679)	67,512	(26,833)	-
Transfer to Stage 3	(13,385)	(5,856)	19,241	-
Financial Assets that have been derecognized	(155,358)	(10,423)	(51,845)	**(217,626)**
Net remeasurement of loss allowances	(121,669)	7,195	111,773	**(2,701)**
New financial assets originated or purchased	68,464	42,180	244,951	**355,595**
Write offs	-	-	(166,722)	**(166,722)**
Foreign exchange and other movements	12,350	234	321	**12,905**
Balances at 31 December 2020	**480,387**	**229,916**	**1,285,461**	**1,995,764**

Loan commitments and financial guarantee contracts	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2021	**34,792**	**2,086**	**10,085**	**46,963**
Transfer to Stage 1	**119**	**(34)**	**(85)**	-
Transfer to Stage 2	**(91)**	**91**		-
Transfer to Stage 3	**(440)**	**(14)**	**454**	-
Financial Assets that have been derecognized	(4,949)	(696)	(2,093)	**(7,738)**
Net remeasurement of loss allowances	3,181	(1,342)	(2,959)	**(1,120)**
New financial assets originated or purchased	5,402		121	**5,523**
Foreign exchange and other movements	(453)	-	-	(453)
Balances at 31 December 2021	**37,561**	**91**	**5,523**	**43,175**

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2020	47,527	262	6,653	54,442
Transfer to Stage 1	53	(2)	(51)	
Transfer to Stage 2	(1,002)	1,002	-	-
Transfer to Stage 3	(2,600)	(8)	2,608	-
Financial Assets that have been derecognized	(3,624)	(0)	(346)	(3,970)
Net remeasurement of loss allowances	(10,045)	832	1,218	(7,995)
New financial assets originated or purchased	4,071	-	3	4,074
Foreign exchange and other movements	412	-	-	412
Balances at 31 December 2020	34,792	2,086	10,085	46,963

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

Gross amount

The following tables show reconciliations from the opening to the closing balance of the gross amount by class of financial instrument.

Loans and advances to banks	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2021	**38,062,282**	**2,529,732**	-	**40,592,014**
Transfer to Stage 2	**(3,242,573)**	**3,242,573**	-	-
Financial Assets that have been derecognized	(26,119,802)	-	-	**(26,119,802)**
Increase/Decerease of the exposure	2,034,890	(2,659,180)	-	**(624,290)**
New financial assets originated or purchased	28,387,359	1,625,132	-	**30,012,491**
Foreign exchange and other movements	-	-	-	-
Balances at 31 December 2021	**39,122,156.00**	**4,738,257.00**	-	**43,860,413.00**

Investment securities at FVOCI	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2021	**36,836,454**	**734**	-	**36,837,188**
Transfer between stages	-	-	-	-
Financial Assets that have been derecognized	(24,742,205)	(712)	-	**(24,742,917)**
Increase/Decerease of the exposure	(301,213)	-	-	**(301,213)**
New financial assets originated or purchased	39,596,522	-	-	**39,596,522**
Foreign exchange and other movements	(38,388)	(22)	-	**(38,410)**
Balances at 31 December 2021	**51,351,170.00**	-	-	**51,351,170.00**

Investment securities at amortized cost	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2021	**31,782,220**	**3,454,312**	-	**35,236,532**
Transfer between stages	-	-	-	-
Financial Assets that have been derecognized	(10,658,128)	(1,516,347)	-	**(12,174,475)**
Increase/Decerease of the exposure	(38,492)	106,461	-	**67,969**
New financial assets originated or purchased	-	-	-	-
Foreign exchange and other movements	(42,797)	(15,986)	-	**(58,783)**
Balances at 31 December 2021	**21,042,803.00**	**2,028,440.00**	-	**23,071,243.00**

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

Gross amount (continued)

Loans and Advances to Customers	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2021	**49,824,618**	**716,989**	**2,356,994**	**52,898,601**
Transfer to Stage 1	122,207	(69,887)	(52,320)	-
Transfer to Stage 2	(512,610)	520,755	(8,145)	-
Transfer to Stage 3	(362,378)	(302,378)	664,756	-
Financial Assets that have been derecognized	(6,781,538)	(109,142)	(917,216)	(7,807,896)
Increase/Decerease of the exposure	(4,781,434)	(89,889)	(144,918)	(5,016,241)
New financial assets originated or purchased	13,447,710	1,226,351	260,944	14,935,005
Foreign exchange and other movements	3,796	8,419	(39,810)	(27,595)
Balances at 31 December 2021	**50,960,371**	**1,901,218**	**2,120,285**	**54,981,874**

OFF BALANCE SHEET	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2021	**11,118,263**	**38,507**	**10,991**	**11,167,761**
Transfer to Stage 1	**19,990**	**(19,990)**	**-**	**-**
Transfer to Stage 2	**(1,043)**	**1,043**	**-**	**-**
Transfer to Stage 3	**2,062**		**(2,062)**	**-**
Financial Assets that have been derecognized	(1,701,420)	(17,553)	(2,307)	**(1,721,280)**
Increase/Decerease of the exposure	(1,011,814)	(942)	(1,408)	**(1,014,164)**
New financial assets originated or purchased	1,417,247	-	121	**1,417,368**
Foreign exchange and other movements	(481)	(22)	503	**-**
Balances at 31 December 2021	**9,842,804**	**1,043**	**5,838**	**9,849,685**

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Amounts arising from ECL (continued)

The following table provides for the year 2021 and 2020 a reconciliation between opening and closing balances of loss allowance per class of financial instrument:

	Loans and advances to banks	Loans and advances to customers	Investment securities at FVOCI	Investment securities at amortized cost	Total
Net remeasurement of loss allowance	(9,455)	(65,141)	(52,237)	133,970	**7,137**
New financial assets originated or purchased	4,069	490,137	482,547	-	**976,753**
Balances at 31 December 2021	**(5,386)**	**424,996**	**430,310**	**133,970**	**983,890**

	Loans and advances to banks	Loans and advances to customers	Investment securities at FVOCI	Investment securities at amortized cost	Total
Net remeasurement of loss allowance	(2,138)	(220,327)	(5,517)	(308,522)	**(536,504)**
New financial assets originated or purchased	6,961	355,595	146,906	153,921	**663,383**
Balances at 31 December 2020	**4,823**	**135,268**	**141,389**	**(154,601)**	**126,879**

(vi) Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when the Bank's Board of Directors determines that the loans are uncollectible. This is generally the case when the Board of Directors determines that significant changes in the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(vii) Concentration of Credit Risk

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

	Net Loans and advances to customers	
Concentration by sector	**31 December 2021**	**31 December 2020**
Energy	12,771,689	9,772,663
Services	7,303,022	7,917,671
Wholesale	9,106,404	10,491,366
Construction	5,728,502	2,177,959
Manufacturing	2,439,035	5,962,678
Real Estate	471,135	379,108
Other	859,361	1,603,084
Corporate total	**38,679,148**	**38,304,529**
Mortgage	11,934,543	10,141,005
Consumer	2,354,152	2,457,303
Retail total	**14,288,695**	**12,598,308**
Carrying amount	**52,967,843**	**50,902,837**

	Loans and advances to banks	
Concentration by sector	**31 December 2021**	**31 December 2020**
Related parties bank	22,199,347	25,830,612
Other EU countries	18,969,807	11,603,048
Local banks	2,682,265	3,143,702
Carrying amount	**43,851,419**	**40,577,362**

	Investment securities	
Concentration by sector	**31 December 2021**	**31 December 2020**
Sovereign (Note 17)	73,603,707	71,223,814
Other Financial Institutions	531,672	696,592
Carrying amount	**74,135,379**	**71,920,406**

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

	31 December 2021	**Exposure In %**	**31 December 2020**	**Exposure In %**
Republic of Albania securities	68,260,450	36%	66,257,971	36%
Balances with Bank of Albania	18,123,184	10%	17,072,920	9%
Total direct Albanian Sovereign risk	**86,383,634**	**45%**	**83,330,891**	**45%**
Largest bank	15,499,342	8%	16,025,744	9%
Largest customer	2,412,904	1%	4,592,685	3%
Total largest bank and customer	**17,912,246**	**9%**	**20,618,429**	**12%**
Total on-balance-sheet risk	**104,295,880**	**55%**	**103,949,320**	**57%**

The largest exposure toward the banks is exposure to the Group parent and the largest customer is a private company operating in energy sector.

Republic of Albania securities includes securities invested with Government of Albania classified as FVOCI and AC.

Balances with Bank of Albania include current account and mandatory reserve with Bank of Albania

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11. Financial Risk Management (continued)

(a) Credit Risk (continued)

(viii) Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honor its obligations to deliver cash, securities or other assets as contractually agreed. The settlement risk with financial institutions and government counterparties is included within a system of limits for all the transactions with such counterparties and is subject to daily monitoring, defined and regulated in the internal documents "ISBA Credit Autonomy Level" and "ISBA Rules for the management and maintenance of the FI-s limits" and the Central Bank of Albania regulation "On risk management arising from the large exposures of the Bank".

Following the approval with the aim to prevent any breaches of local regulatory counterparty limits with Financial Institutions, generated by fluctuations of exchange rates, the bank has integrated warning level limits (soft limits), 23.4 % of regulatory capital for the exposures toward ISP Group and 18.7 % of regulatory capital for the exposures toward other Financial Institutions/Governments, as approved by Financial risk committee ("RCO") on 24 January 2017 and reapproved the same level of soft limits by ALCO 21 March 2019. The Bank of Albania regulation "On risk management arising from the large exposures of Bank" was revised in force in March 2015 has been complied for the year ended 31 December 2021.

(b) Liquidity Risk

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

(i) Management of liquidity risk

The Bank's approach to managing liquidity risk is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank defines the guidelines for liquidity risk management and the contingency liquidity plan, which are subject to review by Group structures and approval by the Bank's Financial Risk Committee and Board of Directors. The Treasury and ALM Department is responsible for liquidity management and the Risk Management Division is responsible for monitoring indicators and verifying adherence to the limits and the Bank's Regulation on Liquidity Risk Management is annually updated.

The Bank monitors liquidity, in accordance with this regulation, in order to manage its obligations when they fall due and activate emergency procedures in case of escalation.

A balanced ratio should be maintained between incoming sources and outflows, in both the short and medium-long term. This target is organized through the use of the following specific metrics "Liquidity Coverage Ratio up to 30 days" and "Net Stable Funding Ratio".

- **Liquidity Coverage Ratio (LCR)** up to 30 days: aims to ensure that the Bank maintains an adequate level of unencumbered high-quality liquid assets (HQLA) to meet its short-term liquidity needs under liquidity stress scenario (LCR≥105%).
- **Net Stable Funding Ratio (NSFR):** aims to guarantee an adequate liquidity position over a medium/long-term time horizon. It establishes a minimum "acceptable" amount of funding over one-year horizon in relation to the needs arising from the liquidity characteristics and the residual maturities of assets and off-balances exposures (NSFR≥102.5%).

Holding reserves of liquid assets (so-called Liquidity Buffer) is one of the main tools for mitigating liquidity risk. For the purpose of identifying and measuring this risk, both short and medium-long term, the classification of highly-liquid assets takes on crucial importance.

Furthermore, the Bank prepares liquidity scenarios, based on assumptions provided by the Group guidelines, such as market or firm specific crisis situations, monitors "Early Warning LCR" threshold and additional monitoring tools. The short-term indicator (LCR) shows a very well level of liquidity of the bank, under a liquidity stress scenario.

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11. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

(i) Management of liquidity risk (continued)

In its Liquidity Policy, the Bank projects an LCR indicator of up to 3 months by including the estimated market effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis, based on assumptions provided by the Group's guidelines, LCR up to 3 months≥90. This indicator was on force up to December 2020, and it was substituted by a new indicator "Survival Period" measures the first day in which the Net Liquidity Position (NLP) of the Bank turns negative, namely when the additional liquidity to cover the simulated net liquidity outflows is no longer available. Under the stressed condition, the "Survival Period" should be always positive at least up to 90 days.

A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limits established by the Bank of Albania, which should be above 20% for all currencies and foreign currencies and above 15% for the local currency.

As per new BOA regulation, No. 27, "On the Liquidity Coverage Ratio", the Bank must be compliant also with the following 1M Liquidity Coverage Ratio limits:

- A limit of total currencies LCR is defined at least 100% and
- for total significant foreign currencies LCR the limit is gradually set as follows:

LCR TOTAL SIGNIFICANT CURRENCY (Euro +Usd)

- 1st Mar 2020 50%
- 1st Jan 2021 70%
- 1st Jan 2022 80%

In the ALCO meeting held on 26th August 2020 the following single currency limits are approved:
LCR limits for Lek, Eur and USD :

- 1st Mar 2020 50%
- 1st Jan 2021 70%
- 1st Jan 2022 80%

(ii) Compulsory reserve

On 7 February 2018 Bank of Albania approved the decision no.14 for the change on the Compulsory Reserve requirement. These changes have entered in force during June 2018 up to August 2019 and consist of the following:

- Decrease for the obligatory reserve requirement rate for local currency liabilities to 7.5% and 5% (previous rate applied: 10%).
- The new obligatory reserve requirement rate for foreign currency liabilities is 12.5% and 20%. Liabilities in foreign currency up to 50% of the total liabilities have a 12.5% requirement rate and for the part of above 50% of the total liabilities the requirement rate is 20% (previous rate applied: 10 %).

All the above liquidity ratios are periodically monitored by the Bank with reference to the Group internal limits and guidelines and to the Bank of Albania requirements. During the year 2021, the bank has been within the internal and regulatory limits.

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11. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

The table enclosed shows breakdown by the earliest contractual residual maturity of undiscounted balances of financial assets and liabilities. The securities portfolio in Level 1 is classified as less than 1 months since they are traded in active markets. The other securities are classified as per remaining maturity, since are considered as not liquid assets. Behavioral coefficients of ISP Group are applied for the drawdown percentages for off-balance-sheet categories such as committed credit lines and guarantees. The breakdown considers the cash flows in/out of the Bank for on and off-balance-sheet financial assets and liabilities, according to the earliest contractual residual maturity and not reflecting any retention history assumptions or earlier repayment.

31 December 2021	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Assets (Cash Flow IN)	**108,039,462**	**7,297,992**	**22,791,218**	**45,736,588**	**17,761,153**	**201,626,413**
Cash on hand	1,520,918	-	-	-	-	1,520,918
Minimum reserve requirements	-	-	-	17,518,407	-	17,518,407
Advances to banks	13,831,198	-	-	-	-	13,831,198
Investment Securities FVOCI	64,109,984	-	-	-	-	64,109,984
Other Investment Securities	75,234	3,247,617	3,679,169	7,154,766	2,118,515	16,275,301
Loans to banks	14,102,946	2,490,382	12,611,126	-	-	29,204,454
Loans and advances to customers (gross performing loans)	14,399,182	1,559,993	6,500,923	21,063,415	15,642,638	59,166,151
31 December 2021						
Liabilities (Cash flow OUT)	**(124,155,805)**	**(8,402,992)**	**(20,540,730)**	**(18,479,508)**	**(174,693)**	**(171,753,728)**
Deposits from banks and customers- Current accounts	(119,603,837)	-	-	-	-	(119,603,837)
Current accounts with banks	(115,731)	-	-	-	-	(115,731)
Current accounts with customers	(119,488,106)	-	-	-	-	(119,488,106)
Deposits from banks	(1,360,882)		-	-	-	(1,360,882)
Deposits from customers- Time deposits	(3,191,086)	(8,402,992)	(20,540,730)	(18,479,508)	(174,693)	(50,789,009)
Total gap on-balance sheet	**(16,116,343)**	**(1,105,000)**	**2,250,488**	**27,257,080**	**17,586,460**	**29,872,685**
Off-Balance sheet (Cash flow in)	-	-	-	-	-	-
Off- Balance sheet (Cash flow out)	(347,797)	-	-	-	-	(347,797)
Total gap off-balance sheet	**(347,797)**	**-**	**-**	**-**	**-**	**(347,797)**
Total gap 31 December 2021	**(16,464,140)**	**(1,105,000)**	**2,250,488**	**27,257,080**	**17,586,460**	**29,524,888**
Cumulated gap 31 December 2021	**(16,464,140)**	**(17,569,140)**	**(15,318,652)**	**11,938,428**	**29,524,888**	**-**

The Bank manages liquidity positions in accordance with Central Bank rules and regulations and it is compliant with all liquidity ratios. Contractual maturities of liabilities, particularly those up to one month are high due to significant current accounts of customers. However, the rate of renewal of the current accounts is significantly high and settlement in not expected in the short term.

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11. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

31 December 2020	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Assets (Cash Flow IN)	**102,882,562**	**17,322,864**	**16,459,873**	**47,883,656**	**14,497,399**	**199,046,354**
Cash on hand	1,503,763	-	-	-	-	1,503,763
Minimum reserve requirements	-	-	-	16,207,078	-	16,207,078
Advances to banks	14,474,947	-	-	-	-	14,474,947
Investment Securities	62,836,512	-	-	-	-	62,836,512
Other Investment Securities	167,730	8,894,176	1,209,094	10,800,086	795,697	21,866,783
Loans to banks	10,960,420	6,995,150	7,237,197	-	-	25,192,767
Loans and advances to customers (*gross performing loans*)	12,939,190	1,433,538	8,013,582	20,876,492	13,701,702	56,964,504
31 December 2020						
Liabilities (Cash flow OUT)	**(112,500,550)**	**(8,749,685)**	**(22,768,840)**	**(19,199,127)**	**(186,169)**	**(163,404,371)**
Deposits from banks and customers- Current accounts	**(107,338,175)**	**-**	-	-	-	**(107,338,175)**
Current accounts with banks	(20,695)	-	-	-	-	(20,695)
Current accounts with customers	(107,317,480)	-	-	-	-	(107,317,480)
Deposits from banks	(1,679,382)	-	-	-	-	(1,679,382)
Deposits from customers- Time deposits	(3,482,993)	(8,749,685)	(22,768,840)	(19,199,127)	(186,169)	(54,386,814)
Total gap on-balance sheet	**(9,617,988)**	**8,573,179**	**(6,308,967)**	**28,684,529**	**14,311,230**	**35,641,983**
Off-Balance sheet (Cash flow in)	-	-	-	-	-	-
Off- Balance sheet (Cash flow out)	(332,357)	-	-	-	-	(332,357)
Total gap off-balance sheet	(332,357)	-	-	-	-	(332,357)
Total gap 31 December 2020	**(9,950,345)**	**8,573,179**	**(6,308,967)**	**28,684,529**	**14,311,230**	**35,309,626**
Cumulated gap 31 December 2020	**(9,950,345)**	**(1,377,166)**	**(7,686,133)**	**20,998,396**	**35,309,626**	**-**

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11. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

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

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

31 December 2021	1 Month	1-3 Months	3-12 Months	1-5 Years	>5 Years	Total
Commitments	5,887,122	-	-	-	-	**5,887,122**
Guarantees	4,900,405	-	-	-	-	**4,900,405**
31 December 2020						
Commitments	4,868,368	-	-	-	-	**4,868,368**
Guarantees	5,773,011	-	-	-	-	**5,773,011**

The Bank expects only a small part of the commitments to be demanded within one month and guarantees to be closed at maturity date. (Refer also to note 37 Commitment and contingencies)

Reconciliation between contingent liabilities and commitments maturity table and note 39 Commitment and contingencies is as follows:

	31 December 2021	31 December 2020
Commitments	**5,887,122**	**4,868,368**
Un-drawn credit facilities	5,887,122	4,868,368
Guarantees	**4,900,405**	**5,773,011**
Letters of credit	77,238	1,316,966
Guarantees in favor of customers	4,823,168	4,456,045

(c) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risks

The Bank holds its securities portfolio in accordance with IFRS 9 as either Held to Collect (HTC) or Held to collect and sell (HTCS). ISBA Security Portfolio is managed by "ISBA Financial Portfolio Policy "which defines the below specific limits:

- According to the ISBA Financial Portfolio Policy, approved in ISBA Board of Directors on 30 June 2020 April 2020, the bank is not allowed to invest in the Hold to Collect Portfolio.
- According to the provision of the Capital Adequacy Ratio as of 01/01/2021, the assigned risk for the securities issued by the Albanian Government in foreign currency will be increased from 50% to 100%, with exceptions for securities issued in foreign currency by Albanian Government in years 2020 and 2021, risk weight to be applied 0%, decision taken from the Supervisory council of Bank of Albania
- The security portfolio should obey the specific limits related to type of issuer limits presented on the below table
- The overall portfolio must comply with some pre-defined type of issuer limits, which are categorized based on the issuer type, rating and currency.

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11. Financial Risk Management (continued)

(b) Market Risk (continued)

Management of market risks

- Investments in Portuguese and Greek government securities and covered bonds of the same countries are not allowed. For all the investments in debt securities, classified as HTCS or HTC, issued by countries considered "at risk" according to ISP Country Risk Guidelines (i.e. countries not belonging to euro area with an internal rating lower than AA-), the approval process and authorization procedure required by the guidelines in force must be followed. The HTCS security portfolio should be in within a VaR Limit, which was a requirement of the ISP Risk management department. The limit has been defined from ISP Risk management using the historical data of securities portfolio of ISBA. The methodology used for the calculus of the VaR is based on the simulation method applied in full-revaluation and supported by the architecture of HO IBM's "Mark-to-Future". This limit has been introduced and is monitored by ISP Financial and Market Risks Head Office Department/Risk Monitoring & Governance Office on daily basis. In the case of limit violation, they will inform accordingly ISBA structures, ISP Treasury and ISBA Local Risk in order to take all necessary steps to get back to limits. The limit assigned to Intesa Sanpaolo Bank Albania are:

HTCS Securities Portfolio Limits	Limit	Currency
HTCS Early Warning VaR	2,100,000	EUR
HTCS Soft Limit VaR	2,480,000	EUR
HTCS Managerial Alert (Stressed VAR)	3,040,000	EUR
HTCS Early Warning Stressed VaR	3,800,000	EUR

(i) Exposure to Foreign Exchange rate risk

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

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

The Bank's exposure to exchange rate risk is monitored on a daily basis by Market and Operational Risk Office ensuring compliance with the internal and regulatory limits. Internal regulations set limits for each open currency position, global open position, maximum loss and Value at Risk (VaR).

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11. Financial Risk Management (continued)

(c) Market Risk (continued)

(i) Exposure to Foreign Exchange rate risk (continued)

Assets	LEK	USD	EUR	OTHER	TOTAL
Cash and cash equivalents	2,717,704	3,558,202	21,274,255	2,093,137	**29,643,298**
Loans and advances to banks	4,351,554	1,778,070	27,291,362	432,085	**33,853,071**
Investment securities at FVOCI	43,863,387	531,671	6,956,111	-	**51,351,169**
Investment securities at amortized cost	19,189,974	2,023,966	1,570,269	-	**22,784,209**
Loans and advances to customers	17,013,254	2,589,832	33,364,622	135	**52,967,843**
Property and equipment's	1,974,017	-	-	-	**1,974,017**
Right of use	469,669	-	-	-	**469,669**
Intangible assets	517,813	-	-	-	**517,813**
Investment Property	533,798	-	-	-	**533,798**
Deferred tax assets	422,933	-	-	-	**422,933**
Current tax assets	290,395	-	-	-	**290,395**
Other assets	436,559	12,768	412,811	210	**862,348**
Total Assets (1)	**91,781,057**	**10,494,509**	**90,869,430**	**2,525,567**	**195,670,563**
Liabilities					
Due to Banks	1,232,568	-	235,103	8,768	**1,476,439**
Due to customers	66,314,174	10,194,036	90,450,127	2,503,082	**169,461,419**
Provisions	298,655	31,343	204,551	-	**534,549**
Lease liabilities	3,791	-	464,969	-	**468,760**
Other liabilities	719,062	28,774	429,125	5,118	**1,182,079**
Deferred tax liabilities	220,618	-	-	-	**220,618**
Net Equity	22,239,930	(1,419)	88,188	-	**22,326,700**
Total Liabilities (2)	**91,028,798**	**10,252,734**	**91,872,063**	**2,516,968**	**195,670,564**
Net FX Position at 31 December 2021 (1)-(2)	**752,259**	**241,775**	**(1,002,633)**	**8,599**	(0)
Off balance sheet Assets	15,640,001	5,373,081	140,472,310	-	161,485,392
Off balance sheet Liabilities	15,510,159	5,613,526	140,361,707		161,485,392
Net Off BSH FX Position at 31 December 2021	**129,842**	**(240,445)**	**110,603**		
Total Net FX Position at 31 December 2021	**882,101**	**1,330**	**(892,030)**	**8,599**	**-**
Balance sheet Assets as at 31 December 2020	16,088,144	3,471,474	130,015,985	123,155	149,698,758
Balance sheet Liabilities as at 31 December 2020	16,193,803	3,506,857	129,998,098	-	149,698,758
Net Off BSH FX Position at 31 December 2020	**(105,659)**	**(35,383)**	**17,887**	**123,155**	**-**
Total Net FX Position at 31 December 2020	**(75,102)**	**6,581**	**(56,833)**	**125,354**	**-**

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11. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk

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

The method used to measure Interest Rate risk of the Bank's assets and liabilities is based on the sensitivity analysis. The measurement system adopted by the Bank must ensure that the risk profile can be examined from two distinctive but complementary points of view:

- the economic value perspective (EVE - Economic Value of Equity), that evaluates the impact of interest rates shocks (and their volatilities) on the present value of future cash flows;
- the net interest income perspective (NII - Net Interest Income), that evaluates the impact of interest rates shocks (and their volatilities) on net interest income.

The Bank's financial assets and liabilities have mainly variable interest rate or have a re-pricing date of less than one year, except for Albanian Securities and for certain non-Albanian securities investment, which have fixed coupon rates between 0.19% - 6.87% for USD denominated securities (2020: 0.3% - 6.9%) and between 0.17% - 3.50% for EUR denominated securities (2020: 0.3 – 3.6%)

The Bank's Regulation on Interest Rate Risk Management, "ISBA Guidelines on the governance of IRRBB" and "ISBA Rules on the measurement and control of IRRBB" have been approved by the ISBA ALCO June 2021 and ISBA Board of Directors on October 2021.

These documents implement the latest regulatory provisions, recently defined in the Guidelines issued by the Parent Company on March 2021, based on the EBA regulation (EBA/GL/2018/02), and keeping the provisions of the Bank of Albania guideline "On managing interest rate risk in the banking book", approved as per decision No. 33, dated 30 April 2013. Interest rate risk generated by the Bank's assets and liabilities, as measured through shift sensitivity of Fair Value analysis of ± 100 basis points, registered at the end of December 2021 a value of ALL 825 million (for +100 basis points) compared to the end of year 2020 ALL -732 million.

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11. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk (continued)

The table below shows the currency breakdown of the shift sensitivity for the year end 2021 and 2020.

Shift sensitivity

31-Dec-21	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	**+100 b.p. / -100 b.p.**	(456,323)/356,880	(313,945)/239,403	(142,378)/117,477
USD	**+100 b.p. / -100 b.p.**	(61,806)/67,675	(60,780)/66,638	(1,025)/1,037
ALL	**+100 b.p. / -100 b.p.**	(308,653)/307,721	136,681/(131,670)	(445,334)/439,391
Other (GBP & CHF)	**+100 b.p. / -100 b.p.**	1,423/(1,451)	1,423/(1,451)	0/0
31-Dec-20	**Increase in basis points**	**Total**	**Sensitivity of Profit & Loss**	**Sensitivity of Equity**
EUR	+100 b.p. / -100 b.p.	(341,674)/152,055	(293,238)/134,943	(48,036)/17,112
USD	+100 b.p. / -100 b.p.	(82,404)/90,163	(80,201)/87,930	(2,203)/2,234
ALL	+100 b.p. / -100 b.p.	(309,602)/311,968	(25,205)/54,590	(284,397)/257,378
Other (GBP & CHF)	+100 b.p. / -100 b.p.	891/(959)	891/(959)	0/0

The limits on shift sensitivity of Fair Value (EVE) for shock +100bp and the NII Sensitivity for shocks +/-50bp are part of the RAF limits for ISBA 2021.

The NII sensitivity records the NII effects generated by the market rates movement on the renewal/re-pricing of the banking book. It quantifies the short-term impact on the net interest income of a parallel, instantaneous, permanent shock of ±50 basis points to the interest rate curve. This measure highlights the effect of variations in market rates on the interest margin generated by the portfolio that is being measured, excluding potential effects deriving from the new operations and future changes in the mix of assets and liabilities. The reference time horizon is typically limited to 1 year and according to the hypothesis that the institution is able to continue its activities ("going concern" approach).

The Interest rate risk generated by the Bank's assets and liabilities, as measured through shift sensitivity of Net Interest Income analysis of ± 50 basis points, registered at 31 December 2021a value of Lek 315 million (for +50 basis points) and a value of Lek -326 million (for -50 basis points), compared to December 2020 Lek 270 million (for +50 basis points) and a value of Lek -304 million (for -50 basis points).

The sight positions with customers in ALL and EUR are treated based on behavioral model for the NII sensitivity defining the customer interest rate in the long-term and including the behavioral features and delayed reaction to market interest rates (in the short-term) resulting from the model. The behavioral model is developed by ISP Financial and Market Risks Head Office Department, based on the ISBA historical data provided from the Local Risk structure. The model results have been update based on the latest historical data of ISBA sight position (sight loans and sight deposits) by the HO above structure. The updated parameters results approved in GFRC November 2019 and ISBA BOD August 2020, are under implementation in the ALMPro risk system.

A different method used to measure Interest Rate risk is required by the Bank of Albania, which consists of quarterly monitoring of the interest rate risk exposure towards a parallel shock of ±200 basis points of the interest rate curve. For all the financial categories of assets and liabilities divided into either fixed or floating rate, their present value is calculated and is distributed in 14-time buckets. The total present value is then multiplied accordingly with the estimated modified duration of each time bucket. The limit for this exposure is 20% of the Bank's regulatory capital. The Bank has been within the limit with the interest rate risk exposures at 31 December 2021 being 9.6% of the Bank's regulatory capital (31 December 2020: 10%).

The Bank has been within the limits in accordance with Bank of Albania regulation and the internal regulation during the year 2021.

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11. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk (continued)

The tables below summarize the Bank's interest-bearing financial assets and liabilities with both fixed and floating interest rates, as reported to Parent company and management of the Bank.
Based on the management of Interest Rate risk regulation, the carrying amount of each financial instrument is mapped to the repricing gap based on contractual undiscounted cash –flows or behavioral re-pricing date. The contractual includes instruments where the Bank knows exactly when the maturity or next re – pricing takes place.

31-Dec-21		O/N	0-3 months	3-18 months	18m - 3 years	3 - 5 years	>5 years	Total
Assets	**Interest rate type**							
Loans and advances to banks	Fix rate	15,910,894	33,333,961	12,626,979	-	-	-	61,871,834
	Floating rate	-	-	-	-	-	-	-
Loans and advances to customers	Fix rate	13,119,322	852,384	3,442,928	2,364,878	1,408,885	1,687,421	22,875,818
	Floating rate	305,128	4,895,905	26,398,560	366,730	347,434	515,790	32,829,547
Financial investments	Fix rate	-	13,429,206	38,249,049	10,291,043	9,062,094	2,623,183	73,654,575
	Floating rate	-	1,673,964	1,571,224	4,674	-	-	3,249,862
Other financial assets	Fix rate	89,016	128,722	361,313	154,873	186,565	118,654	1,039,143
	Floating rate	1,520,918	-	-	-	-	-	1,520,918
Total financial assets (interest-bearing)		**30,945,278**	**54,314,143**	**82,650,053**	**13,182,198**	**11,004,977**	**4,945,049**	**197,041,697**
Liabilities		-	-	-	-	-	-	-
Deposits to banks	Fix rate	(115,731)	(1,140,055)	-	(220,827)	-	-	(1,476,613)
	Floating rate	-	-	-	-	-	-	-
Due to customers	Fix rate	(119,965,860)	(11,408,175)	(24,579,319)	(11,669,354)	(2,760,793)	(175,317)	(170,558,818)
	Floating rate	-	-	-	-	-	-	-
Other liabilities	Fix rate	(631,720)	(67,591)	(591,493)	(238,964)	(215,029)	(80,556)	(1,825,353)
	Floating rate	-	-	-	-	-	-	-
Total financial liabilities (interest-bearing)		**(120,713,311)**	**(12,615,820)**	**(25,170,812)**	**(12,129,146)**	**(2,975,822)**	**(255,873)**	**(173,860,782)**
Interest sensitivity gap		**(89,768,033)**	**41,698,321**	**57,479,241**	**1,053,053**	**8,029,156**	**4,689,175**	**23,180,913**

The behavioral includes instruments whose residual life and/or interest rate have high levels of uncertainty that may depend on specific behaviors by customers, as the sight loans (advances to banks and advances to customers) and sight deposits (current accounts to customers) are positioned in the O/N (on demand) bucket, until the definition of behavioral coefficients. The reprising gap is calculated according to the internal rules on Interest rate risk as the difference between interest-bearing assets and interest-bearing liabilities in a given time bucket. Other financial assets/liabilities, capital and reserves, are items not included in the reprising gap, not considered interest-bearing.

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11. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk (continued)

31 December 2020		**O/N**	**0-3 months**	**3-18 months**	**18m - 3 years**	**3 - 5 years**	**>5 years**	**Total**
Assets	**Interest rate type**							
Loans and advances to banks	Fix rate	17,314,251	33,088,722	7,237,197	-	-	-	57,640,170
	Floating rate	-	-	-	-	-	-	-
Loans and advances to customers	Fix rate	11,491,088	947,276	5,060,632	2,476,423	1,304,973	1,412,930	22,693,322
	Floating rate	1,237,287	4,234,608	24,137,760	360,812	318,346	495,151	30,783,964
Financial investments	Fix rate	-	11,343,991	37,711,095	11,335,030	8,483,676	2,142,990	71,016,782
	Floating rate	-	3,552,167	513,347	11,649	692	-	4,077,855
Non-Performing Loans	Fix rate	(117,858)	323,448	560,263	32,006	62,178	154,576	1,014,613
Other financial assets	Fix rate	1,503,763	-	-	-	-	-	1,503,763
Total financial assets (interest-bearing)		**31,428,531**	**53,490,212**	**75,220,294**	**14,215,920**	**10,169,865**	**4,205,647**	**188,730,469**
Liabilities								
Deposits to banks	Fix rate	(596,923)	(1,362,000)	-	-	(317,333)	-	(2,276,256)
	Floating rate	-	-	-	-	-	-	-
Due to customers	Fix rate	(107,332,135)	(11,622,982)	(25,860,053)	(10,548,007)	(5,539,387)	(188,288)	(161,090,852)
	Floating rate	-	-	-	-	-	-	-
Other liabilities	Fix rate	(490,149)	(36,473)	(283,989)	(128,761)	(90,347)	(39,456)	(1,069,175)
	Floating rate	-	-	-	-	-	-	-
Total financial liabilities (interest-bearing)		**(108,419,207)**	**(13,021,455)**	**(26,144,042)**	**(10,676,768)**	**(5,947,067)**	**(227,744)**	**(164,436,283)**
Interest sensitivity gap		**(76,990,676)**	**40,468,757**	**49,076,252**	**3,539,152**	**4,222,798**	**3,977,903**	**24,294,186**

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11. Financial Risk Management (continued)

(c) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. This definition includes: legal risk, or the risk of losses resulting from violations of law or regulations, from contractual or constructive liability or from other disputes; model risk, defined as the potential loss which can be suffered by an entity, resulting from decisions mainly based on the results of internal models, caused by errors occurred during their development, implementation or use; Compliance risk, defined as the risk to incur judicial or administrative penalties, relevant financial losses resulting from the violation of mandatory rules or self-regulation; ICT risk (Information and Communication Technology, or simply computer risk), defined as the risk to incur economic losses related to the use of information and communication technology. Strategic and reputational risks are excluded.

The Bank's Board of Directors has approved the guidelines on the overall operational risk management framework adopting a policy and an organizational process for measuring, managing and controlling operational risk. The Bank's Regulation on Guideline for Operational Risk Management is fully in compliance with the Group Guidelines on Operational Risk Management issued on December 2014.

The Bank's Operational Risk Management Committee (hereinafter as ORCO) is responsible for the management of the operational risk of the Bank in terms of reviewing operational risk governance documentation and approving changes, preparing policies, standards and methodologies regarding operational risk management. One of the tools introduced for the management of operational risk is the definition of Operational Risk Key Indicators (KRIs). The final list of KRIs and thresholds was approved in ISBA Operational Risk Committee on October 2015. Since their approval, the Internal KRIs have been monitored and reported on quarterly bases in the ORCO and BoD meetings. The Internal KRIs are subject of an annual review process in order to ensure that they are aligned with the dynamic of the operational context and the significant risks that the Bank faces. Any amendment on KRIs policy will be submitted in ORCO and BoD for approval.

Thresholds for Bank of Albania KRI-s are defined and integrated within "ISBA KRIs Policy", approved in ISBA BOD 4 May 2018. The KRI-s are monitored on quarterly basis as per regulation BoA "On Operational Risk Management" in place, and reported in ORCO and BoD meetings.

The Bank's Risk Management Division is responsible for the identification, assessment, management and mitigation of operational risks, the verification of mitigation effectiveness and reporting to the Bank Senior Management and Group Risk Management with the aim of assessing the potential economic impact of particularly serious operational events.

The Bank carries out an annual assessment campaign set up by Intesa Sanpaolo Group, Self-Diagnosis process, which consists on the operational risk identification and assessment linked to the activity of each single unit within a structure.

The objectives of the Self Diagnosis process are to identify, measure, monitor, and mitigate operational risks. The Self Diagnosis process contributes to the spread of risk - control culture within the Bank. This process is composed of phases relative to the Assessment of the Business Environment, which determines the quality of each structure's risk control profile through the analysis of the importance and the level of management of risk factors in the operating context and phases relative to Scenario Analysis, which determine the size of each structure's risk profile by collecting estimated quantitative data from Business and Operational Units Responsible.

The Bank has the same responsibilities towards the Bank of Albania, based on the regulation on management of operational risk, entered into force on January 2011. The Bank reports regularly on the key indicators and classifications of effective operational losses as per business lines according to the regulatory requirements.

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11. Financial Risk Management (continued)

(d) Capital Management

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

Implementing the current capital requirements, the Central Bank of Albania requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets and off-balance sheet items, at a minimum level of 12%. During financial year 2021 the Bank achieved an adequacy ratio well above the minimum required which as at 31 December 2021 is calculated 23.77% (2020: 21.54%).

The modified capital adequacy ratio, which represents the ratio of base capital to risk-weighted assets and off-balance sheet items, is another limit set by the Central Bank of Albania at a level of 6%. Throughout the period, there were no material changes in the Bank's management of capital and all externally imposed capital requirements were complied with.

Regulation on Capital Adequacy Ratio entered into force in March 2015 and is based on Basel II criteria and in line with the European Directives for Financial Institutions.

	Note	31 December 2021	31 December 2020
Tier 1 capital - CET1			
Share capital	30	5,562,518	5,562,518
Share premium	30	1,383,880	1,383,880
Legal and regulatory reserves	31	1,825,623	1,825,623
Regulatory retained earnings		11,866,348	10,368,316
		20,638,369	**19,140,337**
Deductions:			
Regulatory intangible assets		(655,023)	(607,690)
Total qualifying Tier 1 capital		**19,983,345**	**18,532,647**
Risk-weighted assets:			
On and off-balance sheet		75,106,060	77,289,895
Risk assets for operational risk		8,963,432	8,762,143
Total risk-weighted assets		**84,069,492**	**86,052,038**
Tier I capital to risk- weighted asset ratio (Capital adequacy ratio)		**23.77%**	**21.54%**

As at 31 December 2017, the Bank of Albania the guideline "On the internal capital adequacy assessment process" entered in force which set out the requirements for banks on drafting and implementing the Internal Capital Adequacy Assessment Process (ICAAP), as well as the expectations of the supervisor on the structure and content of the regulatory report of this process. ICAAP, which is independently realized by the bank and approved from its governing bodies by acknowledging also regulatory requirements, shall ensure the assessment of the current and future levels of capital adequacy, based on its risk profile and strategies ICAAP has been prepared by the Bank starting from year 2013 following also the ISP Group requirement and also have been timely submitted to the regulator within April 2021.

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12. Fair value measurement

The following table provides the fair value measurement hierarchy of the bank's assets and liabilities.

		Fair value measurement using							
		31-Dec-21				31-Dec-20			
		Total	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	Total	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
Assets measured at fair value:	**Date of valuation**		**(Level 1)**	**(Level 2)**	**(Level 3)**		**(Level 1)**	**(Level 2)**	**(Level 3)**
Investment securities at FVOCI	**12/31/2021**	**51,351,170**	8,119,315	43,231,855	-	**36,837,189**	3,851,213	32,985,976	-
Property and equipment (Buildings)	**12/31/2021**	**1,274,659**	-	-	1,274,659	**1,320,839**	-	-	1,320,839
Investment property	**12/31/2021**	**533,798**	-	-	533,798	**533,798**	-	-	533,798
		53,159,627	**8,119,315**	**43,231,855**	**1,808,457**	**38,691,826**	**3,851,213**	**32,985,976**	**1,854,637**

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13. Financial Assets and Financial Liabilities

(a) Fair values of financial assets and financial liabilities

		Carrying Amount					Fair Value			
31 December 2021	**Note**	**Investment securities at amortized cost**	**Investment securities at FVOCI**	**Loans and advances to banks**	**Other financial liabilities**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans and advances to banks	16	-	-	33,853,071	-	**33,853,071**	-	-	33,853,071	**33,853,071**
Investments securities at amortized cost	17	22,784,209	-	-	-	**22,784,209**	3,628,000	19,443,242	-	**23,071,242**
Investment securities at FVOCI	17	-	51,351,170	-	-	**51,351,170**	8,119,315	43,231,855	-	**51,351,170**
Total		**22,784,209**	**51,351,170**	**33,853,071**	**-**	**107,988,450**	**11,747,315**	**62,675,097**	**33,853,071**	**108,275,483**
Deposits from customers	26	-	-	-	169,461,419	**169,461,419**	-	-	170,031,068	**170,031,068**
Total		**-**		**-**	**169,461,419**	**169,461,419**	**-**	**-**	**170,031,068**	**170,031,068**

31 December 2020	**Note**	**Investment securities at amortized cost**	**Investment securities at FVOCI**	**Loans and advances to banks**	**Other financial liabilities**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans and advances to banks	16	-	-	26,721,728	-	26,721,728	-	-	26,721,728	26,721,728
Investments securities at amortized cost	17	35,083,217	-	-	-	**35,083,217**	3,581,023	31,655,512	-	35,236,536
Investment securities at FVOCI	17	-	36,837,189	-	-	36,837,189	3,851,213	32,985,976	-	36,837,189
Total		**35,083,217**	**36,837,189**	**26,721,728**	**-**	**98,642,134**	**7,432,236**	**64,641,488**	**26,721,728**	**98,795,453**
Deposits from customers	26	-	-	-	159,507,095	**159,507,095**	-		160,237,369	**160,237,369**
Total		-	-	-	**159,507,095**	**159,507,095**	**-**	**-**	**160,237,369**	**160,237,369**

HTC Albanian Government securities are fixed and floating rate bonds. The floating rate bond is given as the average yield of the last three Treasury bill auctions with the maturity of one year plus the spread. The measurement of the fair value for these securities is performed using the mark-to-market model valuation technique, by discounting all future cash flows deriving from such instruments. The rest of the HTC foreign securities denominated in foreign currencies represent Banks and Financial Institutions' securities whose fair value is measured according the "ISBA fair value internal rules". Loans and advances to customers have carrying amount, which is considered also their fair value, as the major part of portfolio is based on floating interest rates. The fair value of Time Deposits from customers is re-priced using the net present value. The interest rates applied are the market interest rates published from Bank of Albania. These rates are an estimate of the market rates. The fair value of current accounts, savings accounts is considered to approximate their carrying amount, given they have short-term maturity.

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13. Financial Assets and Financial Liabilities (continued)

(b) Classification of financial assets and financial liabilities

See accounting policies in Notes 10 (f).

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

	Note	Amortized cost	FVOCI	Total carrying amount
31 December 2021				
Financial Assets				
Cash and cash equivalents	15	29,643,298	-	29,643,298
Loans and advances to banks	16	33,853,071	-	33,853,071
Investment securities	17	22,784,209	51,351,170	**74,135,379**
Loans and advances to customers	18	52,967,843	-	**52,967,843**
Total		139,248,421	51,351,170	**190,599,591**
Financial Liabilities				
Due to banks	25	1,476,439	-	**1,476,439**
Due to customers	26	169,461,419	-	**169,461,419**
Total		170,937,858	-	**170,937,858**

	Note	Amortized cost	FVOCI	Total carrying amount
31 December 2020				
Financial Assets				
Cash and cash equivalents	15	32,432,194	-	32,432,194
Loans and advances to banks	16	26,721,728	-	26,721,728
Investments securities	17	35,083,217	36,837,189	**71,920,406**
Loans and advances to customers	18	50,902,837	-	50,902,837
Total		145,139,976	36,837,189	**181,977,165**
Financial Liabilities				
Due to banks	25	2,273,426	-	**2,273,426**
Due to customers	26	159,507,095	-	**159,507,095**
Total		161,780,521	-	**161,780,521**

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14. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities presented according to their contractual maturity. Due to customers portfolio within 12 months are renewable and is expected to be recovered or settled after one year.

		31 December 2021		
Assets	**Note**	**Within 12 months**	**After 12 months**	**Total**
Cash and cash equivalents	15	29,643,298	-	29,643,298
Loans and advances to banks	16	33,853,071	-	33,853,071
Investment securities	17	42,835,118	31,300,261	74,135,379
Loans and advances to customers	18	12,510,566	40,457,277	52,967,843
Current tax assets	38	-	290,395	290,395
Property and equipment	19	-	1,974,017	1,974,017
Right- of use	20		469,669	469,669
Intangible assets	21	-	517,811	517,811
Investment property	22	-	533,798	533,798
Inventory and other assets	23	-	503,339	503,339
Repossessed assets	24	-	359,008	359,008
Deferred tax assets	27		422,933	422,933
Total Assets		**118,842,053**	**76,828,508**	**195,670,561**
Liabilities				
Due to banks	25	1,476,439	-	1,476,439
Due to customers	26	151,278,236	18,183,183	169,461,419
Lease liability	20	-	468,760	468,760
Other liabilities	29	-	1,182,077	1,182,077
Deferred tax liabilities	27	-	220,618	220,618
Provisions	28	-	534,549	534,549
Total Equity	30,31	-	22,326,699	22,326,699
Total Liabilities and Equity		**152,754,675**	**42,915,886**	**195,670,561**

		31December 2020		
Assets	**Note**	**Within 12 months**	**After 12 months**	**Total**
Cash and cash equivalents	15	32,432,194	-	32,432,194
Loans and advances to banks	16	26,721,728	-	26,721,728
Investment securities	17	36,519,038	35,401,368	71,920,406
Loans and advances to customers	18	11,943,692	38,959,145	50,902,837
Current tax assets	38	-	379,233	379,233
Property and equipment	19	-	1,915,582	1,915,582
Right- of use	20		601,159	601,159
Intangible assets	21	-	489,831	489,831
Investment property	22	-	533,798	533,798
Inventory and other assets	23	-	503,339	482,534
Repossessed assets	24	-	359,008	668,996
Deferred tax assets	27		422,933	458,319
Total Assets		**107,616,652**	**79,565,396**	**187,506,617**
Liabilities				
Due to banks	23	2,273,426	-	2,273,426
Due to customers	24	140,859,786	18,647,309	159,507,095
Lease liability	19	-	602,986	602,986
Other liabilities	25	-	829,989	829,989
Deferred tax liabilities	26	-	259,345	259,345
Provisions	27	-	835,305	835,305
Total Equity		-	23,198,471	23,198,471
Total Liabilities and Equity		**143,133,212**	**44,373,405**	**187,506,617**

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15. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2021 and 31 December 2020 are detailed as follows:

	31 December 2021	31 December 2020
Cash on hand	1,521,766	1,503,640
Current accounts with banks	13,847,919	14,479,756
Unrestricted balances with Bank of Albania	588,994	873,574
Money market placements	13,690,431	15,584,399
Less impairment loss allowance	(5,812)	(9,175)
Total	**29,643,298**	**32,432,194**

16. Loans and advances to banks

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

	31 December 2021	31 December 2020
Compulsory reserve with Bank of Albania	17,534,190	16,199,346
Deposits with correspondent banks	15,604,577	9,632,548
Repurchase agreement	717,486	895,311
Less impairment loss allowance	(3,182)	(5,477)
Total	**33,853,071**	**26,721,728**

In accordance with the Bank of Albania requirements, the Bank at the reporting date should maintain a minimum of compulsory reserve as per percentages determined by the regulator.

Such reserves are maintained in original currency for due to customer balances denominated in local currency. For due to customer balances denominated in foreign currency the Bank is obliged to maintain in original currency.

The amount required to be deposited is calculated monthly in arrears. According to the Bank of Albania regulation 70% of this reserve in Lek is available for daily use by the Bank.

The remuneration interest rate of obligatory reserve denominated in Lek is 70% of repurchase agreements rate equal to 1.00% for 31 December 2021 (31 December 2020: 1.00%).

The remuneration interest rate of the obligatory reserve in EUR is equal to the European Central Bank base rate equal to minus 0.50% for EUR for 31 December 2021 (31 December 2020: minus 0.50%).

Deposits with banks comprise money market placements with an original maturity of over three months, which are not part of cash and equivalents.

17. Investment securities

	31 December 2021	31 December 2020
Investment securities measured at FVOCI-debt instruments	51,351,170	36,837,189
Investment securities measured at amortized cost- debt instruments	22,784,209	35,083,217
Total	**74,135,379**	**71,920,406**

Investment securities measured at FVOCI as at 31 December 2021 and 31 December 2020 can be detailed as follows:

	31 December 2021	31 December 2020
Sovereign issuers		
Republic of Albania	**48,074,914**	**33,254,316**
Unlisted	43,231,855	32,985,976
Listed	4,843,059	268,340
EU member states	**2,744,584**	**2,886,267**
Listed	2,744,584	2,886,267
Other Financial Institutions	**531,672**	**696,606**
Listed	531,672	696,606
Total	**51,351,170**	**36,837,189**

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17. Investment securities (continued)

Investment securities measured at amortized cost as at 31 December 2021 and 31 December 2020 can be detailed as follows:

	31 December 2021	31 December 2020
Sovereign issuers		
Republic of Albania	**20,760,243**	**33,149,239**
Unlisted	19,189,974	31,516,092
Listed	1,570,269	1,633,147
US and EU member states	**2,023,966**	**1,933,978**
Listed	2,023,966	1,933,978
Total	**22,784,209**	**35,083,217**

As at 31 December 2021 and 31 December 2020 no Albanian Government securities have been pledged as collateral for repurchase agreements.

18. Loans and advances to customers

Loans and advances to customers measured at amortized cost are composed as follows:

	31 December 2021	31 December 2020
Loans	41,701,801	40,921,737
Overdrafts	12,965,298	11,628,570
Financial lease	482,897	502,934
Deferred disbursement fees	(168,122)	(154,640)
Gross amount	**54,981,874**	**52,898,601**
Less impairment loss allowance	(2,014,031)	(1,995,764)
Total net amount	**52,967,843**	**50,902,837**

The Bank leases out certain equipment under finance leases in its capacity as a lessor.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	31 December 2021	31 December 2020
Less than one year	6,281	2,157
Between one and five years	473,048	487,534
Over 5 years	3,568	13,243
Gross finance lease	**482,897**	**502,934**
Less impairment allowance	4,494	4,037
Total	**478,403**	**498,897**

The following table sets out presentation of loans and advances to customers as per loan category.

	2021			2020		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Retail customers	**27,467,998**	**1,023,893**	**26,444,105**	**24,422,811**	**963,457**	**23,459,354**
Mortgage lending	12,219,230	284,687	11,934,543	10,442,823	257,883	10,184,940
Personal loans	15,200,563	731,550	14,469,013	13,928,539	699,839	13,228,700
Credit cards	28,468	6,266	22,202	30,181	4,475	25,706
Leasing	19,737	1,390	18,347	21,268	1,260	20,008
Corporate customers	**27,513,876**	**990,138**	**26,523,738**	**28,475,790**	**1,032,307**	**27,443,483**
Investment loans	24,389,408	836,436	23,552,972	23,218,348	823,176	22,395,172
Working capital	2,661,308	150,598	2,510,710	4,775,776	206,354	4,569,422
Leasing	463,160	3,104	460,056	481,666	2,777	478,889
Total	**54,981,874**	**2,014,031**	**52,967,843**	**52,898,601**	**1,995,764**	**50,902,837**

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19. Property and Equipment

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

	Land and Building	IT and Electrical Equipment	Furniture and Fine Art Works	Other non-Electrical Assets	Assets acquired not put into use	Total
Cost						
Balance as at 1 January 2020	**1,780,893**	**1,125,311**	**158,808**	**238,914**	**268,327**	**3,572,253**
Additions	1,890	118,989	8,713	16,968	7,199	153,759
Disposals	-	-	-	-	-	-
Adjustment of Revaluation	(461,944)	-	-	-	-	(461,944)
Balance as at 31 December 2020	**1,320,839**	**1,244,300**	**167,521**	**255,882**	**275,526**	**3,264,068**
Additions	-	147,448	19,898	14,037	47,776	**229,159**
Disposals	-	(17,666)	(17,536)	(7,931)	-	**(43,133)**
Adjustment of Revaluation	-	-	-	-	-	-
Balance as at 31 December 2021	**1,320,839**	**1,374,082**	**169,883**	**261,988**	**323,302**	**3,450,094**
Accumulated Depreciation						
Balance as at 1 January 2020	**116,866**	**925,260**	**115,497**	**203,114**	**-**	**1,360,737**
Depreciation for the year	61,422	77,076	12,565	14,973	-	166,036
Disposals	-	-	-	-	-	-
Used on the Impairment loss	(178,288)	-	-	-	-	(178,288)
Balance as at 31 December 2020	**-**	**1,002,336**	**128,062**	**218,087**	**-**	**1,348,485**
Depreciation for the year	46,180	76,444	11,450	20,278	-	**154,352**
Disposals	-	(4,614)	(14,216)	(7,930)	-	**(26,760)**
Used on the Impairment loss	-	-	-	-	-	-
Balance as at 31 December 2021	**46,180**	**1,074,166**	**125,296**	**230,435**	**-**	**1,476,077**
Carrying amount						
At 31 December 2020	**1,320,839**	**241,964**	**39,459**	**37,794**	**275,526**	**1,915,582**
At 31 December 2021	**1,274,659**	**299,915**	**44,587**	**31,553**	**323,303**	**1,974,017**

The fair value of land and building was determined by external, independent property valuers, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Bank's own-used property portfolio every three years and its fair value measurement is categorized as a Level 3 fair value based on the inputs to comparable approach used.

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20. Right of use of assets and lease liability

A. Leases as lessee

The Bank leases a number of branch and office premises. This leases typically run for a period of 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some lease provides for additional rent payments that are based on changes in local price indices. The Bank also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Bank has elected not to recognize right-of-use assets and lease liabilities for these leases. Previously, these leases were classified as operating leases under IAS 17. The information about leases for which the Bank is a lessee is presented below:

	Right-of-use assets		
	Buildings	**Other tangible assets**	**Total**
Cost			
At 1 January 2020	**579,609**	**12,560**	**592,169**
Additions	253,574	54,691	308,265
Modifications	-	-	-
Disposal/Transfer	(87,837)	-	(87,837)
At 31 December 2020	**745,346**	**67,251**	**812,597**
Additions	32,787	-	32,787
Modifications	-	-	-
Disposal/Transfer	(41,212)	-	(41,212)
At 31 December 2021	**736,921**	**67,251**	**804,172**
Accumulated Depreciation			
At 1 January 2020	**(126,073)**	**(5,212)**	**(131,285)**
Depreciation charge	(150,272)	(11,863)	(162,135)
Depreciation charge for disposals	82,566	(584)	81,982
At 31 December 2020	**(193,779)**	**(17,659)**	**(211,438)**
Depreciation charge	(148,218)	(14,119)	(162,337)
Depreciation charge for disposals	39,272	**-**	**39,272**
At 31 December 2021	**(302,725)**	**(31,778)**	**(334,503)**
Net book amount			
At 31 December 2020	**551,567**	**49,592**	**601,159**
At 31 December 2021	**434,196**	**35,473**	**469,669**
Average Discount rate	**1.75%**	**0.66%**	

The Bank has rental agreements with renewal options for its offices in Albania. During 2021, the amount of Lek 17,160 thousand thousand was recognized as operating lease expense under IAS 17 in respect of lease rentals (2020: 15,789).

i. Extension options

Some leases of office premises contain extension options exercisable by the Bank up to one year before the end of the non-cancellable contract period. Where applicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

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20. Right of use of assets and lease liability (continued)

Lease Liability

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2021	2020
At 1 January	**602,986**	**445,944**
Additions	32,746	308,912
Disposals	(1,911)	(3,858)
Modifications	-	-
Accrual of interest	8,756	8,721
Lease payment	(161,202)	(164,088)
Revaluation effect	(12,615)	7,355
At 31 December	**468,760**	**602,986**

The maturity analysis of lease liabilities is disclosed in Note 13.

21. Intangible Assets

Intangible assets as at 31 December 2021 and 31 December 2020 are as follows:

	Software and Licenses	Advances for Software	Total
Cost			
Balance as at 1 January 2020	**2,049,250**	**169,620**	**2,218,870**
Additions during period	131,120	-	131,120
Transfers	-	(49,593)	(49,593)
Balance as at 31 December 2020	**2,180,370**	**120,027**	**2,300,397**
Additions during period	162,728	21,787	184,515
Transfers	-	-	-
Balance as at 31 December 2021	**2,343,098**	**141,814**	**2,484,912**
Amortization and Impairment Losses			
Balance as at 1 January 2020	**1,617,893**	-	**1,617,893**
Amortization charge for the year	192,673	-	192,673
Disposals	-	-	-
Balance as at 31 December 2020	**1,810,566**	-	**1,810,566**
Amortization charge for the year	156,535	-	**156,535**
Disposals	-	-	-
Balance as at31 December 2021	**1,967,101**	-	**1,967,101**
Carrying amount			
At 31 December 2020	**369,804**	**120,027**	**489,831**
At 31 December 2021	**375,997**	**141,814**	**517,811**

22. Investment property

The Bank holds investment property as consequence of acquisitions through enforcement of security over loans and advances. As at 31 December 2021, the investment property represents a foreclosed collateral repossessed during 2017. During 2021, investment property rentals of Lek 15,146 thousand (2020: Lek 4,179 thousand) have been recognized in other income. Based on the agreement between parties the annual rent for the first year is calculated 2.8% of the historical cost. The annual rent change over the period based on the payment of instalment for purchase of the property.

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22. Investment property (continued)

The following table shows a reconciliation from the beginning balances to the closing balances for the fair value measurements of the Bank's investment property.

	2021	2020
Balance at 1 January	**533,798**	**545,556**
Acquired during the year	-	-
Assets sold during the year	-	-
Net changes in fair value	-	(11,758)
Balance at 31 December	**533,798**	**533,798**

The fair value of investment property was determined by external, independent property valuers, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Bank's investment property portfolio every year and its fair value measurement is categorized as a Level 3 fair value based on the inputs to comparable approach used.

Description of valuation techniques used and key inputs to valuation of investment property is as following:

		2021	2021
Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	
Discounted cash flow method (DCF)	Estimated rental value per sqm per month	1,167 - 12,376 EUR	1,167 - 12,376 EUR
	Discounted rate	9%	9%

Using the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of Ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset.

23. Inventory and other assets

Other assets as at 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Sundry debtors	42,076	60,246
ATM & POS transactions	81,151	50,529
Leasehold improvements	77,080	92,913
Prepayments	22,226	41,780
Cheques for collection	7,425	14,637
VAT Receivable	175,217	144,113
Others	98,164	78,316
Total	**503,339**	**482,534**

The movement of leasehold improvements during the reporting period is presented as follows:

	31 December 2021	31 December 2020
At beginning of the period	**92,913**	114,999
Additions during period	6,075	17,914
Write off	-	(614)
Amortization of the period	(15,516)	(15,891)
Transfer for Integration	(6,392)	(23,495)
At end of the period	**77,080**	**92,913**

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24. Repossessed assets

Inventory represents repossessed assets acquired in the process of collection of defaulted loans. The movement of "repossessed assets" item during the reporting period is presented as follows:

	2021	**2020**
At beginning of the period	668,996	1,308,124
Additions during period	36,681	13,460
Disposals of the period	(161,274)	(623,250)
Write back/(down) to net realizable value	(176,799)	(46,790)
Effect of movements in foreign exchange	(8,596)	17,452
At end of the period	**359,008**	**668,996**

25. Due to banks

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

	31 December 2021	**31 December 2020**
Correspondent banks		
Current accounts	**336,423**	**335,190**
Resident	*7,778*	7,705
Non-resident	*328,645*	327,485
Deposits	**1,140,016**	**1,362,008**
Resident	1,140,016	1,362,008
Non-resident	-	-
Current Accounts with Central Bank		**576,228**
Total	**1,476,439**	**2,273,426**

As at 31 December 2021 and 31 December 2020, no Albanian Government securities have been pledged as collateral for repurchase agreements.

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26. Due to customers

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

	31 December 2021			31 December 2020		
	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total
Current accounts						
Retail	13,225,273	27,531,909	40,757,182	11,987,612	23,172,065	35,159,677
Corporate	14,876,537	32,170,681	47,047,218	13,629,866	28,624,327	42,254,193
	28,101,810	**59,702,590**	**87,804,400**	**25,617,478**	**51,796,392**	**77,413,870**
Deposits						
Retail	36,917,950	40,199,260	77,117,210	37,038,300	40,009,412	77,047,712
Corporate	1,294,413	3,245,396	4,539,809	1,114,365	3,931,148	5,045,513
	38,212,363	**43,444,656**	**81,657,019**	**38,152,665**	**43,940,560**	**82,093,225**
Total	**66,314,173**	**103,147,246**	**169,461,419**	**63,770,143**	**95,736,952**	**159,507,095**

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

	31 December 2021			31 December 2020		
	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total
Current Accounts	**28,101,810**	**59,702,590**	**87,804,400**	**25,617,478**	**51,796,392**	**77,413,870**
Deposits						
On demand	6,330,861	25,457,736	31,788,597	4,777,472	19,807,463	24,584,935
One month	307,529	66,315	373,844	2,490,773	2,347,266	4,838,039
Three months	471,070	1,129,399	1,600,469	3,028,586	6,000,625	9,029,211
Six months	1,460,054	1,849,714	3,309,768	3,761,328	4,216,905	7,978,233
Nine months	87,997	30,878	118,875	4,199,641	6,075,213	10,274,854
Twelve months	8,545,461	12,545,936	21,091,397	3,518,010	3,631,322	7,149,332
Twenty-four months	4,452,010	1,694,361	6,146,371	3,585,348	1,417,011	5,002,359
Other	16,557,381	670,317	17,227,698	12,791,507	444,755	13,236,262
	38,212,363	**43,444,656**	**81,657,019**	**38,152,665**	**43,940,560**	**82,093,225**
Total	**66,314,173**	**103,147,246**	**169,461,419**	**63,770,143**	**95,736,952**	**159,507,095**

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26. Due to customers (continued)

For current accounts (for which is paid interest) and time deposits, the annual published interest rates applicable for the various fixed terms were:

2021	ALL (%)	USD (%)	EUR (%)
Current accounts and demand deposits	0.05 - 1.53	0.05 - 0.1	0.20 - 0.65
Time deposits - 1 month	0.20 - 0.20	0.05 - 0.10	0.00 - 0.00
Time deposits - 3 months	0.20 - 0.30	0.10 - 0.20	0.00 - 0.00
Time deposits - 6 months	0.20 - 0.40	0.10 - 0.25	0.00 - 0.00
Time deposits - 9 months	0.40 - 0.40	-	0.00 - 0.00
Time deposits - 10 months	0.50 - 0.50	0.35 - 0.35	-
Time deposits - 12 months	0.20 - 0.75	0.10 - 0.30	0.00 - 0.00
Time deposits - 13 months	0.80 - 0.80	-	-
Time deposits - 15 months	0.85 - 0.85	0.45 - 0.45	-
Time deposits - 18 months	0.90 - 0.95	0.20 - 0.20	0.00 - 0.00
Time deposits - 21 months	0.95 - 0.95	-	-
Time deposits - 24 months	1.05 - 1.10	0.20 - 0.30	0.00 - 0.00
Time deposits - 30 months	1.20 - 1.20	-	-
Time deposits - 36 months	1.40 - 1.40	0.25 - 0.25	0.00 - 0.00
Time deposits - 60 months	2.26 - 2.50	0.25 - 0.25	0.00 - 0.00
Time deposits - 84 months	3.09 - 3.25	-	-
2020	**ALL (%)**	**USD (%)**	**EUR (%)**
Current accounts and demand deposits	0.05 - 1.73	0.05 - 1.42	0.00 - 0.65
Time deposits - 1 month	0.20 - 0.20	0.05 - 0.10	0.00 - 0.002
Time deposits - 3 months	0.20 - 0.40	0.10 - 0.20	0.00 - 0.002
Time deposits - 6 months	0.20 - 0.50	0.10 - 0.25	0.00 - 0.005
Time deposits - 9 months	0.40 - 0.40	-	0.00 - 0.006
Time deposits - 12 months	0.20 - 0.90	0.10 - 0.30	0.00 - 0.01
Time deposits - 24 months	1.05 - 1.35	0.20 - 0.30	0.00 - 0.05
Time deposits - 36 months	1.40 - 1.60	0.25 - 0.25	0.00 - 0.10
Time deposits - 60 months	2.26 - 2.75	0.25 - 0.25	0.00 - 0.10
Time deposits - 84 months	3.09 - 3.25	-	-

All individual and cooperate customer deposits, in accordance with the Law No. 52, dated 25.05.2014 “On the Insurance of Deposits” amended, are protected without any cost for customers, up to the amount of Lek 2,500,000 (or in Lek equivalent if in foreign currency) with the Deposit Insurance Agency (DIA).

27. Deferred Tax

Recognized deferred tax assets and liabilities are attributable to the following:

	31 December 2021			31 December 2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Investment securities measured at FVOCI	-	54,392	(54,392)	-	73,396	(73,396)
Allowance for expected credit losses	91,002	-	91,002	102,298	-	102,298
Investment Property	-	1,599	(1,599)	-	1,599	(1,599)
Repossessed assets	148,944	-	148,944	173,816	-	173,816
Properties	-	94,177	(94,177)	-	94,177	(94,177)
Right-of-use assets	70,569	70,450	118	90,449	90,173	276
Equipment and intangible assets	112,418	-	112,418	91,756	-	91,756
Net deferred tax assets	**422,933**	**220,618**	**202,315**	**458,319**	**259,345**	**198,974**

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27. Deferred Tax (continued)

Movements in temporary differences during the year are as follows:

31 December 2021	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Closing Balance
Investment securities measured at FVOCI	(73,396)	-	19,004	(54,392)
Allowance for expected credit losses	102,298	-	(11,295)	91,003
Investment Property	(1,599)	-	-	(1,599)
Repossessed assets	173,816	(24,872)	-	148,944
Properties	(94,177)	-	-	(94,177)
Right-of-use assets	274	(156)	-	118
Equipment and intangible assets	91,758	20,660	-	112,418
Total	**198,974**	**(4,368)**	**7,709**	**202,315**

31 December 2020	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Closing Balance
Investment securities measured at FVOCI	(6,112)	-	(67,284)	**(73,396)**
Allowance for expected credit losses	115,821	-	(13,523)	**102,298**
Investment Property	(1,599)	-	-	**(1,599)**
Repossessed assets	256,457	(82,641)	-	**173,816**
Properties	(136,841)	-	42,664	**(94,177)**
Right-of-use assets	(2,241)	2,515	-	**274**
Equipment and intangible assets	92,518	(760)	-	**91,758**
Total	**318,003**	**(80,886)**	**(38,143)**	**198,974**

28. Provisions

Mvements in provisions during the year are as follows:

	Tax Litigation	Other Litigations	Off-Balance Sheet	Integration costs	Total
Balance at 1 January 2021	**282,008**	**365,755**	**46,964**	**140,578**	**835,305**
Provisions made/(reversed) during the year	-	(143,608)	(3,335)	239	(146,704)
Provisions used during the year	(127,914)	-	-	(22,183)	(150,097)
Effect of movements in foreign exchange	-	(3,501)	(454)	-	(3,955)
Balance at 31 December 2021	**154,094**	**218,646**	**43,175**	**118,634**	**534,549**

29. Other liabilities

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

	31 December 2021	31 December 2020
Accrued expenses	511,039	379,812
Sundry creditors	98,988	26,052
Suspense accounts	235,551	183,562
Bank cheques issued and payments in transit	179,216	135,741
Other tax liabilities	127,104	82,443
Due to third parties	24,957	22,377
Other accrued expenses	5,222	2
Total	**1,182,077**	**829,989**

Intesa Sanpaolo Bank Albania sh.a.
Notes to the financial statements for the year ended 31 December 2021
(in thousands of Lek, unless otherwise stated)

30. Share capital and share premium

The issued share capital comprises one class of shares as follows:

	Number of Shares (In number)	Nominal Value (In Lek)	Total Shares Value (In Lek)
Share Capital at 31 December 2020 and 2021	**15,581,282**	**357**	**5,562,517,674**

Share premium represents the amount paid from the shareholder in excess of the registered share capital. Intesa Sanpaolo S.p.A is the sole shareholder and also ultimate parent and there are no changes in the number of shares for year ended 31 December 2021 and 2020. An amount of Lek 1,702 thousand were recognized as distribution to the ultimate parent during the year ended 31 December 2021 (2020: 0).

31. Reserves

As at 31 December 2020 and 31 December 2019, the reserves were:

	31 December 2021	31 December 2020
Regulatory reserve (*refer to a below*)	1,125,443	1,125,443
Legal reserve (*refer to b below*)	700,180	700,180
Fair value reserve (*refer to c below*)	884,331	562,614
Revaluation reserve (*refer to d below*)	533,669	533,669
Other capital reserve (*refer to e below*)	714,554	714,554
Merger reserve (*refer to f below*)	2,813,396	2,813,396
Total	**6,771,573**	**6,449,856**

Nature and purpose of the reserves

a. The regulatory reserve was established according to the Central Bank of Albania regulation "On the Bank's Regulatory Capital", no.69, dated 18 December 2014. Banks and branches of foreign banks are required to create reserves of 1.25% to 2% of total risk-weighted assets, by appropriating one fifth of the profit after taxes and before payment of dividends, until the balance on this measure reaches at least 1.25% of total risk-weighted assets. At 31 December 2021, the regulatory reserve represented 1.34% of total risk-weighted assets (2020: 1.38%).

b. The legal reserve was established according to the provisions of the Commercial Law requiring the creation of reserves of 5% of the Bank's net income after deduction of accumulated losses from previous years, until the balance of this reserve reaches 10% of the Bank's share capital. At 31 December 2020, the balance represented 10% of the Bank's share capital (2020: 10%). This threshold is not mandatory, when the existing reserves are not less than one tenth of the Bank's share capital.

c. The Fair value reserve represent the cumulative net change in fair value of the securities at FVOCI until the asset are derecognized or reclassified.

d. The revaluation reserve relates to the revaluation of owed used property. The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognized or impaired.

e. Other capital reserve represents the differences arising from the conversion of the Bank's share capital from USD to Lek. Out of this balance, the amount of Lek 297,666 thousand was received as at 1 January 2008 from the merger with former BIA, as raised by the same denomination currency change of the share capital.

f. The merger reserve represents the contribution by owner equal to the net assets transferred considering that the Bank did not pay anything to acquire net assets of VBA (refer also to note 1).

Intesa Sanpaolo Bank Albania sh.a.
Notes to the financial statements for the year ended 31 December 2021
(in thousands of Lek, unless otherwise stated)

32. Net Interest income

Interest income calculated using the effective interest method are as following:

Interest income	**2021**	**2020**
Loans and advances to customers	2,113,699	2,056,351
Investment securities at amortized cost	1,115,343	1,702,886
Loans and advances to banks	37,972	53,930
Investment securities at FVOCI	964,513	355,594
Total interest income	**4,231,527**	**4,168,761**
Interest expenses		
Demand and time deposits	680,855	700,641
Deposits from banks	154,902	126,414
Current accounts of customers	31,812	43,075
Lease liability (note 20)	8,756	8,721
Negative interest on interest bearing assets	64,169	58,345
Total interest expenses	**940,494**	**937,196**
Net interest income	**3,291,033**	**3,231,565**

33. Net fee and commission income

	2021			**2020**		
	Retail Banking	**Corporate Banking**	**Total**	**Retail Banking**	**Corporate Banking**	**Total**
Fee income earned from services that are provided over time:						
Collection and payment services	261,054	316,371	577,425	231,872	277,307	509,179
Active current accounts	221,823	24,973	246,796	221,014	25,055	246,069
Arrangement fees and others	3,054	9,886	12,940	3,473	12,700	16,173
Guarantees given	921	25,794	26,715	502	19,040	19,542
Fee income from providing financial services at a point in time:						
ATMs and POSs	295,728	84,436	380,164	220,493	55,399	275,892
Unused/advanced liquidated credit lines	17,123	22,905	40,028	10,788	14,814	25,602
Fee and commission income	**799,703**	**484,365**	**1,284,068**	**688,142**	**404,315**	**1,092,457**
ATMs and POSs	274,542	89,220	**363,762**	225,018	51,727	276,745
Banking services-foreign branches	567	8,166	**8,733**	599	7,819	8,418
Collection and payment services	12,752	22,067	**34,819**	13,956	17,773	31,729
Guarantees received	-	3,763	**3,763**	-	3,623	3,623
Fee and commission expenses	**287,861**	**123,216**	**411,077**	239,573	80,942	320,515
Net fee and commission income	**511,842**	**361,149**	**872,991**	**448,569**	**323,373**	**771,942**

Fee and commissions do not include fees received for loans and advances to customers (transaction costs), which are adjusted on initial recognition for the carrying value of these financial assets as per effective interest rate method. Fee and commission income from contracts with customers are measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to only a customer. The Bank provides banking services only to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer’s account on a monthly basis.

Intesa Sanpaolo Bank Albania sh.a.
Notes to the financial statements for the year ended 31 December 2021
(in thousands of Lek, unless otherwise stated)

34. Net other income

	2021	2020
Foreign exchange gains	587,565	535,697
Recoveries on written off loans	165,035	32,642
Rent income	15,146	4,179
Gain on sale of repossessed assets	10,289	11,658
Other	5,049	4,412
Total	**783,084**	**588,588**

35. Net other operating expenses

	2021	2020
Premium on deposits insurance	432,195	417,909
Loss on sundry net operational	46,174	35,259
Total	**478,369**	**453,168**

36. Personnel expenses

	2021	2020
Salaries	1,073,596	975,085
Social Insurance	142,385	132,662
Total salaries and social insurance	**1,215,981**	**1,107,747**
Personnel on secondment	87,206	57,058
Training & similar	1,440	800
Termination indemnities and others	54,665	18,644
Total	**1,359,292**	**1,184,249**

Salaries and social insurance for the year ended 31 December 2021 and 2020 are further breakdowns as follows:

	2021	2020
Board of Directors	6,796	6,345
Executive Management	360,384	321,914
Other personnel	848,801	779,488
Total	**1,215,981**	**1,107,747**

For the year ended 31 December 2021 the Bank had an average number of 659 employees (2020: 657).

37. Other administrative expenses

	2021	2020
Software maintenance	389,114	376,030
Maintenance and repair	100,104	99,598
Security	78,135	66,705
Indirect Taxes	77,636	86,051
Telephone and electricity	63,502	47,399
Consulting, legal and professional fees	61,498	37,189
Stationery	43,725	46,943
Transport and security services	39,413	39,951
Advertising and publications	36,923	20,140
Integration Fees	29,695	35,712
Insurance	13,576	12,946
Operating lease expenses	8,918	15,789
Travel and business trips	1,580	792
Other	16,286	29,038
Total	**960,105**	**914,283**

Consulting, legal and professional fees for the year ended 31 December 2021 include statutory and non-statutory audit fees amounting to Lek 11,918 Million (2020: Lek 13,352 Million).

Intesa Sanpaolo Bank Albania sh.a.
Notes to the financial statements for the year ended 31 December 2021
(in thousands of Lek, unless otherwise stated)

38. Income tax expenses

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

	2021	2020
Current year	122,591	133,569
Current income tax in respect of prior years	-	-
Current tax expense	**122,591**	**133,569**
Origination and reversal of temporary differences	4,366	80,887
Deferred tax income	**4,366**	**80,887**
Income tax expense/(benefit)	**126,957**	**214,456**

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

	2021		2020	
Accounting Profit before tax		**646,636**		**1,508,990**
Income tax at domestic corporate tax rate	15.0%	96,995	15.00%	226,349
Tax effect of prior year taxes recognition	0.0%	-	0.00%	-
Non-deductible expenses	15.7%	101,822	3.7%	55,957
Income exempted from income tax	-11.8%	(76,227)	-9.9%	(148,736)
Origination and reversal of temporary differences	0.7%	4,367	5.36%	80,886
Income tax Expense	**19.6%**	**126,957**	**14.21%**	**214,456**

Non-deductible expenses are detailed as follows:

	2021	2020
Representations and Sponsorships expenses	294	56
Sundry operational losses	8,332	1,606
Operating leases expenses	3,587	2,149
Personnel expenses	26,848	5,579
Office expenses	6,356	6,565
Other provisions expenses	200,373	167,580
Litigation expenses	239	2,684
Losses on unrecoverable loans and overdrafts	393,922	134,162
Depreciation and amortization expenses	34,971	50,443
IFRS 16 impact	3,894	2,221
Total	**678,816**	**373,045**
At 15%	**101,822**	**55,957**

Income exempted from income tax are detailed as follows:

	2021	2020
Write down of inventory	(156,607)	(563,235)
Recovery of accruals litigation cases	(143,608)	(185,550)
Reversal of accruals related to prior years	(59,837)	(152,637)
Allowance reversals for expected credit losses	(148,129)	(90,151)
Total	**(508,181)**	**(991,573)**
At 15%	**(76,227)**	**(148,736)**

The Bank prepaid income tax in the amount of Lek 161,667 thousand were paid during 2021 (2020: Lek 183,215 thousand).

Intesa Sanpaolo Bank Albania sh.a.
Notes to the financial statements for the year ended 31 December 2021
(in thousands of Lek, unless otherwise stated)

39. Commitments and contingencies

Commitments and contingencies as at 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Contingent Assets	**150,697,865**	**137,489,060**
Guarantees received from credit customers	127,478,196	119,062,721
Guarantees received from Government	5,758,534	3,370,000
Money market future dated deals	2,500,300	114,460
Forward foreign exchange contracts	633,717	108,007
Other	14,327,118	14,833,872
Contingent Liabilities	**10,787,528**	**12,209,699**
Guarantees in favor of customers	4,823,168	4,873,518
Un-drawn credit facilities	5,887,122	7,136,265
Letters of credit	77,238	199,916

Guarantees are mainly represented by bid and performance bonds. Guarantees and letters of credit are collateralized by cash and deposits. The Bank issues guarantees to its customers. These instruments bear a credit risk similar to that of loans granted.

Contingent assets, like letters of credit and un-drawn credit facilities, are off-balance sheet items representing future commitments where the Bank acts as the beneficiary. Forward foreign exchange contracts are off- balance sheet items used to offset currency fluctuations and the effect on the income statement is reflected on the maturity date when the contract is executed.

Litigation

The Bank is defending an action related to a partial payment of a bank guarantee amounting EUR 4,830 thousand. The guarantee was issued in favor of an Albanian entity upon the request of its Parent Company Intesa Sanpaolo S.P.A. The Bank has successfully defended itself in a legal process, in which both the First Instance Court and Court of Appeal judged in favor of the Bank.

The plaintiff has appealed to the Supreme Court which has not yet issued its decision. Management does not consider that there are any legal grounds for the existing judgments in its favor to be overturned.

Nevertheless, given the complexity of the case, involving also the Italian Jurisdiction, and taking into consideration no other cases of that kind have been ever judged in the Albanian courts, some operational risks may occur. In the ordinary course of business, the Bank may be involved in other various claims and legal actions which in the opinion of management, the ultimate settlement of these matters will not have a material adverse effect on the Bank's financial position or changes in net assets, other than those for which a provision has already been included in these financial statements.

40. Related parties

The Bank's immediate parent is Intesa Sanpaolo S.p.A, which ultimately holds a 100% interest. The Bank, therefore, considers that it has a related-party relationship, in accordance with International Accounting Standard 24 Related Party Disclosures ("IAS 24") with the following:

Shareholders and parties related to shareholders:

- Intesa Sanpaolo S.p.A and its subsidiaries and associates

Key management personnel and parties related to key management personnel:

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

Intesa Sanpaolo Bank Albania sh.a.
Notes to the financial statements for the year ended 31 December 2021
(in thousands of Lek, unless otherwise stated)

40. Related parties (continued)

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

	ISP Group companies		Key management personnel and Other related parties	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Assets at end of year	**13,771,556**	**14,644,700**	**117,836**	**50,922**
Loans and advances to credit institutions	13,757,203	14,624,359	-	-
Impairment losses	(1,435)	(1,575)	-	-
Loans and advances to customers	-	-	117,836	50,922
Impairment losses	-	-	(926)	(508)
Other assets	14,353	20,341		-
Liabilities at end of year	**76,739**	**82,908**	**463,156**	**453,982**
Loans and advances from credit institutions	-	-	-	-
Customer deposits	-	-	463,156	453,982
Invoices to be received	76,739	82,908	-	-
Off balance sheet	**4,322,616**	**2,373,497**	-	-
Letter of credit/Letter of Guarantees given	62,464	249,535	-	-
Letter of credit/Letter of Guarantees received	1,919,653	1,923,600	-	-
Foreign currency contracts and money market deals	2,340,499	200,362	-	-
Commitments given	-	-	-	-
Collaterals	-	-	-	-
Income for year ending	**69,199**	**60,892**	**2,844**	**1,588**
Interest income	7,118	10,815	2,333	1,208
Commission Income	62,081	50,077	511	380
Expenses for the year ending	**329,505**	**292,968**	**209**	**328**
Interest expense	54,056	39,340	209	328
Commission expense and others	24,914	22,337	-	-
Net impairment loss on financial assets (including off-balance sheet)				
Other Administrative Costs	250,535	231,291	-	-
Compensation of Key Managers	**-**	-	**176,869**	**129,454**
Net Salary	-	-	97,583	74,791
Net Bonus paid	-	-	16,678	22,392
Social & Health Insurance	-	-	5,572	4,345
Other expenses (Lecoip)	-	-	20,846	13,387
Other expenses	-	-	36,190	14,539

41. Subsequent events

In February 2022, following the military conflict between Russia and Ukraine, Albania was joining EU and Western sanctions on Russia over the invasion of Ukraine, presenting its raft of measures. Economic sanctions include measures in the finance, energy, transport and technology fields. Albania also joined the EU and UK in closing its airspace to all aircraft registered in Russia.

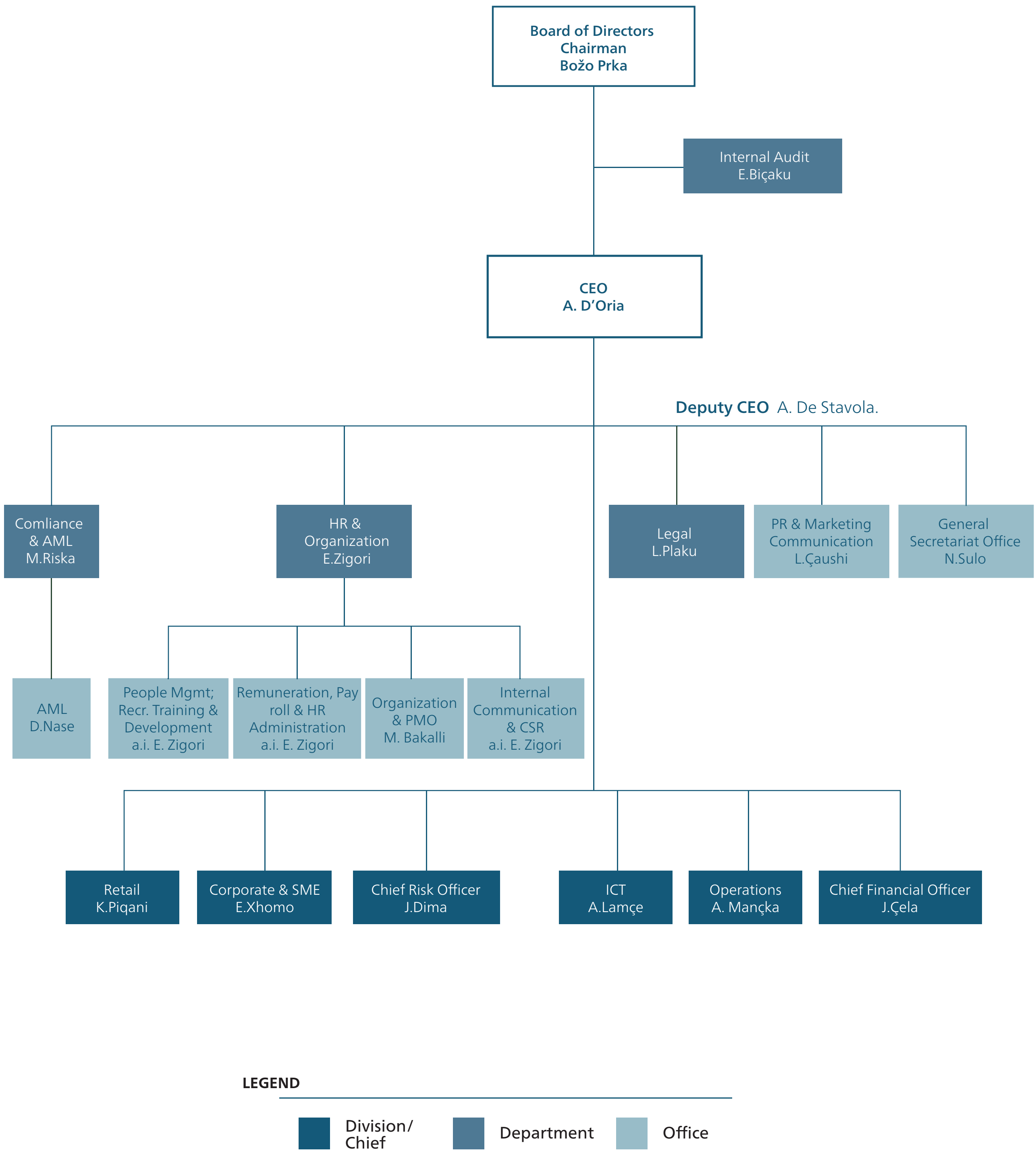
The impact of the above events may affect in longer-term the macro-economic conditions in Albania where the Bank operates and may will impact in the trading volumes, cash flows and profitability.

The bank does not have direct exposures to Ukraine/Russia/Belarus and no material indirect effects are expected in the foreseeable future. The Bank consider these events as non-adjusting events after the reporting period of 31 December 2021.

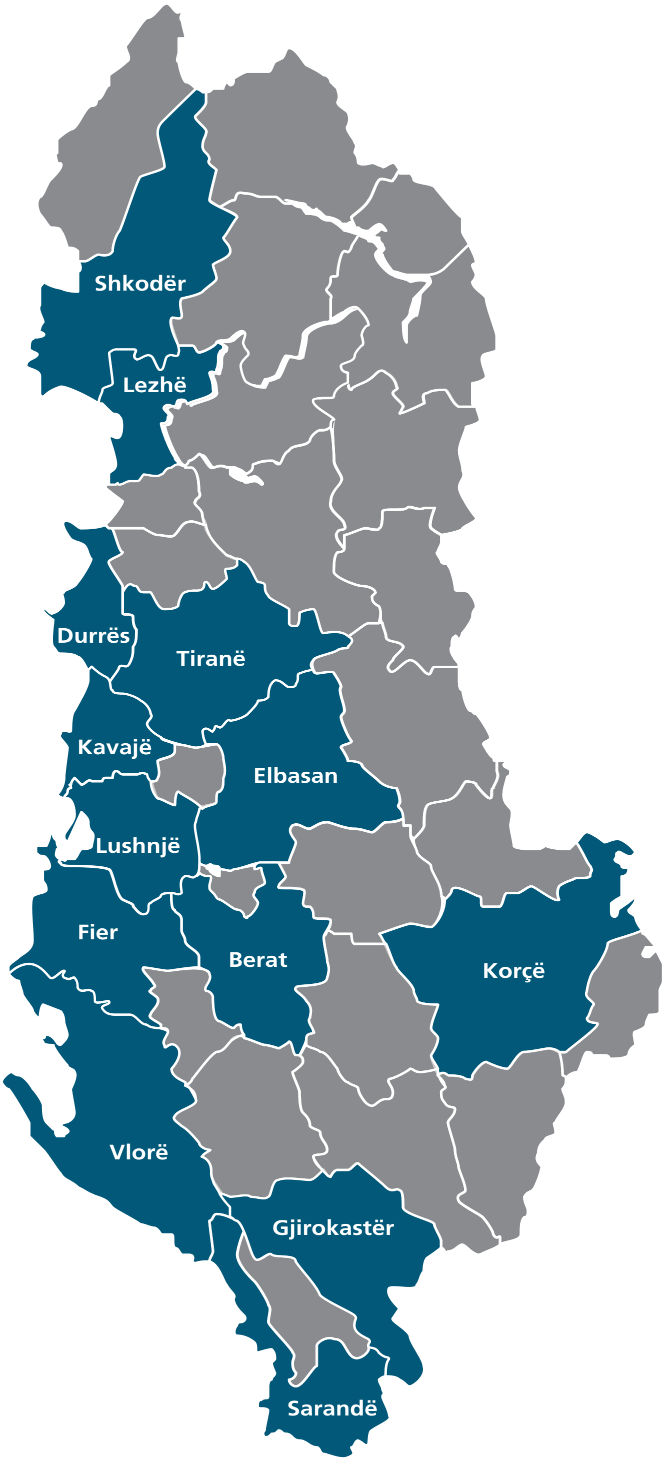
Currently, the Bank management is analyzing the possible impact of changing macroeconomic conditions on the Bank's financial position and results of operations on the future.

Organizational Structure of the Bank

Organisational Structure as of 31st December 2021



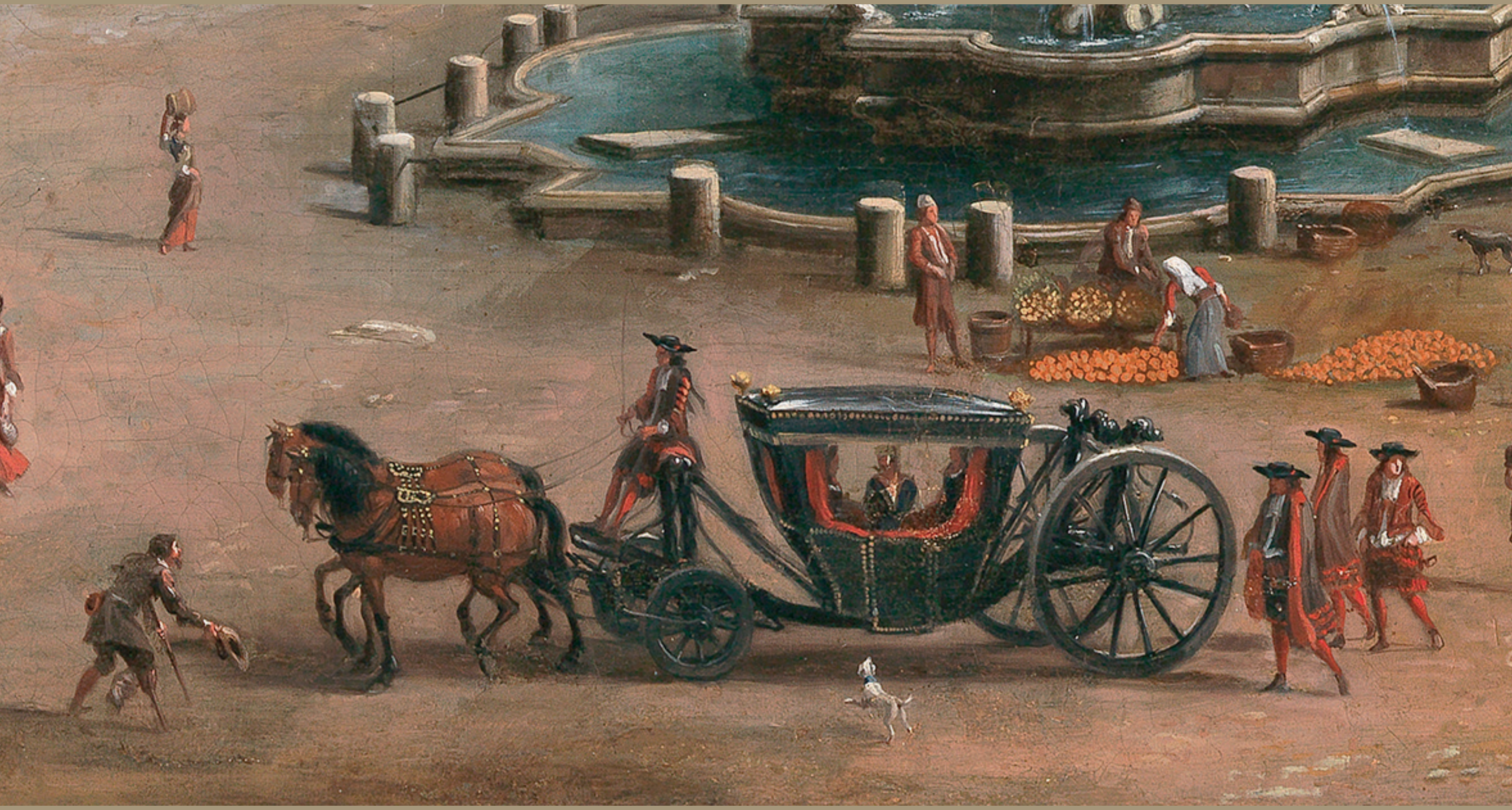
Bank Business
Network


Shkodër
Lezhë
Durrës
Tiranë
Kavajë
Elbasan
Lushnjë
Fier
Berat
Korçë
Vlorë
Gjirokastër
Sarandë

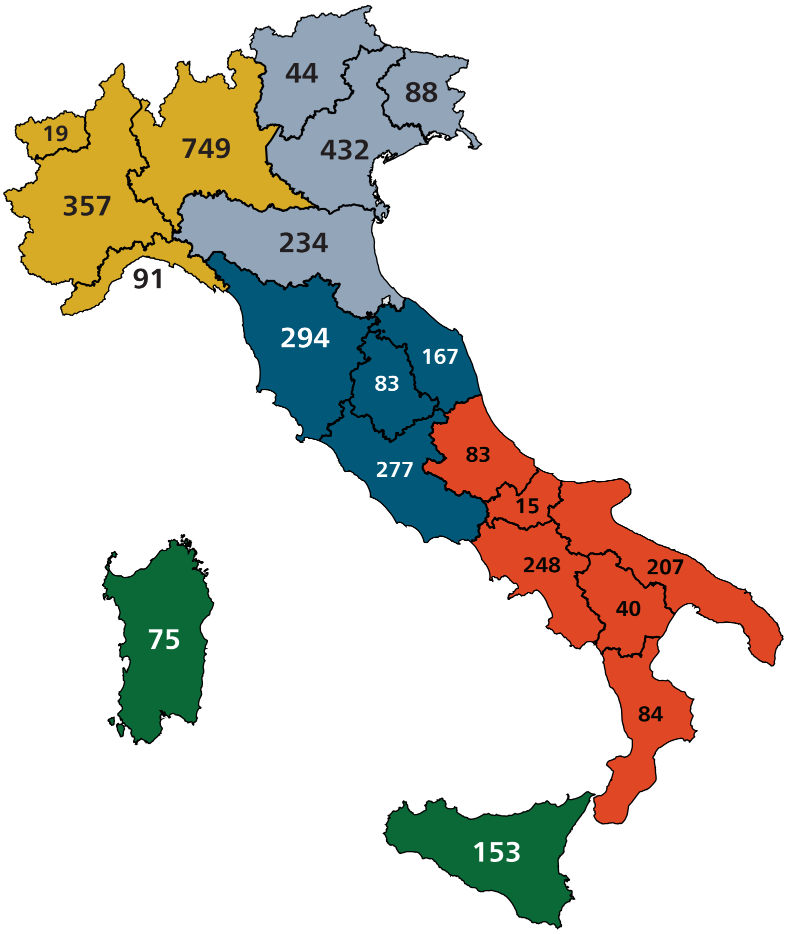
Intesa Sanpaolo Bank Albania Business Network

Nr.	City	Branch	Address	Contact
1.	Tirana	Head Offices & Main Branch	Str. "I.Qemali", Nr. 27 P.O. Box 8319	Call Center: 08006000 +355 4 22 76 000 +355692080903
2.	Tirana	Rr. Barrikadave Branch	Str. "Barrikadave"	+355 4 2390808/810/812/816/821 +355 4 2390830/831/832/833/834
3.	Tirana	Lapraka Branch	Str. "Dritan Hoxha" Nd 203 H 1	+355 687573520/2/3/4/8
4.	Tirana	Rr. Elbasanit Branch	Str. "Elbasanit", crossroad with Str. Jul Variboba	+355 42276313/310/324/304 /302/303/300
5.	Tirana	Rinas Branch	International Airport "Nënë Tereza" (Mother Tereza)	+355 4 453 99 66 / 8
6.	Tirana	Blvd. "Zogu I" Branch	Blvd. "Zogu I" Train Station	+355 4 24 19 761 /2 +355 4 22 69 972
7.	Tirana	BRUNES Branch	Tirana Durrës Highway, km 7	+355 48 33 2246 / 43
8.	Tirana	TEG Branch	Commercial Center Tirana East Gate - TEG, Farka	+355 48 845 116/117
9.	Tirana	Rr. e Kavajës Branch 1	Str. "Kavajës", Gurten Center (Volkswagen)	+355 687573552/3/4/6/9
10.	Tirana	Rr. e Kavajës Branch 2	Str. "Kavajës", Park Construction Albania	+355 4 24 19 767/6; +355 4 24 19 715
11.	Tirana	Rr. e Durrësit Branch	"Rilindja" Square Str. "Durresit"	+355 687573560/1/2/3/4/5/6
12.	Tirana	Unaza e re Branch	Str. Teodor Keko, Tirana	+355 4 2213038/9/40
13.	Tirana	Komuna e Parisit Branch	Str. "Medar Shtylla", Nd. 27 H. 4 (Tiranë e Re)	+355 4 24 66 981 / 3 / 4
14.	Tirana	Kombinat Branch	Str. "LLazi Miho", in front of Administration Unit No.6	+355 4 27 77 300 / 302
15.	Tirana	Rr. Bardhyl Branch	Str. "Bardhyl" Pallatet Progin – Building	+355 687573580/2/5/6/7
16.	Tirana	Twin Towers Branch	Blvd. Deshmoret e Kombit, Twin Towers	+355 4 22 76 140 / 141 / 142
17.	Tirana	S. Delvina Branch	Rr. Sulejman Delvina, No. 6, near Stadium 'S. Stermasi'	+355 4 22 74 501 / 502
18.	Tirana	U.S.A Embassy Branch	(Only for the Embassy) Rr. "Elbasanit"	+355 4 22 93 375
19.	Tirana	Italian Embassy Branch	(Only for the Embassy) Rr. "L. Dukagjini"	--
20.	Durrës	Durrës Main Branch	Lgj.No 1, Str. "Taulantia", Suqare "M.Ulqinaku"	+355 52 220 151/2/3/4
21.	Durrës	Train Station Branch	Str. "Kristaq Rama" near the Train Station	+355 52 22 45 28; +355 52 22 00 50 +355 687573830/2/3/4/6
22.	Durrës	Branch at the Beach	Lgj. 13, Hekurudha Plazh – Beachside	+355 52 262 367
23.	Durrës	A.Goga Branch	Str. "A.Goga"	+355 52 220 121; 238 150
24.	Elbasan	Elbasan Branch	Bvd. "Qemal Stafa"	+355 54 242 243
25.	Fier	Fier Branch	Lgj. "15 Tetori"	+355 68 757 3880 / 3881
26.	Lushnja	Lushnja Branch	Municipality Square	+355 35 225 830 / 1 / 4 / 5
27.	Korça	Korça Branch	Blvd. "Republika", Korça	+355 82 252 838
28.	Vlora	Vlora Main Branch	Lagjia Pavarësia-Skelë, Hotel Vlora Internacional	+355 33 229 548 / +355 33 228 380
29.	Vlora	Rr. "Sadik Zotaj" Branch	Str. "Sadik Zotaj"	+355 33 225 925 / 912
30.	Gjirokastra	Gjirokastra Branch	Lgj. "18 Shtatori"	+355 84 268 282
31.	Lezha	Lezha Branch	Blvd. "Gjergj Fishta" P. Rest. Jolly	+355 21 524 97 4 / 5
32.	Shkodra	Shkodra Branch	Str. "13 Dhjetori"	+355 22 246 065; 248 184
33.	Kavaja	Kavaja Branch	Blvd. "Indrit Cara"	+355 55 242 663/5; +355 687573960/2
34.	Berat	Berat Branch	Lgj. "22 Tetori", Blvd. "Republika"	+355 32 236 170 / 1
35.	Saranda	Saranda Branch	Str. "Skenderbeu", neighborhood nr. 1 -, 9701 Saranda	+355 85 220 602

Intesa Sanpaolo Group
Italian Network



The Group Italian Network



NORTH WEST

Intesa Sanpaolo	Subsidiaries	
Branches	Company	Branches
1,099	Banca 5	1
	Fideuram	107
	IW Bank	9

CENTRE

Intesa Sanpaolo	Subsidiaries	
Branches	Company	Branches
769	Fideuram	46
	IW Bank	6

ISLANDS

Intesa Sanpaolo	Subsidiaries	
Branches	Company	Branches
218	Fideuram	10

NORTH EAST

Intesa Sanpaolo	Subsidiaries	
Branches	Company	Branches
739	Fideuram	59

SOUTH

Intesa Sanpaolo	Subsidiaries	
Branches	Company	Branches
644	Fideuram	26
	IW Bank	7

Figures as at 31 December 2021

The Group International Network

EUROPE

Direct Branches	Representative Offices
Amsterdam[1]	Brussels [2]
Frankfurt	Moscow
Istanbul	
London	
Madrid	
Paris	
Warsaw	

Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	35
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	47
Croatia	Privredna Banka Zagreb	153
Czech Republic	VUB Banka	1
Hungary	CIB Bank	61
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Fideuram	1
	Intesa Sanpaolo Bank Luxembourg	1
Moldova	Eximbank	17
Romania	Intesa Sanpaolo Bank Romania	33
Russian Federation	Banca Intesa	28
Serbia	Banca Intesa Beograd	147
Slovakia	VUB Banka	167
Slovenia	Intesa Sanpaolo Bank	44
Switzerland	Reyl Intesa Sanpaolo [3]	5
The Netherlands	Intesa Sanpaolo Bank Luxembourg[4]	1
Ukraine	Pravex	45
United Kingdom	Intesa Sanpaolo Bank Luxembourg[5]	1

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	175

AMERICA

Direct Branches	Representative Offices
New York	Washington D.C.

Country	Subsidiaries	Branches
Brazil	Intesa Sanpaolo Brasil	1

AUSTRALIA/OCEANIA

Direct Branches
Sydney

ASIA

Direct Branches	Representative Offices
Abu Dhabi	Beijing
Doha	Beirut
Dubai	Ho Chi Minh City
Hong Kong	Jakarta
Shanghai	Mumbai
Singapore	Seoul
Tokyo	

Figures as at 31 December 2021
(1) Since 1 January 2022
(2) European Regulatory & Public Affairs
(3) Intesa Sanpaolo Private Bank (Suisse) Morval was merged into Reyl Intesa Sanpaolo on 1 January 2022
(4) Branch closed on 1 January 2022

INTESA SANPAOLO BANK
Albania